

# Organizational Identification as Perceived by Merger and Acquisition Employees

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## **Abstract**

**Purpose:** This study examined the influence of two organizational factors, namely organizational justice and organizational culture factors on organizational identification following merger and acquisitions (M&A) in Malaysia.

**Design/methodology/approach:** This correlational study used the Social Identity Theory as its underpinning theory. Data were obtained from 219 respondents and were analysed using structural equation modelling.

**Findings:** It is shown that rather organizational culture than organizational justice factors influence significantly on organizational identification with 62% explanatory power. Specifically, developmental, rational and group cultures were the significant predictors of organizational identification.

**Practical implications:** The study gives practical significance to human resource managers in strengthening organizational identification as perceived by employees after an M&A by considering the crucial role of organizational culture factors.

**Originality/value:** This is among the earliest study conducted that jointly links organizational factors of justice and culture in the context of employees' post-merger integration. It theorises on human issues at M&A and enriches the Western literature on organizational identification by providing insights of firms in a South East Asian country.

**Research limitations/implications:** The research was limited in terms of respondents who were employed in M&A organizations in the Klang Valley area of Malaysia.

**Keywords:** merger and acquisition; organizational identification; organizational culture; organizational justice

## Introduction

Mergers and acquisitions (M&A) of business organizations worldwide are aimed at providing strategic growth of a company through combining or purchasing other companies (Bower, 2001). Pucik, Bjorkman, Evans and Stahl (2011) indicated that the number of M&A deals is on an increasing trend in both developed and developing countries. Evidently, globalization helps to speed up the process of M&A, and such deals are further driven by international investments to achieve competitive advantage leading to cost savings and business expansions (Bower, 2001).

The success of M&A deals depends on many factors, both tangible and non-tangible, as well as the ability of the merging organizations to compromise and incorporate each other's business practices (Empson, 2007, p. 229). Bartels, Douwes, de Jong and Pruyn (2006) acknowledge that organizational restructuring generally results in uncertain individual psychological outcomes for employees in the new organization. Papadakis (2005) reports that around 70% of M&A deals end in failure. Cartwright and Schoenberg (2006) similarly report the failure rate of at least 70% out of the bidder as well as target side. They conclude that the success in integrations are relatively low if human issues in the workplace were neglected (Seo and Hill, 2005; Senn, 2008). An example of this kind is the extent to which employees identify themselves with the new organization following the organizational restructuring.

In a typical M&A organization, employees tend to 'de-identity' themselves when they should indeed adopt the new organization's identity, including its practices, norms, and culture (Cho, Lee, and Kim, 2014, p. 423). One of the biggest challenges of an M&A is that employees still identify to their organization at the post-merger integration process. That means, employees who identify highly with their firm before the M&A event might face difficulty in adopting a new corporate identity which seems to pose a threat to the culture and to old values that they relied on (Bartels *et al.*, 2006).

Factors influencing organizational identification have been studied in many previous research (De Cremer, 2005; Cheung and Law, 2008; Fuchs and Edwards, 2012; Azizollah, Hajipour and Mahdi, 2014; Choi, Moon, Ko and Kim, 2014). In addition, there are numerous studies on organizational identification in the M&A context (Bartels *et al.*, 2006; Bartels, Pruyn and Jong, 2009; Cho *et al.*, 2014) and the studies have shown that there are various factors that influence organizational identification. These factors include communication strategies used (Bartels *et al.*, 2006), group status (Boen, Vanbeselaere, and Cool, 2006), psychological contract breach (Epitropaki, 2013), and organizational support (Edwards, 2009). Other studies have shown that organizational justice has been found to contribute significantly to employees' outcomes such as organizational identification (Olkkonen and Lipponen, 2006; Cheung and Law, 2008; Gillet, Colombat, Michinov, Pronost, and Fouquereau, 2013).

However, the above studies did not take organizational culture together with justice dimensions into consideration in an M&A context. Organizational justice and organizational culture were separately found to be significant factors in fostering organizational identification (Bartels *et al.*, 2006; Edwards and Edwards 2011, 2012; Fuchs and Edwards, 2012), particularly in restructuring organizations, in which M&A is an aspect of organizational change. Furthermore, a study on organizational identification by Viyakumar and Padma (2014) did not consider organizational culture as one of the predictors. Considering the above research gaps, organizational culture and organizational justice in the context of M&A and their influence on organizational identification are given due consideration in this study by investigating them jointly.

