



“Us vs. them” or “us over them”? On the roles of similarity and status in M&As



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ABSTRACT

This paper complements existing research on the role of cultural similarity in cross-border M&As by examining their effects in conjunction with relative status positions of merging entities. Two experimental studies with senior managers were conducted and reported. Whereas status breeds competence-based trust between acquirer and acquired unit, similarity is conducive to benevolence-based trust. Furthermore, higher status position of acquirer is shown to have significant effect on acquired unit members' social preferences toward the former (Study 1). Lastly, similarity and status are found to have distinct and joint effects on knowledge transfer in M&As, which designate an interesting tradeoff between acquired unit members' perceptions of the credibility of the acquirer and the usefulness of the advice it provides (Study 2). Theoretical and practical implications of the findings are discussed.

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1. Introduction

Mergers and acquisitions (M&As) remain to be the primary means with which companies pursue their growth ambitions. In 2014, the number of completed deals and value of transactions amounted up to 82,354 and 4708 billion US\$, respectively (Zephyr, 2014). Furthermore, cross-border acquisitions constitute approximately 70% of worldwide foreign direct investment and therefore constitute the main vehicle through which multinational companies undertake investments in foreign countries (Peng, 2008). Whereas finance and strategy have long been the dominant disciplines based on which M&As are analyzed, literature on the post-acquisition stage, with a particular emphasis on the integration of social norms, cultural values and human resources, has been gaining remarkable mass and volume during the last two decades (for a review, see Calipha, Tarba, & Brock, 2010). Studies in this research stream pay particular attention to sociocultural dynamics and integration in M&As, wherein establishment of mutual trust and efficient flow and exchange of tangible and intangible resources between merging organizations are identified as key

objectives (Björkman, Stahl, & Vaara, 2007; Stahl et al., 2013). Achieving these objectives is especially important, and equally problematic, in cross-border M&As where merging organizations differ in terms of both national and organizational cultures (Weber, Shenkar, & Raveh, 1996). Thus, multiple types and sources of cultural differences in cross-border M&As could increase the salience of different, and sometimes conflicting, identity frames between merging organizations, which would create strong feelings of ‘us vs. them’ and additional barriers to achieve sociocultural integration (Stahl & Voigt, 2008).

Even though the critical role of culture and identity in cross-border M&As has increasingly been recognized, extant literature still has limited micro-level focus by examining how different culture and identity interact with other situational factors and shape individual-level integration outcomes. One such factor is relative status positions of merging organizations, which has received insufficient attention so far despite the fact that “most organizational mergers are not mergers of equals” (Giessner, Viki, Otten, Terry, & Tauber, 2006:340). A recent study by Yildiz (2014), for instance, conceptually shows that relative status and standing of merging organizations might generate asymmetric perceptions of attraction where high (low) status organization would be evaluated positively (negatively) by the members of other party. This stands to reason that whether or not differences would create

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social conflicts and problems for integration depends on the relative status and standing of merging firms (Very, Lubatkin, Calori, & Veiga, 1997). Thus, status is an important factor that can complement the *descriptive* perceptions shaped by culture and identity (i.e., “us vs. them”) by shedding light on the *evaluative* aspects of individuals’ perceptions of the ‘other’ (i.e., “us over them”). In sum, accounting for relative status as a mutual rank-ordering dimension (c.f., Washington & Zajac, 2005) can shed light on the direction of culture’s effects in post-merger integration.

Based on the above, this study aims to answer two main questions: (1) how do relative status positions of merging organizations affect individuals’ trust, social preferences and openness to learning in M&As?, (2) how do status effects interact with cultural differences/similarities and affect micro (individual) level sociocultural integration outcomes in M&As? By examining the role of status and its interaction with culture and identity, I aim to make three contributions to the literature. First, earlier research has been predominantly focusing on one typical outcome variable such as post-merger identification (e.g., Boen, Vanbeselaere, & Wostyn, 2010; van Knippenberg & van Leeuwen, 2001), in-group bias (e.g., Terry, 2001) and employee resistance (e.g., Haunschild, Moreland, & Murrell, 1994). However, as noted by Ellemers and Barretto (2000), it is too reductionist an approach to think of different kinds of responses as interchangeable indicators of us vs. them type of thinking. To address this, my studies look at a wider range of post-merger integration outcomes, i.e., social preferences, different forms of trust, openness to knowledge transfer. The choice of these dependent variables is based on the view of firms as social communities within which common norms and shared identities foster opportunities for learning and coordination (Kogut & Zander, 1996). Therefore, it becomes natural to conceive of sociocultural integration as the conversion of two social communities into one unified entity (c.f., Bresman, Birkinshaw, & Nobel, 1999), where the establishment of trust, cooperation and learning environment stand out as elemental building blocks of this integration process. Given that post-merger integration is an arduous process with multiple dimensions (Ellis, Weber, Raveh, & Tarba, 2012), examining the role of similarity and status across a wider set of affective and behavioral outcomes would afford a more holistic understanding regarding the consequences of similarity and status dimensions, as well as possible tradeoffs embedded therein. By concomitantly studying a larger set of important integration outcomes, I aim to complement existing research and understand how similarity and status affect the process through which two merging organizations become ‘one firm’.

