

**Is “Culture Clash” in a Merger or Acquisition Well Modeled as a Managerial
Prisoner’s Dilemma?**

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ABSTRACT

Why “Culture Clash” Given as a Reason for a Merger’s or Acquisition’s Failure May be a Managerial Prisoner’s Dilemma

Many mergers and acquisitions have proven successful due to their additional shareholder value creation, combined synergies in the research and development arena or improved consumer marketing of related products. This paper seeks to explain a primary cause of less successful mergers or acquisitions (M/A) through the prism of a multi-scale, iterative, Prisoner’s Dilemma taking place between department managers. The paper first presents the theory of the firm and its attempts to explain why companies merge and the sources of their subsequent success or failure brought on by M/A activity. Aspects of “Coping Theory,” “Resource (conservation) Theory,” and “Social Comparison Theory” are then used to analyze the experience of employees charged with making the merger or acquisition a success. Lastly the paper discusses elements of cooperation within the context of ethnicity as it relates to M/A activity.

With the recent announcement of mergers by Proctor and Gamble, Sears and K-Mart merging and Sprint and Nextel, pundits and Wall Street analysts try to predict whether they will be successful or not. This is appropriate considering the majority of mergers fail to deliver the promised results or to increase shareholder wealth. The track record of American industry engaging in “mergers” is abysmal at best. This becomes especially troublesome when considering the magnitude of these efforts on the ripple effect on the whole of corporate America. Excluding the multi-billion dollar “deals” above, Mergerstat.com reports that between January and December of 2003, there have been 2,833 mergers and acquisitions worth over \$130 Billion, broken down by some industries as follows:

Banking - 245 deals worth over \$70 Billion
Healthcare - 494 deals worth over \$40 Billion
Telecommunications - 304 deals worth over \$13 Billion

Many of these mergers or acquisitions will result in failure as measured by pre-merger pro-forma performance, employee turnover, executive displacement, stock price or pre/post merger product-market-share penetration. In reviewing the history of all M/A ventures, roughly half have failed to deliver lasting shareholder value. A.T Kearney tracked mergers over the last 10 years, and found that the after merger stock performance two years after the merger agreements were finalized, nearly 50 percent of the largest mergers and acquisitions had lower total shareholder returns than their industry peers (Lebedow, 1999). “Only 30 percent outperformed their industry peers (by 15 percent or more) and had earned a penny more in profitability two years later. After five years, 70 percent of the survivors were still chronic under performers in their industries.” (Perry and Herd, 2004; 13) “Studies by academics, consulting firms, and the business press

confirm that mergers are just as likely to destroy value as to create shareholder value...roughly half of all mergers fail to create value.” (De Camara and Renjen, 2004; 10) Some of the errors leading to failure are strategic, economic or operational. However, a frequently cited, potent foe of all mergers and acquisitions is the co-mingling of cultures. Major contributors to M/A failure are said to include improper strategy management, culture differences, delays in communication, and lack of clear vision (Nguyen and Kleiner, 2003.). The co-mingling of cultures, known as “culture clash” is recognized as having a major impact on stress, attitudes, behavior and turnover within a M/A endeavor. (Weber and Mennipaz, 2003.).

I will present a theoretical foundation of prior research knowledge leading to several propositions which, if occurring on an organization wide scale, could explain the phenomena commonly called “culture clash” during a merger or acquisition activity. My research questions are:

1. Do department managers (faced with stress, coping issues and uncertainty in their professional careers) who are engaged in “information-sharing” between merging or acquirer-acquired organizations, cooperate fully and equally during all stages of the M/A transaction, or is their cooperation a function of the stress they experience in different stages of the merger integration?
2. Faced with uncertainty in his/her professional career, does a competitive-oriented department manager (of one organization) take cooperate/defect actions toward the same-level, department manager (of the other organization)? Additionally,

- does a cooperative-oriented department manager, faced with the same uncertainty, take cooperate/defect actions toward the same-level, department manager?
3. Does ethnicity of a manager factor in the choices to cooperate or to defect in relationships between same level managers engaged in an M/A integration?
 4. Does cooperation between managers manifest itself more readily when one manager makes obvious intentions to “signal” his/her willingness to share information with the other manager? Does a lack of cooperation (or culture clash) exist between managers who refuse to signal their willingness to communicate or who maintain their independence during M/A activities?

