

Identity construction processes

A longitudinal study of a German merger in Mexico

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Abstract

In mergers and acquisitions research much attention has been paid to socio-cultural integration processes. However, little interest has been paid to understanding how employees' perceptions of the socio-cultural integration processes over time may influence intergroup dynamics and post-merger identification. To address this research gap, we studied a merger of subsidiaries of two European pharmaceutical companies in Mexico at two points of time: at the beginning of the integration process (time 1; t1) and in the later stage, 36 months later (time 2; t2). Our findings make an important contribution to understanding how these perceptions may impact development of a shared, post-merger identity. We demonstrate that a shared identity unfolds overtime via interplay of the perceptions of three processes – 1) change; 2) dynamics of boundary permeability; 3) issues of power and legitimacy. We conclude the paper with a model specifying three distinct stages of identity construction depending on, a changing over time, identity salience.

Introduction

Crucial to the success of mergers and acquisitions (M&As) is the quality of the socio-cultural integration process. Scholars adopting the social identity approach in M&As argue that this process will influence how identity of the post-merger organization evolves over time (1,2). Indeed, research has demonstrated that a successful development of a shared identity is positively related to outcomes such as the intention to remain in the organization, job satisfaction, motivation, and cooperative behaviors (3).

Despite the attention paid to socio-cultural integration processes, how employees' changing perceptions of the socio-cultural integration influence emerging identities remains underexplored (4). In this paper, we will investigate how emerging identities unfold over time by addressing the following three research questions:

1. How and in what ways employees' changing over time perceptions of the socio-cultural integration impact post-merger identification and intergroup dynamics?
2. What are the patterns of change in postmerger identification among employees throughout a merger process?
3. What are the patterns of change in intergroup dynamics in terms of a degree of conflict or harmony?

We investigated the research questions in a merger of two European pharmaceutical companies in Mexico in two points of time: at the beginning of the integration process (time 1; t1) and in the later stage, 36 months later (time 2; t2). Our findings help explain under which

conditions intergroup conflict in M&As might further allow a progress towards a new, shared identity. More specifically, our analyses suggest that an intergroup conflict might be a *normal* stage in the socio-cultural integration and contrarily to past M&A literature (e.g. 5) such an intergroup conflict does not impede future M&As successes. Finally, our findings contribute to the Social Identity Theory (SIT) by exploring a temporal dimension of social identity and self-categorization processes in circumstances of change. As such, we itinerate three distinct stages of identity construction depending on a changing over time identity salience.

Social identity approach to M&As

We utilized social identity theory (SIT; 6) and self-categorization theory (7) as analytical framework. According to these theories, individuals define themselves in terms of a particular social category to maintain and enhance their self-esteem. People identify, for instance, with their organization, or team or department within their organization. In the context of organizational mergers, two groups are integrated and the challenge is that the previously separate (and often competing) organizations need to be seen as one new category by the employees in order to identify with the post-merger organization, i.e. that the two merger partners are able to develop a shared identity.

However, how identities emerge over time remains under explored. Especially, conditions under which intergroup conflict might further allow a progress towards a shared identity have not been addressed by past research. Thus, in this paper we focus on perceptions of employees from two pre-merger groups over time. Longitudinal investigations on M&As are very scarce and they are focused on organizational identity that emerged among members of pre-merger groups. For example, a qualitative study of an organizational merger, Chreim (7) demonstrated a gradually decreasing intergroup conflict with a more convergence on post-merger identity over time. Indeed, Clark et al. (1) uncovered emergence of a transitional identity in terms of an interim sense held by employees on what their pre-merger organizations are becoming. This transitional identity allowed developing a common understanding of what the post-merger organization is becoming. In the same vein, Gleibs, Mummendey and Noack (9) in a quantitative on a study university merger found a decreased impact of pre-merger identification on the post-merger one.

Summing up, past longitudinal studies provide some evidence that over time employees might become more eager to give up their pre-merger membership and re-identify with their post-merger organization. To further advance our understanding of M&As, we will study a pharmaceutical merger in Mexico help understanding under which conditions intergroup conflict might further allow a progress towards a shared, post-merger identity.

