

Calibrating Integration

Studies on Status, Culture, Knowledge and
Cooperation in Acquisitions

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Cooperation in Acquisitions

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Calibrating Integration : Studies on Status, Culture, Knowledge and
Cooperation in Acquisitions

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Annem'e...

Foreword

This volume is the result of a research project carried out at the Department of Marketing and Strategy at the Stockholm School of Economics (SSE).

This volume is submitted as a doctor's thesis at SSE. In keeping with the policies of SSE, the author has been entirely free to conduct and present his research in the manner of his choosing as an expression of his own ideas.

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Contents

Summary of the Thesis.....	1
Exordium: Some Grand Questions.....	1
A Contextualizing Interlude: Why M&As?.....	3
Divisio: Composition of Articles.....	6
Paper 1: When sociocultural dynamics matter less.....	6
Paper 2: When we move into the realm of common organizational boundaries.....	10
Paper 3: When the merits of unilateral changes are questioned.....	12
Paper 4: When two complementary concepts are juxtaposed.....	13
Paper 5: When the answer lies in vertical parameters.....	15
Paper 6: When some quintessential assumptions are put to explicit test.....	17
Confutatio: Definitions, Delimitations, Disclaimers.....	19
Peroratio: What do all of these add up to?.....	23
References.....	27
Sustaining Cooperation within Multiparty Alliances: An Experimental Investigation.....	31
Introduction.....	31
Theoretical Background.....	36
Strategic Alliance Literature.....	36
A Game Theoretical Digression.....	40
Behavioral Economics Literature.....	43
Methodology.....	46
Participants.....	47
Procedure.....	48
Experimental Treatments.....	49

Results	54
Discussion and Conclusions	68
References	71
Compatibility and Unlearning in Knowledge Transfer in Mergers and Acquisitions	75
Introduction	75
Compatibility and unlearning in prior research	78
Organizational knowledge and its compatibility	78
Organizational unlearning.....	81
Compatibility and unlearning in context: a preliminary model.....	83
Inflow of knowledge	85
Implementation of knowledge.....	86
Internalization of knowledge.....	89
Conclusion and Implications for Research.....	92
References	96
Building competitive advantage in international acquisitions: Grey box conditions, culture, status, and meritocracy.....	99
Prelude	99
Introduction	100
The Importance and Nature of International Acquisitions.....	101
A grey box perspective on international acquisitions	105
Knowledge in international acquisitions.....	107
The Role of Culture and Status	112
The Importance of Culture.....	114
The Importance of Status	117
The Influence of Pre-Acquisition Status and Culture Perceptions on Post-Acquisition Outcomes.....	120
Perceptions of ‘The Other’ as Predictors of Acculturation Outcomes.....	121
Moderators of Pre-Acquisition Status and Culture Influence on Post-Acquisition Integration	126
Permeability of Group Boundaries	127
Intergroup Contact Conditions.....	128
Acculturation Outcomes: Culture, Status and Integration.....	129

The Merits of Meritocracy	133
Conclusion.....	138
References	139
Not All Differences are the Same: The Dual Roles of Status and Cultural Similarity in Sociocultural Integration in Cross-Border M&As	149
Introduction.....	149
Cultural Differences and Their Implications in M&As	154
Status Differences and their Implications	157
Dual Roles of Similarity and Status	160
Discussion and Conclusion	173
References	178
“Us vs. Them” or “Us over Them”? On the Roles of Organizational Identity and Relative Status in M&As	183
Introduction.....	183
Theoretical Background.....	186
Self-Other Similarity and Common Identity.....	186
Role of Status in Social Influence and Preferences.....	188
The Present Investigation.....	190
A Brief Note on the Methodology.....	191
Study 1: Trust and Social Preferences	193
Method.....	193
Results	198
Discussion.....	201
Study 2: Credibility, Usefulness and Social Influence	204
Method.....	204
Results	207
Discussion.....	210
General Discussion and Conclusion	214
References	217
On the Symmetry and Discordance of Cultural Distance in M&As: A Two-Country Study	223
Introduction.....	223
Literature Review.....	227

Culture in Previous M&A Literature: A Critical Reading	227
Towards a More Rigorous Approach to the Micro-level Effects of Culture in M&As.....	232
Methodology and Research Design	235
Participants.....	236
Research Framework	236
Measures	237
Findings	238
Discussion and Concluding Remarks	248
References	251

Chapter 1

Summary of the Thesis

Exordium: Some Grand Questions¹

I am innately intrigued by the perennial question: *how do we humans make sense of and react to changes happening around us?* A few anecdotal examples might help to elucidate the type of changes I am talking about. Imagine newlywed couples trying to adapt to their new milieu after starting to live under the same roof. Or flashback to the end of 1990 and put yourself into the shoes of Germans from either (but especially the Eastern) side of the recently fallen Berlin Wall who had been living under different regimes for three decades. Alternatively, try to remember the first day of your freshman year, when you first met the people with whom you would study for the next four years.

In each of these examples, individuals are coming into first-hand contact with new opinions, ideas, values and life standards, either as a result of their own choices or because of circumstantial necessities. Being

¹Hopefully, writing a cover note like this will be a once-in-a-lifetime task. Considering this, and as I am about to embark on the introductory portion of this text, I would like to take the liberty of being rather flexible when it comes to the conventional rules of thumb of academic writing, and accordingly, I assume a rather informal but lofty tone in the few lines that comprise this introduction.

social creatures, we humans are almost always “stuck” with others, either willingly or unwillingly. On top of that, in each of these cases, there is a need for mutual understanding, cooperation and coordination between the entities, the degree of which depends on the duration as well as the scope of the arrangement. Furthermore, in each of these encounters, we can talk about an “other”. Predicated upon these observations, understanding *whether and how the characteristics and attributes of this “other” affect the way any given focal entity perceives, makes sense of and possibly reacts to the situation* gives rise to the second grand question that has long piqued my curiosity.

