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THE ROLE OF PUBLIC RELATIONS AND FORMAL AND INFORMAL  
SOCIALIZATION DURING MERGERS AND ACQUISITIONS

presented by

Patricia Therese Whalen

has been accepted towards fulfillment  
of the requirements for

Ph.D. degree in Mass Media

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THE ROLE OF PUBLIC RELATIONS AND FORMAL AND INFORMAL  
SOCIALIZATION DURING MERGERS AND ACQUISITIONS

By

Patricia Therese Whalen

A DISSERTATION

Submitted to  
Michigan State University  
in partial fulfillment of the requirements  
for the degree of

DOCTOR OF PHILOSOPHY

School of Communication Arts and Sciences  
Mass Media Doctoral Program

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## ABSTRACT

### THE ROLE OF PUBLIC RELATIONS AND FORMAL AND INFORMAL SOCIALIZATION DURING MERGERS AND ACQUISITIONS

By:

Patricia Therese Whalen

For the past 35 years, mergers and acquisitions have been the predominant growth strategy for major corporations, with recent transactions growing at near exponential rates. Unfortunately, the majority of these combinations will not live up to expectations and many will fail altogether. The fault is most often attributed to "cultural conflict" and "poor communications," but surprisingly few studies have empirically tested these assumptions.

Utilizing strategic management, acculturation and socialization literature, this study examined the process of integrating cultures in mergers and acquisitions and the role that the public relations function plays in developing internal communications to socialize newly acquired employees to a new company culture. Both formal and informal communication and training activities were explored. Data were obtained through secondary sources and a telephone survey of 108 executives of corporations that had recently undergone a merger or acquisition valued at more than \$100 million.

Using ANOVA, simple regression and path analysis, the study tested hypothesized relationships between 12 variables -- Relatedness, Integration Strategy, Acquisition Motive, Management Style, Firm Size, Socialization Level, Conflict, Attrition, Perceived Outcome, Experience with Prior Mergers, Experience with Employee Communication, and the Role of Public Relations in the Planning Process.

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The study's results provide insight into contradictory findings of several past merger studies that examined in isolation the role of relatedness, firm size, and socialization on merger performance. The results suggest that there is a positive correlation between these three constructs, and that a negative consequence of conflict, attrition, can be mediated through socialization efforts to achieve a positive outcome. Interestingly, no direct relationship between conflict and socialization could be found (not the hypothesized relationship that strong socialization would result in low conflict, nor its inverse, that high conflict would stimulate high socialization efforts.) Nevertheless, a positive relationship was found between acquisition motive and both formal and informal socialization efforts and between formal socialization and the overall performance of the merger. High attrition levels and high involvement from the public relations function were also positively related to formal socialization, suggesting that the PR function was tapped more frequently during mergers that were likely to encounter high conflict and high turnover, and when it was, a more positive outcome was achieved.

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This dissertation is dedicated to my father, Daniel Edward Whalen, and my nephew, Kieran Christopher Whalen, who passed away before they could see this work completed.

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M & A – M

PR – Publ

SEC – Sec

SIC – Stat

SPSS – St

## LIST OF ABBREVIATIONS

ANOVA – Analysis of Variance

M & A – Merger and Acquisition

PR – Public Relations

SEC – Securities and Exchange Commission

SIC – Standard Industrial Classification

SPSS - Statistical Package for the Social Sciences

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## CHAPTER 1: INTRODUCTION

This study examines the continuing popularity of mergers and acquisitions as a growth strategy for major U.S. corporations and the problems associated with this strategy when cultural clashes keep them from achieving the predicted synergies that motivated the transaction in the first place. For this study, the terms *merger* and *acquisition* are used interchangeably and in a broad sense to refer to any transaction where a company goes outside its own organization for strategic purposes by acquiring or combining with a second company."

Numerous articles on strategic alliances suggest that the key to a successful merger or acquisition is the reduction of cultural conflict between the merging groups. Management strategists and authors in the popular business press generally agree with this position and suggest that the best way to eliminate conflict is to have frequent and open communications throughout the merger or acquisition process -- before, during, and after the transaction. This study specifically examines the process of integrating cultures in mergers and acquisitions and the role of communication in that process.

The investigation examines how public relations professionals and others responsible for developing communications strategies for the acquiring firm employ formal and informal socialization tactics during a merger or acquisition. These are the firms' "official" communications and training activities as well as "unofficial" interpersonal interactions that are intended to encourage newly acquired employees' efficient role performance, their learning of the parent organization's goals and values,

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and their commitment to the parent organization (Brim & Wheeler, 1966; Van Maanen & Schein, 1979).

### **Purpose and Significance of the Study**

Merger and acquisition strategies are important to study today, if for no other reason than the sheer volume of financial activity attributed to these transactions in recent years. In addition, there is a growing inevitability that, in today's "grow or die" global business climate, virtually every corporation will soon find itself making some type of merger or acquisition decision -- either because it is an acquisition target of another firm or because it is considering an acquisition to expand operations to remain competitive (Cartwright & Cooper, 1996; Day, 1997).

The size of financial deals in mergers and acquisitions is also increasing at a phenomenal rate while the number of major organizations within key industries shrinks and coalesces around a small number of powerful firms (Day, 1997). To illustrate the point, each of the past four decades has seen dramatically increasing numbers of mergers as well as rapidly increasing values of these deals. Firms either are forced to find

Table 1 shows how the size and value of the largest mergers and acquisitions in each successive five-year period since 1965 has grown at nearly exponential rates (except for a brief slowdown between 1990 and 1994). This trend will likely continue into the foreseeable future, making mergers and acquisitions a matter of survival for most firms and raising the expectation levels regarding the size of the deals necessary to remain competitive.

Day (1997) warns, "when an industry consolidates, most companies get squeezed out" (p. 101). He suggests that small and vulnerable companies either are forced to find

**Table 1. Highest Priced Mergers in Five-year Periods: 1965 – 1998**

<b>Five-Year Period</b>	<b>Acquirer</b>	<b>Target</b>	<b>Value* (billions)</b>
1965 - 1969	Xerox	Scientific Data Systems	\$.91
1970 - 1974	ITT	Hartford Fire	\$1.80
1975 - 1979	Shell Oil	Belridge Oil	\$3.65
1980 - 1984	Chevron Oil	Gulf Corp.	\$13.30
1985 - 1989	Kohlberg Kravis Roberts	RJR Nabisco	\$24.72
1990 - 1994	ATT	McCaw Cellular	\$17.00
1995 - 1998	Exxon	Mobil	\$86

Source: "Historical Review" Special Section, Mergers and Acquisitions Magazine (September/October, 1990) and Colvin (1999).

\*Price on announcement, not adjusted for inflation.

market niches that the larger firms do not find profitable or "buffer themselves by joining alliances and pooling their resources with other companies to gain access to expensive capabilities or assets" (p. 102). Without such buffering strategies, smaller firms may find that their only choice is to sell their companies to one of the larger consolidators.

### **Current Trends in Mergers and Acquisitions**

Despite the brief slow-down in merger activities in the early 1990s after the frenzied pace of the 1980s, there has been a remarkable resurgence of merger and acquisition activities in recent years. Beginning in 1995, each successive year (through year-end 1998) has broken all merger and acquisition records from the previous year. In 1996, alone, more than \$660 billion changed hands in more than 10,000 mergers and acquisitions involving American companies, and nearly 7,000 of those were valued at \$5 million or more (Whitford, 1997). Also in that year, for the first time in history, the top 100 mergers and acquisitions were all classified as mega-mergers because the value of

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each exceeded \$1 billion (Sikora, 1997). In 1997 merger and acquisition volume exceeded the \$1 trillion mark for the first time.

And just when one might think there were no more deals to be made, the 1998 merger and acquisition levels exceeded analysts' expectations yet again with more than 12,500 deals valued at more than \$1.7 trillion (Colvin, 1999). This figure, incredibly, represents 19.7% of the gross national product (GNP) of the United States in 1998. In fact, seven of the largest deals ever were announced in 1998, beginning with CitiCorp's \$83.6 billion merger with Travelers Group, Inc. This deal was initially billed as the largest merger in history, but then, as Table 2 illustrates, it was eclipsed by the \$86 billion Exxon/Mobil merger a few months later.

**Table 2. Top Ten Mergers & Acquisitions Announced in 1998**

<b>Rank in 1998</b>	<b>Merging Firms</b>	<b>Value</b>
1	Exxon/Mobil	\$86 billion
2	Travelers Group/Citicorp,	\$84 billion
3	SBC Communications/ Ameritech	\$72 billion
4	Bell Atlantic/GTE	\$71 billion
5	AT&T/Tele-Communications	\$70 billion
6	Nations Bank/BankAmerica	\$62 billion
7	British Petroleum/Amoco	\$55 billion
8	Daimler-Benz/Chrysler	\$40 billion
9	Norwest/Wells Fargo	\$34 billion
10	Banc One/First Chicago	\$30 billion

Source: "The Year of the Mega-Merger," by Geoffrey Colvin, January 11, 1999, Fortune Magazine.

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### Service Industry Mergers and Acquisitions.

Interestingly, the majority of the mergers that have taken place since 1995 have been in service-oriented industries such as telecommunications and mass media; advertising; banking and financial services; healthcare; and the high-technology computer industry. The latter includes software development and networking services, as well as integrated circuit and peripheral equipment manufacturing (Sikora, 1997).

### Telecommunications and Mass Media Mergers.

Some of the more prominent mergers and acquisitions in the telecommunications field were the \$36.5 billion hostile takeover of MCI by Worldcom in late 1997. This transaction scuttled the planned friendly \$25.4 billion merger between MCI and British Telecommunications. Others include the Bell Atlantic \$23.7 acquisition of Nynex in 1996, and the \$16.7 billion acquisition of Pacific Telesis Group by SBC Communications in 1997. Many of these mergers occurred because of a need to stay a step ahead of a growing number of smaller competitors, and/or the growing competitive threat caused by the converging technologies of cable and telephone services (Barrett & Flynn, 1997; Schiesel, 1998). This latter threat was likely a consideration in the 1998 announcement of ATT's intent to purchase the cable television giant, TCI Communications.

Like TCI, mass media firms operate in television or radio broadcasting, cable television, newspaper, magazine or book publishing, or the production and distribution of films and television programming. Many of the more prominent mergers and acquisitions in this industry took place in 1996, stimulated by a growing need for programming content, the many changes in government regulations on media ownership,

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and a blurring and converging of telecommunications and mass media technologies (Fabrikant, 1997). Some of the largest deals included the \$18.86 billion Disney acquisition of CapCities/ABC; the \$11.4 billion purchase of Continental Cablevision by US West Media Group; and the \$6.88 billion merger of Turner Broadcasting with Time Warner.

### Advertising Mergers

In the advertising industry, mergers and acquisitions have been used to keep up with clients' increasing demand for an integrated approach to advertising, public relations, and sales promotion and for an extension of these skills internationally to help in the expansion of their once national markets to a global marketplace (Ducoffe & Smith, 1993 and 1994). The advertising industry's solution for meeting this demand for integrated skills on a global basis has been the creation of a small number of "mega-agencies," or holding companies that dominate the industry today. According to *Advertising Age*, in 1997 just nine mega-group holding companies accounted for nearly \$14 billion, or 64 percent, of the \$22 billion worldwide gross income generated by the world's top 25 advertising organizations in 1996 ("Agency Report," 1997).

At the end of 1996, these firms, in order of size, were: the WPP Group; Omnicom Group; Interpublic Group of Companies; Cordiant; Havas Advertising; True North Communications; MacManus Group; Bozell, Jacobs, Kenyon and Eckhardt; and GGT/BDDP Group. The rankings changed significantly in 1997 with the demise of Cordiant, which "demerged" by spinning off its two largest subsidiaries, Bates Group of Companies and Saatchi and Saatchi Group of Companies; and there was a substantial

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increase in ranking for True North Communications when it purchased Bozell, Jacobs, Kenyon and Eckhardt.

Mergers and acquisitions in the advertising industry continue unabated today, with Omnicom and True North continuing to announce new acquisitions on an almost weekly basis. This continues despite a number of very visible merger setbacks in the industry, including a number of agency buy-backs and the 1997 collapse of the three-year-old joint venture between the French firm, Publicis, and True North and the resulting 1998 unsuccessful hostile takeover bid by Publicis for True North.

### **Banking and Finance Mergers**

Deregulation, competitive pressures to cut costs and changing customer demands have spawned numerous consolidation activities in the banking, financial services, and insurance industries (Marks & Mirvis, 1997; Sikora, 1997). For example, the merging of banking giant CitiCorp with Travelers Group Inc., the parent of Travelers Insurance and Salomon Smith Barney, made it one of the largest financial mergers on record, valued at \$83.6 billion. That merger, which was announced in April 1998, faced some regulatory hurdles because banking laws restricted banks from going into securities and insurance underwriting businesses (Morrison, 1998). Other large transactions that took place in 1997 included the investment banking merger between Dean Witter and Morgan Stanley, valued at \$10.2 billion; Banc One's friendly \$7 billion acquisition of credit-card issuer First USA Inc.; American General's \$1.8 billion acquisition of USLife Corp.; and savings and loan company H. F. Ahmanson's \$6.6 billion hostile bid for Great Western Finance Co.

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### Healthcare Mergers

Similar to banking and financial services industries, a number of consolidations mark the healthcare industry's shift toward the managed care concept and response to cost-reduction demands from the health insurance industry and from the federal government trying to control rising Medicare and Medicaid costs. One of the largest recent acquisitions in this industry was Aetna Life and Casualty's 1996 acquisition of U.S. Healthcare for \$8.2 billion. Despite that deal's mega-merger status, some experts predict that the healthcare industry will experience relatively small mergers and acquisitions over the next few years since most of the major consolidations in this industry have already taken place (Marks & Mirvis, 1997).

### High Technology Mergers

Very large mergers and acquisitions are expected in the high technology industry's near future due to leapfrogging and converging technologies and such other factors as mounting expenses, abbreviated product life cycles, and pressure to continually innovate (Sikora, 1997). The always volatile software industry, has in recent years experienced faster and more intense consolidations, even as their overall sales levels continue to grow (Day, 1997). The personal computer industry has also seen dramatic consolidations. With a shrinkage from 832 firms to 435 in the late 1980s, some predict the personal computer industry will be reduced to as few as five long-term players in the not-too-distant future (Day, 1997).

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### Disappointing Outcomes

Despite the volume of financial activity in so many industries, the predicted outcomes for many of these mergers and acquisitions are disappointing. Business Week reported that “virtually every serious study done shows that it is very difficult to bring off a successful merger” (Why Those Mergers Could Implode, 1997, p. 170). Some analysts suggest that nearly 50 percent of all mergers and acquisitions taking place in the 1990s will fail to live up to their creators’ expectations and will destroy shareholders’ wealth (Pritchett, Robinson & Clarkson, 1997; Zweig, Holland & Alexander, 1995). Analysts of earlier mergers and acquisitions show that one-third of all acquired companies were sold off within five years and that as many as 90% of those mergers never lived up to financial expectations (Kitching, 1967; Lefkoe, 1987). Magnet (1984), discussing the results of a McKinsey and Co. study, reports that over two-thirds of the corporate mergers and acquisitions studied never earned as much as the acquirer would have made by investing the money in bank certificates of deposit.

Occasionally, the poor performance of some of these mergers and acquisitions can be traced to financial or strategic causes such as heavy debt load, reductions in stock performance, or fuzzy objectives, e.g., AT&T’s 1991 failed acquisition of NCR and Matsushita’s 1991 failed acquisition of MCA (Zweig, Holland & Alexander, 1995). These problems will most certainly be blamed in years to come for the currently collapsing RJR Reynolds/Nabisco mega-deal.

But more often than not, experts have blamed the high failure rate on “cultural conflict” between the merging entities (Callahan, 1986; Galpin & Robinson, 1997; Kitching, 1967; Marks & Mirvis, 1997; Why Those Mergers Could Implode, 1997;

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Zweig, 1995). Two other frequently cited causes of poor performance, which are closely related to cultural conflict, are poor integration strategies by the parent firm's management and an overestimation of the value and type of synergies that will be realized in the combined firm (Bielinski, 1992; Goold & Campbell, 1998; Sirower, 1997).

These problems are the subject of dozens of books aimed at corporate managers who are seeking better ways to implement mergers and acquisitions (Cartwright & Cooper, 1996; Caywood & Ewing, 1992; Lefkoe, 1987; Mirvis & Marks, 1992; Pritchett, 1997; Sirower, 1997).

### **Focus of the Study**

#### **Cultural Conflict In Mergers and Acquisitions**

Since cultural conflict and integration problems continue to be listed in the popular business press as key threats to mergers and acquisitions more than 30 years after John Kitching first addressed the problem in his often-cited Harvard Business Review article, "Why Do Mergers Miscarry?" (1967) -- it seems clear that the solution is complex and not easily achieved through simple means.

More importantly, while scholars and business analysts have provided anecdotal and experimental evidence to suggest that the best way to eliminate cultural conflict is to extensively communicate throughout the merger or acquisition process (Haunschild, Moreland & Murrell, 1994; Rentsch & Schneider, 1991), there have been surprisingly few actual empirical tests of this advice in actual mergers or acquisitions. This study sought to find empirical support for this proposition and to identify key factors that

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influence integration strategies, socialization activities, and perceived cultural conflict in mergers and acquisitions.

#### Acquisition Motives and Socialization Tactics

The overarching hypothesis of the study is that, despite the generalizations of the business press, broad employee communication campaigns are not always necessary or desirable for every merger and acquisition to achieve the organization's goals. Instead, this study proposed that formal and informal socialization activities and their timing vary in appropriateness for different mergers and acquisitions. While the study accepts the premise that strong pre-merger information dissemination is valuable in all mergers to reduce employee stress and fear (Bastien, 1987; Hamilton, 1986; Sauerhaft, 1997), the study suggests that following the merger, communicators should tailor the socialization tactics to fit the specific financial and strategic goals of the merger or acquisition.

#### Influences on the Integration Process

This research also examined the impact of a number of factors that were predicted to influence the cultural integration process during a merger or acquisition. These are: organizational size, management style, and how related the firms are to one another. These variables would be expected to influence the socialization levels employed during a merger or acquisition and influence the ultimate outcome of the transaction. The study also suggests that conflict and attrition caused by a merger or acquisition will have a more serious impact on the perceived performance of service organizations than manufacturing firms, because of service firms' reliance on the skills and creative abilities of their employees for the output of their product. The role of experience in mergers and

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acquisitions was also explored, since some studies have found that organizations with a high degree of experience outperform those with less experience (Bagli, 1997; Nahavandi & Malekzaheh, 1988; Zweig, 1995). These studies assume that the parent firms may learn through trial and error, and if they have enough practice, they will find the best approaches to dealing with cultural issues in a merger or acquisition .

### Public Relations Role in Mergers and Acquisitions

Of particular interest to this study is the role of public relations professionals in mergers and acquisitions. This is because it is assumed that the public relations department would likely be given responsibility for the developing communication strategies and implementing the message dissemination for both internal and external audiences interested in the merger or acquisition. This role of developing the appropriate internal communication strategies and tactics falls under the broad task of socializing new organizational members from being “outsiders” to “insiders” and learning the “social knowledge and skills necessary to assume an organizational role” (Van Maanen & Schein, 1979, p. 211).

While the on-going responsibility for “socializing” new organizational members might typically fall under the responsibility of the human resources department (Hamilton, 1986; Marks & Mirvis, 1997), most public relations scholars consider the identification and implementation of an organization’s internal communication needs as a key role of corporate public relations (e.g., Caywood, 1997; Cutlip, Center, & Broom, 1997; Grunig & Hunt, 1984; Wilcox, Ault & Agee, 1996). These scholars identify mergers and acquisitions as one of the issues often dealt with by the public relations

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department, and this role is further supported by articles in the popular press that provide specific examples of when and how public relations has played an important role in implementing a merger or acquisition (Bagli, 1997; Caywood & Ewing, 1992; PR's Pressure Cooker, 1990; Sauerhaft, 1997). This study set out to confirm if, in fact, the public relations function is involved in strategic communication planning and decision-making during large corporate mergers and acquisitions and to analyze its impact on the outcome of such transactions.

### **Research Questions**

The research questions that this study has attempted to answer are:

1. Is there a causal relationship between a firm's acquisition motive, the type of communications and socialization activities likely to be employed during a merger or acquisition, and such outcomes of the transaction as cultural conflict and attrition?
2. Do such characteristics as relatedness, firm size, management style, and experience with mergers and acquisitions influence the amount or types of formal and informal socialization practices on the part of the parent firm, and do they play a role in the perceived outcome of the transaction?
3. What role does the public relations function play in determining the socialization process employed during a merger or acquisition and does the involvement of the public relations function improve the outcome of the transaction?

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## CHAPTER 2: LITERATURE REVIEW

### Definitions

The terms *merger* and *acquisition* are often used collectively and in a broad sense to refer to any transaction where a company acquires or combines with a second company for investment purposes. Specifically, economists label an *acquisition* as the direct purchase of assets of another company using cash, stock, and/or a note providing for payment at a specified rate and time (Ozanich & Wirth, 1993). Usually, the acquired firm continues to exist, but under new ownership. A *merger* technically refers to the combination of two corporations where only one survives. Typically, when a merger takes place, the acquired company ceases to exist and it takes on the name and identity of the acquiring firm (Ozanich & Wirth, 1993).

Interestingly, the term “merger” is often used in the business press to describe a friendly arrangement where the management of two firms are fairly equal and share in the oversight of the surviving firm. The term “acquisition” typically implies that a larger party has purchased the stock of a smaller one (Rentsch & Schneider, 1991). Some firms have also found that, regardless of the legal definition of the transaction, what the firms’ management call it publicly and privately can have an impact on employees’ perception of the deal and their commitment to the newly formed organization (Bastien, 1987).

In addition to a merger or acquisition, there are a number of other ways that two firms might join forces. In a consolidation, firms cease to exist as they were and a new identity is created that incorporates both firms' identities. In a *joint venture*, both firms invest in a new venture, but both continue to operate their parent firms as separate and

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There are four main types of mergers and acquisitions (Cartwright & Cooper, 1996; Kitching, 1967):

1. Vertical mergers and acquisitions, which involve the combination of two organizations from successive processes within the same industry; usually involving the acquisition of a major supplier or customer.
2. Horizontal mergers and acquisitions, which involve combinations of two similar organizations in the same industry; often involving the acquisition of a competitor with the same customers and suppliers.
3. Conglomerate mergers and acquisitions, which refer to situations where the acquired organization is in a different industry than the parent firm and where the parent firm is typically looking to spread its financial risk by diversifying into unrelated or counter-cyclical businesses.
4. Concentric mergers or acquisitions, where the acquired firm operates in a related field where the parent firm would like to expand, but it is one in which the parent is relatively unfamiliar. These might involve firms where the technology used by both is the same, but where they each have different customer types; e.g., a plastic parts manufacturer that sells only to industrial OEM suppliers acquiring another plastic parts manufacturer that markets consumer products directly to end users. Or they may involve situations where both firms have the same customer types, but employ different technologies, e.g. a producer of sporting goods acquiring a leisure-wear manufacturer.

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For the purposes of this study, the terms merger and acquisition are used both individually and collectively as interchangeable concepts to describe all of these combinations, since, regardless of the specific method that the firms use to combine, they all require some form of merging of the firms' assets and personnel.

### **Contradictory Evidence on Communications in Mergers and Acquisitions**

Research on strategic alliances (such as Moss-Kanter's seminal 1994 Harvard Business Review article) suggests that close cooperation and the dissemination of information across organizational boundaries are not only the keys to reducing cultural conflict, but that the communication process used in integrating corporate cultures is the single largest factor in making alliances work. Human resource and management strategists focusing specifically on mergers and acquisitions generally agree (Bastien, 1987; Schweiger & Denisi, 1991). In essence, they suggest that to eliminate cultural conflict, organizations should frequently disseminate messages to all employees before, during, and after the merger or acquisition transaction that detail the parent firm's goals, mission, and values. These messages should also address specific concerns that employees will undoubtedly have about potential layoffs, changes in work rules, and benefits.

The business press proliferates these theories into a conventional wisdom about mergers and acquisitions, stressing the need for informative and ongoing message dissemination before, during and after the event (Galpin & Robinson, 1997; Gridley, 1986; Marks & Mirvis, 1997; Pondel, 1988; Zweig, 1995). Authors Galpin and Robinson (1997) go so far as to suggest that management undertake "excessive communications" after a merger is announced and address operations, marketing, systems, and financial

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aspects of the newly formed organization in addition to personnel issues. They advise that “Clear, consistent and frequent (at least weekly, perhaps more often) communications -- even when only cursory updates on progress are available -- go a long way toward capturing the commitment of both management and employees during the integration” (p. 26).

Similarly, Marks and Mirvis (1992, 1997) suggest that organizations should use a variety of communication media during a merger or acquisition and engage in “over communications” because it “helps by repeating the same message through multiple channels” (p. 26).

What is lacking in these “how to” books and articles on implementing successful mergers and acquisitions is a distinction between the types of firms merging or an acknowledgment of other factors that can affect cultural conflict or which call for different types of implementation strategies. For instance, it is clear that some acquiring firms opt for centralization of decision-making and integration of the acquired firm’s personnel and production processes, but others use a decentralized strategy and grant autonomy to the acquired unit. Even the need to reduce conflict has been called into question with contradictory evidence about the role of conflict in firm performance (Amason, 1996; Jehn, 1994).

