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Continuity and Change in Mergers and Acquisitions: A Social Identity Case Study of a German Industrial Merger*

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ABSTRACT It is crucial from an employee's point of view to perceive some degree of stability even in times of major organizational change. This paper examines the role of a sense of continuity for organizational identification after an organizational merger. We argue that mergers and acquisitions so often end in failures partly because the change is designed in discontinuous ways and employees do not feel they are doing the same job after the merger as before. Such discontinuous change engenders a critical tension between positive and negative effects of identification that has not yet been fully understood. To deepen the understanding of this tension, in-depth interviews were conducted in a recently merged German industrial company. Based on these qualitative data we demonstrate how features of the post-merger company structure and the way it was implemented may have eroded organizational identification. Finally, we propose a parsimonious model to be tested by future research, in which the sense of continuity is consisting of both *observable* as well as *projected* continuity.

INTRODUCTION

The aim of the present study is to gather an understanding of employees' reactions to an organizational merger through the application of analytical tools from the social identity approach. This analysis involves three stages. First, we briefly introduce the social identity approach and review recent applications of this approach to organizational change processes. In the second stage, we present the results of sixteen in-depth interviews we conducted with managers involved in a recent merger of a large German organization. The third and final part of this paper seeks to build on and extend previous conceptualizations of identity

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processes in mergers and acquisitions and subsequently provide a useful framework for research and practice. We believe that the model we are going to propose and the evidence we will present can help in addressing several open questions. First, more often than not in the study of organizational mergers the human factor, i.e., the employees' attitudes and feelings, have been neglected (Van Dick, 2004). The social identity approach that explicitly deals with these feelings and attitudes has already addressed the issue of continuity in organizational change. However, empirical evidence so far comes mainly from laboratory and survey studies. As an alternative, we will therefore be using a case study approach to provide a deeper understanding of the concept of continuity. Finally, we explore the concept of continuity further by distinguishing between observable and projected continuity. This new differentiation will, in our view, extend existing knowledge and provide avenues for future research.

THE SOCIAL IDENTITY APPROACH TO ORGANIZATIONAL PSYCHOLOGY AND ORGANIZATIONAL CHANGE

The social identity approach is a theoretical framework that is based on social identity theory (SIT; Tajfel and Turner, 1979; Hogg and Abrams, 1988) and self-categorization theory (SCT; Turner, 1985; Turner et al., 1987). These theories have been developed to account for the pattern of results observed in minimal group studies in psychology labs (e.g. Tajfel et al., 1971), which indicated that in allocating monetary resources people favour members of in-groups over out-group members even when group interests are compatible. In the minimal group paradigm the only factor that could possibly have produced these results was the availability of social categorizations into in-group and out-group, even though this distinction was based on a most arbitrary criterion: aesthetic preference of research participants for either of the painters Klee or Kandinsky. These experiments led to the insight that groups spring into existence psychologically as a result of comparison processes involving the self seen as similar to other in-group members and different from individuals of out-groups in a given context (cf. SCT; Turner et al., 1987). In SCT terms, this marks a shift of salience from a *personal identity* (i.e., all that makes us unique individuals) to a *social identity* (i.e., one that is based on commonalities with others). An additional assumption is necessary, to explain that research participants not only distinguished between the Klee-group and the Kandinsky-group on a perceptual level, but also consistently favoured their own group in their behaviour. What gives rise to such group behaviour, SIT posits, is the emotional and value significance individuals put on their various group-memberships. When people *identify* with a group and their group-membership thus intertwines with their self-concept, the need for positive self-esteem extends towards the group as a whole so that group members want to see their group as positively distinct from others (Tajfel and Turner, 1979). Put differently, the question whether one's group compares favourably with other groups becomes central, and in the minimal group studies, differential allocation of money was the only way for Klee or Kandinsky supporters to be clear on that issue.