There is another common element in the type of contacts epitomized by the examples given above: they all could easily become problematic. It is not always easy for humans to understand, accept or tolerate differences. Nor is it a simple task to find a middle ground by making mutual compromises. Yet this does not mean that there is no variation in the extent to which these encounters are successfully handled. Some individuals adapt better to changing circumstances, whereas others’ abilities remain limited in that regard. By the same token, some relationships come to an end very rapidly, whereas others are upheld and preserved for a lifetime. This leads to the third and final grand question I would like to formulate in this prelude: *what is it that makes some collectives more successful in creating mutual understanding and establishing more successful cooperation over time?*

I am aware that the three questions suggested in this prelude are very broad, and that I am not the first (nor will I be the last) to ask them. The reader shall find more specific and contextually articulated derivatives of these sweeping questions in the ensuing sections, where I will be providing brief synopses of each paper constituting this thesis. It is my hope that the insights I garnered from the particular realm of (formal) organizations that were studied will be of interest to those who are similarly intrigued by the fundamental questions that are framed above. Further, upon the completion of the present undertaking, it is my long-term ambition to ask the same questions over and over again across different social phenomena. After all, the beauty of social science is the

challenge of finding alternative answers to the same basic and eternal questions.

A Contextualizing Interlude: Why M&As?

In the preceding section, I described the main purposes of this thesis in broad, general terms. However, a more specific description of my reasons for and ambitions in writing this thesis is imperative. The empirical and conceptual papers in this thesis are situated within the particular context of mergers and acquisitions² (henceforth referred to as “M&As”), as well as alliances. It is important to note that I consider M&As and alliances as distinct forms of interorganizational phenomena, which can be differentiated along the continua of control and interdependence.³ From this perspective, then, I presume that M&As and alliances denote different yet interrelated forms within which otherwise sovereign organizations (and their members) interact and cooperate at varying degrees of dependence and interdependence. Having made that clarification, in this section I shall identify the bases upon which I have decided to use these specific organizational forms as my primary focus.

² Additional clarification on the use of the term “M&A” is needed here. Strictly speaking, a merger is said to occur when two firms agree to combine their tangible and intangible resources under the aegis of a single company, and thereby to remove all forms of separate ownership and operations. These kinds of deals are also referred to as “mergers of equals”. However, this is almost never the case in practice. Even if the deal is officially announced as a merger (e.g., as in the case of the mega-deal between Chrysler and Daimler-Benz), it is often the case that terms and preferences of one party dominate those of the other, which technically qualifies the situation as an acquisition. Based on this, the way I use the term “M&A” refers mainly to acquisitions.

³ Indeed, this presumption corroborates a recently emerging stream of literature (e.g., Agarwal et al., 2012; Porrini, 2004) that looks at how experience with one form of organizational arrangement (i.e., alliance) can evolve into the other (i.e., acquisition), as well as at what types of experience-based spillovers can emerge and affect the process by which hybrid governance forms evolve over time.

One significant reason is the empirical relevance of this phenomenon. Some statistics on this point might be illustrative. In the first half of 2012 alone, the number of completed deals and the total value of transactions amounted to 5,483 and US\$931 billion, respectively (Merger Market, 2012). Furthermore, cross-border acquisitions account for nearly 70% of worldwide foreign direct investment and therefore constitute the main vehicle through which multinational companies undertake investments in foreign countries (Peng, 2008). However, it is not the prevalence of acquisitions per se that motivated my topic choice. It has been suggested that the majority of these cross-border transactions are unsuccessful or that the success rate is mediocre at best (see Cartwright and Schoenberg, 2006). Thus, and rather ironically, despite their ubiquity, M&As happen to represent an underperforming *modus operandi* of international expansion and growth. Over and above alternative explanations for the high failure rates of M&As reported in earlier studies (i.e., overpaid premiums, agency problems, hubris, lack/irrelevance of prior experience, employee dissatisfaction, cultural conflicts), my thesis is that acquisitions often fail to meet expectations due to the complexities inherent in the interactions with “the other” and the sudden, often unexpected changes that result in their professional lives. Therefore, I argue that it is important to have a more comprehensive understanding of the factors that shape and affect individuals’ perceptions of “the other”.

However, empirical relevance was not the chief rationale behind my choice for focusing on acquisitions. Rather, I was more attracted by the distinctive conceptual properties of M&As, and the research opportunities emerging therefrom. In particular, M&As represent a situation within which individuals with different identity frames come together and are expected to unify under the same roof we call “firms” and to cooperate towards the same goal(s). In other words, acquisitions, where different organizations with presumably different sets of practices and values get consolidated under the same organizational boundaries, provide a good setting in which to study unique challenges along the process of post-acquisition integration. As noted by Kogut and Zander

(1996), over and above economizing transactional costs and mitigating contractual hazards, an essential function of firms is to inaugurate a normative territory on which employees coordinate their behavior and decision-making according to shared rules and guiding principles. These rules and principles create a shared identity among the members of the organization, which structures internal communication, coordination and learning. Based on the observation that issues relating to individuals' first impressions and perceptions of "the other" can be examined under a brighter light and in a more crystallized manner in M&As, focusing on this unique organizational phenomenon makes it possible to explore the conditions under which the consolidation of ownership and formal organizational boundaries could be translated into the unification of previously distinct identities, norms, cultures and so forth, which in turn makes it possible to call the merged entity a "firm" in the spirit of Kogut and Zander (1996).