While many studies report a stronger performance when cultural conflict levels are low, a number of studies report that highly centralized, recently merged firms with high levels of inter-divisional competition outperform merged firms with low levels of conflict (Datta & Grant, 1990; Filley, 1975; Mahoney, 1967; Massie, 1985; Newman & Sumner, 1961; Robey, 1991). Other studies suggest that merger and acquisition

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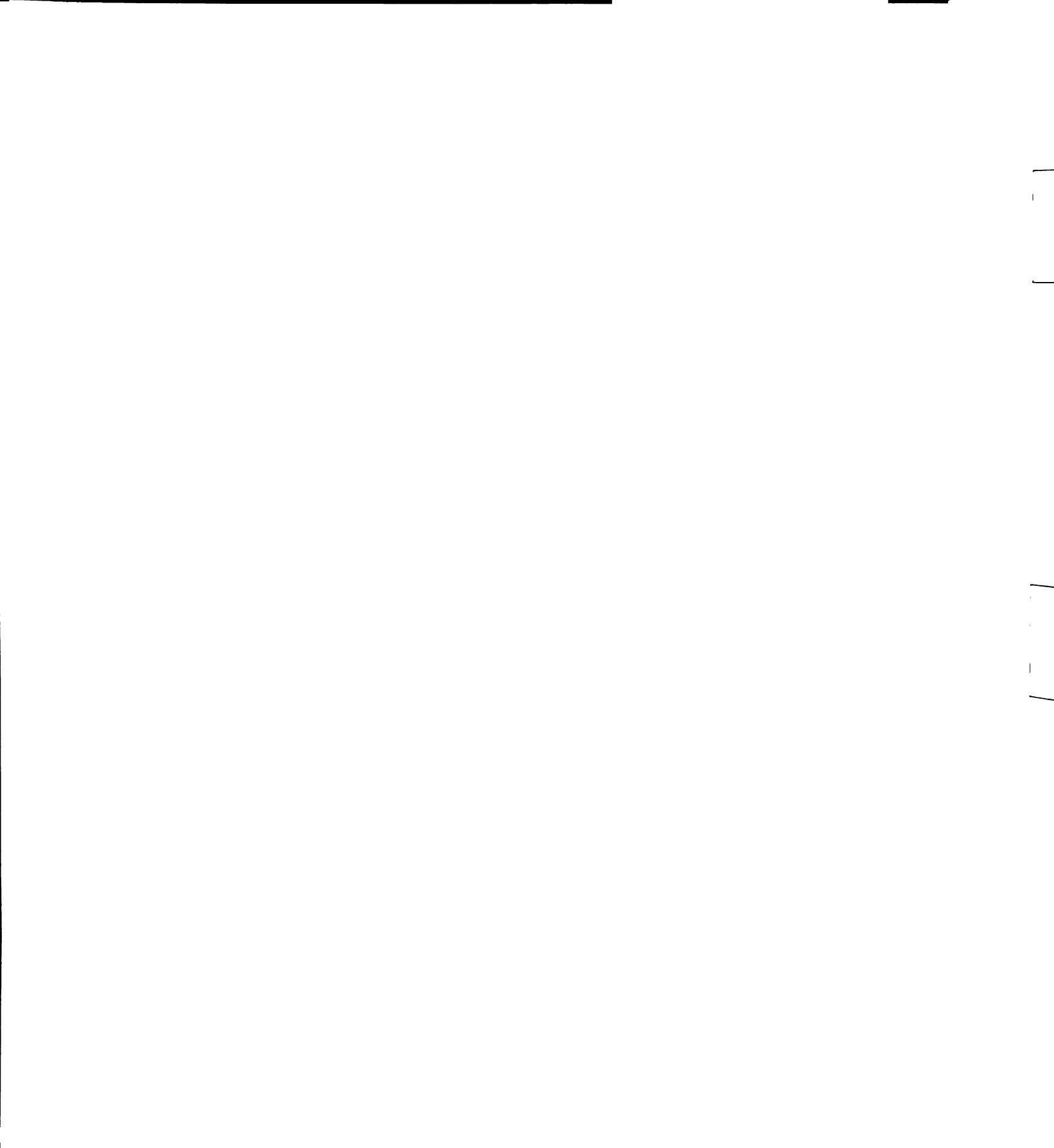
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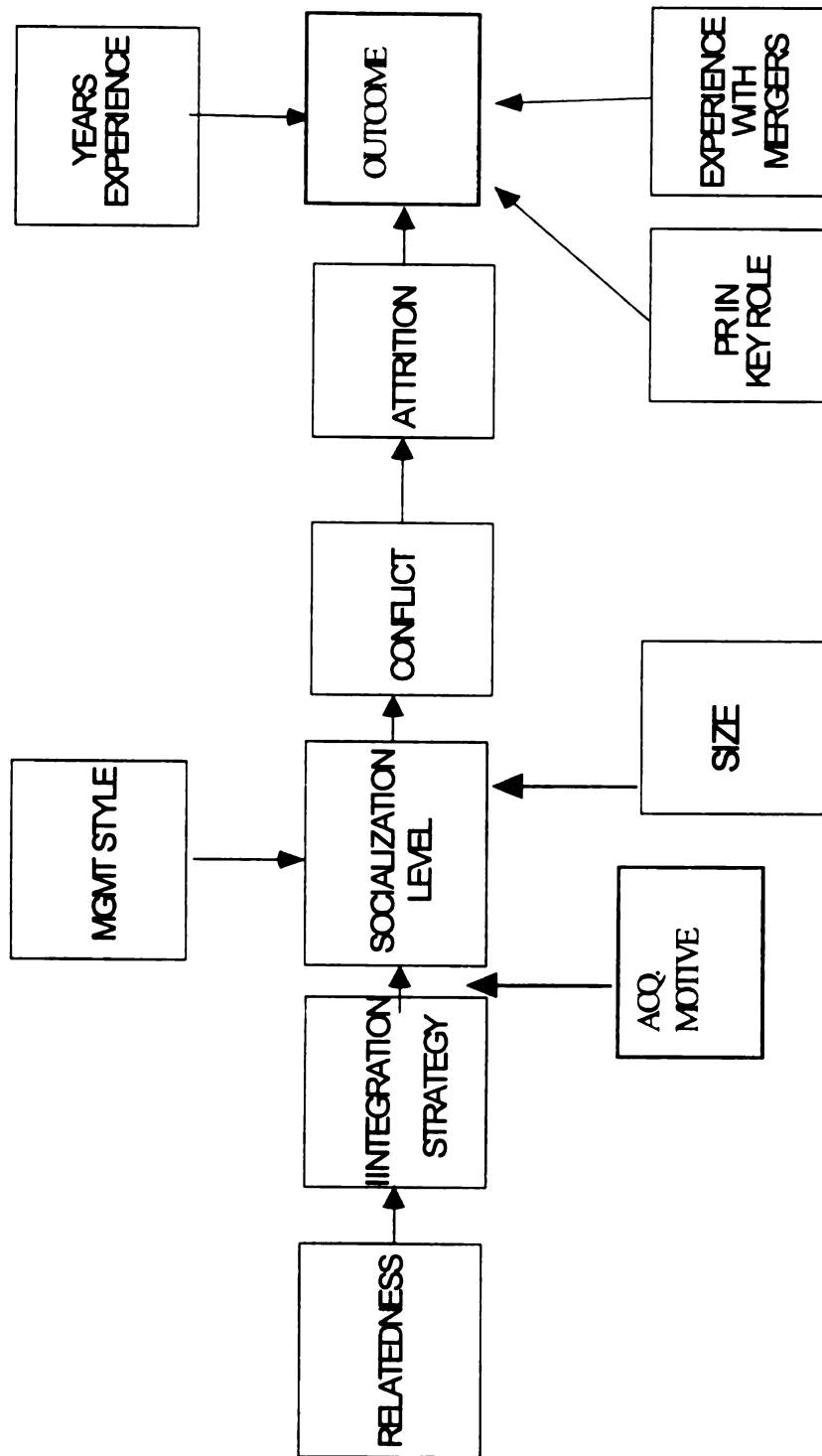
implementation plans and communication techniques have little impact on a firm's cultural conflict (Amason, 1996; PR's Pressure Cooker, 1990). There are also instances – especially in conglomerates and holding companies -- where there is little cross-organizational communication or attempts to merge the culture of the acquired firm into the parent, and yet there is little perceived conflict and strong financial performance (Elgers & Clark, 1980). Thus, it is obvious that (a) “excessive communications” is an inadequate solution to a complex problem and (b) other factors intervene to facilitate or impede the impact of corporate information dissemination during mergers and acquisitions.

### **Hypotheses Development**

#### **A Theoretical Causal Model of Merger and Acquisition Implementation**

Because of the varied conclusions about the role of communications and socialization on the perceived outcomes of a merger or acquisition, a goal of this study was to develop a model of the implementation process that might explain the contradictions in some of the past research on this topic. The model, which is illustrated in Figure 1, incorporates constructs from several of the previously mentioned studies on the role of socialization (in terms of communications activities) and its impact on cultural conflict and a merger's perceived success. It also addresses the role of other cultural factors discussed in a number of merger and acquisition studies such as: relatedness, firm size, management style, and the amount of autonomy given to subsidiaries.





**Figure 1: Predicted Model of M&A Implementation Process**

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The model suggests that a reason for inconsistent findings in many of the past studies is that they failed to consider the interdependence of these cultural factors when assessing their role in the success or failure of a merger or acquisition. The model also suggests that a key moderator in the acculturation process is the motive behind the merger or acquisition and that the socialization activities that should be employed from one merger or acquisition to another may be quite different, depending on the acquisition motive. To explore how these cultural factors may be related to one another, the study tested the predicted relationships under two acquisition motive scenarios: an operating synergy motive and a financial synergy motive and also used causal modeling techniques to explore the full set of relationships simultaneously.

Causal modeling permits the delineation of a variety of causal schemes in mathematical form to evaluate a given theory (McPhee & Babrow, 1987). Using path analysis to test the fit of the models, it is then possible to assess whether or not a specific model is compatible with the pattern of inter-correlations among specified variables. This method was used to assess the main hypothesis of this study -- that the type of integration strategy that drives a merger or acquisition should also drive the type and amount of socialization activities it employs and that the right level of socialization will help the firm achieve low levels of cultural conflict, low levels of unwanted attrition, and a perceived positive overall performance.

Beginning with acquisition motive, which was predicted to moderate the process, each of the key constructs in the model are discussed below in terms of past research findings and the hypotheses this study set out to confirm.

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## Motives Behind Mergers and Acquisitions

The primary reasons for mergers and acquisitions have changed over the past 35 years. In the 1960s and early 1970s, conglomerates were the most active acquirers, seeking to diversify their portfolios to spread risk or to achieve size for size's sake (Cartwright & Cooper, 1996; Sauerhaft, 1997). These transactions often tended to be hostile takeovers in the sense that the targets were not seeking a partner or acquirer, and they often resisted the early advances of their suitors. But despite the "hostile" nature of the transactions, the acquired businesses were typically left intact to operate autonomously.

By the late 1970s and throughout the 1980s, that pattern changed. The impetus for mergers and acquisitions moved toward vertical integration and for the accumulation of wealth for the deal makers (Adams & Brock, 1989). The proliferation of junk bonds and leveraged buy-outs fueled many of these deals and often resulted in the acquired organizations being chopped up and sold off in smaller increments to pay off the accumulated debt of their acquirers (Sauerhaft, 1997). To avoid financial raiders, targets of hostile takeovers often sought "white knights" to counter the takeover bid or acquire them, but to leave them intact with few operating changes. Martin Marietta followed this strategy in 1982 during Bendix's ill-fated hostile takeover attempt. To thwart the takeover, Martin Marietta courted two white knights. It joined forces with United Technologies and began to acquire Bendix stock in what was then called a "PacMan defense." In the end, Bendix was acquired by Allied-Signal, which then sold Martin Marietta back the large number of its shares that had been acquired by Bendix (Mirvis Marks, 1992).

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More recent mergers and acquisitions since the mid 1990s have tended to be more strategic in nature and of the horizontal or concentric type (Cartwright & Cooper, 1996; Zweig, 1995). Indeed, a joint study undertaken by Business Week and Mercer Management Consulting, Inc. on the mid-to-late 1990s-style mergers and acquisitions found that, not only are the majority of them more strategic, but that they tend to seek synergies between the merging firms rather than pure financial gain from the transaction itself as the majority of the mergers and acquisitions of the 1980s did (Zweig, 1995).

One of the reasons for this may be due to a clarification in the U.S. Government's position on these transactions. In its "Horizontal Merger Guidelines," the U.S. Justice Department (1992) outlined the most common benefits of horizontal and concentric mergers to society:

- Achieving economies of scale
- Better integration of production facilities
- Plant specialization
- Lower transportation costs
- Similar efficiencies relating to specific manufacturing, servicing, or
- distribution operations
- Reductions in general selling, administrative, and overhead expenses

According to these guidelines, "The primary benefit of mergers to the economy is their efficiency-enhancing potential, which can increase the competitiveness of firms and result in lower prices to consumers" (p. 55). The U.S. Justice Department has indicated in its guidelines that if the merger or acquisition can demonstrate that it meets these reasons for combining and does not violate anti-trust law, the agency will not hinder the

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The Business Week/Mercer study reports that because of their strategic nature, the current mergers and acquisitions are performing better than many of their predecessors, although the study still concludes that, despite this, most of the deals of the 1990's still have not increased shareholder wealth, judged by stock performance in relation to Standard and Poor's industry indexes (Zweig, 1995).

Cartwright and Cooper (1996) suggest that a reason for this may be that these current combinations require the fusion or integration of some or all of their human resources, and "success depends on human synergy" (p. 2).

The growing trend toward related combinations has had important implications for merger and acquisition management. Whereas, in the past, acquiring organizations may have been more content to adopt a 'hands-off' approach, the management of mergers and acquisitions today is definitely more interventionary and "hands on," which brings its own set of problems. (Cartwright & Cooper, 1996, p. 4).

A review of the strategic management literature suggests that there are a number of factors that interact with human factors to determine whether a merger or acquisition will be successful. Chief among these are the acquisition motive that drives the merger or acquisition in the first place and how that motive then corresponds to the integration strategy that the parent firm employs (Rentsch & Schneider, 1991).

### Acquisition Motive and Synergy Strategies

Synergy is the hoped-for result behind most mergers and acquisitions today. Synergy is achieved when two discrete entities working together create a sum that is greater than what they could achieve acting independently (Bielinski, 1992; Cartwright

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& Cooper, 1996). When two firms merge, management counts on the fact that each entity will bring a unique skill or resource that the other entity can utilize and build upon.

While synergies often do exist in a merger or acquisition, many financial experts suggest that the synergies are frequently overestimated and overvalued, causing the buyers to pay too much in the deal (Bielinski, 1992; Kusewitt, 1985). As a result, a transaction may be labeled a failure because the merged entity did not make enough profit to cover the cost of the acquisition, despite the possibility that a good cultural fit and real synergies may exist. There are two types of synergy strategies that typically motivate acquiring firms: operating synergies and financial synergies (Nahavandi & Malekzaheh, 1988).

Operating synergies. These synergies are typically associated with "strategic" mergers and acquisitions and are pursued when the two merging organizations are looking for new markets for their products or services, when the two collectively are attempting to provide a stronger combined product line, when production efficiencies can be achieved through higher volume or more focused production facilities, when economies of scale can be achieved through more efficient use of suppliers or more efficient delivery to customers, or when duplicate facilities and personnel can be eliminated (Bielinski, 1992).

Financial synergies. These include tax benefits, better prices on the purchase of raw materials, eliminating duplicate administrative functions and systems, a lower cost of money, and the sale of unneeded assets such as office space. In addition, financial synergies might accrue by combining the merging organizations' insurance plans, employee benefits, and pension funds (Bielinski, 1992). These financial synergies may

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also be sought in combination with the operating synergies listed above as part of a "strategic" merger or acquisition, but they, alone, do not make for a strategic merger. Firms seeking only financial synergy would typically be holding companies and conglomerates looking to improve their portfolios (Nahavandi & Malekzaheh, 1988).

H1     The motive behind a merger or acquisition will emerge as one of two distinct factors. One factor will primarily reflect operating synergy motives. The second factor will reflect financial synergy motives that will also correlate with operating synergy motives.

### Relatedness and Acquisition Motive

In a review of a number of merger and acquisition studies, Nahavandi and Malekzaheh (1988) suggest that the type of acquisition motive pursued is typically correlated to the degree of *relatedness* existing between the merging firms.

"Relatedness" describes the nature of the business relationship between the merging firms in terms of the type or degree of diversification the acquiring firm is pursuing and how well the managements of the two merging firms understand the other's markets, technology, or their regulatory environments. The degree of relatedness is cited most often in both the popular business press and strategic management literature as a key factor in the future success of a merger or acquisition (Elsass & Veiga, 1994; Kusewitt, 1985; Shelton, 1988).

Of the various types of mergers and acquisitions, related mergers would include horizontal, concentric marketing, and concentric technology types. Unrelated mergers would include vertical mergers and the consolidation of dissimilar firms into conglomerates or holding companies. Although the acquisition literature suggests that

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Sirower (1997) suggests that nearly all conclusions reached about the effect of relatedness on merger success has been based on event-study methodology from the financial economics literature. And despite the similar methodology, the results have been quite contradictory. While Rumelt (1982 and 1974), Singh and Montgomery (1988), and Kusewitt (1985) all found that related mergers outperformed unrelated mergers, studies by Elgers and Clark (1980) and Agrawal, Jeffe, and Mandeler (1992) found that both buyer and seller stockholders benefit more from conglomerate, unrelated mergers than from non-conglomerate, related mergers. These findings support Kitching's early study (1967), which is one of the few frequently-cited studies that did not use event study methodology, and which found that 47% of all the failed mergers were between related firms of the concentric marketing or technology types. Studies by Lubatkin (1987), Chatterjee (1986), and Singh and Montgomery (1988), however, failed to uncover any significant relationship between product and market relatedness and the future value of the merged firms. In addition, Bettis and Hall's (1982) study indicated that a merged firm's performance is less a function of relatedness than the industry in which it participates.

A possible explanation for the contradictions in the outcomes of the various studies on relatedness is that looking at relatedness, alone, may not tell the whole story. This study suggests that there is an interaction between the relatedness of the firms, the motivation behind the merger, and the integration process that the parent should employ

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to merge the firms' cultures. In unrelated mergers or acquisitions, the motivation behind the transaction would typically be to achieve financial synergies rather than operating synergies, since the firms' customers, products, and production technology are dissimilar. In these cases, there would be little benefit in the acquiring firm integrating any of the target firm's operations (except for its financial systems, which it would likely want to make similar to its own). Therefore, the acquired or merging firm would likely be left to function autonomously with little contact with the employees of the parent or other units (Cartwright & Cooper, 1996; Nahavandi & Malekzaheh, 1988).

As the degree of relatedness increases, however, the acquirer is likely to consider itself knowledgeable about, and able to address, the acquired firm's customers or products. These firms might then be motivated to achieve operating synergies by reducing duplication of efforts and achieving economies of scale in marketing, production, human resources, and financial systems. These firms would likely see benefits in a strong integration of the two firms' cultures. Or, more likely, the acquiring firm would impose its own culture and practices on the acquired firm (Nahavandi & Malekzaheh, 1988).

H2     There is a positive correlation between the relatedness of a firm and its motivation to merge.

H2a    Related firms will have higher levels of operating synergy motives than unrelated firms.

An additional hypothesis is offered here as a test for the conventional wisdom in the acquisition literature that predicts that related firms should outperform unrelated firms.

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H2b    Related firms will have higher levels of perceived performance than unrelated firms.

### Organizational Integration

Organizational integration refers to the degree to which newly acquired organizational members are allowed to remain autonomous or are encouraged to become part of the whole. The integration strategy represents the parent organization's efforts to *integrate* new members into the firm and thereby encourage them to lose their previous organizational identities, or to allow newly acquired members to operate in an autonomous, independent manner. For this study, the former is referred to as an "integrated strategy," while the latter is referred to as an "autonomy strategy," and basically represents the lack of an integrated strategy.

With an autonomy strategy, parent firms do not emphasize cross-unit cooperation or the merging of cultures. They may even encourage a sense of competition across unit borders through incentive bonus plans based on unit performance and "bidding" for scarce corporate resources. With an integrated strategy, management typically arranges for employees from subgroups to work together toward common goals and has them operate under the same value system and work rules. Firms using an integrated strategy are likely to encourage identification with the parent organization rather than a sub-unit, since they seek to maximize overall firm performance rather than the performance of individual business units. (Datta & Grant, 1990; Nahavandi & Malekzadeh, 1988).

Several merger and acquisition studies reveal a positive relationship between relatedness of the merging firms and their integration strategies (Chatterjee 1986, Chatterjee, Lubatkin, Schweiger & Weber, 1992; Datta & Grant, 1990; Nahavandi &

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Malekzadeh, 1988). Given the relationship between relatedness and acquisition motive, a positive relationship among organizational integration, acquisition motive, and the degree of relatedness between the two firms also is likely to exist. An argument can also be made that the relationship is a causal one, with the degree of relatedness influencing the acquisition motive and this motive influencing the type of integration strategy to employ.

H3     There is a direct relationship between relatedness and acquisition motive, and between acquisition motive and integration strategy.

H3a    Acquisition motive will be a mediating variable between relatedness and integration strategy.

Research on mergers and acquisitions also suggests that the degree of integration and autonomy can affect acquired organization members' perceptions of conflict and cultural differences between the merging firms and the subsequent performance of both the acquired and acquiring organizations (Elsass & Veiga, 1994). Datta and Grant (1990) and Magnet (1984) report that unrelated firms given a high degree of autonomy outperform unrelated firms that had strong interactions with the parent firm. Similarly, they report that related firms with a high degree of integration with the parent firm outperform related firms that operate autonomously.

In general, the acquisition literature suggests that there is no strategic value in nurturing a common bond between autonomous business units (such as those in a conglomerate or holding company) since the work performed in those units is unrelated from group to group, and it could be argued that forcing an integration may have negative consequences, because it takes focus away from work at hand. In related mergers and acquisitions (such as in a horizontal or concentric merger), however, there does appear to

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be strategic value in combining operations and creating operating synergies by sharing knowledge and processes. Therefore, it would seem logical to assume that acquiring firms seeking operating synergies are more likely to attain their strategic goals if they integrate members of different cultures across business unit boundaries than those firms that do not attempt to integrate these cultures. Similarly, acquiring firms seeking only financial synergy would be predicted to be more likely to attain their strategic goals if they do not integrate the merging organizations.

H4     Related firms that pursue an integrated strategy will report lower levels of post-merger conflict than related firms that pursue an autonomy strategy.

H4a    Unrelated firms that pursue an integrated strategy will report higher levels of post-merger conflict than unrelated firms that pursue an autonomy strategy.

An alternative hypothesis is that relatedness, or more specifically, “lack of relatedness,” might act as a direct predictor of cultural conflict between the two firms.

H4b    If so, we would expect there to be a significant negative correlation between relatedness and conflict.

H4c    Related firms will have lower levels of post merger conflict than unrelated firms.

### Organizational Socialization

A key aspect of the implementation of a merger or acquisition, is deciding what level of integration should take place and how it should be accomplished (Buono, Bowditch & Lewis, 1985; Elsass & Veiga, 1994; Fulmer & Gilkey 1988; Haspeslagh & Jemison, 1991). Organizational socialization is the process by which acquiring firms

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integrate the cultures of the merging firms; and given that firms have different motives for mergers and different integration strategies, it stands to reason that they would also employ different socialization tactics within their implementation processes.

In a broader organizational sense, socialization is a process that helps any new member become integrated into an organization's culture. It has been defined as the "process whereby new members of an organization learn the values and behaviors that are most prized by the organization" (Robey, 1991, p. 268). Van Maanen and Schein (1979) refer to the process as, "learning the ropes." The process typically involves teaching organizational newcomers how to see the organizational world as their more experienced colleagues do so that the traditions of the organization survive (Van Maanen & Schein, 1979). Yet another definition suggests that the purpose of socialization is to subsequently adapt the individuals' qualities to make them similar to those required for satisfactory performance of organizational roles (Etzioni, 1964).

To accomplish this, socialization can involve both informal and formal processes and communications tactics. Feldman's (1976) Contingency Theory of Socialization suggests that a strong combination of both formal and informal socialization leads to general satisfaction, work motivation, and job involvement.

### Informal Socialization

The informal socialization processes are sometimes considered part of the individual socialization process. Informal processes allow members to interact with superiors and co-workers in an unstructured manner. These activities might include:

- informal get-togethers such as picnics, pot-luck luncheons, receptions
- joint employee sports teams

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- joint training sessions where employees of different units can interact
- common telephone and E-mail networks that encourage impromptu messages
- common employee volunteer activities
- management visits that involve informal "meet and greet" sessions

In early studies of employee involvement and commitment, Tannenbaum and Kahn (1958) and Tannenbaum and Smith (1963) found that organizations that provided opportunities to participate in informal activities and informal interactions with fellow members produced the most loyal members. This implies that informal socialization activities would be beneficial to firms wanting to create an opportunity for interaction across subsidiary boundaries to assist in integrating different cultures. Therefore, firms pursuing operating synergies would likely find them more valuable than firms pursuing financial synergies.

H5      Firms pursuing operating synergy will employ a higher level of informal socialization activities than firms pursuing financial synergy.

#### Formal Socialization.

The formal socialization processes are considered part of a collective, institutional socialization process (Van Maanen & Schein, 1979). These might include such mechanisms as:

- formal, pre-planned, written communications such as newsletters or a letter from the president
- common manuals and initiation procedures for all new group members
- formal presentation of goals, mission statements, etc. on a website or in a video

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The goal of formal socialization in an organization is typically to increase the degree to which newcomers will share common norms, values, and attitudes and develop "custodial role orientations" in which they accept the status quo and passively accept the requirements of the tasks or roles that the organization gives them (Jones, 1986). In addition,

Holding companies and other unrelated firms pursuing financial synergies would be expected to strive for independent cultures for each subsidiary and allow the merging units to remain autonomous from each other and the parent organization. These firms would not be expected to have any significant centralized formal socialization efforts.

H6 Firms following an autonomy strategy will employ lower levels of formal socialization activities than firms following an integrated strategy

### Pre-Merger Socialization

A number of authors have suggested that the potential for success or failure of the merger or acquisition is set long before the deal is finalized. (Bastien, 1967; Elsass & Veiga, 1994; Shrivasteva, 1986). Elsass and Veiga (1994) suggest that this is because:

... the pervasive uncertainty underlying the acquisition environment has been shown to influence both individual stress reactions and intergroup feelings of cultural differentiation. Thus, effective communication (both quantity and quality) takes on a high priority in the implementation of acquisitions. Under conditions of uncertainty, employees trying to solve problems for which the available information may be vague, uncertain, ambiguous, or incongruent will react by creating conditions of closed communications, self-fulfilling prophecies and escalating error (p. 444).

These studies suggest that firms need to anticipate and address employee concerns the moment there is even a rumor about the merger or acquisition to avert the "jumping

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ship” behaviors of key employees. A lack of these early pre-merger efforts has also been shown to contribute to the inability to integrate a newly acquired firm into the parent organization (Chatterjee, Lubatkin, Schweiger & Weber, 1992; Covin, Sightler, Kolenko & Tudor, 1996; Elsass & Veiga, 1994; Kitching, 1967; Nahavandi & Malekzadeh, 1988).

The pre-merger stage encompasses the time period beginning at the time the merger or acquisition negotiations first become known to employees and ending when the transaction agreement is signed. This time period can be a matter of a few days or it can take months or years, depending on how long it takes to complete the deal or overcome regulatory obstacles. Unfortunately, it is often the case that employees become aware of the planned merger long before it is publicly announced, and yet management continues to do most of its socialization and communications planning in private. Often this is because confidentiality agreements necessitate a "no comment" public position until the deal has been signed and negotiations completed. For publicly-traded companies, Securities and Exchange Commission (SEC) rules dictate when details of the deal may be publicly announced, but there is also a legal requirement that the negotiations must be announced if there is a risk that the knowledge could be "selectively disclosed" through rumor or insider information.

Since this early period is also when rumors and worst-case scenarios are most common and employees feel most vulnerable and frustrated, merger experts often suggest that even in the absence of official information, some of the negative consequences can be reduced in this early stage if managers are prepared to actively listen to employees and allow them to vent their concerns (Callahan, 1986; Kneale, Roberts & Cauley, 1994; Lefkoe, 1987; Marks & Cutcliffe, 1988; Zweig, Holland & Alexander, 1995). These

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experts suggest that when the process is inadequate and fails to meet employees' needs for early information, the resulting departures of key personnel and the subsequent cultural conflict between new and existing members of the merging organizations will be a serious threat to the deal's success.

- H7 All firms that employ high levels of pre-merger socialization, regardless of their integration strategy, will have lower levels of attrition and conflict than firms that have low pre-merger socialization.

Figure 2 illustrates this relationship and suggests that in the pre-merger stage, the integration strategy does not interact with the socialization process or play a significant role in pre-merger conflict or attrition. This is because it is assumed that employees will want information as soon as they learn of the potential merger or acquisition, regardless of the parent firm's motivation behind it or how it plans to integrate them. As a matter of fact, the motivation and integration plans are likely to be some of the key information that employees will want to obtain early on. The implication is that if this information is not forthcoming, there is a greater likelihood that the organization will experience internal conflict and a higher degree of attrition due to employee uncertainty.

Some additional explanations for cultural conflict that might stem from inadequate early socialization and a lack of communications and which may then be carried through to the post-acquisition period are:

- a. **Loss of Identification:** Loss of identification occurs when members of an acquired or merged unit, who have previously identified closely with it, find themselves now part of another, larger organization. Harry Levinson (1973) has suggested that when there is a dramatic shift in cultural patterns, as in mergers of unrelated firms or firms with

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<b>Pre-Merger Socialization Strategy</b>	<b>Strong Tactics</b>	<b>Low Conflict Low Attrition</b>	<b>Low Conflict Low Attrition</b>
	<b>Weak Tactics</b>	<b>High Conflict High Attrition</b>	<b>High Conflict High Attrition</b>

**Figure 2. Relationship Between Integration Strategy and Pre-Merger Socialization**

very different cultural styles, employees will experience a sense of loss that is psychologically similar to a death of a loved one. The loss the employees feel may be from a loss of support "ranging from being separated from key people who were helpful to a person, to losing familiar ways of getting the job accomplished" (Levinson, 1973, p. 70).

Levinson suggests that a more subtle form of loss of support may occur when "people who have identified with an organization's purposes, goals and leadership feel they have lost something when any of these change" (Levinson, 1973, p. 70). Levinson suggests that the psychological costs to employees are a feeling of frustration, depression, and a sense that they are no longer able to work toward an image of him or herself in the future. Similar feelings may occur following a merger if employees feel they no longer get the kind of information that helps them orient themselves in time and place. This

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may be due to a different communication style or mechanism in the parent firm or the absence of a familiar network where one can "get the real scoop on what's going on."

b. Resistance to Change: Paul Mott (1972) has suggested that in addition to this personal level of anxiety, identification with the former organization can lead to resistance to change. There may be features of the former organization that old members want to preserve. Mott found that the strength of an organization's ability to adapt to new rules or a new structure was directly related to members' ability to identify with and understand the values behind the new organization. The greater the clarity of the rules, the more prevalent was the adjustment. He found, however, that "conformity to rules requires clarity, but more than that, clear rules introduce an element of rationality into the work environment and enable individuals to take more positive attitudes toward their organization and its requests for change." (Mott, 1972, p. 57). Mott found that for those who were unable or unwilling to identify with the new organization, adaptation was less prevalent.

c. Identification beyond the focal organization: March and Simon (1958) suggested another possible negative outcome when group members establish identification beyond the focal organization, and this is perhaps the most threatening to an organization pursuing an operating synergy strategy. In this instance, the newly acquired employees may perceive their entity's survival being threatened by other sub-groups in the new, larger organization. As Staw, Sandelands and Dutton (1981) point out in their threat-rigidity study, "Threats to the interests and purposes of groups often become so severe as to cause the breakup of a collectivity to each of its members" (p. 507). The group's reaction to the threat may be to restrict the flow of information outside

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These negative consequences are not, of course, limited to the pre-merger time frame. They are also likely to occur after the merger has been completed if inadequate socialization processes are not implemented.

### Post-Merger Socialization

The post-merger time period begins at the signing of the legal agreement and is presumed to continue at least for the first year after the transaction has been completed, but can go on for a much longer period, depending on how large and complex the two merging organizations are (Hamilton, 1986). Brett (1984) has suggested, however, that most role transitions are completed within six months after completion of the deal. Therefore, this study treats the post-merger stage as two time periods: the early and the late post-merger period.

The early post-merger stage is the six months immediately following the completion of the deal when employees are actually asked to perform to the goals and values of the new organization. This study's review of socialization activities concentrated on this early period, since it is when the majority of valid information is exchanged and transition teams are put in place to implement the merger (Marks & Cutcliffe, 1987).