The present study examines to what extent organizational identification is influenced by employees' perceptions of organizational justice and organizational culture during M&A integration. Specifically, we ask to what extent are these issues relevant in the M&A context

in Malaysia? Therefore, this study makes two contributions. First, it fills the knowledge gaps mentioned above by examining the influence of organizational factors of justice and culture on organizational identification. Second, the study focuses on Malaysia as a new emerging market country in Asia. Therefore, the objective of this study is to examine the different influence of the above factors on employees' organizational identification in the context of a post-merger integration in Malaysia.

The following section continues with a literature review on organizational identification in M&A, outlining the Social Identity Theory, and the influence of organizational justice and organizational culture on organizational identification. The next section describes the methods; followed by findings, discussions and recommendations, before it ends with a conclusion.

## **Literature Review**

### ***Conceptualization of organizational identification***

Organizational identification as defined by Mael and Ashforth is the "perception of oneness with or belongingness to an organization, where the individual defines him- or herself in terms of the organization(s) in which he or she is a member" (Mael and Ashforth, 1992, p. 104). Other authors like Kim, Chang, and Ko (2010, p. 413) defined organizational identification in similar ways, such as the 'perception of belongingness to an organization and a sense of oneness with the organization', while Hogg, Terry, and White (1995) defined organizational identification as to have distinctive attributes that individuals associate with membership in the organization. Organizational identification also refers to an individual's psychological attachment and root construct in the organization (Ashforth, Harrison and Corley, 2008, p. 326; Cheung and Law, 2008). It is correlated with employees' behaviour and work-related attitudes (Riketta, 2005), and it impacts their intention to stay and perform in their organization (Kim *et al.*, 2010).

In general, a high level of organizational identification is believed to be beneficial to organizations because of employees' positive outcomes such as job satisfaction, intention to stay, loyalty and employees' commitment can be attributed to a positive identification with the organization (Riketta, 2005; Ashforth *et al.*, 2008; Kim *et al.*, 2010; Edwards and Edwards, 2012). On the opposite, the failure of the new management to form and inculcate psychological bonds with the acquiring organization is considered to be one of the key reasons for unsuccessful employee integration following an M&A deal. This failure may result in employees starting to hold an identity that the management is not in favour with (Millward and Kyriakidou, 2014), and which most likely leads to negative psychological outcomes.

Maguire and Philips (2008) argue that every individual in an organization is a 'potential trustee' that portrays an organization. They further note that an individual's training, career development, cultural practices, and perceived justice influence the degree of identification with the organization. Moreover, employees tend to construct their own identity according to the descriptions of task assigned and organizational practice such as cultural openness (Ashforth *et al.*, 2008).

### ***Theoretical framework***

This study is underpinned by the Social Identity Theory by Stoner, Perrewé and Munyon (2011), which is a refined version of an earlier Social Identity Theory by Tajfel and Turner (1986). The Social Identity Theory explains factors that influence organizational identification, which reflects an individual's psychological attachment to an organization (Wegge, Van Dick, Fisher, Wecking and Moltzen, 2006). This theory consists of three phases that explain how organizations and individuals identify themselves through social interaction (Stets and Burke, 2000). Firstly, social categorization refers to individuals defining themselves in order to adapt to their social environment. In this study, we proceed further by grouping employees according

to their perception on justice (based on the three dimensions of justice) as well as their organizational culture (for instance hierarchical, development, rational culture, and group culture).

Secondly, social identity is materialised when individuals categorise themselves as they adopt the norms of the group, or when they identify themselves as part of the organization. Depending on the categorized group, employees start to react and think similarly as other members of their group. Employees who categorize themselves as belonging to a group which perceives less justice and less fairness during an M&A integration may feel less attached to the new firm and are less likely to identify themselves with the new entity.

### ***Relationship between organizational justice and organizational identification***

Literature mainly consider three types of organizational justice (Ruder, 2003; Di *et al.*, 2010; Fuchs and Edwards, 2012), namely (i) distributive justice that is about fairness of distribution of resources (e.g. payment issues); (ii) procedural justice that concerns fairness during the process of the decision-making; and (iii) interactional justice which refers to fairness in interpersonal employee-employer interactions, which sometimes is divided into interpersonal (e.g. to receive a friendly treatment and respect) and informational justice (e.g. to receive information timely and in a sufficient manner) (Colquitt, 2001; Colquitt and Rodell, 2015). These justice dimensions comprise total perceived fairness among employees in the workplace (Kim and Leung, 2007). A number of researchers have found that justice and fairness matter more for employees in uncertain environments during a restructuring such as in the M&A context. In addition, justice is important because it enhances employees' organizational commitment and their job satisfaction and subsequently it influences employees' behaviours toward their organization (one of which is organizational identification) (Lind and van den Bos, 2002; Elovaino *et al.*, 2005; Fuchs and Edwards, 2012).