Next I will address the more traditionally academic reasons that motivated my selection of this topic. It goes without saying that the topic of M&As has received a remarkable degree of ongoing scholarly interest over the last four decades. There is an extensive body of research probing into the financial, technological and strategic determinants of M&A performance. A relatively new sub-genre of this literature with a more specific focus has begun to look at the sociocultural aspects of M&As, an area in which I am keenly interested. Distinct from earlier approaches, this strand of research concerns itself with the "softer" sides of M&As such as the human side of the post-acquisition integration process (Birkinshaw et al., 2000; Jemison and Sitkin, 1986); the role of culture in the creation of intended synergies (Weber et al., 1996); and the effect of structural changes and adjustments on the acquired unit employees' perceptions of and feeling towards the acquirer and the takeover (Mottola et al., 1997; Puranam et al., 2006). Despite the ever-growing volume of this literature, there are several unresolved issues in this particular strand of research, some of which have provided the bases for several of the papers in this thesis.

Last, but definitely not least, there are a number of personal reasons that influenced my selection of this topic. Hailing from a country that had been undergoing massive (and somewhat externally imposed) institutional and political changes at the turn of last century, and being able to observe the long-term effects and contemporary ramifications of those abrupt (at least in the historical sense of the term) and profound (unquestionably so in the sociological sense of the term) changes in the society at large, I am naturally interested in understanding how individuals perceive and make sense of an “other”, as well as the ideas and identities associated therewith.

Divisio: Composition of Articles

Having briefly described my principal ambitions and the rationale behind the specific research context within which I chose to pursue these ambitions, in this section I shall describe each constituent paper of my thesis, along with the particular underlying logic that generated the sequence of the six papers and tied them together. In the exordium, the questions I aim to answer in this thesis were deliberately presented in a broad, open-ended format; this section will provide more well-defined and specific lines of inquiry in each of the sub-sections that follow.

Paper 1: When sociocultural dynamics matter less

The opening study of this thesis is situated within the context of multiparty alliances, which can be said to represent a *culture-free substratum* within which entities interact and coordinate towards a specific goal and with a specific temporal frame. In their eloquent conceptual treatise, Borys and Jemison (1989:234) define hybrid organizational arrangements as those where “two or more sovereign organizations combine to pursue common interests”, and then provide a taxonomy of hybrids based on list of pertinent issues, including breadth of purpose, boundary

determination, value creation, and stability mechanisms. According to their scheme, strategic alliances are purer and shorter-term type hybrids in which neither of the parties have full control or ownership over the joint activities, which markedly distinguishes them from M&As. Therefore, unlike traditional forms of governance with singular ownership, strategic alliances rely less on the vigor of organizational institutions such as shared norms and values. As a result, as Borys and Jemison (1989) argue, instead of socialization mechanisms, strategic alliances require the existence of superordinate goals (i.e., those that cannot be realized alone and therefore require the involvement of and cooperation among partners) in order to ensure stability. Furthermore, the need for stronger and deeper sociocultural integration (i.e., a common identity, trust, etc.) is less pronounced for strategic alliances, given that they are temporary hybrids with an *ex ante* limit on their lifespan.

Based on the aforementioned remarks, strategic alliances can be considered a type of governance form that can be seen as a “baseline” within which the role of sociocultural dynamics in the success and survival of the collective could be expected to be minimal. As such, the key question asked in this paper is: *how can multiparty organizational arrangements create perpetual value in the absence of hierarchy-based fiats and without pursuing sociocultural integration?*

To answer this question, we conceptualize strategic alliances as *social dilemma* settings in which the private interests of alliance partners are inherently in conflict with the collective value-creation abilities of the alliance, which results in a free-riding problem and therefore jeopardizes the success of the alliance. Accordingly, in this paper, we adopt a game theoretic view on strategic alliances and utilize a *public goods paradigm*. In that regard, we draw heavily on earlier works in behavioral economics (e.g., Bernhard et al., 2006; Fischbacher and Gächter, 2010) and strategic management (e.g., Agarwal et al., 2010; Parkhe 1993; Seale et al., 2006; Zeng and Chen, 2003) literatures.

The key novelty of this paper lies in the type of institutional arrangement introduced in the experimental design. In particular, the

paper focuses on a specific type of structural solution to the cooperation dilemmas that are common in the multiparty/multi-stage alliance environments. To be even more specific, our novel treatment posits a more dynamic learning environment within which there is a constant rate of resource/knowledge depletion (i.e., due to highly competitive external environment) that can be rectified by taking a more active role in joint value creation (i.e., the superordinate goal of co-creating knowledge). Furthermore, we deliberately keep organizational flats at a minimum (i.e., there is no punishing or rewarding hand of a hierarchical upper-level entity, nor are there any contractual safeguards which can be enforced to protect partners from shirking behavior). This is done in order to more accurately emulate the conceptual properties of alliances. Our basic hypothesis is that in the absence of formal institutions and within dynamic learning environments, the private benefits accrued by making higher contributions to the collective goals of the alliance should create a *self-discipline effect*, which forms a motivational solution in and of itself to the problems of free riding and a deteriorating rate of cooperation over time.

In this baseline study, the applicability of sociocultural dynamics is minimal due to the boundary-driven and temporal reasons stated above. Instead, the key element in the research design is the existence of opportunities for *joint value creation* in response to capability depletion (cf. superordinate goals). Empirical examination is based on experiments with the participation of 240 undergraduate students at the Chinese campus of a European business school. The main finding of this study is that partners in an alliance become more cooperative and create more collective and aggregate value when the learning environment of the partnership is more dynamic. In other words, the existence of wider possibilities of exploring the new capabilities of the alliance and the resource depletion problem *collectively* induce a self-discipline effect for alliance partners and push them to find a finer balance between value creation and appropriation, even if there are no formal sanctions in place that can enforce one form of behavior over the other.