Although soon thereafter Brown (1978) brought a similar methodology as in the minimal group studies to bear on workforce processes in a factory, SIT has mostly been applied for the analysis of macro-social relations between groups, and only recently has it been discovered as a conceptual treasure chest for the study of organizational behaviour. Following the seminal paper of Ashforth and Mael (1989) central concepts of the social identity approach diffused into the organizational literature with several recent monographs, edited books and special journal issues testifying to this development (e.g. Haslam, 2001; Haslam et al., 2003b; Hogg and Terry, 2001; *Academy of Management Review*, 2000; *Group Processes & Intergroup Relations*, 2001). The significance of this perspective lies in the fact that it enables us to acknowledge the dialectical relationship between organizational behaviour and employees' self-concept that emerges as part of a qualitative shift from individual to group behaviour. As previously stated, a minimal condition for individuals to act in terms of a common group membership is a comparison process resulting in the self's binding to a perceived social category, where similarities to in-group members outweigh differences to out-group members. Organizations provide numerous categories for employees to structure the social reality at work. For instance, employees can self-categorize as members of a work-team as distinct from other work-teams, or as members of their organization as distinct from other organizations. The term *organizational identity* (or work-team identity) thus refers to beliefs descriptive of an organization's (or work-team's) distinctiveness. Importantly, however, the social identity approach does not treat these categories as fixed entities, but specifies the contextual factors that determine *which* category becomes self-defining for an organizational member and the *strength* to which it does so: a given category becomes more salient, the more it is cognitively accessible and the more reality fits the perceiver's expectations (see Oakes, 1987). Oakes (1987) has further distinguished between normative and comparative fit. A category has greater *normative fit* the more the observed similarities and differences meet the perceiver's expectations (see Oakes et al., 1991). *Comparative fit* describes a principle 'which suggests that a given category is more likely to become salient to the extent that the differences between members of that category are perceived to be smaller than the differences between members of that category and comparison others' (Haslam, 2001, p. 381). For instance, these conditions would be met for organizational identity if an individual has a long history of working for an organization, her organization is in competition with others, and she is proud of being a member of her organization (cf. Haslam et al., 2003a). The term *organizational identification* thus refers to the strength to which organizational identity becomes self-defining for an organizational member (cf. Pratt, 1998). Conceived as a continuous variable, reflecting changes in the social situation as they impact on the organizational member, it seems to be well-defined within the nomological network of organizational psychology, and clear predictions can be derived informing researchers and practitioners alike. The gist of this impressive body of research (see especially Haslam, 2001, for a comprehensive review) is that strong identification with the organization is generally desirable for the well-being of the organization and its members because highly identified employees derive a large portion of their self-esteem from belonging to the organization and working towards its goals, which manifests itself on important performance-related indicators such as work motivation and job satisfaction (Van Dick, 2001). It would thus seem reasonable to assume that organizational identification also helps to energize behaviour directed towards the goal of organizational change (Van Dick, 2004).

However, the literature has so far been relatively inconclusive with respect to the role of organizational identification in organizational change. This is partly due to a lack of process-oriented research (Hogg and Terry, 2000), but also reflecting a theoretical puzzle. Given the importance of work-related identification to an individual's sense of self, high identification should imply resistance to change as the change threatens the employees' identity (cf. Fiol, 2001, 2002). Direct evidence of the relationship between identification and resistance to change has been obtained by Ellemers (2003) who studied the implementation of culture change programmes in the police force in Hungary and a government institution in the Netherlands. In both cases Ellemers demonstrated that employees whose organizational identification was relatively strong felt threatened by the culture change programme and were opposed to it more than weakly identified employees. On the level of work-team identification, a longitudinal study by Jetten et al. (2002) found similar effects. They reported that Australian government employees reacted more negatively to a restructuring of their work-team the more they were identified with it prior to restructuring. Generally, the restructuring also led to lower levels of organizational and work-team identification. Thus, our review so far does indeed suggest that organizational change and identification do not go together.

Arguably, 'sameness is not a required feature of identity; rather, what is required is a s*ense of continuity*' (Rousseau, 1998, p. 227, emphasis in original; see also Gioia et al., 2000; Van Knippenberg and Van Leeuwen, 2001). But there are two major types of organizational change (Weick and Quinn, 1999): *continuous change* (synonym: evolutionary change), which is driven internally through collective sense making; and *episodic change* (synonym: revolutionary change), which is driven externally and implies discontinuity. Only the former would not put organizational identification at stake. Episodic change, on the other hand, involves the planned transformation of fundamental organizational attributes such as its mission, strategies, structures, and core values, thus posing a threat to the organizational identity. By threatening organizational identification, episodic change threatens the very basis on which it could be turned into a success.

A major arena for episodic change to occur are mergers and acquisitions (M&As), whose widespread financial failure has increasingly drawn scholarly attention to the 'people factors' of M&As (e.g. Cartwright and Cooper, 1993; Hogan and Overmyer-Day, 1994; Larsson and Lubatkin, 2001; Marks and Mirvis, 2001). Some clarifying remarks regarding our usage of the terms M&As are necessary before we return to our review. The difference between a merger and an acquisition is mainly a legal issue (Wöhe, 2000, cf. Worthington and Britton, 2003, for further distinction criteria of organizational mergers). In an acquisition ('fusion by integration') one or more companies are taken over by another company, and their assets are also transferred to the acquiring company. In a merger ('fusion by new launch') assets of two or more companies are all transferred to a newly launched company. In practice, however, due to the fact that there is always an acquiring and an acquired organization, there is (virtually) always a power differential between both parts of the organization that merge into one new organization. Thus, few would deny that so-called 'mergers of equals' exist but on paper, whereas, at least after the deal, it is evident that one partner inevitably turns out to be more influential in shaping the new organization than the other one. Similar reasons led Hogan and Overmyer-Day (1994) to treat mergers and acquisitions interchangeably in their influential chapter on the psychology of M&As. Without denying the potential value of teasing apart differential psychological effects in mergers and acquisitions (e.g. from a communication perspective), for the sake of simplicity, we join Hogan and Overmeyer-Day in not making this distinction here.