Psychological Contract – Merger Motivation and Outcomes

Prior to understanding the merger of one corporation to another, a review of the modern economic theory of a corporation is necessary. “In modern economic theory of the corporation, the firm ... is viewed in terms of contracting...For example, employees represent contracting agents that are monitored by management.” (Aram, 1989; 269)

There is an understanding or “contract” between the organization and its employees. This understanding or contract implies that actions taken by management in the collective good of the shareholders will be carried out by the employee population. However the contract can become mental and can encompass many actions. “The psychological contract...encompasses the web of written, unwritten, spoken, unspoken and ultimately ineffable aspects of the interaction between employee and organization.” (Davenport,

1998; 26) The compilation of these coordinated and managed “unspoken,” “spoken,” and “written” acts creates the body of the modern corporation. In theory, these acts should result in collective cooperation toward the stated goals and strategies of the organization. “The corporation, by contrast, is assembled based on the logic that pulling together will create synergies making the corporate whole greater than the sum of its business unit parts.” (Brown, 1996; 16) Within any organism, organs work together to accomplish certain goals and survive. A corporate organization is no different. “People involved in organizations bargain, reach understandings and, in general, adjust their actions to bring about personally desired consequences and avoid undesired ones.” (Keeley 1980; 353) Within an organization, an “implied” or “psychological” contract exists between management and the employees to carry out to the best of their abilities necessary steps to achieve certain goals.

These desires to bring about personally favored consequences and avoid undesired ones extend beyond the confines of the corporation. These desires can lead an executive management team to consider merging their organization with another, acquire another or be acquired by another. There are many motivating factors driving a merger or acquisition. The following quotes from these authors help explain the purpose behind an M/A strategy. “....Acquisitions may broaden a firm’s knowledge base and decrease inertia, enhancing the viability of its later ventures.” (Vermeulen and Barkema, 2001; 2) There are not only immediate benefits to a M/A, but from a strategic view, a M/A can improve such ventures in the future. “Many merger or buyout proposals are predicated on the prospect that ‘two plus two’ can equal ‘three’, after duplicate costs are weeded out – and ‘five’ when market shares are merged and exploited.” (Brown, 1996; 14) Motivations

can be to complement geographic areas where the one company currently has no operations, complement product offerings, improve upon the one company's R&D abilities, create a larger balance sheet from which to leverage other activities, vertical integration, acquire a new product or product sector, or improve human capital. There are many reasons which can motivate senior management to consider a merger or acquisition.

A Firm's Culture and Culture-Change Stress

Due to the unrelenting number of mergers or acquisitions that are being considered, with many subsequently executed, the promises of success behind them must be realized in some instances. Indeed they are. The American industrial experience has a wealth of M/A success starting with the railroads in the late 19th century, through the development of General Motors via acquisition into the "heyday" of M/As - the 1980's and 90's. There are many stories of shareholder wealth increasing, building stronger research and development laboratories, and buttressing consumer marketing plans with additional related products. However, despite the well laid plans of combining two organizations into one entity, merger or acquisition activities often produce disappointing results. "Many mergers fail because of divergent cultures. Hewitt Associates found that while 60% of companies doing a merger or acquisition tried to create a new or combined culture, only 25% overall felt very successful at doing so; 50% felt somewhat successful." (Levinsohn, 2002; 40) What is this potent force called "organizational culture" which produces "culture clash" that is so able to destroy the plans of so many experts in their constructive desires to combine or acquire another company? "Not surprising to veterans of the merger wars, incompatible culture heads the list of

impediments to the successful melding of two organizations. Culture comprises the beliefs, expectations, and behaviors that organizations appreciate, reward and reinforce. Think of culture as the DNA of an organization – invisible to the naked eye, but critical in shaping the character of the workplace.” (Davenport, 1998; 25) Examples of cultural differences include their propensity to be individually or collectively oriented, conservative or aggressive, bureaucratic or entrepreneurial. Just as futile as it would be to introduce the DNA of one organism into another organism, efforts to meld two polarized organizations will be fraught with opportunities for producing the cultural disease of frustration and failure.

Employee Stress within the M/A Endeavor

Iterative, awkward situations involving many people, as so many ill-fated mergers or acquisitions are, produce stress. “Stress is defined as a relationship between the person and environment that is appraised by the person as relevant to his or her well being and in which the person’s resources are taxed or exceeded.” (Folkman & Lazarus; 152) Mergers and acquisitions were associated with increased anxiety, stress, absenteeism and employee turnover producing decreased productivity (Fugate, Kinicki, Scheck, 2002). Research has shown that employees view merger-related changes as very stressful (Scheck & Kinicki, 2000). This accumulating stress is taking a physical toll on the employees upon which senior management depends for M/A execution.

At the acquired Fortune 500 firm, incidents of high blood pressure among employees doubled from 11 percent in the year preceding the combination to 22 percent in the year following its announcement. Interviews with executives in the early stages of the combination are colored with reports of headaches, cold and flu symptoms, sleeplessness and increased alcohol and drug usage (Marks, 1997; 270).