What, then, does this finding tell us? In this study, individuals are allowed to interact with anonymous “others” whose identities were not revealed. This enables us to control for the identity-based drivers and determinants of individuals in a collective setting. Although “the other” was represented as a faceless partner in a highly structured interaction context, we detect a downward trend in individuals’ willingness to cooperate in the baseline scenario, which is in line with earlier findings in the behavioral economics literature. This means that individuals are more likely to act in their own self-interest even if there is no basis for forming self/other distinctions. However, once we start to manipulate the extent of change in the external environment of groups, we observe that individuals are more likely to stick together and sustain their cooperation over time. This is the case even when formal sanctions and the possibility of peer pressure (i.e., punishment or rewards) are absent. In other words, in dynamic environments where external changes increase the need for achieving superordinate goals (i.e., the co-creation of knowledge), it is possible to observe the emergence of a spontaneous, self-organized and sustained cooperation among individuals who have no reason for relating or not relating to “the others” with whom they are interacting.

In this paper, the depreciation of knowledge assets is assumed to be an involuntary phenomenon. That is, partners in the alliance are exposed to a process of an (undesired) organizational forgetting. In the next paper, this assumption will be relaxed and altered by envisaging the change in the knowledge repertoire of one party (i.e., the acquired unit) as a voluntary, deliberate and unilateral process initiated by another (i.e., the acquirer). Thus, instead of regarding the root of the change as the competitive dynamics that take place outside the boundaries of one type of hybrid (i.e., the strategic alliance), the next paper looks at another type of hybrid (i.e., acquisition) and examines what would happen if both the source and subject of change operate under the same organizational boundaries.

Paper 2: When we move into the realm of common organizational boundaries

The two keywords that can summarize the gist of this theoretical paper are *organizational unlearning* and *knowledge incompatibility*, two concepts that have garnered relatively scant theoretical and empirical attention in the literature so far. As a sort of semi-formal mandate, the issue of organizational unlearning becomes more relevant once we shift our attention from alliances to M&As. There are two reasons for that. First, M&As are characterized by the presence of a buyer who has the formal mandate to control the acquired unit, whereas partners in an alliance still exist as autonomous entities despite common interests. Hence, in the case of M&As, it is possible to talk about an acquirer-initiated and purposive process of organizational unlearning (as opposed to the involuntary depletion of knowledge-based resources, as is the case in the previous paper). Second, being longer-term hybrids, M&As require normative stability mechanisms (i.e., socialization mechanisms and acculturation) since they necessitate a wider and deeper form of cooperation due to the reciprocal type of interdependence that characterizes these relationships, as opposed to alliances where cooperation takes place across less permeable boundaries and via pooled interdependence (Borys and Jemison, 1989).⁴ Hence, the need for greater integration on both the operational and sociocultural fronts renders organizational (un)learning not only more viable but also more necessary in the case of M&As.

Similar to the concept of organizational unlearning, our focus on knowledge incompatibility is also motivated by some of the specific attributes of the acquisition context. In particular, the (in)compatibility issue is especially paramount in cross-border acquisitions, since the

⁴ Borys and Jemison (1989:241) define reciprocal interdependence as the case “in which partners exchange outputs between each other and need to learn from each other”, whereas pooled interdependence refers to “a common pool of resources from which each of the partners can draw”.

context within which such practices are created (viz. the acquirer as the source) and the context into which these practices are intended to be transferred (viz. the acquired unit as the recipient) likely differ substantially due to differences between the parties' national and organizational cultures. Besides, unlike greenfield subsidiaries where organizational culture develops from scratch, acquired units tend to fall back on their incumbent sets of routines, values and norms when exposed to new knowledge and organizational practices. Thus, the fact that acquired units are not "clean slates" makes it important to understand how the compatibility of knowledge present in the acquired unit and sent from the acquirer affects the way it is perceived, made sense of and eventually adopted at the receiving organization. Despite this, we observe that the tacit vs. explicit dichotomy, which owes its roots to the classical work of Polanyi (1966), heretofore has dominated the extant literature on knowledge transfer. While this dichotomy is important, the disproportionate level of attention paid to tacitness has served to obscure the importance of other knowledge characteristics that may also play an important role in knowledge transfer. Inspired primarily by the diffusion of innovations theory developed by Rogers (2003), the compatibility dimension is emphasized to capture the extent to which incoming knowledge is harmonious with the prevailing *needs*, accumulated *experiences* and existing *norms* and *values* of the acquired/recipient units.

In this theoretical treatise, the point of departure is to show that "the other" (i.e., the acquirer) can start to impose certain practices on and changes at the focal entity (i.e., the acquired unit) once it gains authority and control through ownership. While this could be an end result of a typical "dominance" narrative as surmised by some of the earlier M&A studies, it can also be a consequence of the need for deeper integration in acquisitions compared to alliances or other partnership arrangements. We don't have any empirical basis upon which to differentiate which, if any, of these mechanisms are at play. Nevertheless, our key point is that the migration of ideas from one side of an acquisition to the other requires the recipient to undergo some form of *break from its own past*. This

unlearning of habitual routines at the acquired/recipient unit is thus argued to be a prerequisite for effective transfer of (incompatible) knowledge sent by the acquirer.