Methodology

We had the opportunity to investigate the process of socio-cultural integration over time starting in the pre-merger phase (May 2007) and completed in the post-merger one (June 2010). Our study looks specifically at the merger of the Mexican subsidiaries of BAG Global and SAG Global. Indeed, BAG offer came as a white knight rescue from a prior hostile takeover attempt. Both SAG and BAG were considered to be market leaders in Mexico. This merger reflected a common trend in the pharmaceutical industry: small, specialized research-oriented company (SAG) is acquired by a large corporation (BAG). The merger was officially proclaimed, by the Global HQs, to be based on a “best of both” principle. In consequence, SAG (246 employees)

was absorbed by BAGMexico HQs (support services, 272 employees) and merged on “equal” bases with BAGPharma (747 employees). Also, ex-SAG Regional HQs responsible for Latin American and Canada¹ became part of BAGMexico HQs.

In this paper, we base our analysis on informants from the two main sub-groups (BAGPharma, SAG; including Regional HQs) and top executives at BAGMexico HQs who played a key role in the integration. The interview guide consisted of semi-structured questions focused on themes discussed in the theoretical section i.e. post-merger identification, intergroup dynamics, continuity (change), power and autonomy, boundary permeability and legitimacy of the socio-cultural integration. In May 2007, we conducted 8 pilot phone interviews with top management from both pre-groups to get insights into the integration. Then, in January 2008, 30 semi-structured, face-to-face interviews were conducted in Mexico based on stratified sampling to get a diversified overview of what was going on (10). In order to validate our t1 analysis, we conducted two phone interviews with key players: two semi-structured discussions were conducted in May 2009 (around 40 minutes each). Finally, in June 2010 (t2), 13 semi-structured, face-to-face interviews were conducted; 11 of these interviews were conducted with the same persons as in 2008; 17 interviewees of t1 left the company. Besides interviews we conducted many informal discussions with the employees in t1 and t2, which were also subsequently coded. For a coding scheme of the interviews t1 and t2, please see table 1

Findings

We found that a shared, emerging identity in the post-merger organization may be constructed throughout three stages depending on identity salience.

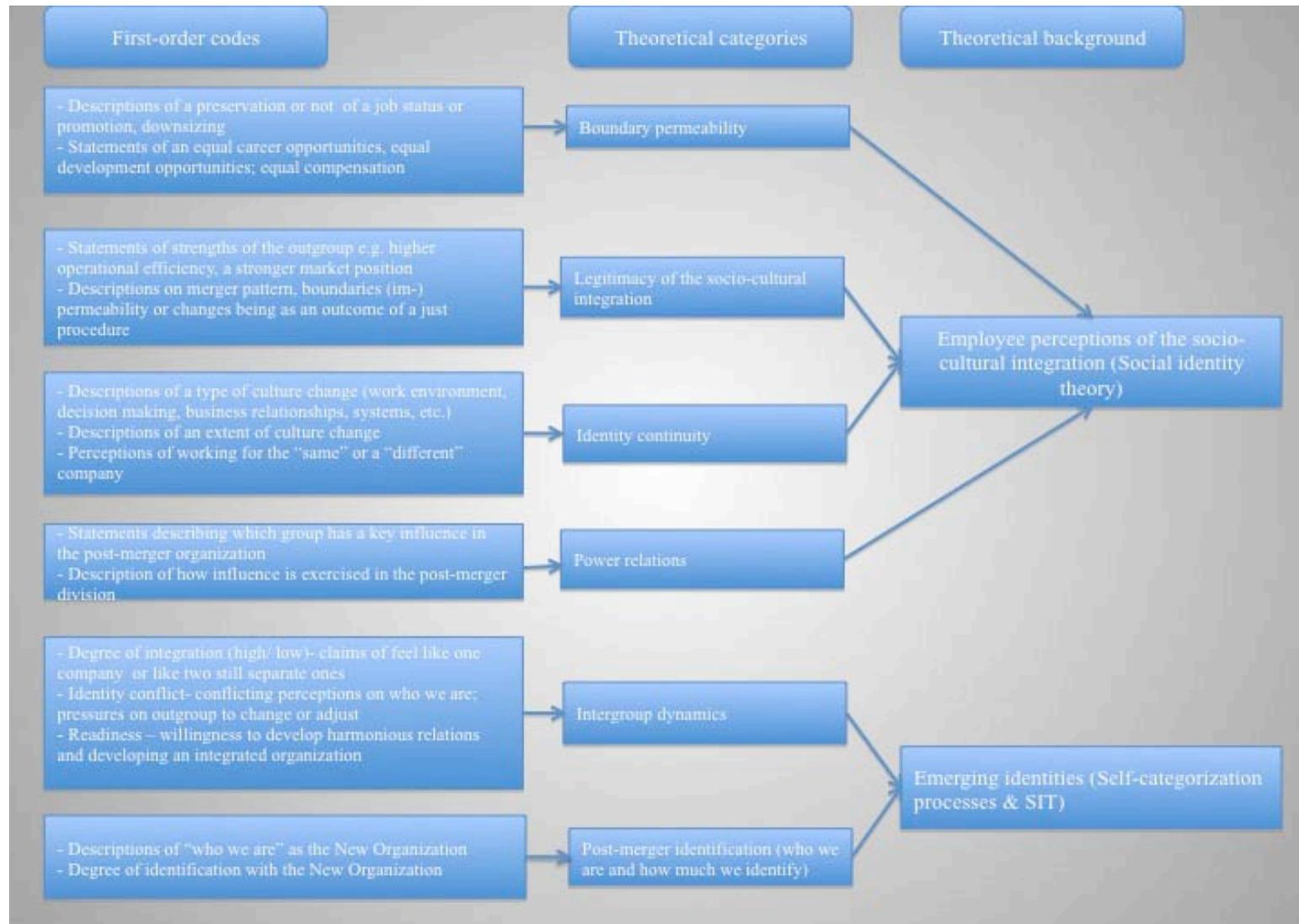
Early stage. Pre-merger identity salience