The late post-merger period is considered the timeframe from six months to as late as one and a half years after the transaction is completed, and is when the organization will begin to formulate and implement new corporate philosophies, values and principles and should also begin to solicit feedback from employees about their

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perceptions of the merger (Marks & Cutcliffe, 1987). It is also when the firm's management is most likely to compare the performance of the transaction to its expectations and decide if additional training or acclimation of employees is needed (Elsass & Veiga, 1994).

Post-merger socialization involves both newcomer assimilation and resocialization -- that is, helping existing employees to understand and accept the newly created structure that includes the newly acquired entity (Van Maanen & Schein, 1979; Chao, O'Leary-Kelly, Wolf, Klein & Gardner, 1994; Hart, Miller, & Johnson, 1998). Since socialization helps to integrate cultures, it follows that firms pursuing operating synergy should employ a high level of socialization activities from the very beginning of the merger or acquisition process, but especially in the post-merger period. However, firms pursuing only financial synergy would employ low levels of post-merger socialization tactics.

But, unlike the pre-merger stage, where it is assumed that strong socialization and communications efforts should be undertaken regardless of the acquisition motive or planned integration strategy, in the post-merger stage, this study suggests that management's post-merger socialization activities should change to fit the acquisition motive. This argument is similar to that given for why unrelated firms would be likely to pursue financial synergies and an autonomy strategy -- not only is there little strategic value in integrating the merging organizations under these conditions, there could be some negative consequences as a result of attempts to integrate the cultures. In the case of socialization, the negative consequences could come from employees of the acquired firm who were promised to be left alone to operate autonomously and then start receiving

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frequent communications and formal rules and administrative guidelines from the parent firm. They may interpret these attempts at formal socialization as interference with their operations and see it as reneging on the terms of the agreement (Elsass & Veiga, 1994). Indeed, in an unpublished qualitative study of ad agency mergers, this concern was mentioned by several executives of small acquired advertising agencies as a reason that they ultimately bought themselves back from large conglomerate agencies (Whalen, 1997).

- H8 For firms pursuing financial synergy, there is a positive relationship between the level of formal and informal socialization activities undertaken after the merger has occurred and the level of perceived post-merger conflict and attrition that will be experienced.

Conversely, for those mergers or acquisitions that are looking to integrate the cultures of the firms and find strategic value in combining operations, employees would look for both formal and informal processes to help with this integration. Therefore, if these processes are lacking, there would a greater likelihood of conflict and attrition.

- H8a For firms pursuing operating synergy, there is an inverse relationship between post-merger formal and informal socialization levels and the level of perceived conflict and attrition. (High levels of post-merger socialization will result in low levels of perceived conflict and attrition.)

Of particular interest to this study is the comparison of what is predicted to be a set of “matched” and “mismatched” integration and socialization strategies shown in

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Figure 3 during the post-merger period and its comparison with the predicted unimportance of the integration strategy in the pre-merger stage, as shown in Figure 2.

		<b>Integration Strategy</b>	
		<b>Weak forces of Integration (Autonomy Strategy)</b>	<b>Strong Forces of Integration (Integrated Strategy)</b>
<b>Post-Merger Socialization Strategy</b>	<b>Strong Tactics</b>	<i>Mismatched Strategies **</i> <b>High Conflict Predicted</b> <b>Low Performance</b>	<i>Matched Strategies **</i> <b>Low Conflict Predicted</b> <b>High Performance</b>
	<b>Weak Tactics</b>	<i>Matched Strategies</i> <b>Low Conflict Predicted</b> <b>High Performance</b>	<i>Mismatched Strategies</i> <b>High Conflict Predicted</b> <b>Low Performance</b>

**Figure 3. Relationship Between Integration Strategy and Post-Merger Socialization**

#### Cultural Conflict

Acculturation Theory lends support to this study's suggestion that, when there is a mismatch between the integration strategy and the socialization strategy, the firm will likely experience some form of cultural conflict. Taken from anthropology, Acculturation Theory focuses on the process of integrating two cultures into one and the congruence or incongruence of the merging organization's modes of acculturation to predict cultural adaptation or cultural conflict within the merging units (Nahavandi & Malekzaheh, 1988; Elsass & Veiga, 1994).

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Cultural Adaptation occurs when there is a successful implementation of the hoped-for level of organizational integration of cultures. It is the opposite of cultural conflict. (Chatterjee et al., 1992; Elsass & Veiga, 1994). Cultural conflict occurs when the organization is unable to successfully implement the hoped-for level of integration of cultures. For example, since this theory would suggest that the employees of firms following an integrated strategy would want a high degree of communication from management and opportunities to interact with one another, adaptation would take place when their expectations are met.

H9 Integrated firms will report lower post-merger conflict and higher perceived performance in strong post-merger socialization conditions than in weak post-merger socialization conditions.

This explanation for when adaptation or cultural conflict is likely to occur allows for the fact that not all merger or acquisition strategies strive for a full integration of cultures, but it accounts for the perceived disruptive force in the merger or acquisition implementation process when whatever the desired integration level is not achieved (Chatterjee et al., 1992; Elsass & Veiga, 1994).

Acculturation Theory suggests that two competing forces cause cultural conflict: forces of cultural differentiation and forces of organizational integration.

#### Forces of Cultural Differentiation

These forces are those that stimulate the recognition of similarities among individuals within subgroups (creating "in-groups") and the recognition of dissimilarities of individuals within other subgroups (creating "out-groups"). These forces encourage identification with an in-group and bias toward out-groups, which can lead toward

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destructive cultural conflict (Elsass & Veiga, 1994). Acculturation Theory implies that identification with a subgroup rather than the parent organization is not a sufficient factor in itself to cause destructive cultural conflict within a merger or acquisition, but it can be one of the causal factors for conflict to arise among organization members (Elsass & Veiga, 1994).

Nahavandi and Malekzaheh (1988) found that there are two suggested causes of this in-group/out-group differentiation and potential for conflict: competition for scarce resources and the interdependencies of goals among group members. Competition for scarce resources could include anything from competing with other firms for customer loyalty to trying to obtain the best quality raw materials from a supplier. Max Weber suggested that conflict between competing group members would increase as formal structures such as communications were used by opposition leaders to make members aware of the discontinuity in the distribution of rewards (i.e. unequal resource allocation). Therefore, communications would actually be a “galvanizing” mechanism for in the in-group members and would stimulate conflict with out-group members rather than be a mitigator of conflict (Turner, 1982).

Supporting this proposition, is a study by Ulrich, Cody, LaFasto & Rucci (1989) of a merger between two large healthcare suppliers, which found that initial fears about the merger among workers in each company led them to become more cohesive and restrictive in their communication and interaction across companies.

Conflicting Goals. Goal conflict exists when the attainment of goals by individuals or organization sub-units results in the interference with or obstruction of the goals of other individuals or organization sub-units, or in other ways make the behavior

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of those others less effective. When group members perceive that the goals of another individual or group are in conflict with their own, they will be more likely to perceive them as members of the out-group. (Tjosvold, Dann & Wong, 1992, citing Deutsch, 1973).

Cooperative Goals. When people believe their goals are positively linked to one another, they are more likely to perceive themselves to be part of an in-group and discuss problems and controversies openly and constructively. Cooperative goals do not necessarily eliminate conflict, but do help to manage it through exploring solutions to conflicting interests and finding creative solutions to common problems (Tjosvold et al., 1992).

This then lends support to the proposition that increased formal socialization and communications in general -- especially as it relates to explaining common goals and providing a shared vision for the entire organization -- could help reduce inter-group conflict. On the other side of the equation from Forces of Cultural Differentiation, are Forces of Organizational Integration.

#### Forces of Organizational Integration

These are the factors that encourage or discourage the firm's management to allow individual business units to operate autonomously or merge into one unified organization. This study has already suggested that these forces could include how related the firms are to one another and the acquisition motive behind the transaction. Two other forces that could affect the type of organizational integration strategy pursued include the *size* of the two firms in relation to one another and the management style of the acquiring firm. As will be discussed, large acquiring firms may be inclined to merge

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smaller firms into their cultures, despite their acquisition motives. Bureaucratic managements might also be more inclined to force an integrated strategy even if it does not make strategic sense. These forces would then lead to an inappropriately high level of socialization activities in firms that might more appropriately be left autonomous, and these firms would, in turn, experience higher levels of conflict than they might otherwise. Each of these forces will be addressed separately.

### Size disparity

Kitching (1967), in an early study of mergers and acquisitions that relied on survey data from corporate executives, found that in 84% of the acquisitions that were considered to be failures, the sales of the acquired company were less than 2% of the parent company's total revenues. This created what he calls a "size mismatch," leaving many executives in the parent organization with one of two feelings: that "the acquired company was so small no one in corporate headquarters could get interested in it," or "we couldn't get these little entrepreneurs to think like big businessmen" (Kitching, 1967, p. 92). Kusewitt (1985), using financial measures, reports similar findings from his own and other studies that found that large-scale entries into new ventures outperformed small-scale entries (Biggadike, 1979; Gluck, 1979; Kumar, 1977), although he also found an optimal relationship between firm size and the amount of acquisition experience of the parent firm. Rentsch and Schneider (1991), using experimental research, suggest that small, would-be targets are likely to perceive that the larger organization will psychologically crush and dominate the smaller organizations after a combination.

These findings suggest that a size mismatch between the acquiring firm and its acquisition target would impact the degree of integration required by the parent. This is

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because it is assumed that very large parent firms would be less likely to give full autonomy to considerably smaller firms, even those where the firms are unrelated and where the most appropriate acquisition motive would appear to be financial synergies.

It is important to note that size disparity may be a growing issue in mergers and acquisitions because of the increasing size of consolidated firms. That is, as the parent firm becomes larger through increased merger and acquisition activity, there will be an ever-widening gap between the acquirer and the target firm. Consequently, even acquisitions that were once considered relatively large could fall under the two percent critical mass levels found by Kitching (1967) and be headed for potential disruptive cultural conflict.

H10 There is an inverse relationship between the relative size of the merging firms and the level of conflict reported.

### Management Style

The second force of cultural integration proposed in this study is management style. Harry Levinson, in his book The Great Jackass Fallacy (1973), traced the psychological roots of merger failures in firms that tried to blend two management teams that had very different management styles -- one bureaucratic and the other entrepreneurial. He suggested that mergers of this type are in jeopardy because of a fear of obsolescence by the parent firm's management.

He suggested that if the parent organization has become rigidly systematic in defining jobs; delineating objectives; and in measuring, counting and controlling matters, there is less room for individual initiative and spontaneity. The existing management becomes resistant to change and obsolescent. Therefore, to obtain new blood, the

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company buys an enterprising organization, but is unable to reap the benefits because of resulting clashes between the two management styles. Levinson warned that the pivotal issue becomes one of control and that the superior attitude of the acquirer can be very destructive to the merged entity, driving out of the organization the very people the parent was trying to gain and, hence, stifling the initiative of the remaining people, and ultimately causing the merger to fail.

Acculturation theory would predict that this conflict in management styles would have the most direct effect on the degree of integration the parent would expect of the target firm and could, in addition to size disparity, account for a mismatch in socialization levels and increase the chances of a culture clash between them. (Elsass & Veiga, 1994; and Nahavandi & Malekzadeh, 1988. The reasons for this are as follows:

If the two are in different types of businesses, one would assume that the most appropriate acquisition motive would be one that seeks financial synergy, not operating synergy. That would, in turn, encourage a high degree of autonomy between the units. But if the parent's management style requires a strong, centralized control, there would be an inconsistency between the acquisition motive and the degree of integration, resulting in a culture clash.

H11 There is a positive correlation between bureaucratic management style and formal socialization activities.

H11a In firms pursuing financial synergy, bureaucratic management style and post-merger conflict are positively related, while the relationship is non-significant in firms pursuing operating synergy.

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## Merger Performance

Strategic management literature and the popular business press have generally agreed that a reduction in the amount of cultural conflict that takes place pre- and post-merger will result in an increased performance. Therefore the goal of the merger and acquisition implementation process is to strive for low levels of cultural conflict. Unfortunately, measuring the impact of conflict on the performance of a merger or acquisition is not easy, nor has it been consistent across studies. This is due in large measure to an inability to isolate all the confounding variables that affect performance beyond cultural conflict. Given these uncontrollable factors, Kitching (1967) argued that the best measure of performance would be the use of retrospective interviews with executives that were involved in the process in the first place to obtain their perceptions of whether the transaction met their expectations. Kitching suggested this method because these are the very people who determined the strategies to employ in the first place and who will ultimately use their perceptions of performance to modify those strategies or to discontinue the transaction altogether. While it is a subjective measure with questionable internal validity, it has high external validity (Haunschild, Moreland & Murrell, 1994).

## Experience Factor

Another factor that may affect the perceived performance of a merger or acquisition is the experience that organizations have in implementing them. Some studies have found that organizations with a high degree of experience in mergers and acquisitions outperform those with less experience (Bagli, 1997; Nahavandi &

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Malekzaheh, 1988; Zweig, 1995). This suggests that either managers in these firms that have undertaken a large number of mergers or acquisitions in the past will have learned from past mistakes and report greater success in implementing their mergers and acquisitions than those firms that have less experience.

H12 There is a positive relationship between experience and perceived performance (outcome).

H12a Organizations that have undertaken a high number of mergers or acquisitions will report higher perceived performance.

H12b Communicators with high degree of experience in employee communication will report higher perceived performance.

#### Attrition and Production Orientation

An argument could be made that the real impact of cultural conflict is the unwanted loss of employees either in the pre-merger or post-merger stages. This would be especially true in those firms where employees possess unique qualities and skills that contribute the majority of the value-added to the firm's product line and where the loss of key employees could have a serious impact on the overall performance of the firm.

Where the majority of the value-added is provided by machinery or by employees that are easily replaced, loss of employees would likely have less impact on performance.

Because of service firms' greater reliance on the output of their people than the output of machinery for performance, cultural conflict and its resulting unwanted attrition would be predicted to have a more serious impact on their performance than on the performance of manufacturing firms. Consequently, in service firms the value of the talents, skills, and creative abilities of the personnel being acquired may have far more

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value to the acquirer than such hard assets as plant, equipment, and real estate. And accordingly, if key personnel in the acquired service firm voluntarily terminate due to the confusion, frustration, or mistrust characteristic of cultural conflict (Levinson, 1973), the value of the deal could substantially diminish.

H13    Service firms that experience high attrition will report lower performance levels than manufacturing firms that experience high attrition.

If this prediction is true, the production orientation of a firm would be predicted to act as a moderating variable between attrition and performance in the overall implementation process in Figure 1. If true, it could also indicate a potential for increasing resulting financial losses in mergers and acquisitions in coming years, since four of the top six industries involved in mergers and acquisitions today have a service orientation.

### The Role of Public Relations

Much of the merger and acquisition literature reviewed thus far has been from the strategic management discipline which has borrowed theories from other disciplines, such as acculturation from anthropology (Elsass & Veiga, 1994; Nahavandi & Maleksadeh, 1988); social identity from social psychology (Haunschild, Moreland & Morrell, 1994); and the theory of psychological loss from clinical psychology (Levinson, 1973). Most of the research in those areas have tested these theories by applying them to merger or acquisition situations and assessing their ability to explain or predict changes in employee attitudes about merger or acquisition or the financial results of the merged firms -- either in terms of changes in stock prices, which is a proxy for shareholder

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wealth, or in terms of changes in financial ratios which are indicators of synergy and successful goal achievement (Rumelt, 1974; Kusewitt, 1985).

But there is another large body of literature on mergers and acquisitions that is fairly atheoretical. This literature comes from a large base of corporate executives and the popular business press who rely on anecdotal evidence from real-life experiences to provide practical “how to” advice on implementing a successful merger or acquisition. One of the most prolific literature streams on this topic comes from the functional area of public relations, since many practitioners in this discipline have oversight of many of the communications functions necessary to implement a merger or acquisition.

This literature stream is important to review for two reasons: First, it can be argued that how likely a firm is to employ the right mix of acquisition motive, integration strategy and socialization tactics may lie in the role that public relations practitioners play within the decision-making process of their organizations. Grunig and Hunt (1984) have defined public relations as the management of communications between an organization and its internal and external publics. Since, as has already been suggested, communications to both internal and external audiences can be critical to the success of a merger or acquisition, the public relations role would, by definition, be critical to the success of that merger or acquisition.

Indeed, a review of several college-level textbooks on the practice of public relations suggests that this function should take the lead role in overseeing both the internal and external communications efforts of mergers and acquisitions and other types of corporate restructuring (Aronoff & Baskin, 1983; Cutlip, Center, & Broom, 1985; Wilcox, Ault & Agee, 1997).

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Aronoff and Baskin (1983) have suggested that in the early 1980s there was a shift in public relations emphasis in major corporations and that today's public relations professionals are now often in the executive ranks of their firms. As such, they are expected to represent the interests of various publics inside corporate decision-making circles and to help weigh the consequences of corporate actions. "Frequently, public relations practitioners assume the role of advocate or ombudsman on behalf of consumers, minorities, environmentalists or other publics. In this role the public relations practitioner is asked to be completely familiar with the needs and views of these publics and press their cause within the organization structure, (Aronoff & Baskin, 1983, p. 378).

However, some firms may assign public relations professionals limited or specialized functions during a merger or acquisition. For example, they may be asked to attend only to external audiences such as the financial media and security analysts while non-public relations professionals, such as those in the human resources department, may be responsible for employee communications. Some firms do not even involve the in-house public relations function significantly in any part of the process. Instead, they employ full-time merger and acquisition specialists or hire outside consulting firms to address specific communications needs associated with resisting a hostile takeover bid or integrating the cultures of merging firms (Bagli, 1997; PR's Pressure Cooker, 1990).

The most prominent view of the public relations function, however, among public relations practitioners and educators is that effective organizations place the public relations function at a high corporate management level and include the public relations function in early strategic planning stages and in all aspects of the merger or acquisition.

This study examines this view by exploring the role of public relations practitioners in the formulation and implementation of socialization strategies during these transactions. In addition, if this prominent view of public relations by public relations scholars is correct and that public relations professionals are uniquely qualified to assist in the strategic planning of such major corporate decisions as mergers and acquisitions, then the public relations function's role in the planning process could serve as a predictor of the outcome of the transaction.

H14 There is a positive correlation between public relations professionals' involvement in the merger implementation and planning and the perceived outcome of the transaction.

This hypothesis assumes that utilizing the expertise of the public relations professional would increase the likelihood of the acquirer following the “right” integration strategy and, therefore, enjoy smoother transitions and more successful mergers and acquisitions than those firms that do not.

The second reason this atheoretical literature stream is important to this study is that while this study's proposed model of the acculturation process in mergers and acquisitions is soundly based in theory, the phenomenon it explores is very much rooted in the real world. As has been noted, trillions of dollars have been spent on mergers and acquisitions in the past few decades and it is likely that trillions more will be spent in decades to come. Finding the appropriate implementation process for these transactions could have a significant impact on the well being of many companies and even whole industries. Therefore, it is important to explore all sources of information that can help in

this endeavor and learn the way that the process is implemented in real life to identify areas that might be improved upon.

Practical Advice. One useful collection of practical advice on this subject can be found in Caywood and Ewing's (1992) book of articles from a conference by top public relations corporate and agency executives who have collectively overseen hundreds of mergers, acquisitions, joint ventures, and other corporate restructurings.

Most of this practical advice lends support to the model put forth in this study and stresses the need for establishing a formalized internal integration process to achieve the desired synergies and objectives of a merger or acquisition. This process typically involves a number of steps to be implemented prior to the completion of the merger or acquisition (Sauerhaft, 1997). Some of these include:

- the development of an integration team made up of top executives of both firms;
- a systematic collection and analysis of materials about each firm to assess their cultural compatibility. These materials include such items as: mission statements, employee benefits and work rules manuals, newsletters, annual reports, and customer service procedures;
- the use of a series of pre-determined (often computerized) questions that the integration team should explore to identify potential problem areas long before the merger or acquisition takes place
- the development of specific pre-merger and post-merger communications strategies and materials aimed at external and internal audiences.

Practical communications tactics are also widely recommended in this collection of articles and include both formal and informal approaches, but are not usually identified as

such. Also, these communications tactics seem to be the same regardless of the time period in the implementation of the merger or acquisition, with most authors giving equal weight to both the pre-merger and post-merger stages.

Although the specific messages to be communicated are often left out of this level of discussion, most public relations practitioners do offer the advice to be honest and that “any information is better than no information,” Marks and Mirvis (1997) also suggest that any message regarding the merger or acquisition be “expressed in both business and human terms” (p. 26).

Despite the similarities between the theoretical and atheoretical approaches, there are some key differences in these two approaches. A key difference is the definition of the target audience. While organizational management and communications scholars focus almost exclusively on internal audiences, the public relations practitioners look to address the concerns of many different stakeholders beyond employees, including: communities, investors, customers, suppliers, and the news media. Interestingly, during the pre-merger stage, public relations professionals seem to stress communications to external audiences as much or more than internal audiences (Sauerhaft, 1997; Lovell, 1996), but their post-merger communications focuses almost exclusively on internal employee communications.

Another important difference from the theoretical approach to mergers and acquisitions is that most of the atheoretical “conventional wisdom” of professional communicators involves strong formal socialization tactics that tend to be recommended for all mergers and acquisitions in all circumstances. As has been suggested, this practical advice does not take into account the potential for conflict if the motive behind

the transaction is purely for financial synergies with no need or expectation to integrate the cultures of the two entities

Finally, the practical recommendations seem to assume that implementation of strong communications tactics will ensure success. But even if we consider just the processes where there is alignment in the acquisition motive, integration strategy and socialization tactics, the evidence that these tactics will improve a merger or acquisition's chances for success is just anecdotal. While this study does not dispute the value of these practical recommendations, it suggests that a rigorous study must be undertaken to assess the impact of such tactics on the outcomes of a wide range of real-life mergers and acquisitions. This study attempts to do just that.

## CHAPTER 3: METHOD

### **Design**

A key criticism of how research is typically conducted on strategic groups is its relatively strong emphasis on secondary data to determine the strategies behind group formation and integration. Thomas and Venkatraman (1988) suggest that this method should be accompanied by methods that obtain managerial perceptions about the development of groups. "After all, managers anchor their development of strategy in their evaluation of competitive strategies" (p. 550).

This study utilized both types of data-gathering methods to test the hypothesized models and relationships among the various constructs in the integration process. First, a number of financial and descriptive facts were collected from secondary sources about firms involved in a number of mergers or acquisitions that had taken place over a recent two-year period. This secondary data included descriptions of the terms of the merger or acquisition, date of announcement, revenues and other financial information about both the parent and target firms, their number of employees, and their primary standard industrial classification (SIC) codes. Then the acquiring or lead firm in each transaction was called and a request was made to conduct a survey with a high-ranking individual responsible for the internal communications activities surrounding that particular merger or acquisition.

The unit of analysis for the study was the organization, and the descriptive secondary data along with the survey responses from an individual responsible for internal communication were aggregated to represent one organization.

A questionnaire was developed specifically for this study which was pre-tested with ten individuals who worked in a corporate communications function at firms that had recently merged. The pre-test was used to clarify terminology and eliminate any elements deemed confusing or inappropriate. The questionnaire, which contained 93 questions and took approximately 45 minutes to complete by telephone interview (see Appendix 1), incorporated direct measures of communications and socialization activities employed before and after the merger or acquisition was completed. It also incorporated a number of multiple-choice and Likert-type scales that dealt with the key constructs of the study, including such subjective factors as the management style of the parent organization, the level of conflict that developed during the implementation of the merger or acquisition, and the perceived performance of the transaction.

Although the design of the questionnaire raises some internal validity issues, since it utilized a number of subjective questions that were open to interpretation on both the part of the respondents and the researcher, the questionnaire also had strong external validity, because of the nature of the respondents. They were generally high-level executives who were often involved in the initial decision-making about the deal and, therefore, would likely be involved in its subsequent evaluation to determine the deal's continued viability.

## **Participants and Sampling**

Since an important purpose of this research was to learn about the integration processes in mergers and acquisitions and the role of public relations in that process, participants were primarily sought from public relations (PR) departments. For those firms in which the employee communication function was not part of the public relations department, information was sought from the human resources (HR) department or from any other executive that could provide information about the internal communications strategies employed during the merger or acquisition.

An initial goal was to obtain one completed survey from participants representing 175 mergers or acquisitions. Assuming a 50-percent-response rate, a random selection of 350 transactions was established. This was based on response rates from similar studies of corporate communicators, that ranged from 26% to 66%, and which found significant results with sample sizes that ranged from 82 to 290 (Heath & Ryan, 1989; Newsom, Ramsey & Carroll, 1993; Shamir, Reed & Connel; 1990).

To obtain the participants, the researcher first identified all major mergers and acquisitions that were reported by Mergers and Acquisitions Magazine between January 1, 1996, and February 1, 1998, for all U.S. firms. This time frame was selected for two reasons: (a) it was hoped that using recent mergers would increase the likelihood of the professional communicators still being employed at the firm and able to recall events surrounding the merger; and (b) since some of the questions dealt with post-merger activities and perceptions, at least six months' history prior to the data-collection period of the summer of 1998, was deemed necessary.

There was a cut-off for the size of the transaction, with only those that exceeded \$100 million in revenues being selected. This was done in an effort to increase the likelihood that the selected firms had financial and employee information publicly available in secondary sources. This criterion then narrowed the sampling frame from more than 12,000 transactions during the specified timeframe to approximately 3,000 transactions. Targeting the larger, publicly traded firms also helped to increase the likelihood that the parent firm was large enough to warrant a professional communicator on staff at some level. However, since the role of size disparity in mergers and acquisitions was one of the variables of interest in this study, there was no cut-off made regarding the value of the firm being merged or acquired.

In selecting the companies to be researched, all of the transactions that were valued under \$100 million in revenues were first eliminated. Of the remaining transactions, the researcher randomly picked a number between one and eight for the first transaction on the list and then selected every 8th one thereafter, yielding 350 mergers or acquisitions. Once these were identified, publicly available directories of corporations (Wards Business Directory, 1997; and D & B Million Dollar Directory, 1997) were used to identify the address and phone number of the parent or lead firm in the deal and to obtain key financial and descriptive information about all 700 parent and target firms involved in the 350 transactions.

Sufficient secondary data could not be obtained on the parent or target firm in 21 transactions, primarily because they were not publicly traded and were not required to report this data. These were eliminated from the list of targets. In addition, after calls were made to the remaining 329 parent firms, it was found that another 35 transactions

were duplicates of those reported under a different name or at another time period in *Mergers and Acquisitions Magazine*, and 7 firms reported that the merged firm was no longer in existence, and these too were eliminated, leaving the total number of target transactions at 287. Of these, 108 surveys were completed for a 38% response rate.

### **Procedure**

Survey data was collected over a two-week period in July 1998. Telephone calls were made during regular office hours by eight trained interviewers who called the corporation's headquarters and asked to be connected to the public relations department and then, once connected, asked to speak to someone who could answer questions about the internal communications that took place during the merger or acquisition of interest.

This was one of the most challenging parts of the research, since many firms did not utilize the services of any internal communicators, instead leaving that aspect of the deal in the hands of the same executives who handled its financial aspects. When these individuals could be identified, they were called and asked to participate in the study, and many of them did so. But often these individuals had already left the firm, and there was often no one available who could discuss the details of the particular merger of interest. In fact, only 33 of the 179 non-responding firms refused outright to participate. The remaining firms either had no one left in the company who could discuss the details of the communications strategies or had only one such individual who was on travel or who promised to respond at a later date and did not, despite repeated call-backs from the interviewers.

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The protocol for the telephone portion of this study began with a screening question to confirm the respondent's role: "*Do you have responsibility for employee communications in your firm?*" and then if yes, "*Have you also been involved with communications issues concerning your firm's merger with (name of acquired firm)?*" If the respondent said "no" to either the first or the second question, the interviewer asked to be connected to or given the name and phone number of a person who was responsible for this function.

In several cases, the respondents agreed to provide the information only if it could be completed by fax or email. Because of the sensitive nature of the questions being asked, they explained that due to their publicly traded status, there could be serious legal consequences if there was any "selective disclosure" of facts made public about the merger or acquisition. Several of the individuals who insisted on a printed version of the survey said that the university stationery or email address provided some measure of comfort that the questions were coming from a legitimate researcher who could be trusted to keep the information confidential and not from a member of the news media or an investor looking for updates on the transaction's viability. To accommodate this need, a printed version of the survey was created and sent when requested, and 24 completed surveys were received in this manner. Tests were later conducted to see if there was any significant difference between the responses completed by interviews over the telephone and those written out and returned via fax or email. No significant differences in responses could be detected.

## Subjective Measures

There were a total of eight variables in the study measured with multi-item scale instruments intended to approximate the constructs of interest. These were: two types of acquisition motive -- financial synergy and operating synergy; degree of integration, management style, pre-merger cultural conflict, post-merger cultural conflict, attrition, and perceived merger outcome. Table 3 summarizes these scales. The question numbers in the table are reflected in the survey in Appendix A.