Interestingly, Marks (1997) mentions heightened self-interest as the first sign of the so-called 'merger syndrome', which is a catch-all phrase for the negative psychological consequences of M&As. Heightened self-interest surely is detrimental to organizational identification, as it implies a shift from social to personal identity salience. In part, this shift in identity salience can be explained by the circumstance that 'when people hear an announcement of a merger, they think "downsizing"' (Marks, 1997, p. 271). It is a truism that goals of the organization and of employees need not coincide. In fact, some mergers might not even be in the interest of the organization but are pursued on the basis of irrational motives on the part of executives (Levinson, 1970; Marks and Mirvis, 2001; see also Haunschild et al., 1994). We argue, however, that even if a merger were to bring goals of employees in tune with organizational goals (e.g. by the explicit recognition that jobs can only be kept by means of merging), organizational identification would be challenged. That is, an identity-based analysis suggests that what seems critical in M&As, is the tension between the needs for (radical) change and (relative) continuity. This tension seems to contribute to the 'merger syndrome'. Moreover, for this tension to arise, discontinuities need not be so severe as to imply termination of employment contracts. Since M&As have become a very common business practice throughout the world (Worthington and Britton, 2003), often enough dictated by the industry environment (but for a critical economic analysis see Collins, 2003), a pressing research question is how to resolve this tension, and to identify the antecedents and consequences of a sense of continuity. Different approaches have recently been used to address this question. In a laboratory study with mergers of ad-hoc groups, Van Knippenberg and Van Leeuwen (2001) manipulated continuity by varying the degree to which the pre-merger group was represented within the merged entity (for instance, in the condition of low representation, participants were told that the computer had randomly decided that their team should be dissolved and mixed with the other team). The results were unambiguous: the more the participants saw the merged group as a continuation of their pre-merger group, the closer was the association between their pre-merger identification and their identification post-merger. In field studies, the same researchers (Van Knippenberg and Van Leeuwen, 2001) gathered evidence that sense of continuity after a merger may be stronger, and therefore pre- and post-merger identification more closely associated, for those employees whose organization is more dominant in the merger process because it is larger, richer or otherwise more viable than the dominated organization. In a similar vein, Terry and her colleagues found that a superior status of an employee's pre-merger organization (e.g. in terms of prestige) is predictive of higher identification, affective commitment, and job satisfaction after the merger (Terry, 2003; Terry et al., 2001). Nonetheless, it is important to note that status and dominance should not be treated as equal. A small company with a high status can, for instance, be acquired by a more powerful (e.g. in terms of financial viability) but less prestigious company. Power differentials probably have the larger impact on (dis)continuity than status differentials because employees of the dominated organization often have to undergo major change (Van Knippenberg et al., 2002). Finally, in a third line of research, it has also been shown that for employees who strongly identify with a company before *and* after a merger (i.e. who do have a sense of continuity), job satisfaction and citizenship behaviour are comparably high, and turnover intentions and negative emotions relatively low (Van Dick et al., 2004).

In sum, these studies clearly point to the importance of a sense of continuity for merging organizations and reveal some of its determinants. It is less clear, though, if establishing continuity is in fact a zero-sum game to be played between the merger partners, as the dichotomy dominant vs. dominated organization seems to imply. Put differently, is the question of high or low organizational dominance really the most influential factor in determining the sense of continuity? When we assume that M&As involve large scale organizational change then power relations should also be assumed not as absolutely fixed and unchangeable but as flexible over time. George and Jones (2000) note that scholars typically neglect the full temporality of organizational behaviour:

> Researchers study some phenomenon and attempt to determine why it occurs; they might look to the past (as in reinforcement theory) to explain the phe-

> nomenon, or they might look to some conception of the future (as in goal setting theory) to understand why human actors undertake the activities they do and their consequences. . . . However, to grasp the essential nature of a phenomenon it is important to understand how its existence at any point in time is a reflection of both the past and the anticipation of the future as they come together at any single moment in time. (p. 660)

The current status of theory building would indeed imply a more process oriented approach, for sense of continuity has so far been construed to span only past and present. In this paper, our goal is to expand the construct *sense of continuity* by making explicit how the subjective experience of continuity after a merger is determined not only by the link between past and present, but also by the road map into the future. As will become clear, sense of continuity may *not* be a zero-sum issue (Van Leeuwen and Van Knippenberg, 2003).

The basis for our theoretical analysis is qualitative data from in-depth interviews with a key group of middle managers involved in a merger between two large industrial organizations that was in retrospect considered a full-blown failure.[1] Our main research question was broadly formulated, to allow for emergent theory building (Eisenhardt, 1989): Where do our interview partners perceive problems in the integration process and what role does organizational identification play in this context? In the following we will first introduce the case and our method. Then, we will provide a summary of 'hot spots' during the merger that might have undermined the merger's success. Finally, we will discuss the subjective accounts of what went wrong to generate a list of hypotheses to be addressed by future research on social identity processes during mergers and acquisitions.

THE CASE

The case presented here is a Germany-based, globally operating profit organization with more than 60,000 employees and a turnover of about 15 billion Euros. Twelve months before our interviews the merger transaction took place following a larger merger between the main shareholders of both companies. Prior to the merger, both companies had been operating in the same industry as competitors of approximately equal size. Company A had been led as a parent firm ('Stammhaus') with three large business segments, company B had been a holding company with twelve relatively independent units. According to a plan devised by external consultants, a new company structure was introduced in order to integrate the businesses and leverage possible synergies. This mainly entailed three big changes: (1) concentration on common core competencies of both merger partners, which were to be coordinated by a new hierarchy level – 'business divisions' (BDs), each responsible for a specialized product line and located between corporate level and business units (BUs); (2) mid-term divestiture of non-core businesses, coordinated by the corporate centre; (3) establishing 'service units' (SUs) as profit centres, separate from the business units which they belonged to prior to the merger.