Mergers and acquisitions affect more than just shareholder value and earnings per share.

Coping Theory within a Merger or Acquisition and Interdependent Cooperation

Stress, which is brought on by their appraisals of the changes in the environment around them is experienced by individuals and leads them to internalize their emotions. These changes are often out of their control and force the employees in a mode of “coping”. “Coping Theory” then can be defined as having to constantly change one’s cognitive and behavioral actions in the effort of managing the external and internal demands or transactions that tax or exceed one’s resources. (Folkman, Lazarus, Dunkel-Schetter, DeLongis & Gruen, 1986). “The goal of coping is to maintain a perception that a person’s life facets (physical environment, social environment, his or her personal characteristics or qualities) correspond to a desired reference value.” (Latack, Kinicki & Prussia, 1995; 316) Coping then in a M/A environment refers to cognitive and behavioral efforts in the attempt to manage the many demands placed on the managers charged with M/A integration whose outcome may or may not be in the manager’s best interest. They are trying to reach “equilibrium” between what they perceive to be equitable and the current state of reality.

“Coping focuses on discrepancy reduction: behavioral and cognitive change are simply vehicles to accomplish equilibrium.” (Latack, Kinicki & Prussia, 1995; 316) To the extent that the M/A has (or will) cause important, personal discrepancies between the current state of the organization and the new state, a “coping goal” will be established to address those discrepancies. A coping goal represents the desired end-state of a situation in which the employee (or manager) originally perceives there to be some loss or threat.

(Latack, Kinicki & Prussia, 1995). In this study the “loss” or “threat” could be job loss, demotion or perceived less prestige/influence brought on by the changes inherit within the M/A. Once the coping goals are established to accomplish a desired outcome in response to a threat or loss, a strategy to achieve that goal is constructed. These “strategies” can take on three forms.

Coping strategies may be “control oriented” (i.e. proactive strategies aimed at resolving the issue) or escape oriented (i.e. avoidance strategies focused on escaping or denying the situation). Coping can also center on seeing social support.” (Latack, Kinicki & Prussia, 1995; 317) Therefore when same-level managers face stress brought on by negative appraisals due to perceived threat or loss resulting from an M/A endeavor, a coping goal is established. This goal is designed to counteract the disequilibrium present between the current state and desired state. These goals lead to coping strategies which take the form of control, escape or seeking social support. “There are two types of coping resources – those of a “problem focused” and “emotion focused” nature. “Problem-focused coping relates to actions taken by an individual to change the nature of the disturbing factor(s) in the environment. Emotion-focused coping involves efforts by individuals to alter his or her reactions to the situation at hand.” (Fugate, Kinicki & Scheck, 2002; 913) For the purposes of this paper, both types of coping resources are included when dealing with changes brought on by an M/A.

The Prisoner’s Dilemma

The terms “defect” and “cooperate”, within the domain of the “prisoner’s dilemma”, were made popular by Robert Axelrod in his classic work The Evolution of Cooperation. “Prisoner’s dilemma (PD) games have been used in management education

to demonstrate the dynamics and consequences of competitive and cooperative strategies in two-person situations.” (Aram, 1989; 268) As it pertains to this work, the two persons under study here are the duplicative department managers or counterparts within merging or acquiring organizations.

The prisoner’s dilemma is a well-known metaphor used in psychological, sociological, and economic research to model situations of social conflict between two or more interdependent actors...The essence of the dilemma is that each individual actor has an incentive to act according to competitive, narrow self-interest even though all actors are collectively better off (i.e. receive higher rewards) if they cooperate. (Cable & Shane, 1997; 145)

Each of the department managers is an independent actor who is vulnerable to narrow, self-interested behavior. “The PD applies to enterprise-constituent relations in which parties are organized and active, the long term ability of each group to attain its goals depends on the survival and success of the other, and the most desirable outcomes for the interdependent parties in an immediate situation are incompatible.” (Aram, 1989; 268) The department managers could perceive the M/A negatively on a personal level even though on a “global” scale, the transaction merits alignment between parties. In the context of this study, then, the question is what factors will lead counterparts in a M/A to make cooperate or defect choices? What factors will lead to a prisoner’s dilemma between two counterparts in the two firms within a merger or acquisition.

A department manager within a merger or acquisition may be tempted for self-serving reasons to act in his/her own best interest which may not be in the best interest of the merged organization. There may exist opportunities to “defect” and not cooperate *fully*. For example, if a manager is told or believes his/her position will be eliminated once the “post-integration” activities have waned, they may be tempted to forestall the total integration for economic reasons. By forestalling, examples could include not

sharing information on a timely basis, not sharing complete information, sharing conflicting or sharing outdated or erroneous data. Until that manager finds employment elsewhere, the economic risks associated with quickly working through the integration are substantial. Therefore, the pace slows to match the pace of the person's job search results.