**Table 3. Original Measurement Scales**

MEASUREMENT SCALES	VARIABLE NAME	DESCRIPTION	QUESTION #
<b>Acquisition Motive: Financial Synergy Operating Synergy</b>	TOTFIN TOTOP	3 items, 7 pt. Likert-type 3 items, 7 pt. Likert-type	11a, 11c, 11e 11 b, 11d, 11f
<b>Integration Strategy</b>	INT	3 items, 7 pt. Likert-type	17a, 17b, 17c
<b>Management Style</b>	MGS	4 items, 7 pt. Likert	12a, 12b, 12c, 12d
<b>Pre-Merger Conflict</b>	TOTPRECF	5 items, 7 pt. Likert	15a, 15b, 15c, 15d, 15e
<b>Post-Merger Conflict</b>	TOTPOSTC	5 items, 7 pt. Likert	16a, 16b, 16c, 16d, 16e
<b>Attrition</b>	ATT	3 items, 7 pt. Likert	14a, 14c, 14e
<b>Merger Outcome</b>	OUT	4 items, 7 pt. Likert-type	13a, 13b, 13d

Appendices B through H provide a list of the items included in each of the eight multi-item instruments. All Likert scales ranged from 1 to 7, from "strongly disagree" to "strongly agree." The Likert-type scales ranged from 1 to 7 using "important" and "unimportant" and "to a very little extent" and "to a very great extent" as the anchors.

### Acquisition Motive

(See Appendix B). Acquisition motive was measured by 6 items from lists identified by Bielinski (1992) and Mirvis and Marks (1992) as potential synergies that are typically sought in a merger or acquisition. Participants were asked how important these motives were behind their merger or acquisition. Three of the questions identified a *financial synergy motive*. Three of the questions identified an *operating synergy motive*. Since it was anticipated that firms merging for operating synergies might also seek financial synergy, and some firms primarily seeking financial synergy might also seek some operating synergy, it was planned to identify firms' primary acquisition motive as the synergy in which they ranked the highest scores.

### Integration Strategy

(See Appendix C). To assess the organization's tendency to operate across organizational boundaries (an integrated strategy) and its tendency to operate solely within the boundaries of an organizational unit (an autonomy strategy), this study used a 3-item instrument from the "Interaction Facilitation" subscale of Taylor and Bowers (1972) Supervisory and Peer Leadership instrument. Cook, Hepworth, Wall and Warr (1981) reported the internal reliability of this measure (alpha coefficient, N=325) was 0.89 and for seven samples totaling 1048 respondents, the Spearman-Brown reliability coefficient ranged from 0.83 to 0.91. The degree of integration was measured with responses above the means indicating an integrated strategy and responses below the mean indicating an autonomy strategy. Firms that fall on the mean are considered to have a combined strategy.

### Management Style

(See Appendix D). This variable was measured using four items modified from Gordon's (1973) Work Environment Preference Schedule which measures an individual's commitment to the set of attitudes, values and behaviors that are characteristic of bureaucratic organizations. Internal reliability coefficients alpha were found to range from .83 to .91 across five samples of respondents and a test-retest correlation across 16 months with 105 subjects was .65 (Cook, Hepworth, Wall & Warr, 1981). Modifications to the items were made so they would assess organizational rather than individual characteristics.

### Cultural Conflict

(See Appendix E and F) The construct of cultural conflict was measured by eight items -- four items that measured pre-merger conflict and four items that measured post-merger conflict from. These were taken from Marks and Mirvis (1997) and Mirvis and Marks' (1992) series of questions that are reported to be indicators of a form of cultural conflict called "Merger Syndrome." The reliability of these items was not reported, nor was there any indication that the two sets of questions were actually different constructs and not measures of the same thing. One of the goals of this study was to test these items to see if they would, in fact, provide two good scale measurements of cultural conflict resulting before and after a merger or acquisition.

### Attrition

(See Appendix F) The measure of attrition as a result of the merger or acquisition was taken through three direct questions about the respondents' perceptions about the loss

of employees from both the target firm and the parent firm. These questions formed an Attrition scale using a Likert scale of agreement regarding their perceptions of how many people left their firms because of the mergers. They were also asked to distinguish between wanted and unwanted turnover by answering if their firms desired some turnover to eliminate duplication of efforts.

Initially, it was hoped to attain a less subjective measure of employment changes through secondary sources. However, this became impractical, given the recency of the transactions, since almost none of the firms involved in the merger or acquisition had yet published an annual report that cataloged the impact of the transaction on staffing levels or revenues. Also, in talking with some of the target respondents, it became clear that many staffing level changes would have taken place with or without the merger or acquisition, and therefore, even if the data were available, it would be misleading to simply report changes in employment levels pre and post transaction. It was felt that direct assessments about attrition resulting from the merger from individuals responsible for employee communication during and after the transaction would be at least as valid as citing the secondary sources, with their inherent problems.

### Merger Outcome

(See Appendix G). Similar problems arose in trying to develop an objective measure of the "performance" and short-term outcome of the merger or acquisition. Typical objective measures of performance, such as profitability, return on assets, or market returns, were not used because of the difficulty in obtaining this information for such recent mergers. In addition, this information, even when obtainable, is problematic

because of the practice of many firms to restate past year's income to retroactively include the acquisition in the firm's accounting history, making comparisons nearly impossible (Kusewitt, 1985).

While some third-party assessments of performance of the mergers and acquisitions were sought and obtained from such sources as media and security analyst reports, these were not available for the majority of the deals (the media and analysts tended to report most often on the largest deals or those that were more controversial). In addition, many of these third party assessments relied on the subjective opinions of employees and outside observers.

Therefore, this study employed its own subjective measure to assess the participants' perceptions of how well the merged firm had been performing to date. This construct was measured with a four-item instrument "Satisfaction With the Merger" scale developed by Buono, Bowditch, and Lewis (1989) and used by Covin, Sighler, Kolenko, and Tudor (1996), who obtained a .83 Cronbach's alpha using this scale

### **Objective Measures**

The study also measured a group of nine objective variables. These were: relatedness of the firms; firm size; formal and informal socialization activities; as well as pre-and post-merger measures of these socialization activities; experience with mergers and acquisitions, PR's early involvement with the merger planning, and production orientation. Table 4 summarizes these manifest measures.

**Table 4. Description of Objective Measures**

<b>MEASURED VARIABLE</b>	<b>VARIABLE NAME</b>	<b>DESCRIPTION</b>	<b>QUESTION # OR DATA SOURCE</b>
<b>Relatedness</b>	REL	Based on 2-digit SIC code 1=related 0=unrelated.	Secondary Data
<b>Firm Size</b>	SIZEREV SIZEEMP	% Target Rev./Parent Rev. % Target Emp/Parent Emp	Secondary Data
<b>Formal Socialization</b>	FORMSOC	Counted number of activities	Q30 a – l
<b>Informal Socialization</b>	INFRMSOC	Counted number of activities	Q31 a – j
<b>PreMerger Socialization</b>	TOPRESOC	Counted number of "before" and "both" responses	Q30 and Q31
<b>Post-merger Socialization</b>	TOPOSTSO	Counted number of "after" and "both" responses	Q30 and Q31
<b>Experience in M &amp; As</b>	Q3NUM Q7EXP	# of M & As in past 5 years # of years with employee communication responsibility	Q3 Q7
<b>Production Orientation</b>	Q2ORIENT	1 = service 2= manufacturing 3 = 50/50 both	Q2
<b>PR's Lead Role</b>	PRKEY	PR managing integration team 1= yes 0=no	Q9

### Relatedness

Since Montgomery (1982) found a high degree of correspondence between a firm's 2-digit Standard Industrial Code (SIC) classification and more complex measures of relatedness, such as comparing the technology, production and distribution channels of the two firms, this study used the simpler 2-digit SIC code to measure relatedness. If the two firms were in the same SIC classification, they were considered to be related. If they were in different classifications, they were considered unrelated.

### Firm Size

This variable was created using Kitching's (1967) method of developing a ratio of target firm revenues to parent firm revenues at the time that the merger or acquisition was publicly announced. Unfortunately, this ratio could not always be obtained, since a number of service firms, especially those in the financial industry do not report revenues, but instead report financial assets and operating income. This was problematic when trying to compare two merger partners that had different reporting conventions. Also, this measure seemed inappropriate for some of the conglomerate mergers, where a small investment group that reported hundreds of millions of dollars in revenues, might operate out of a single office and have no formal organizational structure in place. Therefore, an additional measure of size was obtained when possible based on a ratio of the number of employees in the target firm over the number of employees in the parent firm at the time of the deal's announcement. A variety of secondary sources was used to obtain both the revenue and employment information (Mergers and Acquisitions Magazine, Wards Business Directory (1997), D & B Million Dollar Directory (1997), annual reports, media articles, etc.).

### Formal Socialization Activities

(See Appendix I). A list of twelve formal socialization activities was assessed to identify the specific formal socialization activities employed in particular mergers and acquisitions. These activities are cited most often in the popular business press as desirable formal methods of communicating to employees about a pending merger and include such actions as distributing to employees letters from top management, creating

fact sheets and question-and-answer pamphlets, developing training sessions for management and employees, posting mission statements, and producing videos to introduce the new management team or corporate philosophy. A total number of these activities employed during a merger or acquisition was obtained for each responding firm. For analysis that required categorical data, this variable was recoded so that organizations employing 50 percent or more of the activities (6 or more items) indicated "strong" use of formal socialization activities. Under that amount was labeled "weak" use of formal socialization activities.

#### Informal Socialization Activities

(See Appendix J). This variable was measured by assessing the firm's use of ten commonly recommended informal activities: informal question-and-answer sessions between management and employees, one-on-one meetings with key employees, development of common E-mail networks for the merged entity, corporate management walking around and meeting the employees of the acquired facility, training sessions that allow informal interactions among managers of the two firms, training sessions that allow informal interactions among non-managers of the two firms, joint company picnics and parties, combined sports teams, combined volunteer efforts, and publishing joint telephone directories. Organizations employing 50 percent or more (5 tactics) were classified as employing strong use of informal socialization activities. Fewer than five tactics were labeled "weak" informal socialization.

### Pre- and Post-Merger Socialization

This measure was used to assess the different tactics employed during different time periods of the implementation process. The pre-merger variable was created by summing the number of times the respondents employed the formal and informal socialization tactics in Questions 30 and 31 "before" the merger or "both before and after" the merger. The post-merger variable was created by summing the number of times the respondents indicated that they employed the formal and informal socialization tactics in Questions 30 and 31 "after" the merger or "both before and after" the merger.

### Experience with Mergers

(See Appendix K) This variable was measured for both the firm and the individual who had responsibility for developing the employee communications program. The measure of firm experience was obtained through a question on the survey (Q. 3) asking for the number of mergers or acquisitions that the parent firm had undertaken in the past five years. The measure of personal experience of the communicator was obtained through a question on the survey (Q. 7) asking for the total number of years of experience they had in handling employee communications, regardless of the firm for which they were working.

### Production Orientation

This measure was obtained by asking the respondents at the very beginning of the survey (Q.2) to identify whether the target firm in the merger or acquisition was primarily a service organization, a manufacturing organization, or was a combination of both service and manufacturing. The variable was then coded as 1 if it had a service

orientation, 2 if it had a manufacturing orientation, and a 3 if it was a 50/50 split between the two.

### PR's Lead in Merger Planning

(See Appendix L). This variable was measured by responses to Question 9, which asked which department had primary responsibility for managing the integration team for the particular merger or acquisition of interest. Beside Corporate Public Relations as an option, also offered were Human Resources, Finance or Business Development, Outside consulting firm or agency, as well as an "other" category where a write-in choice was allowed. While all of the responses were recorded, a variable, PRKEY, was created and coded with a 1 if PR lead the integration team and a 0 if any other department took the lead role.

## CHAPTER 4: DATA ANALYSIS AND RESULTS

### **Sample Characteristics**

Of the original 350 randomly selected mergers and acquisitions, secondary data on the deal value were available for 329 transactions. These data indicated that the mean value of the transactions in the population of interest -- mergers and acquisitions valued at over \$100 million -- was \$873 million. Of the 108 responding firms, the mean value of the deal was \$1.12 billion, while the mean value of the non-responding firms was \$755 million.

### Response Bias

To determine if there were any statistically significant differences between the responding firms and the non-responding firms, mean differences were calculated for these and other important measures of the transactions. T-tests were conducted to compare the mean differences between the two groups. Table 5 provides a summary of this analysis. No significant differences between the two groups was detected, indicating that the respondents were from firms that were representative of the original target sample population.

### Characteristics of the Respondents

Of the 108 respondents who agreed to complete the surveys, all were from different corporations and all were employed by the parent or lead firm in the merger or

**Table 5. Deal Characteristics - Responders vs. Non-Responders**

	<b>Total Pop. Mean (millions)*</b>	<b>Responders Mean (millions)</b>	<b>Non-Responders Mean (millions)</b>	<b>Mean Difference (millions)</b>	<b>SE Mean Difference (millions)</b>	<b>t test **</b>
Deal Value	\$873 (n=329)	\$1,122 (n=108)	\$755 (n=223)	\$367	\$262.6	t=1.397 df=327 p=.163
Acqr. Rev	\$7,883 (n=266)	\$8,238 (n=99)	\$7,672 (n=167)	\$567	\$3,350.4	t=.169 df=264 p=.87
Targ. Rev	\$1,218 (n=159)	\$1,592 (n=51)	\$1,042 (n=108)	\$551	\$823.7	t=.669 df=157 p=.50
Acqr Emp	14,181 (n=285)	15,021 (n=103)	13,707 (n=182)	1,313	3,650.6	t=.36 df=283 p=.72
Targ. Emp	3,639 (n=72)	2,925 (n=30)	4,149 (n=42)	1,224	1,539.2	t=-.795 df=70 p=.42

\* except employee numbers

\*\* no significant different between groups (2-tailed sig. test)

acquisition of interest. As Table 5 indicates, their firms, on average, had \$8.2 billion in revenues and had an average of 15,000 employees. The target firms in the transactions had, on average, \$1.6 billion in revenues and had an average of 2,925 employees at the time of the merger or acquisition. Of the 108 respondents, there were 2 CEOs, 38 vice presidents, 26 directors, 22 managers, 7 specialists or coordinators, and 13 individuals with other titles. Of the total respondents, 43 (40%) reported to the public relations department, 21 (19%) reported to the human resources department, 11 (10%) were from investor relations, 11 (10%) were from marketing, 10 (9%) reported to a strategic planning or business development function that reported directly to the CEO, and 11 (10%) were in other departments (1 missing data.)

Those responding had an average of nearly 14 years of experience in dealing with employee communications issues ( $M=13.66$ ,  $SD=9.01$ ,  $N=101$ , 7 did not answer), reflecting the fairly senior level of respondents to this survey. The range in responses was between 1 year of experience (5 respondents) and 35 years of experience (2 respondents).

Of the firms they represented, 60 of them, or 55%, were in service industries while 45 of them, or 42%, were in manufacturing industries, and 3 (3%) were in both types of industries. Their firms each averaged 12 mergers or acquisitions in the past five years, with a median of 6 transactions and a mode of 5 in the same time period ( $M=12.11$ ,  $SD=21.05$ ,  $N=96$ ). Twelve respondents failed to answer this question, with most of them responding that they did not know the number because their function was outside the corporate headquarters where this information would be known. The range in responses was quite wide, with one firm responding zero and two firms responding that it was

"more than 100." These latter two responses were coded as 100.

### **Data Inspection and Reliability of the Measures**

Prior to analysis, the key variables of interest were examined (see Table 3 and Table 4) through various SPSS programs for accuracy of data entry, missing values, and fit between their distributions and the assumptions of multivariate analysis including normality and homoscedasticity of the error terms. Data entry and coding errors were corrected. No significant outliers (3 s.d.) were detected except in the measure of acquirer revenue, where 2 cases in the banking industry with unusually high revenues were found to be univariate outliers. Instead of deleting these cases, the revenue variable was "winsorized" by capping them at \$50 billion (since 98% of all responses had revenues of \$50 billion or less). (Barnett & Lewis, 1998).

### **Missing Data**

Given the sensitive nature of some of the questions, there were a number of missing data on some items. To maintain sample size for multivariate hypothesis testing, the researcher conducted mean replacement for 11 cases where there was a single missing item in a measurement scale using the mean from the remaining scale questions for that case. The largest missing data set was in the size variable, where data could not be obtained on one or both of the firms for 17 cases. For these cases, the series mean for the two Size variables (SIZEREV and SIZEEMP) was used to replace the missing data. Mean replacement has been suggested to be a conservative approach to dealing with random missing data and is more desirable than leaving missing data (Tabachnick &

Fidell, 1996). There were 11 cases, however, that were missing values on more than 10 percent of the questions. These cases were eliminated from any further analysis, bringing the total size of the sample to 97 (Tabachnick & Fidell, 1996).

### Measure Refinement

Before the reliability of the eight measurement instruments with multiple items was computed, their dimensionality was first assessed through confirmatory factor analysis (CFA). Confirmatory Factor Analysis is used to reduce a large number of indicators into a more manageable set of underlying latent constructs (Anderson, Gerbing & Hunter, 1982). The method is also useful to determine the dimensionality of items in a scale and is considered a more rigorous evaluation of unidimensionality than exploratory factor analysis, since it has both internal and external consistency constraints and utilizes theory to establish the predicted relationships among constructs (Gerbing & Anderson, 1988).

Gerbing and Anderson (1988) warn against the practice of developing scales by selecting items that maximize the scale's reliability without first verifying that the items are unidimensional, because unidimensionality and reliability are distinct concepts, and performing a reliability analysis on scale items is only appropriate if the items have been shown to be unidimensional in the first place.

Because the meaning of a measure intended by the researcher may not be the same as the meaning imputed to it by the respondents, the scale development process must include an assessment of whether the multiple measures that define a scale can be acceptably regarded as alternative indicators of the same construct (p. 186).

They also suggest that assessing the unidimensionality is an important first step in assuring construct validity -- that the construct measures what it purports to measure. The method is also useful to assess discriminant validity -- that it measures *only* what it purports to measure. This is accomplished through the CFA test for external consistency (a test for parallelism), which determines if any factors highly correlate with one another. If so, it would indicate that some items for a factor are not tapping into a single underlying construct and they should be eliminated or re-specified. Conversely, those items that do fit a unidimensional model should be retained, even if their reliabilities are not as high as others. Very unreliable items, however, can affect the fit of the model and should be eliminated (Gerbing & Anderson, 1988).

After unidimensionality has been established, the items can be summed and a reliability of the composite score assessed using a reliability measure such as Cronbach's Alpha (Gerbing & Anderson, 1988) or Standardized Item Alpha (Hunter & Hamilton, 1992). Since a number of the indicators of the underlying constructs in this study were based on perceptions of the respondents and had not been validated in other studies, a CFA seemed an appropriate precaution as a validity check in this study.

The CFA package used to assess the measurement scales was a revised subprogram on a statistical program called PATH by Hunter and Hamilton (1992). The input to the program is the correlation matrix for the items of interest and an "instruction file" that specifies the measurement model for the data. The two main outputs from CFA are an estimate of internal consistency that uses item-factor correlations and a measure of external consistency, or parallelism, that is a factor-factor correlation using least squares methods. (Hunter & Hamilton, 1992).

The CFA on the original eight constructs was conducted in two stages to maintain an acceptable ratio of observations to variables (Nunnally & Bernstein, 1994). In the first stage, the CFA model consisted of 13 items hypothesized to be measuring the four constructs of Financial Synergy, Operating Synergy, Integration Strategy, and Management Style. Table 6 shows the indices that were used to assess the extent to which the proposed four-factor model fit the data. In the measurement model, each of the 13 items was allowed to load on only its associated factor (which was identified a priori), and the factors were allowed to correlate.

Since the test of the model is a chi-square test of deviations between the predicted and the observed models, one looks for a non-significant chi-square to lend support for the theoretical model. The internal consistency test for Factor 1, Financial Synergy, resulted in a non-significant chi-square, indicating that the three items were unidimensional. But the significant chi-square for the test of external consistency for both Factors 1 and 2 indicated that the two sets of items might be measuring the same underlying construct. However, item Rel 1b had an extremely low reliability of .02 (squared factor loading) and loaded only .13 on Factor 2, which could indicate that it was a “contaminated item” capable of affecting the overall significance tests for both internal and external consistency (Hunter & Hamilton, 1992). This item was eliminated in a revised measurement model and a new CFA was run to test the hypothesis that the remaining five items reflected two distinct factors. As will be shown, the data are consistent with the revised measurement model, although the reduction of Factor 2 to two items made the model “under identified” so a test for internal consistency for this factor could not be performed.

**Table 6. Initial CFA Results on First Four Constructs**

ITEMS	Item Reliabilities F <sup>2</sup>	FACTORS			
		1	2	3	4
<b>Factor 1: Financial Synergy</b>		Average within-cluster correlation: .46			
IC: Chi Sq=.001, df=2, p=1.0		Scale reliability: .72**			
EC: Chi Sq=15.51, df=6, p=.02					
11a	.41	.64			
11c	.38	.61	*		
11e	.63	.80	*		
<b>Factor 2: Operating Synergy</b>		Average within-cluster correlation: .25			
IC: Chi Sq=.008, df=2, p=.008		Scale reliability: .50			
EC: Chi Sq=28.77, df=6, p=.00					
Rel1b	.02		.13		
Rel1d	.50	*	.71		
Rel1f	.62		.79		
<b>Factor 3: Integration Strategy</b>		Average within-cluster correlation: .65			
IC: Chi Sq=.001, df=2, p=1.0		Scale reliability: .85			
EC: Chi Sq=7.3, df=6, p=.29					
17a	.79			.89	
17b	.79			.89	
17c	.43			.65	
<b>Factor 4: Management Style</b>		Average within-cluster correlation: .27			
IC: Chi Sq=5.47, df=5, p=.36		Scale reliability: .59			
EC: hi Sq.=16.31, df=9, p=.06					
12a	.10				.31
12b	.27				.52
12c	.40				.63
12d	.40				.63

\*also loads .40 or higher on another factor

\*\* all scale reliabilities are standardized item alphas

IC = internal consistency test of within-cluster correlations (allowing for unequal item reliabilities)

EC = external consistency test across all factors (test of parallelism allowing for unequal item reliabilities)

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Factors 3 and 4 both had non-significant chi-squares for both the internal and external consistency tests, indicating that they were unidimensional constructs and did not load significantly on other factors. Item 12a in Factor 4, however, had a particularly low reliability ( $\alpha = .10$ ) and loaded only .31 on that factor, so it too was eliminated in the revised measurement model.

Table 7 shows the results of the initial CFA analysis on the second set of predicted factors. This CFA measurement model consisted of 15 items hypothesized to be measuring the four constructs: Pre-Merger Conflict, Post-Merger Conflict, Attrition, and Outcome. The table shows the extent to which this proposed four-factor model fit the data. A test of the internal consistency of the five items in Factor 5, Pre-Merger Conflict, showed a significant chi-square, indicating that the scale was not unidimensional. Because Item 15e had a reliability of just .25, this item was treated as a contaminant and was eliminated in a later refinement of the measurement model.

Similarly, although Factor 6, Post-Merger Conflict, had non-significant chi-squares in both the internal and external consistency tests and an acceptable scale reliability of .74, its high cross loadings on Factor 5, Pre-Merger Conflict, and Factor 7, Attrition, and the low reliability of item 16a ( $\alpha = .13$ ), indicated that that item might be acting as a contaminant and it was eliminated in the later refinement of the measures. Doing so increased the scale reliability to .79.

**Table 7. Initial CFA Results on Second Four Constructs**

ITEMS		FACTORS			
	Item Reliabilities F <sup>2</sup>	5	6	7	8
<b>Factor 5: PreMerger Conflict</b>		Average within-cluster correlation: .50			
IC: Chi Sq=24.98, df=9,p=.00		Scale reliability: .83**			
EC: Chi Sq=12.86,df=12,p=.38					
15a	.54	.74	*	*	
15b	.62	.79	*		
15c	.50	.70	*		
15d	.66	.81	*	*	
15e	.25	.50	*		
<b>Factor 6:Post-merger Conflict</b>		Average within-cluster correlation: .41			
IC: Chi Sq=3.28,df=5, p=.66		Scale reliability: .74**			
EC: Chi Sq=5.0, df=9,p=.83					
16a	.13		.36		
16b	.65	*	.81	*	
16c	.70	*	.84	*	
16d	.37	*	.61	*	
<b>Factor 7: Attrition</b>		Average within-cluster correlation: .38			
IC: Chi Sq = 0.0, df=2, p=1.0		Scale reliability: .64**			
EC: Chi Sq= 14.9, df=6, p=.02					
14a	.40	*	*	.63	
14c	.50		*	.71	*
14e	.26			.51	
<b>Factor 8: Outcome</b>		Average within-cluster correlation: .33			
IC: Chi Sq=,002, df=2, p=.1.0		Scale reliability: .60**			
EC: Chi Sq=9.92, df=6, p=.13					
13a	.40			*	.63
13b	.13				.37
13c	.57				.76

\*also loads .40 or higher on another factor

\*\* all scale reliabilities are standardized item alphas

IC = internal consistency test of within-cluster correlations (allowing for unequal item reliabilities)

EC = external consistency test across all factors (test of parallelism allowing for unequal item reliabilities)

Factor 7, Attrition, also appeared to be unidimensional, but its significant chi-square in the test for external consistency suggested an unsatisfactory fit. Item 14e had a low reliability of .26, so it was eliminated in the refined measures. Factor 8, Outcome, had non-significant chi-squares for both the internal and external consistency tests, indicating that this factor was unidimensional and not parallel with any of the other factors. However, item 13b had a poor individual reliability of .13 and a factor loading of only .37. Therefore, this item was eliminated to increase the overall scale reliability from .60 to .65.

### Scale Reliabilities

Based on the results of the CFA, the measures were refined by eliminating the poor items from the measurement model. CFAs were run on the redefined factors again and all eight were found to be unidimensional. Summated scales were then developed and scale reliability was assessed by calculating coefficient alpha (Cronbach, 1951). The new measures are summarized in Tables 8 through 15.

Reliabilities ranged from a high of .85 for the newly defined Pre-Merger Conflict scale to a low of .62 for the new Management Style and Attrition measures. While a few of these scales were lower than Nunnally and Bernstein's (1994) .70 rule-of-thumb, they state, "In the early stages of research on predictor tests or hypothesized measures of a construct, one saves time and energy by working with instruments that have only a modest reliability" (p.245). Also, it is likely that some of these scale reliabilities are higher than the coefficient alphas would indicate because they are made up of items with different reliability estimates. "Computing alpha for items with unequal reliabilities will

lead to the underestimation of the reliability of the composite score” (Gerbing and Anderson, 1988; p. 190).

The objective variables remained unchanged from the original measures in trying to compare two merger partners that had different reporting conventions. Also, . Table 16 provides the descriptive statistics for the nominal variables in the study, while Table 17 summarizes the means, standard deviations, intercorrelations, and coefficient alpha reliability estimates for all of the study’s variables.