Our case study was initiated by the CFO who wanted to learn about how the new company structure was perceived and to ascertain the difficulties and needs for improvement. The first and second authors of the present paper were commissioned to conduct semi-structured face-to-face interviews on the topic 'post-merger company structure and its effects'. Contents of the interviews were based on theoretical considerations. A probability sample of $N = 16$ top-managers (15 male, 1 female) out of a total of 50 managers identified as high potentials by an internal leadership development system was drawn to be interviewed. The managers were all in comparable positions, in nine cases leading an entire BU, in seven cases a SU. Nine managers were on the second organizational level (first representing the board), seven on the third level. Nine managers originally came from merger partner A, whereas seven came from organization B.

Because middle management is regarded as the key personnel to 'make the deal work' (Marks and Mirvis, 2001, p. 90), we opted for this sample and against a random sample out of the entire workforce. It is essentially the people we interviewed, i.e. managers on the second and third hierarchy level, who not only communicate the changes directly but also witness on-site reactions of the workforce.

Interviews and Method of Analysis

The interview guideline consisted of open-ended questions and brainstorming cues falling into four sections:

(1) *Feelings towards and acceptance of the new company structure.* Participants were encouraged to say 'anything that comes to your mind when you think about the new company structure'. Responses were further explored by focusing on emotional reactions, acceptance of the structure and strain associated with its implementation.
(2) *Hot spots.* The interviewers then provided an organizational chart displaying the new structure and asked the participants to mark the places where they thought that 'things did not run smoothly', more specifically, in terms of leadership, power, intergroup relations and communication between merger partners.
(3) *Organizational identification.* Firstly, participants were asked to describe how much they identified with different foci (company, business unit, work-team, and career) before and after the merger. Secondly, they had to estimate the strength of their subordinates' identifications with the different foci. In both cases we also used quantitative rating scales. However, given the small

sample size we will focus on the qualitative results in the present paper. Finally, we asked, on a more prescriptive level, which entities employees *should* ideally identify with so that merger integration would be successful.

(4) *Outlook*. In the last section of the interview, we asked participants to project the situation of the merged company 12 months into the future ('What do you expect and what would be the ideal development?') and to assess to what extent participants would be able to influence the development. Finally, we asked what participants would have done differently if they had been in charge of creating a new company structure.

The interviews (duration between 1 and 2 hours) were conducted in May/June 2001 at five different company locations dispersed across Western Germany. In the introduction, the purpose of the interview was explained to the participants. All interviews were voluntary and confidentiality was assured. Permission to tape-record the interview was asked for and in all but one case obtained. Most participants were pleased to be given the opportunity to voice their impressions and took more than the planned amount of time to answer our questions.

After multiple readings of the transcripts of the interview recordings, the first and second author sorted the responses into the four categories described above. In this analytic and comparative process focus was given to recurring themes and redundancies while maintaining records of whether the statements reflected a more general trend or a singular opinion. Unless indicated otherwise, everything we present in the following is bolstered by relative unanimity between respondents. For present purposes, we summarize the findings along our main research question as stated before, i.e. where and why structural (and procedural) changes were perceived to have an influence on different facets of identification. The findings we present were discussed and validated in three in-depth interviews with the leading company's change agent and triangulated with an inspection of 40 company newspapers that were published over 16 months either before during, or after the merger.

Findings

Structural and procedural uncertainty. In general, the structural changes after the merger of companies A and B were seen as modern and theoretically sound, but the implementation went 'much too fast' and resulted in widespread *uncertainty*, which was the term used most often in the list of positive and negative effects of restructuring. Prior to the merger, respondents from both merger partners said there had existed a strong organizational culture in their respective company which they had identified with. Working for company A or B, respectively, represented 'a value in itself'. As a result of the fast implementation of the new structure, substantial uncertainty set in and eroded organizational identification.

On the one hand, feelings of uncertainty reflected higher complexity in the communication system, fuelled by the impression that the changes were implemented with an ‘act of force’ rather than incrementally. ‘You simply don’t know anymore where to get vital information from. Instead, you have to look up new phone numbers and make several phone calls just to find that this is not the person you are looking for’, remarks one respondent in a characteristic way. ‘The new structure is unrivalled in terms of bureaucracy. I have to report my results to the Corporate Center as before, but also to the BDs, which consumes so much of the time I would need to talk to my subordinates.’

On the other hand, uncertainty was also described as a diffuse feeling of an unclear personal future – not only for those on the divestiture list. Respondents perceived the structure of the new company as resembling a matrix structure, which would make further spin-offs and sales of its constituent parts relatively easy. Moreover, rumours about plans of the main shareholder to sell the entire merged company led to resigned statements such as ‘considering that the whole enterprise might be very short-lived, I doubt if I should identify with this “construct” ’ or ‘what is problematic is when people don’t know what happens to them in two or three years: “Am I A? Am I B? Who am I anyway?” ’ In light of the uncertainty associated with the future of the company structure, spending extra efforts to make it work was viewed as worthless in the first place.