Underscoring the existence of the knowledge incompatibility problem in M&As, this paper adopts a subtly positive tone vis-à-vis organizational unlearning, examines its different sub-components, and emphasizes the key role each component plays in different stages of knowledge transfer in M&As. However, like the preceding one, this paper also builds on an ulterior assumption: it is presumed that knowledge flows are uni-directional, where the acquirer is the source and the acquired unit is the recipient. In the next paper, the aim is once again to relax this assumption so that we are able to question whether an organizational unlearning process initiated by the acquirer (or any other one-sided change effort, for that matter) is an ideal way of achieving the intended sociocultural integration in M&As and ensuring the stability of such a partnership.

Paper 3: When the merits of unilateral changes are questioned

This paper starts by emphasizing the *grey box* conditions that exist in M&As, that is, the observation that merging organizations will always have an imperfect and incomplete knowledge about each other. In light of these grey box conditions, the unilateral introduction of post-acquisition changes is argued to be problematic due to the absence of a clear understanding of “who is who” at both ends of the deal. Thus, this paper can be considered a counter (or, more accurately, a cautionary) argument to the previous one in which the perils and undesirable consequences (i.e., loss of key personnel, loss of motivation at the acquired unit) of the premature and haphazard introduction of post-acquisition change efforts initiated by acquirers are underscored.

In addition, this paper also examines the role of culture and status in the formation of initial, as well as enduring, perceptions of both parties

regarding the “the other”. Specifically, it is argued that the aforementioned grey box conditions pave the way for stereotypical perceptions of the culture and status of “the other”, which would initially dominate mutual perceptions and set the stage for subsequent integration efforts and acculturation outcomes. It is thus argued that the shadows cast by sometimes rather haphazardly submitted pre-acquisition culture and status perceptions are indeed long and persistent, and that their effects can be felt in terms of the loss of key employees, organizational inertia, and a lack of mutual learning throughout post-acquisition integration processes.

While this theoretical paper examines the initial and enduring role of culture and status by examining these factors’ role in the generic process of “acculturation”, the next paper expands the conceptual discussion by delving deeper into the dual roles of these concepts, and disentangling different dimensions of sociocultural integration.

Paper 4: When two complementary concepts are juxtaposed

As noted, the key aim of the first paper of this thesis is to set up a baseline situation in which structural and incentive-based solutions (such as superordinate goals) are identified as effective stabilizing mechanisms. In this paper, I begin to elaborate on this baseline situation and examine the role of two key concepts (i.e., culture and status) on distinct dimensions of sociocultural integration in M&As. As shown in the previous paper, culture and status are central dimensions that could mold individuals’ mutual perceptions and first impressions in the initial stages of an acquisition, as well as create longer-term effects that ripple throughout the latter episodes.

While the examination of these dual dimensions is a complement to the previous papers and builds on the ideas presented therein, the juxtaposition of culture and status has the promise of making some important contributions to the issues of culture and cultural distance,

which have been extensively studied and debated in the international business literature at large. Inquiring into the role and implications of cultural similarities/differences between merging organizations is especially useful as a means to probe into the antecedents and dynamics of sociocultural integration in M&As (Stahl and Voigt, 2008). However, extant conceptualizations of cultural distance can only depict the descriptive side of the picture (i.e., how different one entity is from the other) and do not offer a great deal of insight when it comes to understanding whether the differences are perceived and evaluated on positive or negative terms. On the other hand, as a concept that has long been used to explain social hierarchies resulting from accumulated acts of deference (i.e., Sauder et al., 2012), status affords an evaluative basis for comparison by making it possible to vertically rank organizations based on perceived status characteristics.

Given this, considering culture and status in tandem can be a useful way to incorporate both *descriptive* and *evaluative* perceptions of the interacting parties in acquisitions and similar relational phenomena (i.e., joint ventures, alliances, global teams, etc.). Taken together, the simultaneous consideration of culture and status makes it possible to position merging firms in a two-dimensional space. Accordingly, and based on different combinations of horizontal and vertical locations of the merging firms, I introduce eight archetypical cases of M&As in this paper. Based on these cases, I develop testable propositions regarding the ease with which *shared identity*, *trust*, *perceptions* and *learning* outcomes can be achieved across different types of deals.

The introduction of the status dimension, along with cultural differences, provides a more nuanced outlook on integration in M&As by accounting for otherwise neglected heterogeneities across different deals and across different types of “others”. This is especially important for improving extant models of sociocultural integration and bringing in a possible explanation for the mixed findings regarding the role of culture in M&As that have been reported in earlier empirical work. In addition, the theoretical framework introduced in this study facilitates a better focus on both descriptive/cultural and evaluative/status differences in

order to decipher their negative *and* positive effects on the perceptions of interacting parties. In doing so, this paper questions the plausibility of two key assumptions of the cultural distance hypothesis (namely, symmetry and discordance), which occupies a central position in the previous M&A literature, as well as the international business field as a whole.

With the two papers that follow, the aim is to explore the extent to which the theoretical possibilities and predictions introduced in this paper can find empirical support.

Paper 5: When the answer lies in vertical parameters

This paper represents the first set of empirical tests of the conceptual ideas regarding dual effects of status and culture that are initially presented in Paper 4. In that regard, I explore the dual effects of shared identity/group membership between and the relative status characteristics of merging organizations on specific integration outcomes. Specifically, in this paper I compare four possible scenarios on relative characteristics of merging organizations (high status and same identity; high status and different identity; low status and same identity; low status and different identity) along three outcome variables: (a) different *types of trust* that members of the acquired organization develop towards the acquirer; (b) the *social preferences* of acquired-unit employees towards the acquirer; and (c) the way acquired unit members *perceive and evaluate the knowledge* sent by the acquirer.