**Table 8. Financial Synergy Scale**

Scale Name	Alpha	Scale Mean (s.d.)	# Items	Scale Type
Financial Synergy	.72	6.86 (4.04)	3 N=97	Likert-type
Var ID TOTFIN	Item		Item Mean (s.d)	Item/Total Corr.
Q11A	Better borrowing rate		2.07 (1.67)	.52
Q11C	Combine pensions, insur.		2.42 (1.79)	.51
Q11E	Favorable tax treatment		2.38 (1.64)	.59

**Table 9. Operating Synergy Scale**

Scale Name	Alpha	Scale Mean (s.d.)	# Items	Scale Type
OPERATING SYNERGY	.71	9.15 (3.63)	2 N=97	Likert-type
Var ID TOTOP	Item		Item Mean (s.d)	Item/Total Corr.
RE11D	Economies of scale		4.45 (2.01)	.55
RE11F	Combine Prod. or Distr Facil.		4.69 (2.15)	.55

**Table 10. Integration Strategy Scale**

Scale Name	Alpha	Scale Mean (s.d.)	# Items	Scale Type
Integration Strategy	.85	16.81 (3.91)	3 N=97	Likert-type
Var ID INT	Item		Item Mean (s.d)	Item/Total Corr.
Q17A	Wk. w/ diff. Business units		5.90 (1.48)	.76
Q17B	Exchange ideas across units		5.96 (1.37)	.76
Q17C	Group mtgs w/ other units		4.96 (1.65)	.61

**Table 11. Management Style Scale**

Scale Name	Alpha	Scale Mean (s.d.)	# Items	Scale Type
Management Style	.62	9.80 (3.37)	3 N=97	Likert
Var ID MGS	Item		Item Mean (s.d)	Item/Total Corr.
Q12B	Constant instructions.		3.01 (1.26)	.46
Q12C	Corp. makes decisions		4.03 (1.86)	.43
Q12D	Rules should be flexible		2.80 (1.34)	.38

**Table 12. Pre-Merger Conflict Scale**

Scale Name	Alpha	Scale Mean (s.d.)	# Items	Scale Type
Conflict	.85	13.17 (6.15)	4 N=96	Likert
Var ID TOTPRECF	Item		Item Mean (s.d)	Item/Total Corr.
Q15A	Employee obsessed		3.42 (1.94)	.71
Q15B	Rife with rumors		3.39 (2.02)	.74
Q15C	Belief in smooth trans - R		3.11 (1.54)	.56
Q15D	Worse-case scenarios		3.26 (1.88)	.74

**Table 13. Post-Merger Conflict Scale**

Scale Name	Alpha	Scale Mean (s.d.)	# Items	Scale Type
<b>Conflict</b>	.79	10.49 (4.76)	3 N=97	Likert
Var ID TOTPOSTC	Item		Item Mean (s.d)	Item/Total Corr.
Q16B	Own firm as superior		4.02 (1.95)	.62
Q16C	Plot own advancement		2.94 (1.66)	.70
Q16D	One side winner		3.53 (2.10)	.56

**Table 14. Attrition Scale**

Scale Name	Alpha	Scale Mean (s.d.)	# Items	Scale Type
<b>Attrition</b>	.62	4.46 (2.66)	2 N=97	Likert
Var ID ATT	Item		Mean (s.d)	Item/Total Corr.
Q14A	Emp. Left prior to completion.		2.19 (1.56)	.45
Q14C	Left in 1st 6 mo. after deal		2.27 (1.57)	.45

**Table 15. Outcome Scale**

Scale Name	Alpha	Scale Mean (s.d.)	# ITEMS	Scale Type
<b>Outcome</b>	.65	12.13 (2.58)	2 N=97	Likert
Var ID OUT	Item		Mean (s.d)	Item/Total Corr.
Q13A	M&A should not have occ'd R		6.48 (1.39)	.44
Q13D	Org. Strengthen by M&A		5.71 (1.56)	.48

**Table 16. Frequency Table for Nominal Variables.**

	<b>Frequency</b>	<b>Percent</b>
<b>Relatedness (REL)</b>	N = 97	
Related (1)	68	70.1
Not related (0)	29	29.9
<b>Firm Motive (FIRMMOT)</b>	N = 97	
Oper. Synergy (2)	54	55.7
Fin. Synergy (1)	13	13.4
Neither (0)	30	30.9
<b>Production Orientation (Q2ORIENT)</b>	N = 97	
Manufacturing (2)	43	44.3
Service (1)	51	52.6
Both (0)	3	3.1
<b>Dept. Managing Integration Team (Q9)</b>	N = 97	
HR	7	7.2
PR	24	24.7
IR/Finance	9	9.3
CEO/Exec. Staff	7	7.2
Marketing	3	3.1
Other	14	14.4
Didn't have Integration Team	33	34
<b>PR Leading Integration Team (PRKEY)</b>	N = 64	
PR lead (1)	24	37.5
Other dept. lead (0)	40	62.5

Table 17. Intercorrelations, Means, Standard Deviations, and Reliability Estimates for the Study's Variables

	Mean	SD	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	18.	19.
1. TOTFIN	6.86	4.04	(.72)																		
2. TOTOP	9.15	3.63	.36**	(.71)																	
3. INT	16.81	3.91	-.11	.13	(.85)																
4. MGS	9.80	3.37	.21*	.04	-.20	(.62)															
5. TOTPREC	13.17	6.12	.35**	.25*	-.03	.26**	(.85)														
6. TOTPOSTC	10.49	4.76	.24*	.13	-.04	.19	.62**	(.79)													
7. ATT	4.46	2.66	.08	.04	-.04	.19	.42**	.54**	(.62)												
8. OUT	12.13	2.58	.08	.18	.05	-.13	-.04	-.24*	-.27**	(.65)											
9. REL	.70	.46	.13	.36**	.14	.06	.27**	.27**	.28**	.10	1.000										
10. SIZEREV	.41	.30	.07	.04	-.08	-.04	.13	.23*	.16	.10	.16	1.000									
11. SIZEEMP	.38	.30	.14	-.03	-.08	.01	.10	.12	.08	.06	.02	.69**	1.000								
12. FORMSOC	6.30	2.68	.09	.27**	.23*	.04	.12	.16	.33**	.17	.31**	.21*	.14	1.000							
13. INFRMSOC	5.04	2.43	.07	.34**	.43**	-.10	.10	.15	.17	.17	.35**	.13	.09	.68**	1.000						
14. TOPRESOC	4.31	4.05	.16	.04	.15	-.08	.05	.08	.12	.05	.25*	.11	.08	.48**	.40**	1.000					
15. TOPOSTSO	9.99	4.72	.05	.30**	.31**	.05	.14	.18	.26*	.14	.28**	.10	.09	.79*	.78**	.15	1.000				
16. Q3NUM	11.64	16.85	.01	.13	-.09	-.27**	-.10	-.17	-.07	-.02	-.06	-.16	-.11	-.30**	-.14	-.10	-.29**	1.000			
17. Q7EXP	13.73	9.06	-.08	-.12	.02	-.05	-.24*	-.13	-.11	-.04	-.10	-.08	-.09	.02	-.07	.07	-.11	-.05	1.000		
18. Q2ORIENT	1.46	.50	-.09	.00	-.17	-.12	.04	.08	.06	-.09	.13	-.12	-.09	-.08	-.10	.07	-.01	.18	.16	1.000	
19. PRKEY	.38	.49	.03	.06	.05	.13	.18	.11	.15	.10	.16	-.07	.00	.34**	.20	.12	.19	.08	.16	.06	1.000

Note: N = 97. Reliability estimates appear in parentheses on the diagonal where appropriate. \*\* Significant at the 0.01 level (2-tailed). \* Significant at the 0.05 level (2-tailed).

### **Test of Hypothesized Relationships**

All 14 hypotheses were tested at the .05 level unless otherwise indicated. Many of the hypotheses were supported for those firms that were pursuing operating synergies. Several of the hypotheses regarding firms that pursued financial synergy were not supported, however. This may have been due to the small sample size of these firms, which may have affected the ability to achieve significant results despite relatively high correlations in some cases. Table 29 at the end of this chapter summarizes all of the hypotheses, how they were analyzed and their outcomes.

#### **Hypothesis 1 - Defining Acquisition Motive**

Hypothesis 1 predicted that the motive for a merger or acquisition would emerge as one of two factors -- an operating synergy motive and a financial synergy motive. For this hypothesis to be fully supported, the data should fit a two-factor CFA model with both factors achieving non-significant chi-squares for both tests of internal and external consistency (Boster, 1995).

The clustered factor loadings in the initial CFA, summarized in Table 6, indicated that two “motive” factors did likely exist, but the two-factor model, as proposed, was not supported since both factors failed to pass the test of external consistency and Factor 2, operating synergy, also failed the internal consistency test for unidimensionality. Factor 2 also had an unacceptable reliability estimate of .50. Because it was likely that the contaminated item Re11b had elements in common with both factors that was causing them to correlate with each other, another CFA was run after that measure was dropped to test the two-factor model for the five remaining items.

While the two-factor model was not totally supported, a number of improvements were obtained. Factor 1, financial synergy motive, was shown to be unidimensional (chi sq. = .001, df=2, p=1.0), with an alpha coefficient of .72. It continued, however, to fail the test of parallelism with operating synergy (chi sq. 15.51, df=6, p=.02). This was not surprising, however, since Hypothesis 1a predicted that there would be a positive correlation between the two motives, suggesting that most firms would likely pursue some financial synergy motive, even if they were pursuing operating synergy as their main motive. A significant Pearson's Product Moment correlation of .36 ( $p < .01$ ) between financial synergy motive (TOTFIN) and operating synergy motive (TOTOP) supported this hypothesis.

The external consistency test for Factor 2, operating synergy, added support for this measure with a non-significant chi-square (chi sq=.80, df=1, p=.37). This indicated that the new measure was unique and no longer parallel with the financial synergy factor. This was also predicted, since it was hypothesized that operating synergies would be pursued only by one type of firm, while both types of firms would seek financial synergies. While the test for internal consistency of Factor 2 could not be tested because the model was under identified with just two items, the reliability of the scale increased from .50 to .71 with the elimination of item Rel1b.

To check an alternative hypothesis that the items were indicators of just one underlying construct, a CFA was run for a one-factor model. This model was not supported, since the collective measures were not unidimensional (the chi-square for the internal consistency test was a significant 39.54, df=9, p=.000).

Because of the improvements to the measurement model with the elimination of item Re11d, and the clear rejection of the 1-factor model, a two-factor model was not rejected. The two revised scales were then summed to create manifest variables of financial synergy motive (TOTFIN) and operating synergy motive (TOTOP). The financial synergy scale had a mean of 6.86 (sd=4.04, N=97) and the operating synergy scale had a mean of 9.15 (sd=3.63, N=97). (See Tables 8 and 9.)

A categorical variable was also created from the scale data in order to test later hypotheses that required a series of analyses of variance (ANOVAS) to find mean differences of groups based on acquisition motive. A new mean-centered variable, called Firm Motive (FIRMMOT), was created for this purpose. Subjects were identified as either scoring above the mean or below the mean on the financial synergy motive scale or the operating synergy motive scale and dummy-coded to fit only one category. The firms whose scores were above the mean on the financial synergy scale and below the mean on the operating synergy scale were coded a 1 for financial synergy on the firm motive variable. Those whose scores were above the mean on the operating synergy motive were coded a 2 for operating synergy, regardless of their scores on the financial synergy scale. This was because, as has already been discussed, firms pursuing operating synergy would also be likely to seek some financial synergy as well, but the opposite would not be as likely for conglomerates and holding companies and others who would primarily seek financial synergy. (A total of 33 firms scored above the mean on both financial and operating synergies as key motives for their merger or acquisition, but they were all coded as seeking operating synergy.) Firms that were below the means on both scales were coded with a 0, since they did not indicate a strong use of either type of acquisition

motive. A total of 13 (13.4%) firms were coded as seeking primarily financial synergy, 54 firms (55.7%) were coded as primarily seeking operating synergy, and 30 firms (30.9%) were coded as utilizing neither strategy.

These results provide some support for Hypothesis 1, since the two hypothesized motives did emerge as distinct constructs and reliable measures could be identified to classify firms into distinct groups. The hypothesis was not supported in the sense that both motives clearly play roles in a large percentage of mergers and acquisitions and there are some motives, such as that found in item Rel 1d, that confound these two motives of interest. More research is necessary to find more precise ways to identify the motives behind mergers and acquisitions.

#### Hypothesis 2 - Relatedness

Hypothesis 2 predicted that there would be a significant correlation between the motive for the merger and how related the firms are to one another. This hypothesis was tested first with a chi-square analysis for all 97 firms using a crosstab of the two nominal variables of relatedness (REL) and firm motive (FIRMMOT). The chi-square value was 5.377 (df=2, p=.068). While this was not significant within the .05 range, it was significant within the .10 range.

The relationship was also tested against the individual acquisition motives by calculating Pearson's Product Moment correlations between relatedness (REL) and operating synergy motive (TOTOP) and between between relatedness (REL) and financial synergy motive (TOTFIN). The correlation matrix in Table 17 shows that a significant positive correlation exists between relatedness and operating synergy motive:

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$r = .36$  ( $p < .01$ ), supporting this hypothesis. However, there was no significant correlation between relatedness and financial synergy motive,  $r = .13$  ( $p > .05$ ).

Hypothesis 2a predicted that related firms would be more likely to be motivated by operating synergies for their merger or acquisition. This was measured by a paired comparison t-test of the mean scores on the operating synergy scale (TOTOP) between the 68 related firms and the 29 unrelated firms. This hypothesis was confirmed by a significant mean difference of 2.719, ( $t = -3.577$ ,  $df = 95$ ,  $p = .001$ ).for operating synergy motives. Table 18 summarizes the results of paired comparison t-tests between related and unrelated firms for operating synergy motive (TOTOP), outcome (OUT), and post-merger conflict (TOTPOSTC).

**Table 18. Mean Differences for Key Dependent Variables for Related and Unrelated M&As**

	Related (REL=1) N=68		Unrelated (REL=0) N=29					
	Mean	SD	Mean	SD	Mean Diff.	T	df	p
TOTOP	9.96	3.22	7.24	3.88	2.72	3.58	95	.001
OUT	12.29	2.31	11.76	3.15	-.54	-.94	95	.352
TOTPOSTC	11.34	4.75	8.50	4.21	-2.84	-2.92	10*	.005

\*df=95 if can assume equal variance between groups. For this analysis, cannot assume equal variance (Levene's test:  $F = 1.738$ ,  $p = .192$ ).

Hypothesis 2b predicted that related firms would have higher levels of perceived performance than unrelated firms. This was measured by a paired comparison t-test of the mean scores on the performance measure called Outcome (OUT) between related and unrelated firms. Table 18 shows that this hypothesis was not supported. The mean difference between the groups was a non-significant  $-.536$  ( $t = -.935$ ,  $df = 95$ ,  $p = .352$ ).

### Hypothesis 3 - Acquisition Motive as a Mediating Variable

Hypothesis 3 predicted a direct relationship between relatedness (REL) and acquisition motive and between acquisition motive and integration strategy (INT). This hypothesis was tested with Pearson Product Moment correlations. Since this study separated acquisition motive into two distinct motives: operating synergy (TOTOP) and financial synergy (TOTFIN), a total of four correlations from Table 17 were of interest when considering all 97 cases. The REL/TOTOP correlation was significant ( $r=.36$ ,  $p<.001$ ). The REL/TOTFIN correlation was not significant ( $r=.13$ ,  $p>.05$ ). Neither of the correlations between acquisition motive and integration strategy was significant. The TOTOP/INT correlation was  $.13$  ( $p>.05$ ) and the TOTFIN/INT correlation was  $.11$  ( $p>.05$ ). Therefore, the hypothesis was not supported for the 97 total cases.

This hypothesis was also tested for just those 54 cases identified by the firm motive variable (FIRMMOT) as primarily following an operating synergy motive. A second set of correlations, shown in Table 19, shows that Hypothesis 3 is supported for these cases. Both the original correlations and the corrected correlations for attenuation due to measurement error were significant.

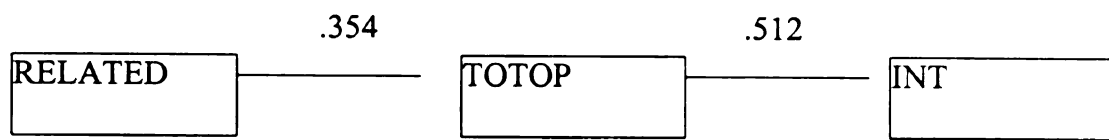
**Table 19. Correlations for Cases following Operating Synergy Motive**

	REL	TOTOP	INT
REL	1	.298*	.355**
TOTOP	.36*	1	.398**
INT	.38**	.51**	1

Correlations in the lower triangle have been corrected for attenuation. N=54

\*\* $p<.01$  \* $p<.05$

Hypothesis 3a predicted that the acquisition motive would be a mediator in a simple causal string between relatedness and integration strategy (see Figure 4). This hypothesis was tested only for the firms pursuing operating synergy, since this was the only condition that provided significant path coefficients, which is a necessary condition for proceeding with testing the fit of a structural equation model (Boster, 1995).



**Figure 4. Simple causal string between relatedness, acquisition motive, and integration strategy.**

To test for mediating variables, or indirect effects, in the causal chain, Pearson's Product Moment Correlations among the three variables and the "product rule" were used:

$$(\text{If } X \text{ -----} > Y \text{ -----} > Z, \text{ then } r^{xz} = r^{xy} \times r^{yz}).$$

"Direct effects are estimated by partial regression coefficients in equations in which all variables with direct effects are included. ... In cases where a variable shares no causes with any other variable, its total effect equals its zero-order regression coefficient (Pearson's correlation). ... Indirect effects are estimated by products of direct effects" (Cohen & Cohen, 1983, p. 356 –357).

Table 20 provides the corrected correlation matrix of these three variables in the lower half and the predicted correlations based on the product rule in the upper half. The difference between the obtained corrected correlation and the predicted correlation produced an error of .20. An analysis of the individual link (local test) between REL and INT found this difference to be non-significant ( $z=.96$ ,  $p=.34$ ). The analysis for the model as a whole (global test) also found a non-significant difference with an overall chi-square of .92,  $df=1$ ,  $p=.34$ ). This indicates that the data is consistent with the proposed model and that, at least for firms pursuing operating synergy, acquisition motive may play a mediating role between how related the firms are and the integration strategy that they follow to implement a merger or acquisition.

**Table 20. Obtained and Predicted Correlation Matrix: Relatedness, Acquisition Motive, Integration Strategy**

	REL	TOTOP	INT
REL	1	.36	.18
TOTOP	.36*	1	.51
INT	.38**	.51**	1

The bottom triangle shows the obtained correlations, corrected for attenuation.

The upper triangle shows the predicted correlations.

\*\* $p<.01$  \* $p<.05$

#### Hypothesis 4 – Role of Relatedness and Integration Strategy in Conflict

Hypothesis 4 predicted that related firms pursuing an integrated strategy would have lower conflict than related firms pursuing an autonomy strategy. This was tested for post-merger conflict (TOTPOSTC) only, since as has already been suggested, integration strategy was not expected to have any impact on pre-merger conflict. To test the hypothesis, a dummy variable was created to reflect the four independent conditions of: A. integrated/unrelated, B. integrated/related, C. autonomous/unrelated and D. autonomous/related. Mean post-merger conflict levels were then calculated for each condition and an individual t-test was conducted of mean differences between group B and group D. Table 21 shows the four conditions and their mean values of post merger conflict. The mean difference between group B and group D was  $-2.73$  ( $t = -1.91$ ,  $df = 10.55$ ,  $p = .08$ ), with unequal variances assumed. While this is not a significant difference at the .05 level, it is significant at the .10 level and lends some support to the hypothesis that related firms will experience lower levels of conflict if they follow an integrated strategy.

Hypothesis 4a predicted that unrelated firms pursuing an integration strategy, as represented by group A, would report higher levels of conflict than unrelated firms pursuing an autonomy strategy, group C. The mean difference in post-merger conflict between the two groups was a very insignificant  $-.48$  ( $t = -.23$ ,  $df = 5.72$ ,  $p = .83$ ) assuming unequal variances. Therefore, the hypothesis was not supported that unrelated firms would have higher levels of conflict if they followed the predicted “mismatched” integration strategy.

**Table 21. Results of Relatedness x Integration Strategy on Post-Merger Conflict**

	<b>UNRELATED</b> N = 29	<b>RELATED</b> N = 68
<b>INTEGRATED STRATEGY</b> N = 84	<b>A. Mismatched - High Conflict Predicted</b>  *Mean Conflict = 8.42 SD = 4.27 N = 24	<b>B. Matched – Low Conflict predicted</b>  Mean Conflict = 11.02 SD = 4.81 N = 60
<b>AUTONOMY STRATEGY</b> N = 13	<b>C. Matched – Low Conflict predicted</b>  Mean Conflict = 8.90 SD = 4.36 N = 5	<b>D. Mismatched – High Conflict predicted</b>  Mean Conflict = 13.75 SD = 4.81 N = 8

Conflict = Total Post-Merger Conflict (TOTPOSTC)

The two alternative hypotheses testing whether relatedness played a more direct role in conflict levels were also tested. Hypothesis 4b predicted that there would be a negative relationship between relatedness (REL) and conflict. Separate regression analyses were conducted between relatedness (REL) as the dependent variable and both measures of conflict as the independent variable: pre-merger conflict (TOTPRECF) and post-merger conflict (TOTPOSTC). Significant relationships were found for both analyses. For TOTPRECF,  $r = .27$ ,  $R^2 = .07$ ,  $F(1, 95) = 7.32$ ,  $p = .008$ . For TOTPOSTC,  $r = .27$ ,  $R^2 = .07$ ,  $F(1, 95) = 7.74$ ,  $p = .007$ . However, the relationships were positive, not the predicted negative relationships, so the hypothesis was not supported.

To test the conventional wisdom about related merger achieving greater success than unrelated mergers, Hypothesis 4c predicted a lower level of conflict for related firms than unrelated firms. This hypothesis was measured by a paired comparison t-test of the mean scores on the post-merger conflict scale (TOTPOSTC) between related and

unrelated firms and is reflected in Table 18. The results of the analysis show a significant mean difference of  $-2.84$ , ( $t = -2.92$ ,  $df = 59.33$ ,  $p = .005$ ), assuming unequal variances between the two groups. This hypothesis was not supported, however, because the results show that the related firms had *higher* levels of conflict than the unrelated firms, opposite of the predicted outcome.

#### Hypothesis 5 – Operating Synergy Motive and Informal Socialization

Hypothesis 5 predicted that there would be higher levels of informal socialization activities employed in firms pursuing operating synergy than in those pursuing financial synergy. To test this, two groups were created using the nominal variable firm motive, (FIRMMOT), to identify those pursuing operating synergy (2) and financial synergy (1). The mean difference of the variable informal socialization (INFRMSOC) for the two groups was then compared using a t-test. The mean difference was a significant  $-2.34$  ( $t = 3.526$ ,  $df = 21$ ,  $p = .002$ ), assuming unequal variances, which supported this hypothesis. shows the full results of this mean comparison for both the hypothesized relationship with informal socialization as well as formal socialization activities. As predicted, firms pursuing operating synergy utilized higher levels of both types of socialization activities than firms pursuing financial synergy.

**Table 22. Mean Differences on Key Dependent Variables for Two Firm Motives**

	Financial Motive (FIRMMOT=1) N=13		Oper. Syngy Mot. (FIRMMOT=2) N=54					
	Mean	SD	Mean	SD	Mean Diff.	t	df	p
INFRMSOC	3.38	2.06	5.72	2.46	-2.34	-3.53	21*	.002
FORMSOC	5.46	2.11	6.70	2.77	-1.24	-1.79	23*	.08

\*df=65 if equal variance assumed. These measures do not assume equal variance.

#### Hypothesis 6 – Autonomy Strategy and Formal Socialization

Hypothesis 6 predicted that there would be lower levels of formal socialization employed in firms pursuing an autonomy strategy than in firms pursuing an integrated strategy. To test this, two groups were created using a mean-centered, nominal variable called, integration strategy (INTSTRAT), which categorized the integration strategy scale responses into two groups of those pursuing an autonomy strategy (1) and those pursuing an integrated strategy (2). The means for the variable formal socialization (FORMSOC) were compared for those pursuing the two different strategies. The mean difference was an insignificant -.17 ( $t = -.17$ ,  $df = 14$ ,  $p = .87$ ), assuming unequal variances between the two groups. Therefore, the hypothesis was not supported.

#### Hypothesis 7 – Pre-Merger Socialization and Attrition and Conflict

The study predicted that firms that used strong pre-merger socialization (TOPRESOC) activities would experience lower levels of attrition (ATT) and pre-merger conflict (TOTPRECF) than firms that did not use strong pre-merger socialization. To test this, a new mean-centered, categorical variable, PRESOC12 was created to group the

firms into those who used weak pre-merger socialization (1) and those who used strong pre-merger socialization (2). Then a mean comparison was made for both the attrition and pre-merger conflict scales as well as a comparison of the mean responses to just question 14a in the survey where respondents were specifically asked to identify the amount of pre-merger attrition their mergers experienced.

Table 23 shows the results of this analysis. None of the mean differences were statistically significant, indicating that this hypothesis is not supported.

**Table 23. Pre-Merger Socialization and Attrition and Conflict**

	Weak Pre-Merger Soc. (PRESOC12=1) N=27		Strong Pre-Merger Soc (PRESOC12=2) N=70					
	Mean	SD	Mean	SD	Mean Diff.	t	df	p
TOTPRECF	14.21	6.47	12.77	5.98	1.44	1.00	44.14*	.32
ATT	4.50	3.07	4.44	2.51	.05	.09	40.12*	.93
Q14A	2.11	1.78	2.21	1.47	-.10	-.27	40.44*	.79

\*df=95 if equal variance assumed. These measures could not assume equal variance.

#### Hypothesis 8 – Post-Merger Socialization and Attrition and Conflict

Hypothesis 8 predicted that in just those firms pursuing financial synergy motives, the level of formal and informal socialization (TOPOSTSO) would be significantly and positively related to post-merger conflict (TOTPOSTC) and attrition (ATT). (Predicting that high levels of post-merger socialization would be an irritant to such firms and increase conflict and attrition levels.) This was tested by two regression analyses: The first was with post-merger conflict (TOTPOSTC) as the dependent variable and total

post-merger socialization (TOPOSTSO) as the independent variable. With the sample size for this group being only 13, significant effects were *not* found despite relatively high correlations:  $r = .48$ ,  $R^2 = .20$ ,  $F(1, 11) = 2.76$ ,  $p = .12$ . The second regression was with attrition (ATT) as the dependent variable and total post-merger socialization (TOPOSTSO) as the independent variable. Again, despite a relatively high correlation, no significant effects were found,  $r = .47$ ,  $R^2 = .23$ ,  $F(1, 11) = 3.19$ ,  $p = .10$ . Therefore, this hypothesis was not supported, but it suggests that a larger sample size might have yielded significant results.

Hypothesis 8a predicted that in firms pursuing operating synergy motives, the level of formal and informal socialization would be significantly and negatively related to post-merger conflict and attrition. This was also tested by two simple regression analyses. The sample size for this group was 54, and significant or nearly significant effects were found for both analyses. The first regression had post-merger conflict (TOTPOSTC) as the dependent variable and post-merger socialization (TOPOSTSO) as the independent variable:  $r = .24$ ,  $R^2 = .06$ ,  $F(1, 52) = 3.77$ ,  $p = .07$ . The second regression had attrition (ATT) as the dependent variable and post-merger socialization (TOPOSTSO) as the independent variable:  $r = .41$ ,  $R^2 = .17$ ,  $F(1, 52) = 10.48$ ,  $p = .002$ . Despite the significant results for both correlations, the direction for both of them was positive instead of the predicted negative, so this hypothesis also was not supported.

#### Hypothesis 9 – Conflict in “Matched” vs. “Mismatched” Strategies

This hypothesis directly tested the prediction that integrated firms will have lower post-merger conflict and higher reported performance (OUT) in conditions of high

socialization than in conditions of low socialization (see predicted model in Figure 3). To test the hypothesis, a dummy variable was created to reflect the four independent conditions of: A. integrated/strong socialization, B. autonomous/strong socialization, C. autonomous/weak socialization, and D. integrated /weak socialization. Mean post-merger conflict levels and reported outcome were then calculated for each condition and an individual t-test was conducted of mean differences between group B and group D. Table 24 shows the four conditions and their mean values of post merger conflict. The mean difference between group B and group D was .37 ( $t = .33$ ,  $df = 57.87$ ,  $p = .74$ ), with unequal variances assumed. This is not a significant difference; and, therefore, the hypothesis was not supported for the prediction concerning conflict. A post hoc comparison of the mean differences between each of the other groups also failed to uncover any significant differences in conflict levels based on the predicted “matched” or “mismatched” strategies. However, the mean difference between group B and group D on the outcome measure was  $-1.36$  ( $t = -2.22$ ,  $df = 76$ ,  $p = .03$ ), which supported the hypothesis that the overall perceived performance would be higher in integrated firms with strong socialization efforts than in integrated firms with weak socialization efforts.

#### Hypothesis 10 – Relationship of Size and Conflict

This hypothesis was intended to test Kitching’s (1967) findings that there is a negative relationship between relative size of the merging firms and post merger conflict. Two variables were used to test this hypothesis, SIZEEMP, which was the ratio of target employees to acquirer employees; and SIZEREV, which was the ratio of target revenue to acquirer revenue. The hypothesis predicted that the nearer the ratio was to zero, the

higher the conflict would be. This was tested by two separate simple regression analyses, regressing TOTPOSTC with SIZEEMP and again with SIZEREV. For the SIZEEMP ratio, significant effects were not found,  $r = .12$ ,  $R^2 = .01$ ,  $F(1, 95) = 1.39$ ,  $p = .24$ . For the

**Table 24. Results of Integration Strategy x Socialization Level on Post-Merger Conflict**

N=91 (6 missing)	<b>AUTONOMY STRATEGY N = 13</b>	<b>INTEGRATED STRATEGY N = 78</b>
<b>STRONG SOCIALIZATION N = 37</b>	<b>A. Mismatched High Conflict Predicted</b>  Mean TOTPOSTC = 12.83 SD = 3.60 N = 6	<b>B. Matched Low Conflict predicted</b>  Mean TOTPOST = 10.42 SD = 4.47 N = 47
<b>WEAK SOCIALIZATION N = 54</b>	<b>C. Matched Low Conflict predicted</b>  Mean TOTPOST = 11.07 SD = 5.28 N = 7	<b>D. Mismatched High Conflict predicted</b>  Mean TOTPOST = 10.00 SD = 5.15 N = 31

SIZEREV ratio, however, significant effects *were* found,  $r = .23$ ,  $R^2 = .05$ ,  $F(1, 95) = 5.36$ ,  $p = .02$ , however, the relationship was a positive one, not the predicted negative relationship, so the hypothesis was not supported.

#### Hypothesis 11 – Management Style and Formal Socialization

Hypothesis 11 predicted a positive relationship between bureaucratic management style and formal socialization activities. This was tested with a simple regression analysis between management style (MGS) as the independent variable and formal

socialization (FORMSOC) as the dependent variable. This hypothesis was not supported, in that  $r=.04$ ,  $R^2 = .001$ ,  $F(1, 95) = .12$ ,  $p = .73$ .