Another example of a manager acting in a non-collectivist fashion would be to exact a small amount of "revenge" for the loss and tumultuous change leveled against them via the M/A. These types of acts will not necessarily be overt, but may be covert in the shape of not sharing all the pertinent information with the counterpart, not providing sufficient details to the department requesting it, creating morale issues within one's own department or producing "noise" within one's organization and that of the other that acts as a distraction from the real issues at hand. Examples of "noise" can include surfacing problems that have since been resolved or taking the integration team from the integration plan to investigate superfluous issues. Being overlooked in favor of another manager can also bring these types of repercussions.

In an acquisition environment, absence of retention by the acquiring company can be greeted with much of the same reactions from the soon-to-be displaced department manager. From a psychological point of view, all of these efforts (conscious and unconscious) are attempts to communicate that the organization made "the wrong choice" in manager selection and/or retention. These emotions and/or perceptions can lead to an iterative "defect/defect" between department managers as it pertains to communication, cooperation as they endeavor to complete jointly-held M/A goals. If this same dynamic escalates organizationally, what may be commonly referred to as "culture clash" could be

multiple iterative “Prisoner’s Dilemma” games being played out between managers of the counterpart companies. “C” stands for cooperate and “D” for defect. (See figure 1)

FIGURE 1

| | | |
|-----------|--|---|
| | Manager II | |
| Manager I | C, C Forms new culture, synergy | C, D Mgr II’s culture wins / Mgr I loses (sucker) |
| | D, C Mgr I’s culture wins / Mgr. II’s loses (sucker) | D, D Both mgrs defect / “Culture clash” ensues |

Dependent Variable – Defect or Cooperate

As it pertains to mergers or acquisitions then, the decision to cooperate or not cooperate (“cooperate / defect”) by same level department managers working toward M/A integration goals are the “dependent variables” which constitute the behaviors that we want to explain in this study, in other words, what factors lead department managers to cooperate or to defect in the course of a merger/acquisition? These managers can make decisions, postpone decision making or not make a decision which can positively or negatively affect the outcome of the M/A venture. Examples of cooperative and non-cooperative (defect) decisions can be found in figure 2.

FIGURE 2

| Same Level Department Managers | Examples of Cooperation | Examples of Non-cooperation |
|---------------------------------------|--|---|
| Human Resources Managers | Share complete bench strength information with one another | Not sharing complete information, holding back |
| Accounts Payable Managers | Share payables systems information timely with one another | Not sharing information timely, purposed delays |
| Directors of Marketing | Share complete customer information with one another | Sharing partial customer information |
| Controllers | Working to keep morale up – aiding other departments | Engaging in gossip / fear mongering |
| Payroll Managers | Keep calendar flexibility for meetings / emergencies | Little or no flexibility in scheduling meetings |
| IT Managers | Sharing IT infrastructure with other manager | Referring other manager to provider of system or software for any information |

M/A Success and the Relationship to Interdependent Actors

A merger or acquisition is a collection of activities to bring about a goal or desire of senior management. Unfortunately, many M/A activities are subject to the “paradox of interdependent relations” which is defined as that which is desirable for the individual, group or department...but may have undesirable effects at a different level of aggregation. (Aram, 1989). Stated another way, the M/A that may be beneficial for the organizations as a whole may have desired or undesired effects on the employee’s career possibilities within the new organization. Likewise, actions by individuals to maximize their own interests in a merger situation may not be beneficial for the employee’s

organization. Interdependence exists between those structuring the M/A (first level managers) and those executing decisions or transactions to bring it to fruition (second level managers). Opportunities for the individual, department or group to decide in favor of their own interests rather than the interests of the new organization present themselves. It is within this decision matrix that the collective good (i.e. successful merger or acquisition) can fall prey to individual interests of managers. “Departments in a firm may horde resources or information to the detriment of the firm as a whole. Employees who have problems of conscience with an organization action may experience conflicting obligations to self, to supervisor, to the firm as a whole” and “Yet, individually and as a group, employees have cooperate and defect choices in relation to the firm that go beyond the monitoring capability of management.” (Aram, 1989; 267) Again, these comments were made in general, but have definite applicability within the confines of a merger or acquisition.