Notwithstanding the general decline of identification, one respondent reported that he was now identifying *more* with the company than before, because he found ‘a lot of familiar things regarding the structure and ways of thinking from company B’ in the new company. Furthermore, respondents presumed that identification may not have been eroded so much at the bottom end of the hierarchy, i.e. in the production facilities, where changes in the company structure have left the employees relatively unaffected: ‘Production workers still wear the same overalls – with the old logo – and do the same kind of work. It is rather people in cross-sectional functions, as in BUs and SUs who I observe getting less and less motivated to invest anything into the company because they’re simply frustrated.’

The most severe threats to their identities were indeed experienced by people in the SUs. They felt downgraded and left alone, as one respondent observed many times: ‘They say, once I was a member of A and I was proud of it, now, am I supposed to identify with the law division?’. Regarding the SUs, it was also pointed out that their transformation into profit centres bore the risk of creating a ‘two-class society: WE make profits for AB [=the post-merger organization] – THEY [the BUs] *cost*’. While everybody was still doing the same job, it had acquired a totally different meaning. Respondents clearly saw the downside of the fact that the services offered by the SUs were now precisely quantifiable and should be compared to offers by external service providers on the market. Likewise, the SUs were encouraged to sell their services outside, which put them into fierce economic competition they were not used to, but also, more importantly, fenced them off from the trust they had received from their colleagues in the BUs prior to the merger. The general trend of diminished identification with the company as a whole went along with respondents' stronger identification with their BUs/SUs or 'micro-entities', a term used by one respondent who saw that it might not even be the level of BUs that people identified with now. 'Everybody cares just for his own grounds, at most the people you work with everyday.'

Symbolic action from the top. As to subjective explanations for the shift from macro- to micro-identifications (apart from feelings of uncertainty that we covered above) respondents referred to *symbols* and *symbolic action from the top*. We filed under the rubric *symbols* what seemed to be 'neuralgic points' of pre-merger identities. Specifically, the composition of the board was perceived as unbalanced, such that members of company A were underrepresented compared with company B, and, more importantly, many board members appeared to the respondents as 'alien' because they originated from neither A nor B but the main shareholder company. As a result, middle management was unsure 'who is in the driver's seat'. Another symbolic aspect some of our participants mentioned was that the corporate name and logo were now according with only roughly half of the workforce's identifications. Company A's name was written in a new font, advertised as 'the new A', leaving out the other partner. On the other hand, the outsourcing of company A's bank, which was non-core business but had special emotional significance nonetheless (as manifested in collective pride: 'we had our own bank'), was seen as contributing to lower organizational identification for former members of A. Our participants moreover brought up some illustrative anecdotes, which we labelled *symbolic action from the top*. What had a strong impact on almost everybody's perception of the implementation of organizational change was the CEO's behaviour. For instance, his decision to hold a meeting in an extravagant castle stood in striking contrast to his calling on middle management to reduce costs. 'If I were him, I would have gone into a production plant for my meetings, to underline that I am serious', said one particularly outraged respondent. Like other members of the board, the CEO had no history in company A or B but came from the main shareholder company. The way he acted was perceived to enhance this distance even further; participants mentioned, for instance, that he was communicating mainly via faxes or the newspaper of AB and did not think of having our interview partners participate in fixing the results or goals aspired to.

On the more prescriptive question of where identification should be directed to, responses reflected mixed emotions. Although in the course of the merger some cultural anchors of one's pre-merger organization had suddenly vanished (such as the company bank that was now declared non-core business) and naturally produced feelings of emotional loss, our respondents found it important and necessary to move on. It was, for instance, regarded as a lack of flexibility when 'people

Table I. At a glance: themes identified in the qualitative analysis

Themes	*Uncertainty*	*Symbols and symbolic action from the top*
Examples	Implementation too fast, 'act of force'	Composition of company board
	Higher complexity in communication system	Logo/name of company
	Unclear personal future	CEO behaviour
	Unclear company future/identity	Non-participative decision-making

I know cannot free themselves from the past, however homely it was'. One respondent remarked: 'For professionals, it basically makes no difference for whom they are working, as long as it is something serious, for instance Volkswagen or BMW, but not KIA.' However, more than 12 months after the transaction, the new image of the merged company was not yet discernible. In the midst of diverse 'pressures to produce results' (also referred to as 'management by threat'), a clear vision was lacking. Along these lines, we inferred from the fact that our participants rarely, if ever, used names but spoke impersonally about 'pressures from corporate' and 'faxes landing on my desk', that top leaders were weak. Unless a 'big bang would occur leading us out of this uncertainty', it was conjectured that people would be increasingly worried about their own career and 'seriously examine offers by other companies'. Similar to turnover intentions, which our participants denied having themselves but asserted that colleagues often talked about, they projected egotistic behaviours onto their colleagues, for instance, withholding information and spending less time on informal talks.