Hypothesis 11a predicted that for firms pursuing financial synergy, there would be a positive relationship between bureaucratic management style (MGS) and post-merger conflict (TOTPOSTC). This was tested with a simple regression analysis after selecting only those firms pursuing financial synergy (scoring a 1 on the categorical variable FIRMMOT). The results of the regression analysis were not significant, despite a positive  $r$  of .39, perhaps because the sample size ( $n = 13$ ) was so small for the group pursuing financial synergy. The regression results were:  $r=.39$ ,  $R^2 = .16$ ,  $F(1, 11) = 2.02$ ,  $p = .18$ . For the group pursuing operating synergy, this hypothesis predicted that there would be no significant correlation between management style and conflict. This part of the hypothesis was supported:  $r = .02$ ,  $R^2 = .00$ ,  $F(1, 52) = .01$ ,  $p = .91$ .

#### Hypothesis 12 – Experience and Outcome

This hypothesis predicted that there is a direct relationship between experience and the outcome measure (OUT). Experience was measured in two ways: first, in terms of how many mergers or acquisitions the firm had undergone in the past five years (Q3NUM) and, second, how many years of personal experience the respondent had in dealing with employee communications issues, regardless of which firm it was for (Q7EXP).

Hypothesis 12 predicted that the experience level of the firm as well as the experience level of the communicator would be positively correlated with the perceived outcome of the merger or acquisition. . This was tested by two separate simple

regression analyses, regressing OUT with Q3NUM and again with Q7EXP. Neither yielded significant effects. For the Q3NUM/OUT regression,  $r = .02$ ,  $R^2 = .00$ ,  $F(1, 95) = .04$ ,  $p = .85$ . For the Q7EXP/OUT regression,  $r = .04$ ,  $R^2 = .001$ ,  $F(1, 95) = .11$ ,  $p = .74$ . Therefore, the hypothesis was not supported.

Hypothesis 12a and 12b predicted that organizations that had undertaken a high number of mergers or acquisitions in the past and organizations with communicators that had a high degree of experience in employee communications would report higher outcome levels (OUT). To test this, two new nominal variables were created. NMBMGRS grouped the firms into those that had undergone 5 or fewer mergers over the past five years (coded as "1,"  $N=45$ ) and those that had undergone 6 or more (coded as "2,"  $N=52$ ). YRSEXP grouped the firms into those that had communicators with 0 to 4 years of experience in employee communications (coded as "1,"  $N=15$ ) and those with 5 or more years of experience (coded as "2,"  $N=82$ ). Group means were then calculated for the groups and t-test run to analyze the difference in means. Neither set of groups had a significant difference in mean scores on the perceived performance variable OUT. For NMBMGRS, the mean difference was an almost undetectable .04 ( $t = .08$ ,  $df = 92.85$ ,  $p = .94$ ), assuming unequal variances, disconfirming Hypothesis 12a. A post hoc analysis of mean differences for these two groups on post merger conflict (TOTPOSTC) and post merger socialization activities (TOPOSTSO) did find significant differences for both variables. Table 25 shows the result of the mean comparisons for all three variables.

For YRSEXP, the mean difference between the low and high levels of communicator experience was .48, ( $t = -.72$ ,  $df = 21.45$ ,  $p = .66$ ), assuming unequal variances. This lack of a significant difference disconfirmed Hypothesis 12b. A post hoc

analysis of mean differences for the low and high experience groups on post-merger conflict and post-merger socialization activities was also performed, however, no significant differences were found for either variable.

**Table 25. Mean differences for Number of Mergers on Outcome, Post-Merger Conflict and Post-Merger Socialization**

	5 or fewer M&As (NMBMGRS=1) N=45		6 or more M&As (NMBMGRS=2) N=52					
	Mean	SD	Mean	SD	Mean Diff.	t	df*	p
OUT	12.16	2.60	12.11	2.59	.04	.08	92.8	.94
TOTPOSTC	11.78	4.53	9.37	4.71	2.40	2.56	93.9	.01
TOTPOSTSO	11.24	4.71	8.90	4.51	2.34	2.49	91.7	.01

\*df=95 if equal variance assumed. These measures could not assume equal variance.

### Hypothesis 13 – Production Orientation and Performance

Hypothesis 13 predicted that service firms that experience high attrition will report a lower perceived outcome measure than firms with a manufacturing orientation that also experience high attrition. To test the hypothesis, a dummy variable was created to reflect the four independent conditions of: A. service orientation/low attrition., B. service orientation/high attrition, C. manufacturing orientation/low attrition, and D. manufacturing orientation/high attrition. The production orientation was already a nominal variable (Q2ORIENT). The attrition (ATT) scale responses were mean-centered to create a new nominal variable (NEWH13) to identify the low and high categories for attrition. Mean outcome (OUT) levels were then calculated for each condition.

To test the prediction of Hypothesis 13 an individual t-test was calculated for the mean difference of outcome between group B and group D. Table 26 shows the four conditions and their mean values of post merger conflict. The mean difference between group B and group D was a non-significant  $-.74$  ( $t = .80$ ,  $df = 29.29$ ,  $p = .43$ ), assuming unequal variances. Therefore, Hypothesis 13 was not supported.

A post hoc analysis of mean differences yielded only one significant difference – for manufacturing firms there was a significant difference between firms experiencing low attrition vs. high attrition (A-B): Mean difference =  $1.71$  ( $t = 2.55$ ,  $df = 32$ ,  $p = .02$ ), assuming unequal variances. The same comparison for service firms (C-D), which was where the hypothesis predicted there should be a significant difference, did not yield any significant results on mean outcome scores.

**Table 26. Results of Product Orientation x Attrition on Outcome**

Mean OUT = 12.13 SD = 2.58 N=94	Low Attrition N=60	High Attrition N = 34
Manufacturing Orientation N = 43	A. Mean OUT =12.52 SD = 2.14 N = 27	B. Mean OUT = 10.81 SD = 2.10 N = 16
Service Orientation N = 51	C. Highest Outcome predicted Mean OUT = 12.61 SD = 2.60 N=33	D. Lowest Outcome predicted Mean OUT = 11.56 SD = 3.28 N = 18

#### Hypothesis 14 – Relationship of Public Relations and Performance

This hypothesis predicted that there is a positive relationship between public relations involvement in the merger planning (PRKEY) and the perceived outcome of the

transaction (OUT). To test this, this study looked at the 64 firms that had integration teams. Table 16 shows the breakdown of the departments responsible for leading the integration teams, with PR leading with 24, and the remaining 40 divided among various other departments, with Investor Relations/Finance the second highest with 9, and Human Resources and the Executive Staff tying at 7 each. A simple regression analysis was performed with PRKEY as the independent variable and outcome (OUT) as the dependent variable. The results indicated that there is no significant correlation between these two variables:  $r=.10$ ,  $R^2 = .01$ ,  $F(1, 62) = .61$ ,  $p=.44$ .

This hypothesis was also tested against the two different types of merger motives, those firms pursuing financial synergy ( $n=13$ ) and those pursuing operating synergy ( $n=54$ ). Again, no significant correlation was found between public relations' involvement and outcome for either group. The hypothesis was not supported.

A post hoc analysis of key correlations with the PRKEY variable did uncover some interesting significant or nearly significant findings. For all 97 firms, formal socialization (FORMSOC) was the only variable to have a significant correlation with PRKEY ( $r = .34$ ,  $p<.01$ ). When cases were separated by firm motive, several additional significant correlations appeared and were more pronounced. Because the sample sizes for these groups were very small, some of the findings were interpreted as significant at the .10 level. For firms pursuing financial synergy, two significant correlations existed – again, PRKEY with FORMSOC ( $r = .70$ ,  $n = 6$ ,  $p = .06$ ) and PRKEY with informal socialization (INRMSOC)  $r = .77$ ,  $n = 6$ ,  $p = .04$ ). For firms pursuing operating synergy, three correlations appeared to be significant: PRKEY with post-merger conflict (TOTPOSTC):  $r = .26$ ,  $n = 40$ ,  $p = .05$ , PRKey with total post-merger socialization

(TOPOSTSO)  $r = .23$ ,  $n = 40$ ,  $p = .07$ , and PRKEY with formal socialization activities (FORMSOC)  $r = .25$ ,  $n = 40$ ,  $p = .06$ . Interestingly, informal socialization was not significantly correlated with PR in the operating synergy group.

### **Test of Hypothesized Model**

As a further examination of the relationships that were hypothesized in this study, a statistical program called PATH (Hunter & Hamilton, 1992) was used to test the overall theoretical model outlined in Figure 1.

The procedure calculates path coefficients using multiple regression “ordinary least squares” and tests a proposed model by taking the corrected correlations in the observed matrix and treating those directly involved in any one path as constrained. It then computes an expected correlation matrix for the unconstrained correlations that would perfectly fit the data. This expected matrix is then compared to the observed correlation matrix by assessing size of the error terms between the two. If the theoretical model is true, the observed and expected matrices should match and their errors should be non-significant. A goodness of fit between the expected and observed correlations is assessed with a z-statistic for each individual link where there is no causal arrow in the model (local test). A chi-square analysis ( $\sum z^2$ ,  $df$ =number of local tests) tests the overall fit of the model (global test) (Hunter & Hamilton, 1992). A non-significant z-statistic or chi-square can be interpreted as meaning that the observed data do not significantly depart from the theoretical model (Boster, 1995).

The path analytic technique assumes that the variables are linear, additive and causal, with the predicted paths supported by the underlying theory of the research study

(Hatcher, 1998). Other assumptions are that the error terms in the endogenous variables are uncorrelated, the variables are measured without error, and the model is recursive (flowing in one direction only). Given these assumptions, a predicted path model would be interpreted as having an acceptable fit with the data when three things are true: the standardized path coefficients between constructs are statistically significant and meaningful in size based on accepted theory (Hatcher, 1998), the individual links for the paths with no causal arrows pass the local goodness-of-fit tests (have non-significant z-statistics) and the overall model passes the global goodness-of-fit test (has a non-significant chi-square). If any of these are not true, some misspecification in the model is indicated (Boster, 1995).

The hypothesized model in Figure 1, incorporated 11 variables and 10 predicted paths. The acquisition motive construct was treated as a moderating variable and was not included in the path structure. The correlation matrix for the 11 variables was used to compute the path analysis for the 10 predicted paths. Table 27 provides the results of the analysis. The reproduced (predicted) correlations are above the diagonal while the actual correlations, corrected for attenuation due to measurement error, are below the diagonal. While the model had an acceptable overall goodness of fit index, (chi-square 30.51,  $df = 30$ ,  $p = .44$ ), and all 30 of the local goodness-of-fit tests indicated that the data were consistent with the model, seven of the ten paths were found to have non-significant  $t$  values ( $p > .05$ ). The only three significant path coefficients were between integration strategy and socialization level ( $B = .40$ ,  $p < .01$ ), conflict and attrition ( $B = .77$ ,  $p < .01$ ) and attrition and outcome ( $B = -.51$ ,  $p < .01$ ) Since having insignificant path coefficients.

**Table 27. Reproduced and Actual Correlations for Hypothesized Model ( for Figure 1)**

	1	2	3	4	5	6	7	8	9	10	11	R <sup>2</sup>
1. REL	-	.08	-.10	.16	.16	-.06	.15	.10	.02	.01	.06	0
2. MSG	.08	-	-.06	-.05	.17	-.33	.01	.18	.04	.03	.07	0
3. Q7EXP	-.10	-.06	-	-.08	.16	-.05	-.02	-.03	-.01	0	-.12	0
4. SIZEREV	.16	-.05	-.08	-	-.07	-.16	.02	.13	.03	.02	0	0
5. PRKEY	.16	.17	.16	-.07	-	.08	.02	.03	.01	0	.22	0
6. Q3NUM	-.06	-.33	-.05	-.16	.08	-	-.01	-.08	-.02	-.01	-.06	0
7. INT	.15	-.28	.02	-.09	.05	-.10	-	.40	.08	.06	-.02	.15
8. TOPOSTO	.28	.06	-.11	.09	.19	-.29	.34	-	.20	.16	-.06	.40
9. TOTPOSTC	.30	.27	-.15	.26	.12	-.19	-.05	.20	-	.77	-.39	.20
10. ATT	.36	.31	-.14	.20	.19	-.09	-.06	.33	.77	-	-.50	.77
11. OUT	.11	-.20	-.05	.11	.12	-.02	.07	.17	-.33	-.43	-	.51

Note: The reproduced correlations are above the diagonal while the actual (corrected) correlations are below the diagonal.

REL = Relatedness, MGS = Management, Q7EXP = Communicator Experience, SIZEREV = Relative Size of Revenues, PRKEY = Role of Public Relations, Q3NUM = Number of Mergers, INT = Integration Strategy, TOPOSTO = Post Merger Socialization, TOTPOSTC = Post Merger Conflict, ATT = Attrition, OUT = Outcome.

violates one of the assumptions of path analysis, this model was rejected despite the goodness-of-fit analysis. Given the number of non-supported hypotheses in the earlier analyses, these results were not unexpected

#### Test of the Revised Model

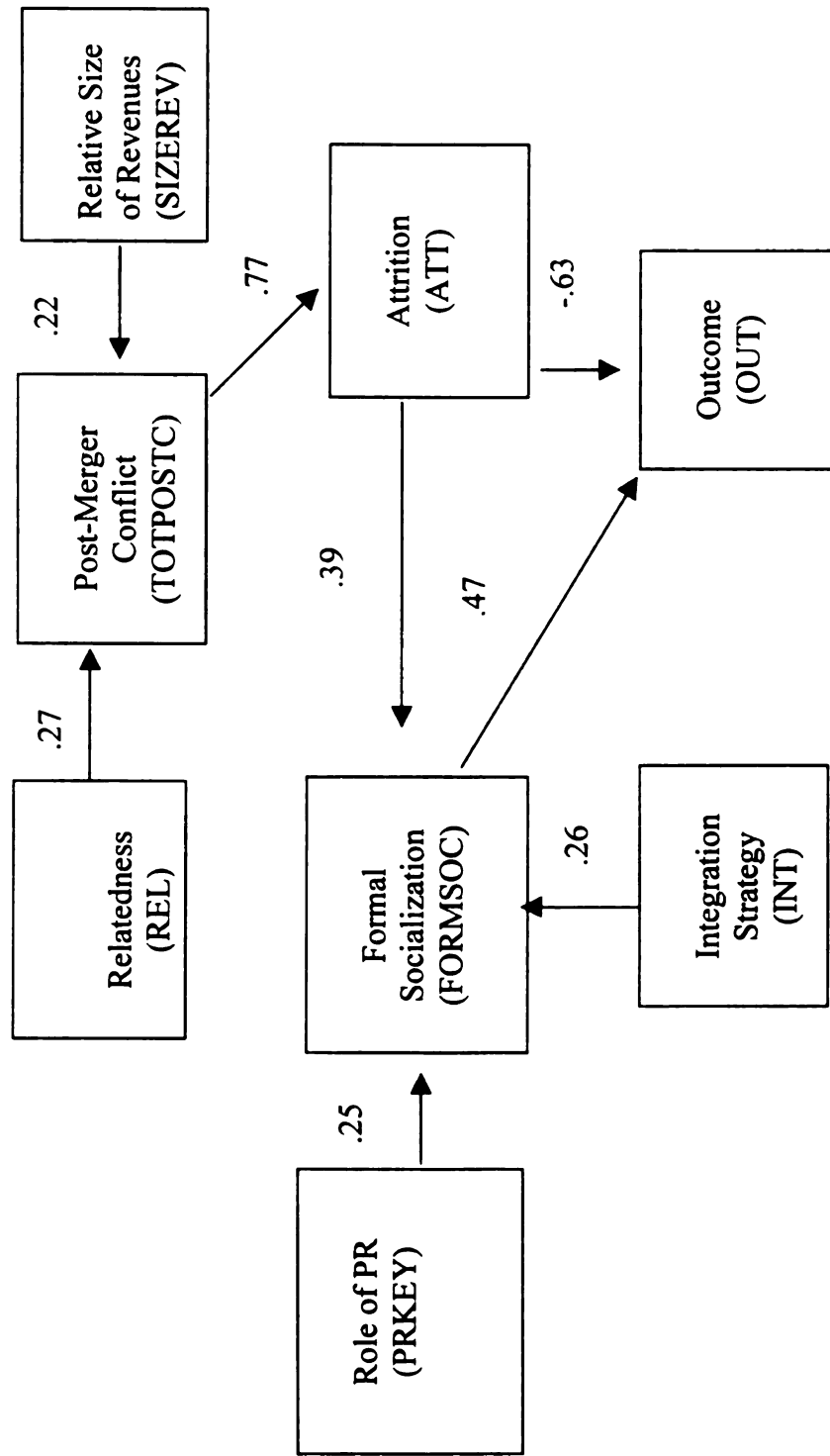
A post hoc analysis of the significant correlations from Table 17 and the results of the earlier hypothesis testing allowed for development of a revised model that could still be explained by theory. The revisions included reordering some of the relationships and the removal of two constructs that had limited interaction with the rest of the variables in the model. These were management style (MGS) and the number of years experience in employee communication (Q7EXP). The construct, number of mergers in the past five years (Q3NUM), was also eliminated despite its significant correlation with formal socialization ( $r = -.304, p < .01$ ) and with post merger conflict ( $r = -.174, p < .05$ ). When this variable was entered into the path model, it rendered several of the other paths non-significant.

This variable seems to play an important role in predicting socialization levels, but with a negative relationship not predicted and not in a way that is related to the other variables of interest. These modifications were made because “the objective is to model the relationships among constructs with the smallest number of causal paths or correlations among constructs that can be theoretically justified” (Hair, et al., 1995, p. 631). In addition, the measure of the socialization construct was changed from post-merger socialization (TOPOSTSO), which combined both formal and informal socialization activities, to a measure that included only formal socialization activities

(FORMSOC), since informal socialization seemed to correlate so highly with integration strategy ( $r = -.43, p < .01$ ), suggesting a possible confounding of constructs.

The revised model in Figure 5 incorporated eight of the original 11 constructs from Figure 1. In addition to the removal of three constructs, the most significant change from the original model was reordering the constructs of size (SIZE) and relatedness (REL) to now indicate a direct relationship with conflict, instead of the earlier indirect relationship, and to reposition the role of public relations (PRKEY) to no longer predict a direct effect on outcome (OUT), but instead to predict a direct relationship with formal socialization (FORMSOC), which would lead to an indirect effect on outcome.

A path analysis was run for this revised model. A comparison of the actual correlation matrix (corrected for attenuation) and the reproduced (predicted) correlation matrix, shown in Table 28, indicated non-significant differences between them ( $\chi^2 = 7.78, df = 14, p = .90$ ). The standardized path coefficients are presented in Figure 5. All seven coefficients were significant at  $p < .05$  or better, and the sign of the predicted relationships all matched those predicted in the earlier hypotheses. The analysis revealed  $R^2$  values of .34 for post-merger conflict, .77 for attrition, .54 for formal socialization, and .59 for outcome. Based on this analysis, the data in this study are consistent with this revised model of the merger and acquisition implementation process and this revised model was accepted as the study's "accepted" model. Since having insignificant path coefficients violates one of the assumptions of path analysis, this model was rejected despite the goodness-of-fit analysis. Given the number of non-supported hypotheses in the earlier analyses, these results were not unexpected.



**Figure 5. Revised Path Model of M&A Implementation Process**

**Table 28. Reproduced and Actual Correlations for Revised Model**

	1	2	3	4	5	6	7	8	*R <sup>2</sup>
<b>1. PRKEY</b>	-	.16	-.07	.05	.03	.02	.27	.12	
<b>2. REL</b>	.16	-	.16	.15	.30	.23	.17	-.07	
<b>3. SIZEREV</b>	-.07	.16	-	-.09	.26	.20	.04	-.11	
<b>4. INT</b>	.05	.15	-.09	-	.02	.02	.28	.12	
<b>5. TOTPOSTC</b>	.12	.30	.26	-.05	-	.77	.31	-.34	.34
<b>6. ATT</b>	.19	.36	.20	-.06	.77	-	.40	-.44	.77
<b>7. FORMSOC</b>	.34	.31	.21	.25	.18	.42	-	.22	.54
<b>8. OUT</b>	.12	.11	.11	.07	-.33	-.43	.21	-	.59

Note: The reproduced (predicted) correlations are above the diagonal while the actual (corrected) correlations are below the diagonal.

\* All multiple correlations are “shrunk R<sup>2</sup>” and all are significant ( $p < .01$ ).

PRKEY = Role of Public Relations, REL = Relatedness, SIZEREV = Size of Revenues,  
 INT = Integration Strategy, TOTPOSTC = Post Merger Conflict, ATT = Attrition,  
 FORMSOC = Formal Socialization Activities, OUT = Outcome.

**Table 29. Summary of the Results of Hypotheses Tests**

<b>HYPOTHESIS</b>	<b>ANALYSIS</b>	<b>RESULTS</b>
<p><b>H1</b> – The motive behind a merger or acquisition will emerge as one of two factors. Operating Synergy Motive or Financial Synergy Motive.</p> <p><b>H1a</b> – Operating Synergy and Financial Synergy Motives will be positively correlated.</p>	<p>Confirmatory Factor Analysis</p> <p>Pearson's Product Moment Correlation</p>	<p>Partially supported</p> <p>Supported</p>
<p><b>H2</b> – There is a positive correlation between the relatedness of a firm and its motivation to merge.</p> <p><b>H2a</b> – Related firms will have higher levels of operating synergy motive than unrelated firms.</p> <p><b>H2b</b> Related firms will have higher levels of perceived performance than unrelated firms.</p>	<p>Chi Sq. between REL and FIRMMOT and Pearson's Product Moment Correlation</p> <p>Difference in group means- t-test</p> <p>Difference in group means- t-test</p>	<p>Supported <math>p &lt; .10</math></p> <p>Supported for Operating Syn</p> <p>Supported</p> <p>Not Supported</p>
<p><b>H3</b> – There is a direct relationship between relatedness and acquisition motive, and between acquisition motive and integration strategy.</p> <p><b>H3a</b> – Acquisition motive will be a mediating variable between relatedness and integration strategy.</p>	<p>Pearson's Product Moment Correlation</p> <p>Structural Equation "product rule" and non-significant Chi Square</p>	<p>Supported for Operating Syn</p> <p>Supported for Operating Syn</p>
<p><b>H4</b> – Related firms that pursue an integrated strategy will report <i>lower</i> levels of conflict than related firms that pursue an autonomy strategy.</p> <p><b>H4a</b> - Unrelated firms that pursue an integration strategy will report <i>higher</i> levels of conflict than unrelated firms that pursue an autonomy strategy.</p> <p><b>H4b</b> – There is a significant negative correlation between relatedness and conflict.</p> <p><b>H4c</b> Related firms will have lower levels of post merger conflict than unrelated firms.</p>	<p>Dummy variable and difference in group means- t-test (B – D)</p> <p>Dummy variable and difference in group means- t-test (A – C)</p> <p>Pearson's Product Moment Correlation</p> <p>Difference in group means- t-test</p>	<p>Supported <math>p = .08</math></p> <p>Not supported</p> <p>Not supported (sig. <i>positive</i> <math>R^2</math>)</p> <p>Not supported (sig. higher level)</p>

Table 29 (cont'd.)

<b>H5</b> - Firms pursuing operating synergy will employ a higher level of informal socialization activities than firms pursuing financial synergy will.	Difference in group means- t-test	Supported
<b>H6</b> - Firms following an autonomy strategy will employ lower levels of formal socialization activities than firms following an integrated strategy.	Difference in group means- t-test	Not supported
<b>H7</b> - Firms that employ high levels of pre-merger socialization will have lower levels of attrition and conflict than firms that have low pre-merger socialization.	Difference in group means- t-test	Not supported
<b>H8</b> - For firms pursuing financial synergy there is a positive relationship between the level of formal and informal socialization and the level of perceived post-merger conflict and attrition. <b>H8a</b> – For firms pursuing operating synergy, there is an inverse relationship between post-merger socialization levels and the level of perceived conflict and attrition.	Simple regression for financial synergy cases only  Simple regression for operating synergy cases only	Not supported (but $r=.48$ )  Not supported (sig. <i>positive r</i> )
<b>H9</b> – Integrated firms will report lower post-merger conflict and higher performance in strong post-merger socialization conditions than in weak post-merger socialization conditions.	Dummy variable and difference in group means- t-test (B – D)	Supported for Performance  Not Supported for Conflict
<b>H10</b> – There is an inverse relationship between the relative size of the merging firms and the level of conflict reported.	Simple regression	Not Supported (sig. <i>positive R<sup>2</sup></i> )
<b>H11</b> – There is a positive correlation between bureaucratic management style and formal socialization activities. <b>H11a</b> In firms pursuing financial synergy, bureaucratic management style and post-merger conflict are positively related, while the relationship is non-significant in firms pursuing operating synergy.	Simple regression  Simple regression in cases of financial synergy motive and operating synergy motive	Not Supported  Partially supported



## CHAPTER 5: DISCUSSION & CONCLUSIONS

### **Assumptions and Limitations**

To test the various models and predictions of this study, a few important assumptions were made. First, this study assumed that, unlike the acculturation process in society, employees in a merger or acquisition have the ability to exercise their free will to exit the organization if they do not perceive that it is in their best interests to stay. This assumption is important in predicting the role of cultural conflict on attrition levels and performance, since the study assumes that employees will want to avoid conflict and the parent organization will strive to eliminate as much unwanted attrition as possible.

Another key assumption is that valid information about the firms under study can be obtained from just one individual in each firm. This assumption may hold for objective information, such as identifying specific communications and socialization tactics employed before and after the merger or acquisition, but it is a limitation when identifying key cultural aspects of the merger or acquisition such as attrition levels, management style, perceived conflict, and performance. The reliance on a limited number of measures and scale items with only moderate reliability is also a limitation of this study. This is especially true for the construct of attrition, which was measured only by responses to two general questions about unwanted departures before and after the merger, and for relatedness, which used only the 2-digit SIC code to define that construct.

The study also assumed that the public relations and human resources executives sought out for this study provided truthful answers and not “the company line” in an attempt to put the merger or acquisition in a favorable public light. It was assumed that

by informing the participants of the purpose of the study and guaranteeing their anonymity, they would be more likely to speak freely and provide more truthful answers than they might have if they believed the information was to be used in a media article specifically about their firms. Still the possibility exists that their responses may be biased, either through intentional misstatements or simply reflecting their own self-interests and personal experiences that may or may not be shared by others in the firm.

Another important limitation is that the “accepted” revised model, Figure 5, used to summarize the study’s findings, is admittedly of questionable validity, since it results from data-driven modifications made to a rejected model, and is based on a single sample of only moderate size. It is, therefore, possible that the model will not generalize to other samples or to the population. Future path analytic studies should be conducted to test the validity of this model, preferably by comparing it with the original model investigated in this study as a priori models, to determine which provides the best fit to the data in new samples (Hatcher, 1998).

### **Predicted Relationships in Theoretical Model**

Despite these limitations, the results of the hypothesis-testing and path analysis provided some interesting insights into the potential relationships among the key constructs of this study. This is despite the fact that many of the predicted relationships were not borne out by the data and that the revised path model (Figure 5), even with its acceptable “goodness of fit” with the data, does not rule out the possibility of other models also having an acceptable fit (Boster, 1995). Using the path model in Figure 5 as a road map, each of the key relationships and their implications will be reviewed in turn.

## Socialization

The revised path model and hypotheses testing suggested that the firms most likely to employ high levels of formal socialization activities are those that involve public relations professionals in the early merger and acquisition planning process, pursue a strategy to integrate cultures across the boundaries of the merging firms, and are likely to experience high levels of attrition as a result of a merger or acquisition

### Role of Public Relations in Socialization

Since most public relations texts suggest that public relations professionals are the most knowledgeable about all of a firm's constituencies, this study predicted that firms that had public relations professionals involved in the early management decisions regarding the merger or acquisition would experience higher perceived performance. This appears to have been borne out, but not as predicted.

Hypothesis 14 predicted a direct relationship between public relations and the perceived outcome of the mergers in this study. Instead, the only variables that had significant path coefficients with the role of public relations were formal socialization activities and attrition.

The significant correlation of public relations and formal socialization was not unexpected, given that public relations professionals are trained primarily in formal communications techniques; and, since they are extremely well versed in the creation of formal communications materials -- newsletters, company websites, annual reports, letters from the president, etc. -- they would be expected to widely use these as key socialization tactics during a merger or acquisition. However, the positive relationship

between public relations and attrition was most unexpected. In fact, it is opposite of the prediction of this study, which assumed that firms using public relations professionals as key strategists in the merger or acquisition process would result in lower conflict, and subsequently lower attrition, than in other firms.

One possible explanation for the high correlation of public relations with formal socialization and the high correlation of formal socialization with attrition is to reverse one arrow in the path model to suggest that formal socialization “causes” attrition, which would imply that the involvement of public relations professionals indirectly “causes” increased attrition. While Hypothesis 8 suggested that high levels of formal socialization in firms pursuing financial synergy would result in increased conflict and attrition, the inverse of the relationship was predicted for firms pursuing operating synergy (see Hypothesis 8a). Although neither hypotheses was supported, a test of Hypothesis 8 resulted in a positive correlation of .48, but was not statistically significant due to the small sample of financially motivated firms ( $n = 13$ ). This makes the results inconclusive.