At the early stage of integration, intergroup conflict was evident as pre-merger identities were salient in terms of “we versus they” attitudes: “who we are” was defined in a comparison to “who they are”: 1) Is BAGSAG Female Medicine (exSAG) or general medicine (exBAGPharma) driven? 2) What is the key success indicator: profit (ex-SAG) or volume of sales (ex-BAGPharma)? This resulted in attempts to ensure ingroup favoring differentiation through attempts to demonstrate ingroup superiority and pressures on outgroup members to change.

Despite an intergroup conflict, interviewees from BAG and SAG demonstrated a high identification with a post-merger division perceived as a market leader with an outstanding research and development. This early post-merger identification was based on employees’ common interests especially with regard to potential threats coming from the market (what Rousseau, 1998, calls ‘situated identification’). In other words, we suggest that conflict does not impede post-merger identification in circumstances of perceptions of legitimacy of socio-cultural integration (*we are good at x... and they are good at y...*). Otherwise, intergroup tensions could be further reinforced (intractable identity conflict; 10) as for example in hostile takeovers.

¹ Before the merger the Mexican operations of BAGPharma reported directly to the Global HQs and of SAG reported to the Regional HQs (Mexico City based).

TABLE I. Coding scheme of the interviews t1 and t2



Advanced stage. Post-merger identity salience

At the advanced stage of integration (t2), pre-merger groups initially in conflict (t1) had gradually reached harmony wherein pre-merger identities were no longer in competition (secured; c.f. 11). Instead, employees at BAGSAGPharma focused on threats coming from external enemies: HQs (Mexican, Regional, Global) and a competitive market. Also importantly, superordinate category emerged based on ex-SAG and ex-BAG expertise but at the same time, it was not directly related to both pre-merger groups (t2) wherein the new, high status unit led to a downgrade of the status of key business units of ex-SAG (WHC) and ex-BAGPharma (FM). At the same time, interviewees demonstrated a high identification with the post-merger division success of which would not be possible by ex-BAGPharma or ex-SAG alone (dual identity strength; 11).

Final stage. Achieving of the “optimal distinctiveness”

At the time of the interviews, BAGSAGPharma has still not achieved the “optimal distinctiveness” because ingroup favoring comparisons with other subsidiaries and HQs) were salient. Moreover, ex-SAG and ex-BAGPharma interviewees demonstrated fragmented perceptions on whether BAGSAGPharma is an independent, autonomous organization (ex-SAGs’ claims) or rather a division of a larger group (ex-BAGs’ claims). Consequently, we argue that development of a deep-structure identification wherein the post-merger identity becomes incorporated in the personal identities than just employees having common interests with the organization (i.e. situated identity, 12) was not possible at the point of the study.