In concluding our summary of findings pertinent to the present research question, we report some of the suggestions that our participants made with regard to how *they* would have implemented the changes. Representative of the turnout of this brainstorming is the following verbatim statement: 'During the implementation of the new structure it felt like one was trying to shorten a pregnancy from nine to two months. Of course we are unsatisfied with the result, but now it is too late.' Accordingly, most respondents would have given 'the baby' more time to develop, i.e. opted for an incremental implementation. Moreover, they said they would have tried to obtain sufficient buy-in from more than just the 'tip of iceberg', indicating that the group of managers we interviewed had felt ignored or left out during merger planning and implementation. 'There were no attempts to have middle management participate in plotting the course – zero.' We summarized the main findings in Table I.

DISCUSSION

We have demonstrated in this case that the absence of continuity as perceived by the managers had a negative impact on their post-merger identification. The results of this qualitative examination echo and triangulate previous findings from experimental and survey research that a sense of continuity is the key to post-merger identification (Van Knippenberg and Van Leeuwen, 2001). This became evident in our participants' mentioning of several symbolic threats to the pre-merger identities (see Table I). For instance, the company board seems to be a main arena for one organization to dominate the other and thus bereave its members of the grounds on which to identify. Consequently, organizational identification diminished considerably, adding to the general trend for identification to be stronger at the work-group level (e.g. Riketta and Van Dick, forthcoming; Van Knippenberg and Van Schie, 2000) compared to more inclusive identities, as conjectured by Rousseau (1998) in case of mergers. Even worse, comments such as 'everybody cares just for his own grounds' suggest that in some cases there was nothing social about the employees' identifications anymore after the merger. Mael and Ashforth (2001) speculate that despite increasingly disruptive changes in the landscape of global industries individuals will not entirely forsake the workplace as an object of identification. In fact we saw that members of the merged company we studied still identified with parts of the conglomerate. It seems unlikely, however, that 'micro-identifications' alone would be enough to turn large-scale organizational changes into successes, as research on 'us versus them' – orientations jeopardizing merger success has demonstrated (Gaertner et al., 2001). It is noteworthy that in our case categorizations along the pre-merger entities were not perceived to be as salient and detrimental to superordinate identification as the separation between operations and services. The step of transforming service functions into profit centres, while intended to have a stimulating effect through internal competition, seems to have backfired, as we have described above. Apart from the specific content of categories, however, our findings are in good accordance with previous research on the crucial points that self-defining categories tend to become less inclusive after a merger – far below the desirable level of the merged entity – and that a lacking sense of continuity seems to be responsible for this (Van Knippenberg and Van Leeuwen, 2001; Van Leeuwen and Van Knippenberg, 2003).

Nevertheless, our results also suggest that a sense of continuity is not only contingent on the extent to which important characteristics of the pre-merger companies continue to exist after the merger. Above and beyond a lack of continuity from past to present, our participants pointed out that a missing link between present and future, as manifested in feelings of uncertainty, makes identification with the post-merger organization as a whole impossible. Feelings of uncertainty can doubtlessly be observed in the wake of almost every merger (for recent examples see Brown and Humphreys, 2003; Vaara, 2003). In our case, the lacuna between present and future was in part due to rumours that the main shareholder would sell the whole company at some point in the near future, but it was also evident that it resulted from AB executives simply spurning the expertise of middle management and presenting them with a fait accompli. We propose that uncertainty can be related to lower organizational identification for two reasons: (a) the threat of losing one's job makes one's personal identity more salient; (b) the missing clarity of the future of the organization as a whole amounts to a frustration of the needs for affiliation and belongingness (see Haslam et al., 2000, for a discussion of the relations between organizational identification and different need concepts).

Introducing the Distinction between Observable and Projected Continuity

These findings suggest that theory building and merger practice take into account *projected continuity*, as might be dubbed the subjective belief that the relationship between path and goal is clear and controllable. Projected continuity answers the questions of where are *we* going to and what can *we* do to make it happen as opposed to rather self-centred questions that typically arise after a merger, such as where am *I* going to (and wouldn't I be better off at some other company?). At first glance, projected continuity may bear some resemblance to the notion of a shared vision as it is endorsed by popular management authors (e.g. Senge, 1990). A distinction is warranted though by the fact that a shared vision can exist without being specific about the steps necessary to attain it in day-to-day action. A vision might even project *dis*continuity if it is associated with complete and radical change. Therefore, a vision would only contribute to continuity if well created by organizational leaders, e.g. by communicating a *collective* vision (Van Knippenberg and Hogg, 2003). A sense of projected continuity would arise if the *process* leading to a well-defined goal is sufficiently clear and accepted by managers. Coming back to the arguments put forward in the introduction, we assume that projected continuity is a determinant of organizational identification and is as such as important as *observable continuity* as it has been addressed by previous studies (e.g. Van Knippenberg et al., 2002). If neither projected nor observable continuity is given, *deep structure identification* would appear to be very difficult to maintain or achieve. But, according to Rousseau (1998) it is this deep structure identification that is crucial for the success of organizational change processes because it increases the worker's acceptance of that change. We have summarized our line of reasoning in Figure 1. This figure visualizes that we conceptualize deep structure identification as a result of the interplay of pre- and post-merger identity with the types of continuity over time.