Independent Variables - Recipe for a Prisoner’s Dilemma

Combining coping – (Fugate, Kinicki & Scheck, 2002) together with the elements of stress and physical effects cited in Marks (1997) and Scheck & Kinicki (2000) the likelihood of a prisoner’s dilemma forming and cooperative/defecting decisions being made improves. Within a M/A, employees should experience considerable losses until just before the end of the integration...At this point, uncertainty should, in effect, be reduced because employees became aware of the personal implications of changes. This was supported by Folkman and Lazarus (1985) and Carver and Scheier (1994) who revealed that perceptions of threat diminished as uncertainty decreased. As uncertainty increased, the threat associated with the changes increased. As the threat associated with

changes brought on by the M/A increased, the negative appraisals generated within the coping process within each employee increased. (Fugate, Kinicki and Lazarus, 2002) In their study, this occurred through the final change stage of the merger process.

Social Supports, Resource Theory and Perceived Control

Within an M/A, uncertainty of professional position is also combined with a decrease in “social supports.” “Many of the respondents’ sources of social support were depleted or lost, due to job cuts and changes. Other relationships that acted as sources of social support were taxed and diminished (e.g. family, friends, and even some surviving co-workers).” (Fugate, Kinicki and Scheck, 2002; 911) To categorize family, friends and co-workers further within the social support domain of Coping Theory, one could use the phrase “emotional resources”. These emotional resources increase or decline (deplete) according to the increase or reduction of stress levels (Hobfoll, 1989). Hobfoll points out, in his conservation of resource theory that individuals can deplete or reduce their coping resources as they continue to cope with stressful situations over time. “Coping resources consist of individual characteristics (internal) as well as environment objects or conditions (external) a person can draw on to cope...(e.g. high self esteem, social support, financial resources).” (Latack, Kinicki, Prussia, 1995; 326) Therefore in the current context, managers should consume more of their coping resources during stressful situations (i.e. M/A) than in less stress or stress-free situations.

Fugate, Kinicki and Scheck found that social support decreased during the most unpredictable and stressful stages of a merger – from the “anticipatory stage” to the “final change stage.” Social support is not alone in its depletion. Social support, as an example

of one of the sources given in the model discussing Resource Theory, is illustrated in figure 4 listing all independent and mediating variables.

“Perceived control” is also eroded by the negative appraisals brought on by the effects of change within a merger or acquisition. Perceived control is a coping resource which represents the degree to which a person believes he/she can control or influence a certain outcome or direction which involves him/her. “Perceived control was lowest at the ‘anticipatory stage’ and increased at the ‘initial stage’ and remained stable during the ‘final stage’. Perceived control increased again during the ‘aftershock stage’ of the merger or acquisition.” (Fugate, Kinicki and Scheck, 2002; 912)

The question remains do these factors lead to uncooperative behavior? A study regarding M/A phenomena conducted in 1996 found that managers who perceive themselves as having more control are more likely to: (1) before the fact, try to prevent their managers from lessening their influence or centralizing power at their expense, and (2) after the fact, try to regain or compensate for any lost influence or power. Thus, managers from the aggressor company or culturally dominate company may be successful in their efforts to minimize any reduction or maintain similar levels of job control in the post-acquisition era. (Fried, Tieg, Naughton and Ashforth, 1996).

Therefore, as uncertainty increases, as social support decreases and as perceived control increases from its decreased level, the likelihood for negative behaviors (i.e. not cooperating) within those employees trying to cope with M/A changes increases.

Social Comparison Theory

Another factor influencing the willingness to cooperate is the “competitive nature” of the managers involved in the prisoner’s dilemma. The theory supporting this

prior research is “Social Comparison Theory.” This theory attempts to explain why in some conditions, individuals will calculate their own success or failure through comparison against others. Social Comparison Theory posits that one’s satisfaction with any outcome depends on relative comparisons with others (Sweeney, McFarlin, 2004). Additionally, this theory claims that people are motivated to compare upward, downward and against similar others to ensure equity. This is carried out to obtain information relevant to self. All these comparisons seem to occur in the service of self-evaluation. “Thus the basic tenet of social comparison theory is that individuals have a tendency to select referents (the ‘other’ with which we are comparing our self) that are similar to them.” (Conner, 2003; 137)

When comparing themselves against others, absolute success is not definitively defined as “win/lose” but as degrees of loss vs. degrees of loss. “Studies using decisions in simple games suggest that some people adopt competitor-oriented objectives.” (Armstrong & Collopy, 1996; 189) Perhaps counter intuitively, this orientation doesn’t always have positive consequences. Parks, Pharr and Lockeman (1994; 68) said, “Just as in war, the reality of market share battles is that the success of the victor depends on the failure of the loser”. The focus begins to shift from being successful to ensuring the failure of the competition. “...In some situations, vendors temporarily shift their emphasis away from attaining success (for themselves) and toward preventing the success of others.” (Armstrong & Collopy, 1996; 191) The emphasis shifts from winning or succeeding to one of mutual compromise with the “winner” losing less than the other. Nevertheless, both parties end up sub optimizing their end-results and settle for less than optimal. In summary of laboratory results, “A substantial portion of the subjects selected

competitor-oriented decisions. This provides evidence of economically *irrational* behavior...our results suggest that the use of competitor-oriented objectives is detrimental to profitability.” (Armstrong and Collopy, 1996; 194) Profitability is the primary function of most corporations, and this study concluded that a competitor orientation harmed that primary goal. As it pertains to goals, cooperation may succumb to the profitability of a company even in an M/A scenario. This competitor orientation, if left unchecked to operate in a prisoner’s dilemma within an M/A process, could be damaging.