But despite those inconclusive findings, it would appear to be unlikely that a similar scenario would be the case for the 97 firms in this study, since the majority of them were pursuing operating synergy ( $n = 54$ ), and the vast majority of the acquisition literature suggests the need for high formal socialization activities under these circumstances. Therefore, this explanation for the study’s findings does not appear to be supported by current theory.

A more likely explanation that ties the two significant relationships together is that, since the development of formal communications tools is a key part of most public

relations professionals' jobs, if management feared that a merger or acquisition might experience trouble in the form of high turnover, they might be more inclined to call in public relations professionals to play a key role in the implementation process. This explanation is supported by Siehl, Ledford, Silverman and Fay (1988), who suggest that management that is concerned about conflict or poor performance in a merger or acquisition is likely to increase its formal socialization activities by becoming more directive in their supervision, increasing management communications, and increasing formal reporting procedures. Interestingly, a post hoc analysis indicated that despite the close relationship with formal socialization and public relations, informal socialization was not significantly related to the public relations role at all (see Table 17). This further supports the changes in the revised model from measuring total post-merger socialization activities to just measuring formal socialization activities.

#### Integration Strategy and Socialization

A firm's likelihood to integrate the newly acquired employees into the parent organization or to allow them to operate autonomously was also found to play a significant role in the level of socialization activities undertaken during the merger or acquisitions of this study. However, despite the significant correlation between integration strategy and formal socialization ( $r = .23, p < .05$ ), Hypothesis 6 failed to find support for the prediction that formal socialization levels would vary by integration strategy alone. That is, that firms pursuing an autonomy strategy would necessarily use low levels of formal socialization and integrated firms would use high levels of socialization. The significantly higher outcome reported when testing Hypothesis 9,

however, did find some support for the prediction that using a “wrong” mix of an integrated strategy with weak socialization activities would result in poorer performance, than when a “right” mix of an integrated strategy and strong socialization were employed.

These results support the implication, illustrated in Figure 3, that there is a “matched” set of integration strategy and socialization activities that will yield a higher overall performance than a “mismatched” set. This mismatched set might occur, for example, when an acquired firm that has been promised to be left autonomous and to make its own decisions, begins to receive frequent communications and directives from its parent firm. It might also occur when a parent firm’s management publicly states that it plans to integrate two units for strategic purposes, but then does not put any formal or informal socialization processes in place to help the employees in the two units work together or get to know each other’s businesses.

In addition, the results of testing Hypothesis 3 indicated that for the 54 firms pursuing operating synergy, the integration strategy that a firm follows is indirectly influenced by how related the two firms are. This relationship was predicted in the original implementation model in Figure 1, but it was not apparent when analyzing the 13 firms pursuing financial synergy or when looking at all 97 cases. A possible explanation for the discrepancy in findings across sub-samples is that in the full set of 97 cases, the correlation between the two acquisition motive variables, operating synergy (TOTOP) and financial synergy (TOTFIN), confounded the results, and in the group pursuing just financial synergy, the sample size was too small to register any significant relationship. A larger sample size and more distinctive definitions of the two motives in future research would help to clarify the findings.

### Conflict and Attrition's Relationship with Socialization

An important deviation from the expected findings was the lack of any detectable relationship between socialization efforts and perceived conflict that was predicted in Hypotheses 8 and 8a when tested for all 97 cases. Also unexpected was the significant *positive* correlation between socialization and conflict for the 54 firms pursuing operating synergy when a negative correlation was predicted. Table 17 indicates this total lack of a relationship between the four measures of socialization in the study: formal socialization, informal socialization, pre-merger socialization and post-merger socialization with the two measures of conflict: pre-merger conflict and post-merger conflict.

These non-significant results and the positive relationship for the operating synergy firms at first glance seems to fly in the face of virtually all of the acquisition literature and popular business press, which recommend a high level of formalized communications and training experiences to keep conflict to a minimum during mergers and acquisitions. Figure 5 indicates that there is an indirect relationship between socialization and conflict, however, with attrition acting as a mediating variable. As predicted in the original model, the revised model suggests that firms experiencing high conflict would experience high attrition, and that in turn, would result in a negative perceived outcome. But when the firms utilize formal socialization efforts, the outcome is perceived as positive. This direct relationship between socialization and outcome, although not predicted, does reinforce the importance of the role of socialization in merger success suggested by the acquisition literature and the original model.

### Post-Merger Conflict

The revised path model suggests that post-merger conflict is a direct result of how related the two merging firms are and how close in size they are. Neither of these findings was predicted.

### Relatedness and Conflict

The findings that there is a positive correlation between relatedness and conflict (H4b), that there was no significant difference in performance between related and unrelated firms (H2b), and that related firms had significantly higher levels of post merger conflict than their unrelated counterparts (H4c) are all important findings, despite their being exactly the opposite of what was predicted or what has been assumed to be true in the majority of the recent acquisition literature (Sirower, 1997).

These results are, however, similar to those found in Kitching's (1967) study, where it was found that 47% of all the failed mergers were between related firms of the concentric marketing or technology types, where there was already a strong familiarity with the other firm's environment. Kitching, 30 years ago, offered an interesting explanation for this counter-intuitive result that may well hold today. He speculated that "the parent company, feeling it knows the market (and technology) backwards, gets lulled into a false sense of security" and neglects other aspects of the business (Kitching, 1967, p. 92). He suggested that, more important than relatedness and familiarity with the other's business environment as a key predictor of a merger's success, success may be more dependent on having "managers of change" to catalyze the combination process.

### Other important findings around the construct of relatedness

Although not reflected in the revised path model, the mediating role of acquisition motive between relatedness and integration strategy supported in Hypothesis 3a is also an important finding, since the role of relatedness in mergers and acquisitions has been one of the most widely tested constructs that has resulted in some of the most conflicting results. A significant correlation between relatedness and the operating synergy motive was found in testing Hypothesis 2, with 44.3% of the 68 related firms following an operating synergy motive, while only 8% of them followed a financial synergy motive. There was no overall relationship, however, between relatedness and firm motive when looking at all 97 firms, or between relatedness and financial synergy motive, where there would be a similar expectation that a higher percentage of firms following a financial synergy motive would pursue an autonomy strategy. However, given the small sample of financially motivated firms, it might be unrealistic to expect a significant correlation within this relatively small group.

Many studies (including this one) have found no significant direct correlation between relatedness and performance (Chatterjee, 1986; Lubatkin, 1987; Singh & Montgomery, 1988). Other studies have found mixed results on the role of relatedness in influencing performance (Bettis & Hall, 1982). None of those studies considered the mediating role of acquisition motive in this process. This study's findings suggest that a reanalysis of some of the past studies that found no significant role for the relatedness construct might yield different results if the construct of acquisition motive were added to the equation, either as a mediating variable as was done to test Hypothesis 3a, or as a moderating variable where cases are isolated by acquisition motive and then tested for

significant relationships, as was done to test Hypotheses 2, 8, and 11. Unfortunately, although these hypotheses seem to hold for the operating synergy motive, the low sample size for financial synergy firms makes it difficult to fully assess the results of these hypotheses across both types of acquisition motives.

### Size and Conflict

Relative size of the firms in terms of a revenue comparison was also found to play a significant role in the amount of conflict that a merger or acquisition will experience. Hypothesis 10, however, predicted that the relationship would be a negative one, and the study's results indicate a significant positive relationship. The original prediction was based on past studies such as Kitching's (1967), which focused primarily on problems that arise when the target firm is very small in relation to the parent (less than two percent of its total revenues). Kitching suggested that parent firms, despite publicly stated intentions to pursue an autonomy strategy, might be less inclined to do so with extremely small target firms. Consequently, the employees in those small firms would suffer cultural conflict if they found themselves being "lost in the shuffle" and being integrated into the parent despite its promises to the contrary.

This study's results come closer to those found by Kusewitt (1985) who, while finding some support for Kitching's (1967) findings that very large discrepancies in size will result in lower performance, also found that acquiring firms that were close to the same size as the parent were also likely to encounter poor performance. He suggested that problems may arise when target firms are too large in relation to the parent, i.e., "a case of biting off more than you can chew" (Kusewitt, 1985, p. 159) or that large

acquired firms may resist being integrated even though it may make strategic sense to blend into the parent.

Kusewitt's (1985) overall findings were that there was an optimum size for mergers where conflict would be minimized. This study could not confirm those results, since the mergers in this study were valued at \$100 million or more, and few of them came close to the small ratios used by Kitching or were small enough to be compared between small and large mergers as was done in Kusewitt's study. Future research is warranted that does not restrict the size of the merger or acquisition to further study the effect if size on conflict and subsequent performance.

#### Attrition

As has already been discussed, this study's results suggest that attrition acts as an input variable to the formal socialization process. These results are not dissimilar to a prediction made by Elsass and Veiga (1994), who used Attribution Theory to suggest a cyclical relationship between performance and the socialization process. If one substitutes "attrition" for "poor performance" their prediction appears to explain why attrition might be an antecedent to socialization. They suggest that poor performance will likely be attributed by management of the dominant organization as a consequence of the subordinate group "not supporting our efforts" (p. 448). Management would then increase control mechanisms and reduce levels of autonomy. When performance is good, management would likely attribute the success to the current levels of organizational integration and be inclined to leave well enough alone. Siehl, Ledford, Silverman and Fay (1988) also suggested that managers are likely to react to perceived poor

performance of a merger or acquisition by increasing their formal socialization activities - becoming more directive in their supervision and increasing management communications and formal reporting procedures. Conversely, they predicted that if they perceive a strong performance, management of the parent organization might be inclined to leave the status quo.

### Performance (Outcome)

The significant negative relationship between attrition and the perceived performance variable, outcome, ( $r = -.27, p < .01$ ) was predicted in the original model in Figure 1 and was supported by the data. The relationship is even more pronounced when looking at the standardized regression coefficient between the two constructs ( $B = -.63, p < .01$ ).

The direct relationship between formal socialization and outcome, however, was not predicted by the original model, nor is the relationship an obvious one when just looking at the non-significant correlation between the them ( $r = .17, p > .05$ ). The revised model indicates a significant path coefficient of .47 ( $p < .01$ ), which helps to put the relationship into perspective. This model suggests that formal socialization efforts can mediate the negative influences of internal conflict and attrition to improve outcome. This positive influence of socialization on outcome was predicted in the original model, but the original assumed that the process would flow in a different direction and that conflict and attrition would be the mediating variables. The revised model would suggest that in mergers where there is little attrition or little concern for attrition, socialization efforts would have little impact on the outcome.

There are other scenarios where it might be expected that formal socialization efforts might have little or no impact on the outcome of the merger or acquisition. This would be particularly likely in those situations where the internal communications and socialization efforts are less important to the firms' perceived performance than their external communications.

This study did not specifically address external communications practices, since its primary interest was to explore the internal communications function involved in integrating the merging cultures of two organizations and the internal tactics that would serve in the socialization process. The acquisition literature does, however, address the importance of external communications on the potential for success of a merger or acquisition, and there are times when it may be these factors that play a more significant role in the performance of the firms that deviate from the expected. These scenarios could include mergers where the parent is using stock as its primary source of funding for the deal, and communications to the financial community could play a more significant role in the merger's success than internal communications activities. This might also be the case in certain industries such as local healthcare, cable television, and telecommunications firms that are subject to local regulatory scrutiny and require strong external communications with their local communities to keep the merger on track.

## **Implications of Other Findings**

### The Role of Acquisition Motive

An over-arching hypothesis of this study was that the motive behind a merger or acquisition would play a moderating role on the influence of socialization and communication activities on conflict, attrition and perceived performance of the transaction. The acquisition motive was also used to group cases into those defined as using “matched” and “mismatched” strategies to test many of the other hypotheses.

Therefore, finding valid and reliable measures of these motives was critical to this research project, and doing so for the firms pursuing operating synergy indicated that acquisition motive may, indeed, play an important role in determining the right mix of integration and socialization strategies (see Hypothesis 1). However, the relatively low level of firms pursuing financial synergy ( $n = 13$ ) made it difficult to determine if the non-significant results involving financial synergy or autonomy strategy firms in Hypotheses 2, 3, 4, 6, 8 and 11 was due to a disconfirmation of the hypotheses or a lack of a large enough sample size. While this study has reported the hypotheses as “not supported” for the financial and autonomy firms, given the significant results for the same hypotheses for the larger sample of operating synergy firms ( $n = 54$ ) and integrated firm ( $n = 82$ ), this study also suggests the results are “inconclusive” due to small sample size.

Another important issue regarding the definition of acquisition motive involves the elimination of Item Rel1B, in the refined measure of the construct in testing Hypothesis 1. This item was originally expected to be an indicator of an operating

synergy motive and asked respondents to rate how important, on a scale of 1 to 7, with 7 being "extremely important," the motive "to provide new markets for your product line or a gain in your market share," was to their particular merger or acquisition. While the item had an extremely low item reliability of .02 and did not load significantly on either the financial synergy or operating synergy factors, it was obviously a popular motive behind many of the mergers or acquisitions in this study. The mean response to this question was 6.34 (s.d. 1.29) -- out of a possible 7 -- and 66 of the participants (68%) responded with a 7, "extremely important," on this item. A total of 89 individuals (94%) responded with a 5 (above average) or higher on this motive. Unfortunately, the respondents then also highly ranked a number of financial and operating synergies as additional motives for their merger or acquisition, which made the item an unreliable predictor of one strategy or the other.

This item, which might be called a "marketing synergy" motive, is clearly an important construct that should be investigated more thoroughly in future research. However, it was not central to this study, since it was not useful in distinguishing the theorized impact that the two motives of interest had on other constructs in this study.

It is also important to note that the percentage breakdown of acquisition motive strategies into three distinct groups of financial synergy (13.4%), operating synergy (55.7%), and no discernable strategy (30.9%) confirms the previous literature reports that operating synergies, which are also often called "strategic motives" are the most important strategy in today's mergers and acquisitions. Also supporting this is the fact that the mean response for all respondents on the three individual financial synergy questions was 2.30 (s.d. = 1.16) (on a 7-point scale) while the mean response to the two

operating synergy questions was 4.47 (s.d. = .17), indicating that operating synergy was a more important motive to the mergers and acquisitions of this study.

### Pre-Merger Predictions

Hypothesis 7 predicted that in the pre-merger stage, from the time there is any public rumor that negotiations have begun between the two firms to the actual signing of an agreement between them, strong formal and informal socialization tactics are important to reducing the amount of cultural conflict in a merger or acquisition, but that constructs such as integration strategy are unimportant. This relationship is depicted in Figure 2. The study predicted that employees in firms with low levels of pre-merger socialization activities will experience high levels of conflict due to fear and frustration that will lead to their departure, while employees with high levels of socialization will have lower levels of cultural conflict and be more likely to stay committed to the firm. The results of the analysis indicate that the amount of pre-merger socialization played no role in the amount of pre-merger conflict encountered and that the only variable that showed a significant relationship with pre-merger conflict was the experience level of the communicators ( $r = -.24, p < .05$ ).

While the relationship between pre-merger conflict and communicator experience is logical, the lack of relationship with either formal or informal socialization is counter-intuitive and warrants further investigation. A possible explanation for a lack of any significant findings may be in the respondents' interpretation of the question. Respondents were asked in Questions 30 and 31 of the survey to identify specific socialization activities that were undertaken as part of the merger and "to indicate if it

was done before or after the merger or both.” The majority of the mergers in this study were completed by firms that were publicly traded and operate under SEC rules that prohibit “selective disclosure” of information, even to employees. Many of the respondents had volunteered to the interviewers when responding to Question 21 about how far in advance they had begun to communicate to employees that they were “prohibited by law” from formally communicating to their employees during the pre-merger time period. When they made mention of this, the interviewers were instructed to clarify the question by explaining that it meant the time frame between when the deal was first publicly announced and when it was officially completed.

Nevertheless, nearly 20% of the respondents indicated that they communicated with employees less than 1 week in advance of the completion of the transaction. It may be that some respondents who did not raise any issue with Question 21 interpreted it and Questions 30 and 31 about pre-merger communications as meaning the time prior to any public acknowledgment of the merger, while others may have correctly interpreted the questions to mean in the period after the public announcement but before the deal’s completion. Given the possible ambiguity of these questions, further investigation of pre-merger socialization efforts is warranted.

#### Management Style:

Hypothesis 11 predicted a correlation between the parent firm’s propensity for a bureaucratic management style and formal socialization activities. In general, parent firms with an authoritarian or bureaucratic management style were predicted to be more likely to provide strong formal socialization activities in the form of rules and procedures

and document those with frequent one-way, top-down communications than firms with participative management styles. This hypothesis was not supported. The only two constructs that were closely related to management style were pre-merger conflict and the number of prior mergers the parent firms had completed in the past five years. Neither of these relationships was predicted, nor can they be easily explained by prevailing theory.

Hypothesis 11a, however, was partially supported. In firms pursuing financial synergy, there was predicted to be a significant correlation between bureaucratic management style and post-merger conflict. This prediction suggested that employees in the target firm would want to be left alone; and, therefore, any management inclination to “micro-manage” through excessive communication or training would be unwelcome and result in perceived cultural conflict. As with the other analyses involving this group of cases ( $n = 13$ ), the sample size was too small to register a statistical significance, despite a correlation of .39. Therefore these results are considered inconclusive. However, the second half of this hypothesis was supported. That prediction was that the relationship between bureaucratic management style and post-merger conflict would be insignificant for firms pursuing operating synergy, because employees within this group would expect a high degree of management involvement and this involvement would have little or no impact on conflict levels. The correlation for this group was .035 ( $n = 54$ ,  $p > .05$ ). Despite the inability to confirm the differences in these groups, the wide disparity in the two correlations in the predicted direction certainly suggests that a difference may exist and warrants further investigation.

### Experience:

With regard to the role of experience, some studies have found that organizations with a high degree of experience in mergers and acquisitions outperform those with less experience (Bagli, 1997; Nahavandi & Malekzaheh, 1988; Zweig, 1995). Experience was defined as the number of mergers or acquisitions the parent had previously undertaken. In addition to this measure, since this study focused on the communication practices involved in a merger or acquisition, Hypothesis 12 included a second definition of experience that took into account experience levels of the communicators in dealing with employee communication issues. As has been noted, this latter definition of experience was related only to one other construct in the study – pre-merger conflict ( $r = -.24, p < .05$ ). This was not a predicted relationship, but it is consistent with socialization theory that suggests that strong pre-merger communications would result in lower pre-merger conflict.

The more traditional definition of experience, measured by the number of mergers or acquisitions undertaken in the past five years, had significant correlations with three of the key constructs of the study: management style ( $r = .27, p < .01$ ), formal socialization ( $r = -.30, p < .01$ ), and total post-merger socialization ( $r = -.29, p < .01$ ). However, there was no correlation with the performance measure, outcome, for any of the three groups predicted in Hypothesis 12, 12a, and 12b. Of these findings, the significant negative relationship of experience with the two measures of socialization is the most surprising. This implies that firms that have the most experience with mergers and acquisitions employ fewer socialization tactics than their less-experienced counterparts. There are two likely explanations for this finding. The first explanation is that the communicators

in the more experienced firms are so over-worked dealing with multiple mergers and acquisitions that they do not have the time to devote to a full range of socialization activities. Given comments about heavy work loads and stress levels from several of the respondents who were involved in multiple mergers and acquisitions simultaneously, this would seem to be a likely explanation. However, if this were true, one would also expect to encounter lower levels of performance for these firms, and this was not the case (see Table 17). An alternative explanation is that the more experienced firms have learned which socialization activities are the most effective and, therefore, do not waste time on less effective socialization tactics. From the current data analysis, this would appear to be the more likely explanation, but it contradicts many of the recommendations in the acquisition literature that stresses the need for many different socialization tactics and which recommends “over communications” as a general rule of thumb.

#### Production Orientation

This study suggested that cultural conflict and its resulting unwanted attrition would have a more serious impact on the performance of service organizations than manufacturing firms, because of service firms’ greater reliance on the skills and creative abilities of their employees for the output of their product. If found to be true, the production orientation of a firm was then proposed as a moderating variable between attrition and performance in the overall implementation process.

Hypothesis 13 tested this prediction, but found no support for it. In fact, in testing this hypothesis about the impact of a firm’s having a service orientation or a manufacturing orientation, no significant correlation with any other construct in the study

was found (see Table 17). However, the production orientation did seem to play some role in the overall outcome of the merger or acquisition. When the constructs of service orientation and attrition levels were dummy-coded into four conditions and mean outcome levels were calculated, there was an interesting result.

Table 26 indicates that service firms with low attrition levels had the highest levels of perceived performance among the four groups. This was consistent with Hypothesis 13's prediction. But the lowest level of performance was found in manufacturing firms that experienced high levels of attrition instead of in service firms with high levels of attrition as was predicted. This result indicates that, opposite of the prediction of this study, employee skills in manufacturing firms may be more valuable than employee skills in service firms and loss of these skills during a merger or acquisition can be a serious threat to the overall success of the transaction. This would certainly be the case when comparing the value of employee skills between a service organization such as a fast food restaurant and a manufacturing firm that utilizes specialized engineering skills and uses machinery requiring months or even years of experience to master. It could be argued, however, that the original hypothesis would hold when comparing manufacturing firms in low-tech industries with more specialized or highly technical service firms such as software, telecommunications, and advertising firms. Future research in this area might benefit from classifying firms by SIC code rather than simply listing them as service or manufacturing firms.

## **Future Research**

Additional future research to expand upon the findings of this study should include duplicating the research but among a wider range of mergers to increase the sample size and to provide greater insight into effects of the acquisition motive on the predicted relationships discussed above. Another area of research beyond the existing study, which could shed much needed light on this topic, is investigating integration and socialization strategies and conflict levels from the perspective of acculturation theory. This theory suggests the existence of four different acculturation modes, with only one of them resulting in cultural conflict. (Barry, 1983, 1984; Nahavandi & Malekzadeh, 1988). This theory seems to support this study's contention that successful mergers and acquisitions do not require an integration of cultures in all circumstances, but it identifies four levels of integration that this study does not attempt to measure. The acculturation approach assumes that if the "right" implementation process is undertaken to match the integration strategy, there are four predicted outcomes for the merged entities and only one results in destructive conflict.

Deculturation. Occurs when both forces of organizational integration and cultural differentiation are weak. In this case, employees will identify with forces outside the firm (i.e. their professions or industries) - The result may be a lack of organizational commitment and high risk of turnover, but low levels of conflict are expected.

Assimilation. Occurs when there are strong forces of organizational integration and weak forces of cultural differentiation. In this case, employees will identify with the parent organization and will lose the sense of competition between units (this may not always be a good thing if the units are meant to be autonomous and competitive with one

another). In this scenario, employees will have a strong commitment to the parent, but may have high turnover within individual units as employees transfer to other units. Low levels of conflict are expected.

Separation. Occurs when there are strong forces of cultural differentiation and weak forces of organizational integration. In this case, employees will operate in autonomous groups and will have little interaction with other groups. They will identify with the sub-group and, while they may perceive that they are in competition with one another, this competition does not become disruptive to the organization's goals. Low levels of conflict are expected.

Tension. In this model, this is the only mode where cultural conflict occurs, but it matches the prediction of this study, suggesting that it will occur when there are both strong forces of cultural differentiation (people want to be left alone and identify with their own groups) and strong forces of organizational integration (the firm has a strategic need to unite the two groups and have them operate as one). In this case, the acculturation model predicts that employees will receive conflicting signals and will be expected to identify with both the parent's goals and values and the group's goals and values. Looking for these four scenarios by expanding the definition of conflict to include constructive and dysfunctional conflict and adding a variable of identification would further clarify the processes that take place during the implementation of mergers and acquisitions.

### **Summary and Conclusions**

To assess the impact of cultural conflict and socialization efforts on the success or failure of a merger or acquisition, this study examined past research on a number of

strategic acquisition factors such as acquisition motive, firm size and relatedness, management style, and experience with mergers and acquisitions and found that there is a great deal of debate about which factors will have the greatest impact on the overall performance of the transaction. But regardless of the debate, there does seem to be general support for the prediction that high levels of dysfunctional cultural conflict will result in the loss of organizational members and a reduction in performance.

This study, using strategic management, socialization, and acculturation literature as well as the non-academic acquisition literature, established a set of predicted relationships among the key constructs. Chief among these predictions was that high levels of socialization would reduce conflict and improve overall performance in strategic mergers that required an integration of the two firms' cultures. Conversely, the study predicted that high socialization efforts would actually increase conflict and lower outcome in firms that sought only financial synergy. The assumption was that these firms would *not* benefit from merging their cultures, and could actually be harmed if they attempted to merge cultures. A high involvement from the public relations function in the early planning stages of the merger or acquisition was predicted to increase the likelihood that the "right" mix of socialization and integration strategy were used.

Survey research was undertaken with a number of organizations that have recently merged to test these predicted relationships. The goal was to obtain macro-level organizational information about how formal and informal socialization processes come about within firms that have different cultural characteristics and acquisition motives.

The study proposed and the data supported – at least for firms pursuing an integrated strategy, that the most successful mergers and acquisitions will be those that

pursue the “right” mix of integration and socialization strategies as part of their overall implementation of a merger or acquisition. The study suggests that firms pursuing horizontal or concentric mergers should actively pursue operating synergies, create mechanisms for formal and informal interaction across subsidiaries and establish strong centralized communications and management controls. The study was less conclusive for firms pursuing financial synergies between the merging units because of a relatively small sample size. Future research of these firms was suggested to re-test the hypothesis that the most successful of these firms will be those that pursue diversified or holding-company merger strategies and keep centralized communications and formal control mechanisms to a minimum.

## APPENDICES

## APPENDIX A

### TELEPHONE SURVEY ON MERGERS and ACQUISITIONS

\_\_\_\_\_ Interview      Number Interviewer: \_\_\_\_\_

\_\_\_\_\_ Firm Number      Date of Interview: \_\_\_\_\_

Acquirer: \_\_\_\_\_

Target Firm: \_\_\_\_\_

#### *COMMENTS / NOTES:*

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*INITIAL CONTACT:*      Could I have your Public Relations Department please?  
*If they don't have PR or no one is available, ask for the Human Resources Dept.)*  
*Once connected to the department, say:*

Can I talk to someone who handles employee  
communications for your firm. *Once connected, say:*

Hello, my name is \_\_\_\_\_ . I'm hoping to get your input to a study we're working on here at Michigan State University on the role of communications in corporate mergers and acquisitions. It will take about 15 min. of your time. The study *will* be published, but your input will be kept confidential and neither you nor your firm will be mentioned by name. If you're willing to participate, and you'd like a copy, we'll be glad to send you the results of the study when it's completed.

A.      Could I ask if you were involved with any of the employee communications or public relations activities during the merger between  
\_\_\_\_\_ (write in acquirer) and  
\_\_\_\_\_ (write in target firm)?

\_\_\_\_\_ yes (If yes, go to Question B next page)

\_\_\_\_\_ no      *(if no, then ask): Could you give me the name and phone number of someone who did have responsibility for communications during that merger? (begin again with new person)*

---

- B. I have a set of questions that deals with communications to employees about this merger. Would you be comfortable talking about this topic?

\_\_\_\_\_ (if yes, go to INTRODUCTION below and pull out a blank Internal Communicators Survey form to be ready)

If No ask: Could you give me the name and phone number of someone who *you think would be comfortable addressing the communications* activities surrounding this merger?

PR Contact: \_\_\_\_\_

Phone Number: \_\_\_\_\_

*(Then call either contact from QUESTION A or B above, tell them who referred you to them and begin again with the Opening Statement.)*

#### INTRODUCTION:

Thank you for participating. Your input is extremely important to us. I'll try to go quickly, but stop me if anything is not clear. You can skip any questions that you're not comfortable with and you can discontinue the interview at any time.  
*(NOW GO TO Q.1 and 2 below)*

#### QUESTIONS:

1. Now, to standardize the questionnaire, I'll be using the term "merger" to refer to the transaction between your two firms, but I know that may not be your official definition of the transaction.