We propose that the distinction between observable and projected continuity is also advantageous in that it offers a theoretical guideline for empirical research into how to make mergers and acquisitions more successful. Assuming that often the *observable* part of continuity is relatively low, at least for members of the organization which is non-dominant in shaping the new entity, *projected* continuity may be powerful enough to offset the negative effects of mergers on organizational

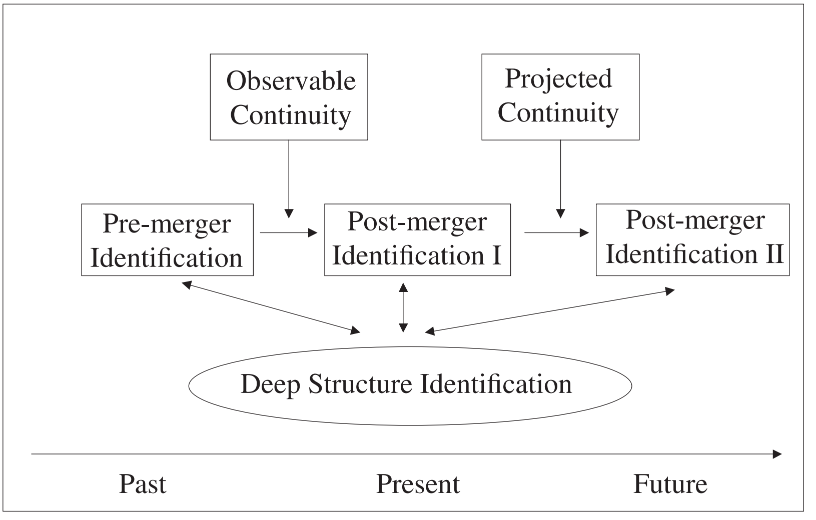

Figure 1. Pre- and post-merger identity and types of continuity

identification. With this proposition we are challenging the widely held views that (a) destabilization is a given, which implies that (b) integration has to proceed quickly (e.g. Picot, 2002; or Daniels, 1999, arguing that 'the human brain absorbs information best when it is produced at rapid fire', p. 26). Instead, in our case the speed with which changes were implemented was seen critically for it was adding to feelings of uncertainty. It is possible that high speed integration is not a 'best practice' because the premise is wrong, i.e. mergers do not necessarily produce instability, uncertainty and lower organizational identification.

The distinction between observable and projected continuity also implies a more realistic view of the ability of employees to adjust to innovation. That is to say, if a merger brings about a new business strategy, introduces new clustering of activities or reorganizes communication channels, this may not all be so bad, as long as people can expect some stability after the change and are enabled to foresee exactly what is going to happen. What we observed in the case presented here was that the last part of the classic sequence of organizational change following Lewin (1951) was missing – unfreezing and change were not followed by appropriate refreezing – hence the future was 'left in the air'. Stated as such, the problem looks familiar from the perspective of motivational theories of goal-setting postulating that moderately difficult and specific goals (Locke and Latham, 1990) or participation in group goal-setting (PGGS; Wegge, 2000) lead to improved goal-commitment and performance. Mission statements such as 'We want to become the No.1 in our industry' (as a slight variant of the mission statement of our case) might be visionary, but they hardly represent a specific goal and are rarely formulated with participation from middle management. Possibly it is precisely for this reason that such statements are not specific. To define a specific goal, expert knowledge of the individuals involved in the goal-setting procedures is needed. That is why it might be a viable approach to incorporate elements of participative group-goal-setting (Wegge, 2000; Wegge and Haslam, 2003) into the transition phase from pre-merger to post-merger to allow for a projection of continuity.[2] Incidentally, that was essentially Lewin's suggestion:

> This seems to be, at least in part, the explanation for the otherwise paradoxical fact that a process like decision [making] which takes only a few minutes is able to affect conduct for many months to come. The decision links motivation to action and, at the same time, seems to have a 'freezing' effect which is partly due to the individual's tendency to 'stick to his decision' and partly to the 'commitment to a group'. (Lewin, 1951, p. 233)

It is therefore hypothesized that to the extent that managers are enabled to project continuity from the beginning of merger integration to a well-defined goal, they are better prepared to sustain deep structure identification with the organization – given a minimum amount of observable continuity. Projected continuity (as, for example, produced by PGGS) may then prevent uncertainty – one of the two themes that emerged in our analysis of possible causes why organizational identification decreased.