Ethnicity

American organizations are becoming much more ethnically diverse. As such the probability of department managers from different ethnic backgrounds working together to achieve success in a post M/A scenario is very likely if not certain to occur. Researchers studying M/A phenomena must take the cultural differences of managerial professionals into consideration when determining the outcomes of M/A successes or failures. Because cultures can be group oriented or individual oriented, they have an affect on the personality of the managers and the approach they take when confronted with change.

A study by Cox, Lobel and McLeod (1991) reiterated that people with individualism or collectivism orientations accounted for the greatest variation in work goal priorities. They noted that, compared to cultures that valued individualism collectivist cultures place a greater value on the norms, shared beliefs, goals and cooperation within the group. They noted further that collectivists are more likely to sacrifice personal interests for the attainment of group goals and conform to group

expectations. Hofstede (1980) concluded that northern and western Europeans as well as North Americans tended to be more individualists. “In general, Asians, Hispanics and Blacks have roots in nations with collectivist traditions, whereas Anglos have roots in the Euro-Anglo tradition of individualism.” (Cox, Lobel & McLeod, 1991; 829) These authors also cited works which indicated that collectivists emphasize the value of cooperation whereas individualists emphasize competition.

The results of the Cox, Lobel & McLeod study are pertinent to architects of mergers or acquisitions.

First, the Anglos were the only group to become more competitive when they expected cooperation from the other party. Second, there were differences in normative responses at the group level of analysis, with the homogenous Anglo groups selecting the cooperative choice only 25 percent of the time compared to over 70 percent for the ethnically diverse group....Both previous research and the current effort have established that the Anglo norm for this game is to select the competitive response. (Cox, Lobel & McLeod, 1991; 840)

Mediating Variable - Communication

With elements of coping theory, resource theory, stress and uncertainty forming the genesis of the managers’ relationship, the need to communicate and socialize to improve the chances of information transfer within a prisoner’s dilemma becomes paramount. The need to communicate early on in the relationship is imperative. “Moreover, social relationship theory suggests that information transferred is particularly important in the formative stages of working relationships and that considerable information must be exchanged early in the working relationship in order to develop an interpersonal contract.” (Cable & Shane, 1997; 157) Past Prisoner’s Dilemma research has concluded that cooperation improves when the cooperation strategy of the other group can be gathered easily by the opposing group (Abreu, Milgrom & Pierce, 1991).

Therefore, cooperation between parties is more likely if they can secure rapid and valid recognition of each other's cooperative strategy (Parkhe, 1993).

During an M/A venture, much activity is carried out which creates a good deal of "noise." Noise is formally defined as "random error in communication" (Bendor, Kramer, & Stout, 1991). Information transfer becomes critically important when the situation is noisy. When this occurs, parties may misinterpret each other's strategies (Axelrod & Dion, 1988). This misinterpretation can lead to defection from the Prisoner's Dilemma within M/A activities. Multiple defections can lead to unwillingness to communicate further. "Unwillingness to communicate reduces cooperation, instead creating animosity, firmness and the tendency to give misinformation." (Cable & Shane, 1997; 156) The perception of non-cooperation or full-disclosure can drive a wedge between interdependent departments and their respective managers. This perception can lead to negative consequences. "Departments in a firm may horde resources or information to the detriment of the firm as a whole." (Aram, 1989; 267) People including managers within a merger or acquisition scenario will sometimes take action that caters to self-interest but is detrimental to the M/A effort thereby producing a defection from the Prisoner's dilemma.

Having concluded that communication can improve cooperation or, the lack thereof, increase the chances of defecting, elements of communication must be identified. The first element is one manager's understanding of the other manager's intentions. One manager communicating his/her intentions to reciprocate information transfer can improve the chances of a cooperative relationship forming between same-level managers. Secondly, clarity of those communication efforts is also important. The clarity of the intentions to work together as well as information sharing should improve the manager-

to-manager relationship. Lastly, difficulty in communication be it caused by language barriers, geographical distance, vastly different time zones, work schedules can all contribute to difficulty in communication.