Second, as noted by Stahl, Larsson, Kremershof, and Sitkin (2011) and Weber, Drori, and Tarba (2012), trust is a crucial yet relatively underexplored post-merger integration outcome. The present investigation, thus, addresses this by examining whether and how similarity and status might affect the emergence of trust among individuals in the initial stages of post-merger process. In that regard, I will build on the taxonomy of Abrams, Cross, Lesser, and Levin (2003) and disentangle the concept of trust¹ and analyze how different characteristics of the acquirer (i.e., similarity and status) determine its *benevolence-based* (i.e., trust based on the belief that other party has good-will and would care about the well-being of the trustor) and *competence-based* (i.e., trust based on the expertise and credentials of the trustee) trustworthiness.

Lastly, joint examination of identity driven similarities with status differences is a fruitful approach to examine alternative mechanisms underlying individual-level reactions to cross-border M&As as well as other interorganizational encounters alike. On the

one hand, social identity is largely an *emotional* and *affective* phenomenon since it is “that part of an individual’s self-concept which derives from his knowledge of his membership of a social group together with the value and emotional significance attached to that membership” (Tajfel, 1978:63). In this regard, common social identity is mainly about the extent to which individuals depict emotional involvement and affective commitment to their group (Ellemers, Kortekaas, & Ouwerkerk, 1999). This stands to reason that shared identity and similarity are conducive to the development of emotional bonds and affection between different groups. Status hierarchies, on the other hand, mold individuals’ perception and behavior mainly through *rational* and *calculative* considerations where those who possess superior status position are seen as more reliable and dependable exchange partners (Jensen & Roy, 2008), able to bring out greater effort from lower status partners (Castellucci & Ertug, 2010), evaluated more positively by lower status actors (Berger, Rosenholtz, & Zelditch, 1980) and given more tangible and intangible resources (Sauder, Lynn, & Podolny, 2012).² This is especially so when status differences are stabilized and legitimized, given that these conditions would strengthen individuals’ belief that status is a robust and less noisy signal of quality (Podolny, 1993; also see Malter, 2014 for a nuanced treatise on the status–quality relationship). Therefore, similarity and status represent different mechanisms governing emotional and rational bases, respectively, of individuals’ reactions in cross-border M&As. Examining these alternative mechanisms leading to different integration outcomes would provide insights about factors affecting the way individuals deal with and react to changes in the aftermath of merger and/or acquisition. Thus, role and relative importance of similarity and status in a variety of sociocultural integration outcomes (i.e., social preferences, benevolence- and competence-based trust, learning opportunities) would further our understanding of key success factors and associated mechanisms on the human side of cross-border M&As and healthy integration thereof.

The organization of this paper is as follows. In Section 2, I will first review past research looking at the role of and status and their role in sociocultural integration in M&As. In Section 3, I will present my research framework and hypotheses, which were tested based on two experimental studies as explained in Sections 4 and 5. The paper will be concluded by general discussion of findings and implications for theory and practice.

2. Theoretical background

2.1. Self-other similarity and common identity

According to *Social Identity Theory* (SIT), individuals define themselves as members of social groups, and the more the individual identifies with his/her group, the more the his/her attitudes and behavior are governed by the norms and expectations associated with group membership (Tajfel & Turner, 1986). Accordingly, higher degree of identification with the organization would induce employees to see their organizational membership as an important element in their self-concept and, thereby, act in the organization’s best interest by being more cooperative within

¹ While trust can also be examined as a behavioral manifestation (c.f., Mayer et al., 1995), in the present investigation I conceive of trust as the focal actor’s expectancy about the behavior of the other party (Sniezek and Van Swol, 2001).

² Although I hereby argue and explain that effects and consequences of status differences often operate on a rational and calculative basis, it does not necessarily mean that the emergence of status hierarchies often follow a rationally justifiable path. Thus, it is possible that status characteristics and positions of actors are founded on purely arbitrary or irrelevant criteria, and might thereby lead to unjust material inequalities (see, Ridgeway, 2014). A similar argument could also be raised when it comes to individuals quest and desire to gain higher-status position is a social system (Park and Burgess, 1921). Yet, the key premise of my argument is neither about the foundations of status heterogeneities nor about the motives behind attaining high status. By rational and calculative mechanisms, I specifically refer to the ways with which already existing status differences influence and mold individuals perceptions and potential behavior.

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