Likewise, the other theme that emerged, *symbols* and *symbolic action from the top*, should be related to projected continuity, but only partially so: some of the symbolic threats brought up by our interview partners clearly referred to observable continuity, for instance, selling the emotionally valued company bank. Given the overall strategy, this may have been unavoidable. Yet, other elements of this theme seem to be of particular relevance to projected continuity, which are essentially those that are tied to the leadership issues mentioned above. While it is generally acknowledged that mergers require 'strong' leadership (cf. Picot, 2002), the search for an appropriate CEO leading the change often boils down to finding somebody with a compelling track record of successes elsewhere. In our case, too, this resulted in the CEO's having no connection to either pre-merger company. However, the social identity approach to organizational behaviour suggests that the effectiveness of leadership hinges on the ability to appeal to a shared identity, which depends, among other things, on the relative prototypicality of the leader (cf. Haslam, 2001, pp. 65–85). Van Knippenberg and Hogg (2003) analyse the role of leaders as agents of organizational change in far more detail than can be done here and they also suggest a social identity approach to the understanding of effective leadership (see also Hogg and Van Knippenberg, 2003). They argue that leaders promote change more effectively if they not only act *as leaders* of the group (or organization) but if they act as *members of the group* and speak as such to the followers. In other words, the social identity approach puts the leader right into the centre of the group of followers. Everything that adds to the distance between the prototype of the group of followers and the actual leader behaviour would subtract from leader effectiveness. A recent business simulation (Duck and Fielding, 2003) nicely illustrates this proposition. In this research, leaders were selected to represent a company consisting of two work-groups. Most important in the present context, participants identified with the company more strongly and evaluated their leader more positively if she was chosen from their own work-group. In order for other leaders to gain support and engender identification with the company, they had to actively align their behaviour with the other work-group by openly favouring its members in their decisions. Returning to our case company, we note that not only did the CEO of AB begin his job with an already striking distance to the other members of AB – recall his origin – but he did nothing to reduce it, in fact he further increased the distance by holding his meetings in an extravagant castle. Within our framework of sense of continuity, it can be argued that to the extent that the leader is not 'one of us' (observable continuity), organizational identification in the sense of deep structure identification will be diminished, but the more that the leader tries to become 'one of us' (projected continuity) acting as an 'entrepreneur of identity' (Reicher and Hopkins, 1996) he will be able to sustain organizational identification among his followers. In fact, what Reicher and Hopkins (2001) repeatedly stress is that identities are as much about becoming as about being. In their account of the rhetoric of political leaders, the subtleties of actively defining the categories upon which identities are based lie at the heart of leadership effectiveness: 'These definitions are not only perceptions of the present, but also attempts to make the future. The success of one definition over others does not so much depend upon the extent to which it accurately represents the present but in the extent to which it is successful in ordering the future' (p. 48). There is nothing to suggest that leadership in organizations is different in that respect from political leadership. The CEO of the company we studied was not the one who could have defined the common category of the company members in terms of the present, but he could have sought to align his own behaviour with the portrait of the company's future implicit, for example, in corporate centre's demanding of managers to cut costs.

Conclusion and Directions for Future Research

To conclude, we think the case study presented here further substantiates the viability of the social identity approach in organizational settings. Besides, we think our exploratory research rationale has allowed us to make important theoretical advances in that it helped make explicit the temporal dimension of central social identity constructs in the context of mergers and acquisitions. While we are not the first to point out a neglect of the role of time by the social identity approach (see, for instance, Condor, 1996), a unique contribution of this paper is to build process oriented theory geared towards mergers and acquisitions. Several suggestions for future research flow from this theory building. First, we suggest that mergers and acquisitions *per se* may not corrode organizational identification, even though the continuity from past to present (observable continuity) may be reduced to a minimum. We further suggest that refocusing research on the continuity from present to future (projected continuity) is likely to enhance our understanding of identification losses during mergers and acquisitions. The effects of observable and projected continuity on deep structure identification are assumed to combine in a mutually reinforcing way. In order to test this main hypothesis emerging from our exploratory study, future research should employ quantitative designs and longitudinal ones in particular, with items tapping into the perceptions both of what stays the same to what extent and how clearly the organizational future is laid down after a merger. More specifically, as regards observable continuity, an employee survey may address how invariant are tasks, customers, or management (what Stone, 2001, calls 'substantial' continuity), complemented by an assessment of relevant social identities (e.g. drawing on the diagnostic stage of the ASPIRe model of organizational planning, see Eggins et al., 2003). Regarding projected continuity, a first step would be to ascertain a number of important organizational goals, both in terms of identity and performance. Then, a survey could follow up on how clearly these goals translate into concrete action and make sense to employees. Our analyses point to two factors that should be particularly amenable to projecting continuity. First, participation of middle management in decisions affecting the company's future can be proposed as a highly relevant variable to be addressed by research on mergers. Second, we propose that future research should focus on leaders' roles as change agents. If top managers would act as *members* of the post-merger organization, that is, based on an understanding of the evolving prototype of the merger identity, they may serve as the glue that sticks the two pre-merger organizations together. If they would act as *agents of continuity* (Van Knippenberg and Hogg, 2003) this would have enormous positive effects on employees' attitudes and help to overcome resistance to change. This, however, has to be tested in both quantitative studies as outlined above but also in in-depth qualitative investigations like observational and interview studies of CEO and top managers' behaviour.

NOTES

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[1] Because of confidentiality reasons we cannot provide references or exact figures here, but the merger was indeed considered as a financial fiasco in the media as well as in our communications with the organization's change agent.

[2] It should be noted that goal-setting is not the only way of projecting continuity. Specific, concrete goals can help to reduce feelings of uncertainty and therefore contribute to a more positive overall evaluation of the merger. As discussed earlier in this article, however, abstract visions, creating a collective identity are also powerful instruments to achieve projected continuity.

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