To that end, I conduct two complementary studies using pseudo-experimental design with experienced managers as my respondents, seeking to examine how organizational identities and relative status positions affect perceptions and likely behaviors of individuals at the acquired unit towards the acquirer. In particular, I hypothesize that whenever the acquirer shares the same organizational identity with and has higher status than the acquired unit, members of the acquired unit would tend to (a) depict social and distributional preferences that would favor and benefit the acquirer (Study 1, n=159), as well as (b) evaluate

advice coming from the acquirer as more useful and credible (Study 2, $n=159$). Moreover, based on earlier experimental research integrating social identity and status characteristics theories (Oldmeadow et al., 2003), I expect the effects of status and shared identity to be additive in the sense that higher (low) status acquirers that also have more (less) similarity to the acquired unit would be evaluated most (least) positively and favored the most (least) by individuals working at the acquired organization.

The findings of Study 1 suggest that status plays a key role in social preferences such as other concerning behavior, out-group favoritism and self-sacrifice for the benefit of the other party. Specifically, these tendencies are more likely to be exhibited towards a high-status acquirer (in four out of five resource distribution decisions). Similarities between the organizational identities of the acquirer and acquired unit, on the other hand, do not appear as a significant determinant in any of the five social preference decisions. Results of Study 2 point to a rather counterintuitive interaction between status and similarity when it comes to perceptions of external advice. Specifically, external advice is perceived to come from a more credible source if it originated from a high-status/out-group acquirer. Thus, against my theoretical predictions, shared group membership/common identity and high status do not have additive effects on the credibility perceptions of recipient/acquired unit members. On the other hand, and in line with my a priori hypothesis, high-status and shared group membership reinforce each other when it comes to the perceived usefulness of external advice.

In sum, the findings of this paper empirically show the important role played by relative status positions in acquisitions and their effects on the ways in which relative positions affect the perceptions and likely behaviors of individuals at the acquired unit. Simply stated, the results reported in this study show that the status of “the other” is a key parameter affecting the integration outcomes in M&As.

That said, however, there are two issues worthy of note. First, the experimental design used in both of the studies in this paper looked at commonalities/similarities in the organizational identity of merging

organizations, which did not provide a direct answer for my earlier theoretical conjectures regarding cultural similarities/differences. Second, the way I manipulated status in this paper pertained to a merit-based status characteristic (i.e., innovativeness), which left the effects of more diffuse/non-merit-based sources of status positions as an open empirical question. In the next paper, I attempt to address both of these issues.

Paper 6: When some quintessential assumptions are put to explicit test

Despite their convenience, face validity, intuitive appeal, and ease of use, the conceptual and methodological properties of index-based measures of cultural distance have been identified as a possible reason for the lack of empirical consensus over the net effects of this key construct on a myriad of cross-border organizational phenomena. In one of the most astute and acclaimed critical appraisals of standard approaches to the issue of cultural distance, Shenkar (2001) aptly underscores the downsides of conceptualizing cultural distance as a linear, fixed and symmetrical variable that creates additional challenges and problems proportional to its magnitude. Following up on that, this paper particularly problematizes the assumptions upon and mechanisms with which cultural differences are theorized to have a bearing on individuals' perceptions of cultural differences and likely responses in M&As. In this vein, the paper questions the assumptions of *symmetry* and *discordance* by examining the conditions under which cultural distance could yield asymmetrical and/or positive effects on the perceptions and possible responses of individuals in M&As.

This paper is based on individual-level data collected in Sweden (n=154) and China (n=222) by replicating the same vignette design in both of these countries, where individuals with work experience took part in the studies. Specifically, we presented Swedish (Chinese) respondents with a series of acquisition scenarios, in which they are asked to assume

the role of an employee whose firm is acquired by a Chinese (Swedish) firm. Using this and other auxiliary decision clues (i.e., reputation of the acquirer, changes in the compensation level and decision-making autonomy of acquired unit members), respondents are then asked to express their willingness to use knowledge sent by the Chinese (Swedish) acquirer, as well as to describe their possible commitment to the merged organization. In addition to that, we also asked Swedish (Chinese) respondents to rate the extent to which they find China (Sweden) different from their own country along several dimensions. Based on these data, we aim at answering: (1) whether or not cultural distance has the same effect on acquired unit employees' perceptions and potential behaviors, *regardless of the direction in which this distance is measured* (i.e., is China farther from Sweden than Sweden is from China); and (2) whether and when differences in cultural values lead to negative *and* positive consequences in the context of cross-border M&As. The specific design of this study also enables a better understanding of the possible role played by non-merit-based status characteristics of merging organizations (namely, as a result of country-of-origin effects), an issue which was left unanswered by the previous paper.

Several interesting results emerge from the analyses. First of all, we found that the psychic distance from Sweden to China as perceived by Swedish respondents is shorter compared to the distance from China to Sweden as perceived by Chinese respondents. In addition to that, our analyses reveal that Chinese respondents show greater willingness to implement a Swedish acquirer's organizational practices as compared to Swedish respondents' likely reactions towards practices sent by a Chinese acquirer. Similarly, Chinese respondents' organizational commitment to a Swedish acquirer is stronger than Swedes' commitment to a Chinese acquirer. Put differently, the data we gather from Swedish participants lent support to the idea that cultural differences are an impediment for the success of post-merger integration, whereas this is not the case for Chinese respondents, who express more favorable perceptions and reactions to Swedish acquirers compared to domestic acquirers.

Overall, this paper takes the preceding lines of inquiry a step further in two ways. First, the analyses provide a more direct and overt test of the propositions put forth in the fourth paper, which should be of interest and value not only for the M&A literature but also for students of international business studies. Second, using country-of-origin as a *diffuse* source of relative status positions, this paper extends the scope of generalizations presented in the fifth paper, where the basis of status is confined to specific status characteristics. The issues of the roots and origins of asymmetric perceptions and likely behaviors between the two ends of the country pairing were determined to fall outside this paper's scope.