Therefore, employee stress levels go up due to negative appraisals associated with the changes brought on by the M/A activity and subsequent physical health declines as the employee begins to experience the merger process. During the initial period of an M/A, uncertainty regarding employment increases, social support decreases, perceived control decreases and the continued utilization of one's coping resources depletes necessary emotional resources. Communication levels between the merging parties wane which produces less information transfer. Information monopolizing or blocking then becomes a form of defecting within a prisoner's dilemma set in the confines of the M/A process.

Moderating Variables – Stages within a Merger or Acquisition

It is within the confines of the three phases of an M/A that opportunities to cooperate or defect, within the prisoner's dilemma of merger or acquisition related activities, which should be evident. Fugate, Kinicki and Scheck (2002.) argued that coping differs in four distinct time phases when dealing with a merger. They studied an acquisition which involved several hundred employees and took "employee assessments" of their ability to cope at four intervals during the acquisition process. These intervals corresponded with major announcements by the acquiring organization. Those phases are: 1) 'the anticipatory stage,' 2) 'the initial change stage,' 3) 'the final change stage,' and 4) 'the aftershock stage.'

In the Fugate, Kinicki and Scheck study, the ‘anticipatory stage’ occurred one month after the sale of one organization to the other was announced. Up to that point no personnel changes had taken place but employees were awaiting news on how the merger would affect them. They were interested in what specific changes would occur (i.e., layoffs, benefits, transfers or reorganization). The 2nd phase or the “initial change stage” was the point at which changes started to occur that were mentioned anticipated. In this case-study downsizing officially began in the maintenance area and spread. In the study, the second phase ended with a survey of the workforce. This survey however was conducted during the process of organization reorganization and employment changes were gradually being announced. The third phase, “the final change stage”, began at the conclusion of the survey and concluded with an announcement that all job cuts and workplace changes were completed and no further job cuts were to be made. (Fugate, Kinicki and Scheck, 2002). The fourth phase or “aftershock phase” was described as the phase coincident with a two week period prior to administering the researcher’s last survey. During that phase, the company under study announced employee benefits cuts would be made sometime in the future. Thus, *it* (italics mine) was labeled as the ‘aftershock phase’ (Fugate, Kinicki and Scheck, 2002).

This study concluded that negative appraisals will increase from the final change stage to the aftershock stage of a merger. Additionally it concluded that social support will decrease from the anticipation stage through both the initial stage and final change stages and then increase during the aftershock stage of the merger. Lastly, the study concluded that perceived control will be lowest during the anticipatory stage, increase at the initial change and remain stable through the final change stage. Perceived control

increased during the aftershock stage of the merger. Assuming there are no changes after organizational redesigns, it is possible to avoid the “aftershock phase.” From my experience, there are three basic stages within an M/A endeavor: Stage I “Announcement of Decision to M/A stage”, which starts with the initial announcement and ends just prior to any organizational or employment changes; Stage II, the “Personnel Changes Pre-Integration Stage,” which starts with the announcement of organizational changes and/or personnel changes and ends with “acts of integration” (i.e. severance of duplicative officers, closing of certain offices that co-share specific markets,) and Stage III, the “Changes Post-Integration Stage,” which begins with the initial acts of integration and concludes with management’s announcement that no other changes will be forthcoming. Rather than continuing a research model based on one suited to a particular study, this model offers more utility and flexibility when studying M/As. The relationship of independent variables and moderating variables is illustrated in Figure 3

FIGURE 3

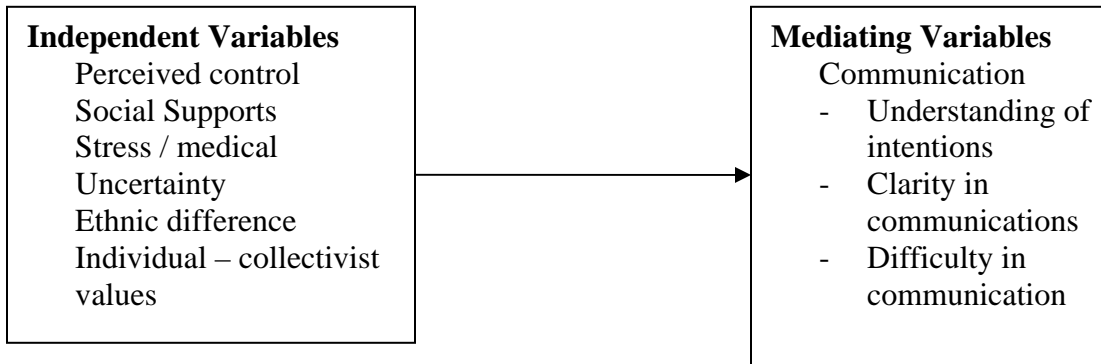
| Independent Variable | Phase I of M/A – Announcement of Decision to M/A | Phase II of M/A – Personnel Changes Pre-Integration | Phase III of M/A – Changes Post Integration |
|--|---|--|--|
| Social Support | Low - Defect | Low - Defect | Moderate - Cooperate |
| Perceived Control | Low - Defect | Moderate - Cooperate | Moderate - Cooperate |
| Stress | High - Defect | High - Defect | Moderate - Cooperate |
| Uncertainty | High - Defect | High - Defect | Moderate - Cooperate |
| Ethnic difference between managers | N/A | N/A | N/A |
| Individual – collectivist orientation of managers | N/A | N/A | N/A |