Summing up, our results help uncover stages of identity construction: how emerging identities evolve over time depends on the existing outgroup salience. Though in the early phase, pre-merger identities are salient, we suggest they might become latent at the advanced stage of the socio-cultural integration wherein employees focus on a differentiation from the “negative other” outside of the post-merger organization. At the final stage, we argue that M&A success requires the post-merger organization to achieve optimal distinctiveness, which in fact, might be challenging and time intensive in case of a nested organization (13): *how and in what ways are we, a post-merger organization distinctive from the HQs (Local, Regional, Global) and from other subsidiaries?*

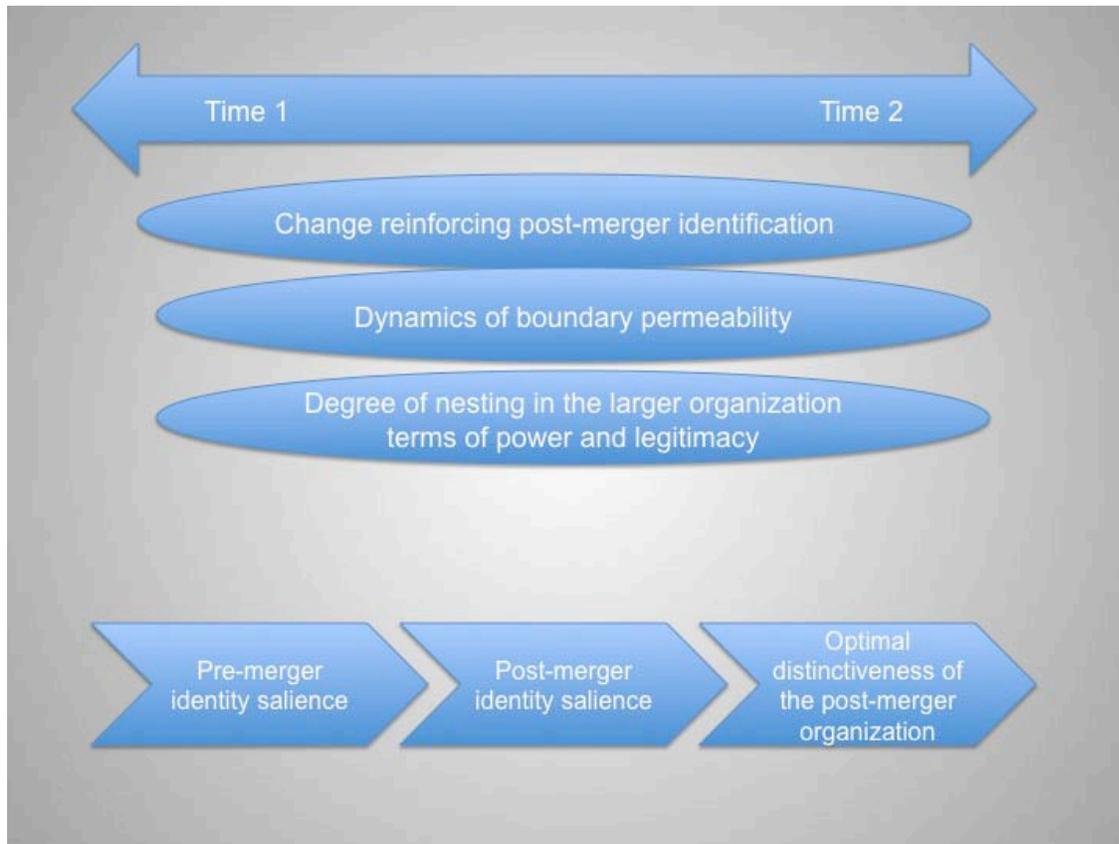
Moreover, our findings make an important contribution to understanding under which conditions intergroup conflict might further allow a progress towards a new, shared identity. We found that a shared, emerging identity in the post-merger organization unfold overtime via interplay of three non-sequential processes – 1) change reinforcing post-merger identification; 2) dynamics of boundary permeability; 3) changing degree of nesting in a larger organization (HQs). For the integrative model of the identity construction in the socio-cultural integration see figure 1.

Identity continuity: change reinforcing post-merger identification.