What term *does* your management use to describe this deal? *(Ask as an open-ended question and check the appropriate box below. If they seem stuck, prompt by reading the list.)*

\_\_\_\_\_ a. a merger

\_\_\_\_\_ b. an acquisition

\_\_\_\_\_ c. a takeover

\_\_\_\_\_ d. a consolidation

\_\_\_\_\_ e. a partnership

\_\_\_\_\_ f. a joint venture

\_\_\_\_\_ g. or some other term: *(if "other" ask: what term do you use?):*

\_\_\_\_\_

2. Would you describe \_\_\_\_\_ as more of a service firm or a manufacturing firm? *(write in target firm)*

*- If they need clarification, ask where the majority of their revenues come from. Also, offer option c if they seem really stuck.*

\_\_\_\_\_ a. Service -- *(the product is primarily intangible and consists of people's skills or knowledge)*

\_\_\_\_\_ b. Manufacturing -- *(the product is tangible, made with machinery and can be distributed)*

\_\_\_\_\_ c. a 50/50 mix of both -- *(if the firm's revenues come equally from both)*

Now go to survey - Question #3

### OVERCOMING OBSTACLES:

*If they say they are just too busy right now, try the following steps to get their participation:*

*:*

*-- First, ask: Is there a more convenient time for us to call you? (Note the time here for a re-try and put it on the appointment list and put this survey form -- opened to this page -- in your "Call Back" folder or in the main table call-back):*

---

*-- Second, if they say they just can't give you a time right now, ask:*

*Could I leave you the phone number here and you can call us back later today at your convenience? (If they say Yes to this, say: The phone number here is: 517/ 336-9301. You can ask for me -- my name is \_\_\_\_\_ or you can ask for Pat Whalen.*

*Will it be OK to call you back tomorrow for a reminder if we haven't heard from you? Then make a note on the front of the form that they will call back and put this survey in the "Waiting for a Call from the Subject" file with a note on the front about when to call back.). -- as a last resort, ask:*

*- If it's more convenient for you, I can fax the questions or send them as an E-Mail attachment, and you can answer them and fax, mail, or E-mail them back to us. (if they choose this option, ask: Which way would you prefer to get the information? (note it below and put this survey form in either the "Fax to Subjects" or "E-Mail to Subjects" folder on the main table.)*

*Fax Number: \_\_\_\_\_*  
*E-Mail Address: \_\_\_\_\_*

\_\_\_\_\_ Interview Number  
\_\_\_\_\_ Firm Number

INTERNAL COMMUNICATORS Telephone Survey:

3. Approximately how many mergers or acquisitions has your firm undergone in the past five years? \_\_\_\_\_

THESE NEXT QUESTIONS ARE ABOUT YOUR ROLE IN THE EMPLOYEE COMMUNICATIONS FUNCTION:

4. What is your title?

\_\_\_\_\_

5. What department do you report to? *(ask as an open-ended question, and check the box below to indicate their answer)*

\_\_\_\_\_ a. *Human Resources / Personnel / Employee Relations*  
\_\_\_\_\_ b. *Public Relations / Corporate Communications / Public Affairs*  
\_\_\_\_\_ c. *Employee Communications*  
\_\_\_\_\_ d. *Other: (specify:)* \_\_\_\_\_

6. Which one of the following two options, a or b, best describes your position in your firm:

\_\_\_\_\_ a. You manage the Employee Communications function for the parent firm.  
\_\_\_\_\_ b. You handle some aspects of Employee Communications, but not the whole function. *(select this if there are others the same rank or higher who also handle employee communications).*

7. How many total years of experience do you, personally, have in dealing with employee communications issues (regardless of which firm you worked for):  
\_\_\_\_\_ years

8. Was an integration team put in place to develop internal communications strategies for the merger?

\_\_\_\_\_ Yes  
\_\_\_\_\_ No *If no, skip to Q11*

9. Which department had *primary responsibility* for managing this team? (*ask as an open-ended question and check their response*)  
     \_\_\_ a. Corporate Public Relations  
     \_\_\_ b. Human Resources  
     \_\_\_ c. Finance or Business  
     \_\_\_ d. Outside consulting firm or agency  
     \_\_\_ e. Other: (please specify): \_\_\_\_\_
10. Approximately how far in advance of the completion of the deal did the integration team begin to *plan* for the merger? (*ask as an open-ended question and mark approp. box -- prompt if they get stuck*)  
     \_\_\_ a. More than 1 year in advance  
     \_\_\_ b. 6 months to 1 year in advance  
     \_\_\_ c. 3 to 6 months in advance  
     \_\_\_ d. 1 to 2 months in advance  
     \_\_\_ e. Less than 1 month in advance  
     \_\_\_ f. Less than 1 week in advance

THIS NEXT SERIES OF QUESTIONS WILL ASK YOU TO SELECT THE BEST ANSWER ON A SCALE OF 1 TO 7. IT MIGHT BE HELPFUL FOR YOU TO WRITE DOWN IN FRONT OF YOU THE NUMBERS 1 THROUGH 7. ON THE FAR LEFT SIDE, NOTE THAT NUMBER 1 MEANS "UNIMPORTANT," NUMBER 4 IN THE MIDDLE MEANS "AVERAGE" AND NUMBER 7 MEANS "EXTREMELY IMPORTANT."

NOW, PLEASE RATE FROM 1 TO 7 HOW UNIMPORTANT OR HOW IMPORTANT THE FOLLOWING MOTIVES WERE FOR THE MERGER. BASE YOUR ANSWERS ON ANY STATEMENTS YOUR MANAGEMENT HAS GIVEN ABOUT THE REASONS FOR THE MERGER.

<u>Unimportant</u>				<u>Average</u>				<u>Extremely Important</u>	
1	2	3	4	5	6	7			

- 11A. To provide for a better borrowing rate with your banks. \_\_\_\_
- 11B. To provide new markets for your product line or a gain in your market share: \_\_\_\_ (R)
- 11C. To allow your firms to combine insurance plans, employee benefit plans, pension funds or other financial reserves: \_\_\_\_
- 11D. To provide for economies of scale due to more efficient production or price breaks from suppliers due to higher volumes : \_\_\_\_ (R)
- 11E. To allow for a more favorable tax treatment \_\_\_\_
- 11F. To allow for a combining of production or service facilities or combining distribution or other marketing outlets: \_\_\_\_ (R)

NOW, USING A SIMILAR SCALE OF 1 TO 7, THE NEXT SET OF QUESTIONS WILL FOCUS ON YOUR PARENT FIRM'S CORPORATE MANAGEMENT STYLE. THESE QUESTIONS WILL ASK YOU TO INDICATE YOUR LEVEL OF AGREEMENT OR DISAGREEMENT WITH SEVERAL STATEMENTS. PLEASE NOTE ON YOUR SCALE THAT A "1" WILL MEAN YOU STRONGLY DISAGREE WITH THE STATEMENT, A "4" MEANS YOU ARE NEUTRAL ABOUT IT , AND 7 MEANS YOU STRONGLY AGREE WITH THE STATEMENT. YOU CAN PICK ANY NUMBER ALONG THIS SCALE FROM 1 TO 7.

Strongly							Strongly
<u>Disagree</u>				<u>Neutral</u>			
<u>Agree</u>							
	1	2	3	4	5	6	7

- 12A. Your corporate management maintains an informality among employees regardless of rank or position. \_\_\_\_ (R)
- 12B. Managers in your organization seem to believe that employees must constantly be given instructions. \_\_\_\_
- 12C. Corporate management believe they are in the best position to make important decisions for the people below them. \_\_\_\_
- 12D. In dealing with employees, corporate management believes that rules and regulations should be flexible. \_\_\_\_ (R)

THE NEXT FOUR STATEMENTS ARE ABOUT THE OVERALL OUTCOME OF THE MERGER. RATE THEM USING THE SAME SCALE OF 1 TO 7, WITH "1" BEING STRONGLY DISAGREE AND "7" BEING STRONGLY AGREE.

Strongly							Strongly
<u>Disagree</u>				<u>Neutral</u>			
<u>Agree</u>							
	1	2	3	4	5	6	7

- 13A. All things considered, the merger should not have taken place. \_\_\_\_ (R)
- 13B. A majority of the employees in this firm have come to accept the merger as a good idea. \_\_\_\_
- 13C. There is a lot of friction between the employees of your parent firm and the employees in the acquired firm. \_\_\_\_ (R)
- 13D. My organization has been strengthened by the merger . \_\_\_\_

THE NEXT FEW STATEMENTS DEAL WITH THE LOSS OF EMPLOYEES AS A RESULT OF THE MERGER. AGAIN, USING THE SAME SCALE OF 1 TO 7, INDICATE YOUR DISAGREEMENT OR AGREEMENT WITH THEM.

Strongly							Strongly
<u>Disagree</u>				<u>Neutral</u>			
<u>Agree</u>							
	1	2	3	4	5	6	7

- 14A. After they learned of the merger, a great many employees left the acquired firm prior to the deal's completion. \_\_\_\_
- 14B. The parent firm was unhappy with these pre-merger departures because they were of key employees. \_\_\_\_
- 14C. A great many employees left the acquired firm in the first six months after the legal agreement was completed). \_\_\_\_
- 14D. Most of the post-merger departures were of key employees that the parent company would have preferred stay. \_\_\_\_
- 14E. There were a great many key employees that left the parent firm as a result of the merger. \_\_\_\_
- 14F. Most departures from the parent firm were planned reductions to eliminate redundancies. \_\_\_\_

THE NEXT STATEMENTS ARE ABOUT THE PRE-MERGER PERIOD -- THAT IS, THE TIME BEFORE THE DEAL WAS COMPLETED. RATE THESE STATEMENTS ON THE SAME SCALE OF 1 TO 7, WITH 1 BEING STRONGLY DISAGREE, 4 BEING NEUTRAL, AND 7 BEING STRONGLY AGREE.

Strongly							Strongly
<u>Disagree</u>				<u>Neutral</u>			
<u>Agree</u>							
	1	2	3	4	5	6	7

- 15A. Employees became obsessed with the merger and speculating about what it might mean for them. \_\_\_\_
- 15B. The company was rife with rumors about the merger. \_\_\_\_
- 15C. Employees tended to believe there would be a smooth transition. \_\_\_\_ (R)
- 15D. People began to develop a worse-case scenarios about what might happen. \_\_\_\_
- 15E. Most employees felt they were very informed about what was going on. \_\_\_\_ (R)-

THESE NEXT FIVE STATEMENTS DEAL WITH THE FIRST FEW MONTHS AFTER THE MERGER TOOK PLACE. PLEASE INDICATE YOUR DISAGREEMENT OR AGREEMENT WITH THEM USING THE SAME 1 TO 7 SCALE.

Strongly							Strongly
<u>Disagree</u>				<u>Neutral</u>			
<u>Agree</u>							
	1	2	3	4	5	6	7

- 16A. People tended to focus on the similarities rather than the differences in the two firms. \_\_\_\_ (R)
- 16B. People tended to see their own firm as superior to the other. \_\_\_\_
- 16C. People in each firm began to plot ways to advance their own positions or defend them. \_\_\_\_
- 16D. One side in the combination tended to see itself as the winner and imposed decisions on the other. \_\_\_\_
- 16E. Most decisions tended to be made by mutual problem-solving between the two firms. \_\_\_\_ (R)

THE NEXT THREE QUESTIONS ARE ABOUT WORKING ACROSS ORGANIZATIONAL BOUNDARIES. WE'LL STILL USE A SCALE OF 1 TO 7, BUT WE'LL CHANGE IT SLIGHTLY SO THAT A "1" WILL MEAN "TO A VERY LITTLE EXTENT," AND "7" WILL MEAN "TO A VERY GREAT EXTENT" PICK ANY NUMBER ALONG THIS SCALE.

To a Very						To a Very
<u>Little Extent</u>			<u>Neutral</u>		<u>Great Extent</u>	
	1	2	3	4	5	6
						7

- 17A. To what extent does your parent firm encourage employees in the acquired firm to work with members of different business units? \_\_\_\_
- 17B. To what extent does your parent firm's management encourage people in the acquired firm to exchange opinions and ideas with other business units? \_\_\_\_
- 17C. How often does your management hold group meetings where members of the acquired firm can really discuss things with members of other business units? \_\_\_\_

WHICH OF THE FOLLOWING COMMUNICATION MESSAGES DID YOUR COMPANY USE IN EXPLAINING THE RATIONALE AND IMPACT OF THE MERGER TO EMPLOYEES? INDICATE WITH A YES OR NO IF THE MESSAGE WAS COMMUNICATED:

- 18A. Goals and mission of the new merged entity? Yes \_\_\_\_ No \_\_\_\_
- 18B. A list of the synergies the merged entity would enjoy? Yes \_\_\_\_ No \_\_\_\_
- 18C. Personal benefits the employees would gain as a result of the merger?  
Yes \_\_\_\_ No \_\_\_\_
- 18D. How pay and benefits would be affected? Yes \_\_\_\_ No \_\_\_\_
- 18E. How previously promised promotions and job assignments would be affected?  
Yes \_\_\_\_ No \_\_\_\_
- 18F. Whether there would be layoffs due to the merger? Yes \_\_\_\_ No \_\_\_\_
- 18G. How redundancies in staff would be handled? Yes \_\_\_\_ No \_\_\_\_
- 18H. Were there any other messages used? (*list here if so*)  
\_\_\_\_\_

AS A RESULT OF THE MERGER'S PERFORMANCE TO DATE, PLEASE INDICATE WHETHER THE PARENT FIRM HAS INCREASED OR DECREASED ITS LEVEL OF THE FOLLOWING ACTIVITIES, OR IF IT LEFT ITS LEVEL OF ACTIVITIES THE SAME.

- 19A. Employee training programs \_\_\_\_\_
- 19B. Formal memos from management \_\_\_\_\_
- 19C. Opportunities for informal interactions among employees in different business units. \_\_\_\_\_
- 19D. Management meetings with members of the acquired firm \_\_\_\_\_
- 19E. Written rules, procedures, manuals \_\_\_\_\_
- 19F. Changes in incentive programs \_\_\_\_\_

THIS LAST SET OF QUESTIONS DEAL WITH YOUR ORGANIZATION'S  
SPECIFIC COMMUNICATIONS TO EMPLOYEES REGARDING THIS MERGER:

20. Did the parent company communicate with its own employees in advance of the deal to tell them negotiations were underway?

\_\_\_\_ Yes  
\_\_\_\_ No (if no, skip to Q24)

21. Approximately how far in advance of the completion of the deal did the company begin to communicate to its employees about the merger negotiations? (check the approp. box)

\_\_\_\_ a. More than 1 year before the deal was completed  
\_\_\_\_ b. 6 months to 1 year in advance  
\_\_\_\_ c. 3 to 6 months in advance  
\_\_\_\_ d. 1 to 2 months in advance  
\_\_\_\_ e. Less than 1 month in advance  
\_\_\_\_ f. Less than 1 week in advance

22. Were any formal written communications materials created and distributed to employees of either firm prior to completion of the deal?

\_\_\_\_ Yes  
\_\_\_\_ No (If no, skip to Q24)

23. Which function had primary responsibility for creating these materials?

a. \_\_\_\_ Executive staff  
b. \_\_\_\_ Corporate Public Relations Department  
c. \_\_\_\_ Human Resources Department  
d. \_\_\_\_ Finance or Business Development  
e. \_\_\_\_ Outside consulting firm or agency  
f. \_\_\_\_ Other: \_\_\_\_\_

24. Prior to the company's formal communications about the negotiations, did employees already tend to know about the deal through rumors?

\_\_\_\_ Yes  
\_\_\_\_ No

25. Were any surveys undertaken with employees at either the parent or acquired firm to assess the stress or internal conflict arising from the merger?

\_\_\_\_ Yes. If yes, were the surveys:  
before the deal \_\_\_\_? after the deal \_\_\_\_? or both \_\_\_\_?

\_\_\_\_ No

26. Was an outside consulting firm employed to help in implementing this merger?

\_\_\_\_ Yes

\_\_\_\_ No

27. Was any type of standardized program followed to be sure the transition went smoothly and "by the book"?

\_\_\_\_ Yes. If yes, what type of standardized program? \_\_\_\_\_

\_\_\_\_ No

28. Were any special efforts made to identify and keep key employees at either firm?

\_\_\_\_ Yes

\_\_\_\_ No

*Fill in if they elaborate:*

---

---

---

29. For which firm was there the greatest concern about losing key employees because of the merger?

\_\_\_\_ a. The parent firm

\_\_\_\_ b. The acquired firm

\_\_\_\_ c. There was equal concern about employees in both firms.

30. FOR THE FOLLOWING LIST OF FORMAL EMPLOYEE COMMUNICATION ACTIVITIES, PLEASE INDICATE IF A PARTICULAR ACTIVITY WAS USED *WITH EMPLOYEES OF THE ACQUIRED FIRM* TO EASE THEIR TRANSITION INTO THE NEW ORGANIZATION. IF IT WAS USED, PLEASE INDICATE IF IT WAS DONE BEFORE OR AFTER THE MERGER OR BOTH.

- A. \_\_\_\_ Distributing a copy of news releases about the merger ----- *before* ----- *after* ----- *both*
- B. \_\_\_\_ Letter to employees' homes. ----- *before* ----- *after* ----- *both*
- C. \_\_\_\_ Large group meetings with all employees ----- *before* ----- *after* ----- *both*
- D. \_\_\_\_ Videotape from CEO (or other executive) shown to employee  
----- *before* ----- *after* ----- *both*
- E. \_\_\_\_ New logos, advertising campaigns or signage displayed  
----- *before* ----- *after* ----- *both*
- F. \_\_\_\_ A new joint mission statement for the two firms posted ----- *before* ----- *after* ----- *both*
- G. \_\_\_\_ New employee manuals and work rules ----- *before* ----- *after* ----- *both*
- H. \_\_\_\_ Information on changes in benefits or pensions ----- *before* ----- *after* ----- *both*
- I. \_\_\_\_ Articles in an employee publication explaining the strategy and goals of the merger:  
----- *before* ----- *after* ----- *both*
- J. \_\_\_\_ Training sessions for managers on possible problem areas to be alert to.  
----- *before* ----- *after* ----- *both*
- K. \_\_\_\_ An Intranet web page that provided up-dates about the merger:  
----- *before* ----- *after* ----- *both*
- L. \_\_\_\_ A special 800# or telephone hotline to provide updates or answer employee questions:  
----- *before* ----- *after* ----- *both*
- M. \_\_\_\_ Other: (please specify): \_\_\_\_\_  
----- *before* ----- *after* ----- *both*



*ENDING:*     THOSE ARE ALL THE QUESTIONS I HAVE. THANK YOU FOR  
GIVING YOUR TIME AND INPUT TO THIS STUDY. WOULD YOU  
LIKE A COPY OF THE RESULTS SENT TO YOU WHEN THEY ARE  
DONE? \_\_\_\_ NO     \_\_\_\_ YES (*If yes, obtain their name and full mailing  
address.*)

Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Company: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_

THANK YOU, AGAIN, FOR HELPING OUT WITH THIS STUDY. GOODBYE.

## APPENDIX B

### Measurement of Acquisition Motive

From lists identified by Bielinski (1992) and Mirvis and Marks (1992) as potential synergies that are typically sought in a merger or acquisition.

On a scale of 1 to 7, with 1 being unimportant and 7 being extremely important, please rate the following motives for the merger based on any public statements your management has made about the merger:

		<u>Extremely Unimportant</u> 1	2	3	<u>Average</u> 4	5	6	<u>Extremely Important</u> 7
A.	To provide for a better borrowing rate with your banks.	_____	_____	_____	_____	_____	_____	_____
B.	To provide new markets for your product line or a gain in your market share: (R)	_____	_____	_____	_____	_____	_____	_____
C.	To allow your firms to combine insurance plans, employee benefit plans, pension funds or other financial reserves:	_____	_____	_____	_____	_____	_____	_____
D.	To provide for economies of scale due to higher production volumes or price breaks from suppliers: (R)	_____	_____	_____	_____	_____	_____	_____
E.	To allow for a more favorable tax treatment	_____	_____	_____	_____	_____	_____	_____
F.	To allow for cost savings by combining distribution facilities or other marketing outlets: (R)	_____	_____	_____	_____	_____	_____	_____

## APPENDIX C

### Measurement of Degree of Integration

from Taylor and Bowers (1972) - modified slightly to add name of target unit and change references from "a supervisor" to a parent firm's management

Please answer these three questions about working across organizational boundaries using a scale of 1 to 7, with 1 being "to a very little extent," and 7 being "to a very great extent"

<u>To a Very</u> <u>Little Extent</u>				<u>Neutral</u>		<u>To a Very</u> <u>Great Extent</u>
1	2	3	4	5	6	7

- A. To what extent does your parent firm encourage employees in the acquired firm to work with members of different business units?  
\_\_\_\_\_
- B. To what extent does your parent firm's management encourage people in the acquired firm to exchange opinions and ideas with other business units?  
\_\_\_\_\_
- C. How often does your management hold group meetings where members of the acquired firm can really discuss things with members of other business units?  
\_\_\_\_\_

## APPENDIX D

### Measurement of Management Style

From Gordon (1973) - Bureaucratic vs. Non-bureaucratic -  
modified to ask for opinion about corporate management rather than individual beliefs

The following statements concern your firm's corporate management style. Please indicate your agreement with them on a scale of 1 to 7, with 1 being strongly disagree, 4 being neutral, and 7 being strongly agree.

	<u>Strongly</u> <u>Disagree</u>				<u>Neutral</u>				<u>Strongly</u> <u>Agree</u>
	1	2	3	4	5	6	7		
A.	Corporate management maintains an informality among employees regardless of rank or position. (R)								
	_____	_____	_____	_____	_____	_____	_____		
B.	Managers in your organization seem to believe that employees must constantly be Given instructions.								
	_____	_____	_____	_____	_____	_____	_____		
C.	Corporate management believe they are in the best position to make important decisions for the people below them.								
	_____	_____	_____	_____	_____	_____	_____		
D.	In dealing with employees, corporate management believes that rules and regulations should be flexible. (R)								
	_____	_____	_____	_____	_____	_____	_____		

## APPENDIX E

### Measurement of Pre-Merger Cultural Conflict

PRE-MERGER CONFLICT- from Marks and Mirvis (1997) and Mirvis and Marks (1992)

Please indicate your agreement with these next statements about the pre-merger period -- that is, the time before the deal was completed -- on a scale of 1 to 7, with 1 being strongly disagree and 7 being strongly agree.

	<u>Strongly</u> <u>Disagree</u>				<u>Neutral</u>				<u>Strongly</u> <u>Agree</u>
	1	2	3	4	5	6	7		
A.	Employees became obsessed with the merger and speculating about what it might mean for them.								
B.	The company was rife with rumors about the merger.								
C.	Employees tended to believe there would be a smooth transition. (R)								
D.	People began to develop "worse-case" scenarios about what might happen.								
E.	Most employees felt they were very informed about what was going on. (R)								

## APPENDIX F

### Measurement of Post-Merger Cultural Conflict

-From Marks and Mirvis (1997) and Mirvis and Marks (1992)

These next five statements deal with the first few months after the merger took place. Please indicate your agreement or disagreement with them on a 1 to 7 scale, with 7 being "strongly agree."

	<u>Strongly Disagree</u>								<u>Neutral</u>						<u>Strongly Agree</u>
	1	2	3	4	5	6	7								
A.	People tended to focus on the similarities rather than the differences in the two firms. (R)														
	_____	_____	_____	_____	_____	_____	_____								
B.	People tended to see their own firm as superior to the other.														
	_____	_____	_____	_____	_____	_____	_____								
C.	People in each firm began to plot ways to advance their own positions or defend them.														
	_____	_____	_____	_____	_____	_____	_____								
D.	One side in the combination tended to see itself as the winner and imposed decisions on the other.														
	_____	_____	_____	_____	_____	_____	_____								
E.	Most decisions tended to be made by mutual problem-solving between the two firms. (R)														
	_____	_____	_____	_____	_____	_____	_____								

## APPENDIX G

### Measurement of Attrition

Subjective measures to be asked of the employee communicators:

Please indicate your agreement or disagreement with the following statements about the loss of employees as a result of the merger by rating them on a scale of 1 to 7, with 1 being strongly disagree and 7 being strongly agree.

Strongly <u>Disagree</u>				<u>Neutral</u>		Strongly <u>Agree</u>
1	2	3	4	5	6	7

- A. After they learned of the merger, a great many employees left the acquired firm prior to the deal's completion. \_\_\_\_
- B. The parent firm was unhappy with these pre-merger departures because they were of key employees. \_\_\_\_
- C. A great many employees left the acquired firm in the first six months after the legal agreement was completed). \_\_\_\_
- D. Most of the post-merger departures were of key employees that the parent company would have preferred stay. \_\_\_\_
- E. There were a great many key employees that left the *parent firm* as a result of the merger. \_\_\_\_
- F. Most departures from the parent firm were planned reductions to eliminate redundancies. \_\_\_\_

## APPENDIX H

### Measurement of Merger Outcome

Using Buono, Bowditch and Lewis (1989) A Satisfaction with the Merger Scale

These next statements are about the overall outcome of the merger. Rate them on a scale of 1 to 7, with 1 being strongly disagree and 7 being strongly agree.

Strongly Disagree				Neutral			Strongly Agree
1	2	3	4	5	6	7	

- A. All things considered, the merger should not have taken place. \_\_\_\_ (R)
- B. A majority of the employees in this firm have come to accept the merger as a good idea. \_\_\_\_
- C. There is a lot of friction between the employees of your parent firm and the employees in the acquired firm. \_\_\_\_ (R)
- D. My organization has been strengthened by the merger . \_\_\_\_

## APPENDIX I

### Formal Socialization Activities

For the following list of formal employee communication activities, please indicate if a particular activity was used *with employees of the acquired firm* to ease their transition into the new organization. If it was used, please indicate if it was done before or after the merger or both.

- A. \_\_\_\_ Distributing a copy of news releases about the merger ----- *before* ----- *after* ----- *both*
- B. \_\_\_\_ Letter to employees' homes. ----- *before* ----- *after* ----- *both*
- C. \_\_\_\_ Large group meetings with all employees ----- *before* ----- *after* ----- *both*
- D. \_\_\_\_ Videotape from CEO (or other executive) shown to employee  
----- *before* ----- *after* ----- *both*
- E. \_\_\_\_ New logos, advertising campaigns or signage displayed ----- *before* ----- *after* ----- *both*
- F. \_\_\_\_ A new joint mission statement for the two firms posted ----- *before* ----- *after* ----- *both*
- G. \_\_\_\_ New employee manuals and work rules ----- *before* ----- *after* ----- *both*
- H. \_\_\_\_ Information on changes in benefits or pensions ----- *before* ----- *after* ----- *both*
- I. \_\_\_\_ Articles in an employee publication explaining the strategy and goals of the merger:  
----- *before* ----- *after* ----- *both*
- J. \_\_\_\_ Training sessions for managers on possible problem areas to be alert to.  
----- *before* ----- *after* ----- *both*
- K. \_\_\_\_ An Intranet web page that provided up-dates about the merger:  
----- *before* ----- *after* ----- *both*
- L. \_\_\_\_ A special 800# or telephone hotline to provide updates or answer employee questions:  
----- *before* ----- *after* ----- *both*
- M. \_\_\_\_ Other: (please specify): \_\_\_\_\_  
----- *before* ----- *after* ----- *both*

## APPENDIX J

### Measure of Informal Socialization Activities

For the following list of informal employee communication activities, please indicate whether any of the following were made available *to employees of the acquired firm* to ease their transition into the new organization. If a particular communications device was used, please indicate if it was done before or after the merger or both before and after the merger. Indicate "didn't use" for those communication activities not employed.

- A. \_\_\_\_ Small group and one-on-one meetings with key employees  
----- before ----- after ----- both
- B. \_\_\_\_ Informal Q&A sessions between management and employees  
----- before ----- after ----- both
- C. \_\_\_\_ Development of a common E-mail network to facilitate communication between the parent and acquire firm's employees: ----- before ----- after ----- both
- D. \_\_\_\_ Corporate managers simply walking around the acquired firm's facilities and getting to know the employees. ----- before ----- after ----- both
- E. \_\_\_\_ Creation of training sessions that allowed informal interaction among the managers of the acquired and parent firm. ----- before ----- after ----- both
- F. \_\_\_\_ Creation of training sessions that allowed non-managers from both firms to interact with one another. ----- before ----- after ----- both
- G. \_\_\_\_ A party or picnic or other get together that allowed employees from both firms to interact ----- before ----- after ----- both
- H. \_\_\_\_ The formation of a company sports team that includes members from both the parent and acquired firm. ----- before ----- after ----- both
- I. \_\_\_\_ Creation of a joint volunteer activity that includes members from both organizations ----- before ----- after ----- both
- J. \_\_\_\_ Publication of a joint telephone directory (or similar device) that facilitates one-on-one communications among members of the two organizations.  
----- before ----- after ----- both
- K. \_\_\_\_ Other informal communications activities: (please specify):  
----- before ----- after ----- both

## APPENDIX K

### Measurement of Experience in Mergers and Acquisitions

- A. Approximately how many mergers or acquisitions has your firm undergone in the past five years? \_\_\_\_\_
  
- B. How many total years of experience do you, personally, have in dealing with employee communications issues (regardless of which firm you worked for):  
\_\_\_\_\_ years

## APPENDIX L

### Measurement of PR's Early Involvement

- A. When did the Public Relations department get involved with the communication planning for this merger? (select only one)
- ☐ a. Before the negotiations even began
  - ☐ b. Immediately after negotiations began
  - ☐ c. Once the boards of directors approved the deal but before it became public
  - ☐ d. Only after it was publicly announced
  - ☐ e. The Public Relations department never got involved with communication planning for this merger
- B. Approximately how far in advance of the completion of the deal did your company begin to publicly communicate to the news media and/or the financial community about the merger negotiations? (select only one)
- ☐ a. More than 1 year before the deal was completed
  - ☐ b. 6 months to 1 year in advance
  - ☐ c. 3 to 6 months in advance
  - ☐ d. 1 to 2 months in advance
  - ☐ e. Less than 1 month in advance
  - ☐ f. Less than 1 week in advance
  - ☐ g. There was no advance communication about the deal prior to its completion.

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