In theoretical form, the dependent variables (cooperate or defect) are mediated by perceptions and aspects of communication (i.e. manager's mutual understandings of intentions, clarity of communications between managers, or communication difficulty between managers) which begin with the independent variables (social support, stress, ethnicity, collectivist/individualist orientation, uncertainty and perceived control). Moderating the effects of the independent variables are the three stages of the M/A. This is demonstrated in figure 5.

Research Questions:

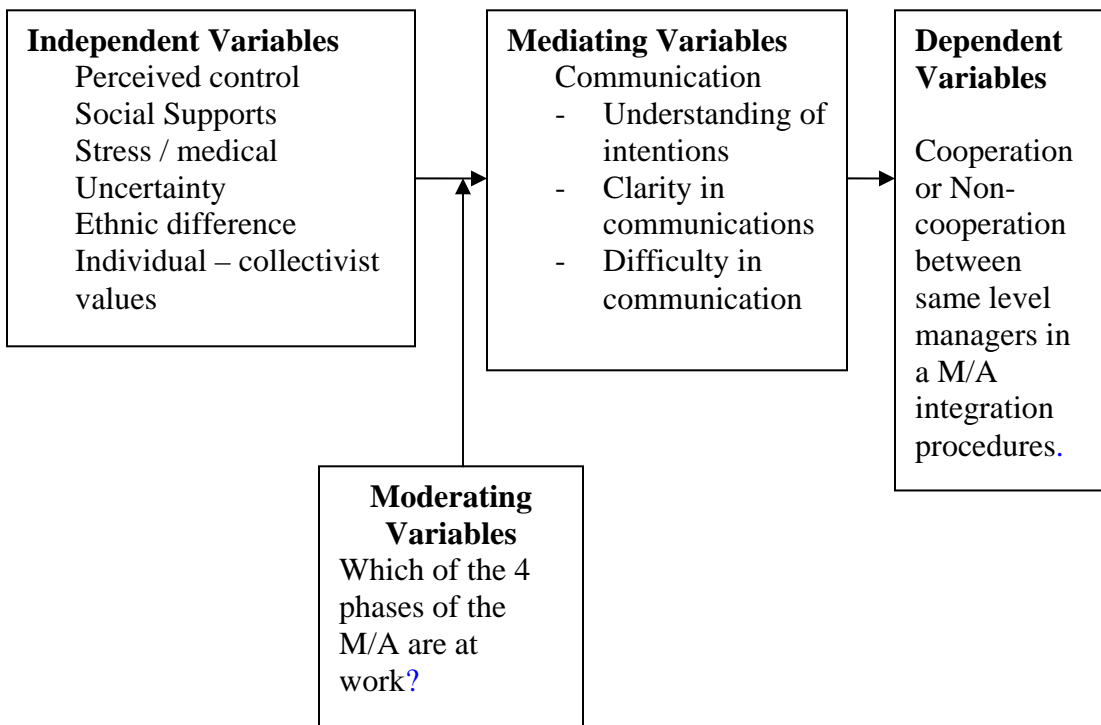
1. Do department managers (faced with stress, coping issues and uncertainty in their professional careers) who are engaged in “information-share” between merging or acquirer-acquired organizations, cooperate fully and equally during all stages of the M/A transaction, or is their cooperation a function of the stress they experience in different stages of the merger integration?
2. Faced with uncertainty in his/her professional career, does a competitive-oriented department manager (of one organization) take cooperate/defect actions toward the same-level, department manager (of the other organization)? Additionally, does a cooperative-oriented department manager, faced with the same uncertainty, take cooperate/defect actions toward the same-level, department manager?
3. Does ethnicity of a manager factor in the choices to cooperate or to defect in relationships between same level managers engaged in an M/A integration?
4. Does cooperation between managers manifest itself more readily when one manager makes obvious intentions to “signal” his/her willingness to share information with the other manager? Does a lack of cooperation (or culture clash) exist between managers who refuse to signal their willingness to communicate or who maintain their independence during M/A activities?

FIGURE 4



For clarity, the entire model or “conjecture” is constructed according to figure 5.

FIGURE 5



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