Confutatio: Definitions, Delimitations, Disclaimers

In order to substantiate the reported findings and to position the contributions I claim, I shall briefly add several clarifying remarks. First of all, on the conceptual front, I shall provide a working definition of status, which is one of the central constructs I examine theoretically and empirically in this dissertation. Overall, I accede to the definition of status provided by Washington and Zajac (2005:284) as “a socially constructed, intersubjectively agreed-upon and accepted ordering or ranking of individuals, groups, organizations, or activities in a social system”.⁵ Indeed, the mutual acceptance of this rank ordering lies at the very core of the postulations I develop in Paper 4, which also coheres well with the findings reported in Paper 6.⁶

⁵ The delineation of status from the related concepts of reputation, legitimacy and power is provided in the theoretical development section of Paper 4.

⁶ On the other hand, the experimental manipulation of status in both studies in Paper 5 was based on the judgements and evaluations of external actors. However, this does not negate the possibility that the perceptions on both ends of a dyad are

Second, even though the lack of systematic attention paid to status dimension was identified as one of the possible causes of empirical inconsistencies in earlier M&A research, by no means do I claim that status is *the* dimension that can explain the equivocal findings reported in the extant literature. Instead, given that M&As rarely involve the coming together of two “equal” organizations, I contend that status is a theoretically relevant factor in the context of acquisitions. Accordingly, I argue that paying due attention to the role of status can add to our understanding of systematic variation in post-acquisition integration outcomes. By the same token, I don’t argue that the specific integration outcomes examined in different papers of this dissertation (i.e., trust, shared identity, acculturation, social preferences, organizational commitment and knowledge transfer) constitute an all-encompassing list of the factors that shape sociocultural integration in acquisitions. Rather, I focused on those integration outcomes that are related to and lie within the scope of the specific theories I utilize.

Third, the models I develop and empirically examine in Papers 3, 4, 5 and 6 are all focused on the *individuals* working at the acquired unit. In other words, the primary focus of this thesis is on individuals’ possible reactions to the acquisitions, which leaves the dynamics of sociocultural integration on an organizational level outside the scope of this analysis. Furthermore, with cultural similarities/differences and relative status positions, I refer to social actors’ *perceptions* and *subjective understanding* of each other. Another common thread in the models and frameworks presented in these papers is that they primarily focus on the *initial contact conditions* in acquisitions. In particular, the purpose is to understand how cultural profiles, identity frames and status characteristics collectively shape the perceptions and expectations of individuals who would then factor these cues into their decisions throughout the ensuing stages of post-acquisition integration.

shaped by and/or consistent with the judgements of third parties. Besides, it is often (if not always) the case that external arbiters’ and critics’ pronounced judgements determine the status position of an organization vis-à-vis others (Sauder et al., 2012).

Lastly, given that all three empirical papers in this thesis use an experimental methodology, which is a less frequently used and less popular approach in business and management studies compared to survey designs and case studies, an extended elucidatory note on the issue of *generalizability* is in order. In general, experiments are usually criticized for having low external validity beyond laboratory settings. For the sake of clarity, it is essential to specify what is meant by external validity. In a general manner of speaking, scholars of methodology in social sciences usually adopt one of the following approaches in defining external validity:

- a. *Generalizing to the Population of Interest*: In this approach, any given study is said to attain external validity so long as its findings can safely be used to infer conclusions and implications for a particular population. In the words of McTavish and Loether (2003:133), “external validity [...] refers to whether the results of a study can be legitimately generalized to some specified broader population”.
- b. *Generalizing Across Populations and/or Settings*: From an alternative point of view, other scholars argue that external validity is a matter of the degree to which the results of a study hold true in research settings other than the one in which these results were derived. Put differently, external validity “concerns the extent to which causal inferences [...] can be generalized to other times, settings, or groups of people (Monette, Sullivan and DeJong, 2002: 236)”.

While both definitions focus fundamentally on the generalizability of research findings, they also imply different challenges for the researcher. For example, if we aim at ensuring the applicability of our research findings by generalizing from our sample to the larger population from which this sample is derived, the external validity becomes largely a matter of properly applying probability sampling methods. More specifically, whenever the purpose of research is to understand the

behavior of a specified population, external validity requires the employment of particular techniques so that the sample is large and representative enough to warrant accurate generalizations. In cases where the researcher is interested in arriving at generalizations across populations/settings, however, such sampling techniques cannot be the primary concern. This is because findings derived by using a sufficiently large and perfectly representative sample of, say, population A tell us little about the potential behavior of individuals/groups within population B. In other words, when the research objective is to derive generalizations across populations, there is no reason to believe that probability samples would warrant more accurate generalizations across populations than do non-probability based sampling techniques.

The mechanisms through which generalizations are made in experiments are quite different from traditional survey designs. Surveys are primarily aimed at achieving meaningful conclusions and generalizations about a specific population from which their samples are drawn. Therefore, the size and representativeness of the sample are the essential criteria by which to evaluate the external validity of survey-based research. To that end, employing probability-based sampling techniques is necessary to achieve the first type of external validity in survey research. On the other hand, experimental research aims at testing theoretical relationships in appropriate experimental paradigms and (in)validating the applicability of proposed theoretical relationships, or specifying their boundary conditions, across different populations/settings.⁷ Therefore, the external validity of an experiment is a function of the degree to which its experimental design/paradigm conforms to the scope conditions of the theory being tested and whether all and only the relevant theoretical constructs are included in that design/paradigm. As aptly put by Lucas (2003:238), “If an experiment does manipulate every theoretically relevant variable and finds an effect,

⁷ To put it differently, the process by which survey-based research arrives at general conclusions for the population (population=> sample=> findings=> generalizations) is different from the process via which theories are tested in experiments (theory=> experimental design=> findings=> theory).

then to say that the effect will not generalize to naturally occurring situations is not a criticism of the experiment having low external validity; rather, it is a critique of the theory for not taking every factor influencing the phenomenon of interest into account”.