In the Mexican case, in t1 the interviewees demonstrated strong commitment to build a future post-merger organization wherein harmony and strong identification prevail based on new, shared ways of doing business. Along the integration, an open culture of BAGSAGPharma emerged and business processes were reinvented (e.g. SAP). In the final stage of our investigations, radical changes reinforced this post-merger identification by allowing employees to experience “New BAGSAGPharma” which was no longer exBAGPharma (General Medicine)

nor exSAG (Female Medicine) but a specialized pharmaceutical corporation targeting institutional clients. Employees at New BAGSAGPharma were merger survivors who shared consequences of negative (e.g. downsizing) and positive events (social events, t2).

FIGURE I. Integrative model of identity construction in the socio-cultural integration



Based on our analysis, we suggest that changes perceived as reinforcing early constructed post-merger identification (t1) and establishing new, shared ways after the merger contribute to intergroup harmony and a strengthened post-merger identification (t2). This echoes theoretical argumentation of Rousseau (12) suggesting that organizational changes that reinforce identification will be more readily accepted than those challenging it. As such a gradual emergence of a transitional identity in terms of employees' interim sense on what their pre-merger organizations are becoming (1) in terms of new distinctive features (11) might be more important than encouraging pre-merger identity continuity (e.g. 14).

Boundary permeability: dynamic perspective throughout time.

In the Mexican case, in t1 the interviewees experienced high boundary permeability (t1). Along the integration, identity of the post-merger division has been reinforced and employees rejecting the post-merger reality left voluntarily or compulsorily. Overall, 32% of ex-BAGPharma, 41% of ex-SAG employees left BAGSAGPharma within 36 months (May 2007- 2010) and, 35% of new hired employees joined the organization including new top executives. In t2, boundaries unfroze wherein employees were re-shuffled and 20% positions from both ex-BAGPharma and ex-SAG were eliminated. Though substantial downsizing (t2) was difficult to the “merger

survivors” they claimed being “one”, integrated organization. In the final stage, recently set boundaries re-froze by becoming definitely impermeable for employees rejecting the identity of the post-merger organization.

Based on our analysis, we suggest that high boundary permeability at the early stage of integration, follow up by re-shuffling of the employees in the mid-term, and at the final stage “freezing” of boundaries becoming impermeable can contribute to intergroup harmony and a strengthened post-merger identification (T2).

Nested organizations: power and legitimacy

In t1, based on the guidelines received from the Global HQs, Mexican executives implemented the integration. BAGPharma and SAG become integrated through principles (e.g. “merger of equal”) and values (e.g. STAR) from the Global HQs. In Mexico, members of the pre-merger groups did not agree on the perceived mode of integration wherein outgroup was considered to dominate based on different comparison points. By T2, “New BAGSAGPharma” was built on guidelines set by the Global HQs and implemented by the Regional HQs. In the result, interviews suggest that exBAGPharma and exSAG employees focused on figuring out how they as “New BAGSAGPharma” are distinctive from the HQs and other BAG subsidiaries in Latin America by engaging in ingroup favoring comparisons.

Overall, our analysis addresses an important and under explored issue of identity construction in the context of corporations nested within supra-organizational structures (Gioia et al. 2010). Specifically, our findings suggest that construction of a shared identity might take less time and involve less contestation because the post-merger organization might be able to draw some elements of identity of the parent organization (“merger of equal” and “STAR” values). However, in such mergers, achieving a state of an “optimal distinctiveness” of the post-merger organization i.e. sufficiently similar, but different enough (15), might instead take longer because its members need to work more intensively to figure out how they are different from the larger organization.

Conclusions

Our qualitative, longitudinal research methodology allowed getting insights into socio-cultural integration processes as they unfold over time, which is a reflection of social experiences (16).

Our findings make an important contribution to understanding under which conditions intergroup conflict might further allow a progress towards a new, shared identity. Our analysis confirms that a high post-merger identification and a concurrent identity conflict between two pre-merger groups can co-exist in the early stage of the integration (t1; “we versus they”; Projection Model; 17). Indeed, we suggest that intergroup conflict might be a *normal* stage in the socio-cultural integration and contrarily to past M&A literature (e.g. 5) such an intergroup conflict does not impede future M&As successes. Finally, our findings suggest that emerging identities in the post-merger organization do not unfold through deterministic, invariant stages but they are dynamic depending on identity salience and subsequent differentiation efforts.

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