Peroratio: What do all of these add up to?

Overall, with this thesis I make several theoretical and empirical contributions to both the M&A and international business literatures. To begin with, this thesis aims at enriching the extant theoretical understanding of the M&A phenomenon by building on theories of sociology and social psychology. Specifically, by incorporating theories of status characteristics (Berger et al., 1977) and system justification (Jost et al., 2004), I examine why and how the relative status positions of organizations, in conjunction with differences in organizational and national cultural differences, affect post-acquisition integration outcomes. I show that slotting the status dimension into the picture can help reconcile earlier mixed findings regarding the effect(s) of cultural differences on the success of post-acquisition integration. Thus, by taking into account otherwise unexplained variation and heterogeneity due to omitted status differences, I provide a conceptual framework within which merging organizations could more accurately be positioned in a two-dimensional space. Theoretical conjunctures presented in Paper 3 and Paper 4 are especially instrumental to illustrate how a sole focus on cultural differences, which has often been the case in the extant literature, could lead to underspecified models, as well as how simultaneous consideration of culture and status can afford a more nuanced and informed picture.

The second theoretical contribution of this thesis is made in Paper 2, where I introduce two concepts (i.e., knowledge compatibility and organizational unlearning) into the extant M&A discourse, which could shed further light on knowledge transfer in M&As. While focusing on the

compatibility of knowledge (with recipient units' experiences, needs and norms) is imperative in order to go beyond the tacit vs. explicit dichotomy that dominates the extant discourse on knowledge transfer, the systematic examination of organizational unlearning (as a process that is related to organizational learning, yet could have separate effects on, and implications for, the process through which the knowledge base of acquired units could alter over time) within M&As is instrumental in uncovering specific challenges associated with the effective transfer of knowledge from the acquirer to the acquired unit. Beyond the specific context of acquisitions, the introduction of incompatibility and unlearning can also allow future research to have a more nuanced examination of the process by which knowledge and practices are transferred across organizations. While the bulk of the literature on knowledge flows within multinational companies has looked at the factors facilitating the arrival of certain types of knowledge to the recipient units, precious little attention has been paid to what happens once the knowledge is received by the subsidiaries. This is an important omission, given that a recipient's exposure to new knowledge does not necessarily mean it will start putting the knowledge into practice. Nor can the implementation of new knowledge/practices be automatically translated into internalization, due to the conflicting logics of action and the cognitive schemas of the sender (where the practice is successfully used and is legitimate) and recipient (where the intention is to initiate a sustained change in the way things are done) units. By disentangling these different stages of knowledge transfer, and examining the role of different forms and dimensions of unlearning that are applicable to each of these stages, the thesis also aims at making a conceptual contribution to the broader literature on knowledge management and transfer.

On the empirical front, I expand earlier experimental and survey-based evidence on the role of status differences in the ways in which members of merging organizations perceive each other. Particularly, in Paper 5, I not only explore whether or not organizational identity and status can give rise to intergroup biases and negative perceptions (cf. Boen et al., 2010; Fischer et al., 2007; Terry, 2001), but I also examine

the ways in which and extent to which these two contingency variables individually and collectively affect acquired unit members' social distributional preferences (Study 1) as well as their perception of the quality (i.e., credibility and usefulness) of the knowledge/ideas sent by the acquirer (Study 2). Considered together, these two studies provide some insights regarding the conditions under which merging organizations are more likely to constitute a social community where trust, cooperation and learning can be identified as the necessary building blocks to call this community a "firm" (cf. Kogut and Zander, 1996).

The second empirical contribution of the thesis is that it systematically tests the assumptions of symmetry and discordance as they are used in the "cultural distance hypothesis" and examines the conditions under which cultural distance could yield asymmetrical and/or positive effects on the perceptions and possible responses of individuals in M&As. The results of Paper 6 confirm that cultural distance has asymmetric effects on Swedish and Chinese respondents' perceptions and likely behaviors in the context of M&As. In particular, perceived cultural differences between Sweden and China had a more negative effect on Swedish respondents' willingness to learn and commit to a Chinese acquirer compared to Chinese respondents. Furthermore, our analyses confirm the discordance assumption when we compared Swedish respondents' possible reactions to a foreign vs. domestic acquirer with Chinese respondents' more favorable and positive perceptions towards a foreign acquirer. While this study is set in the context of M&A, we believe that our investigation of the asymmetry of distance will have much broader interest/applicability than just M&As.

The third empirical contribution of the thesis is the systematic examination of the value creation and cooperation in M&As by using the extant body of literature in game theory and behavioral economics. Towards that end, in Paper 1, we conceptualize cooperation in hybrid governance forms (e.g., alliances, acquisitions, mergers, etc.) as a social dilemma (i.e., individual units can pursue self-profit maximization by going against the goal of social welfare maximization and synergy creation). Specifically, the paper is built on the experimental paradigm of

‘voluntary contribution mechanisms’, which has been applied extensively in the behavioral economics literature. However, we adopt an innovative design by endogenizing a key parameter (i.e., marginal per capita return on private activities) that has been either kept fixed or determined exogenously in earlier research. Based on this, a structural/incentive-based solution to the dilemma was introduced and empirically verified as an effective tool to foster cooperation.

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