Organizations where employees perceive a better organizational justice with clear and adequate statements from the top management will strongly identify themselves with the organizations (Cheung and Law, 2008). Tyler and Bladder (2003) found that fair procedures or procedural justice during the process of decision-making, and fair allocations of resources (distributive) are helpful in fostering organizational identification. Studies by scholars have shown that distributive, procedural and interactional justice are positively and significantly contributing to employees' outcomes, therefore implying that procedural justice is strongly related to organizational identification (Olkkonen and Lipponen, 2006; Cheung and Law, 2008; Gillet *et al.*, 2013) that also counts for M&A contexts (Lee, Wu, and Lee, 2009). Thus, this implies that distributive, procedural, and interactional justice also in our case of Malaysia contributes positively to organizational identification. Hence, we hypothesized that:

H1: A higher perceived organizational justice namely distributive (H1a), procedural (H1b), and interactional justice (H1c) leads to higher organizational identification of M&M employees.

### ***Relationship between organizational culture and organizational identification***

Zacher and Gielnik (2012, p. 328) define organizational culture as a 'pattern of assumptions, beliefs, norms, and values that are developed and held by members of the group in order to construct and interpret reality, and to adapt to internal and external challenges'. Organizational integration implies that two or more organizations merge organizationally, but also financially, legally, and culturally to become one firm. In regard to Colman (2008) a newly combined organization needs a common organizational culture. That is to say, in the context of M&A, a

change in organizational culture does not affect all individuals the same. There might be more weakly affected employees for which only small changes occur, than directly affected individual employees experiencing big changes such as the removal of their workplace (Bartels *et al.*, 2006).

This study adopts four dimensions of organizational culture to measure their relevance, namely: (i) development/adhocracy culture which refers to an open system emphasizing flexibility to achieve growth, innovation, and development in the organization. This approach is also known as ‘business-oriented’ practices; (ii) rational/market culture refers to the organization’s focus on ways to increase their productivity and also to be goal-oriented; (iii) hierarchical culture, also known as ‘standard operation procedure’ culture that stresses on rules and procedures usually practiced in any technical organization (i.e. engineering, construction, and factory); (iv) group/clan culture by which the organization treats employees like an ‘extended family’ (Quinn and Rohrbaugh, 1983; Lincoln, 2010), where leaders act as mentors or parents to empower employees (Bradley and Parker, 2001; Cameron and Quinn, 2006; O’Donnell and Boyle, 2008). It is to say, that some researchers use different terms for these four dimensions. However, regardless of the terms used, these dimensions of culture are mainly to develop the mindset of individuals in the integrated organization (Asif, 2010). It should also be noted that one organization can practice more than one type of culture at a time, and any culture is not necessarily better than the other in terms of having group members with a strong organizational identification (Lincoln, 2010, p. 5; Quinn and Rohrbaugh, 1983).

There is no final agreement on how organizational culture impacts organizational performances during the integration process of an M&A (Carleton and Lineberry 2004; Pucik *et al.*, 2011). Cultural openness may have a negative or positive impact on M&A performance depending on how the differences in the post-merger integration are managed. Similarly, it was found that organizational culture is also one of the elements in ensuring employees that they belonged to the new organization. Cho *et al.*, (2014, p. 423) point out that ‘cultural clashes’ between two organizations could be one of the reasons employees do not feel like they belong to the new organization, and subsequently, this will lead to a higher employee turnover and other negative behavioural outcomes. Carlsen (2016) believes that cultural practices are closely linked with how identity is formed. Kroon, Noorderhaven, and Leufkens (2009) argue that organizational culture and organizational identification are both positively correlated to a success of a firm experiencing M&A (Hatch and Schultz, 1997; Cho *et al.*, 2013). Tataw (2012) further stresses that a merger, as an organizational change process, involves organizational learning that could eventually lead to a shift in a new culture and group identity. Based on the above reviews we hypothesized that:

H2: A higher perceived organizational culture namely development/adhocracy culture (H2a), rational/market (H2b), hierarchical culture (H2c), and group/clan culture (H2d) leads to higher organizational identification of the employees.



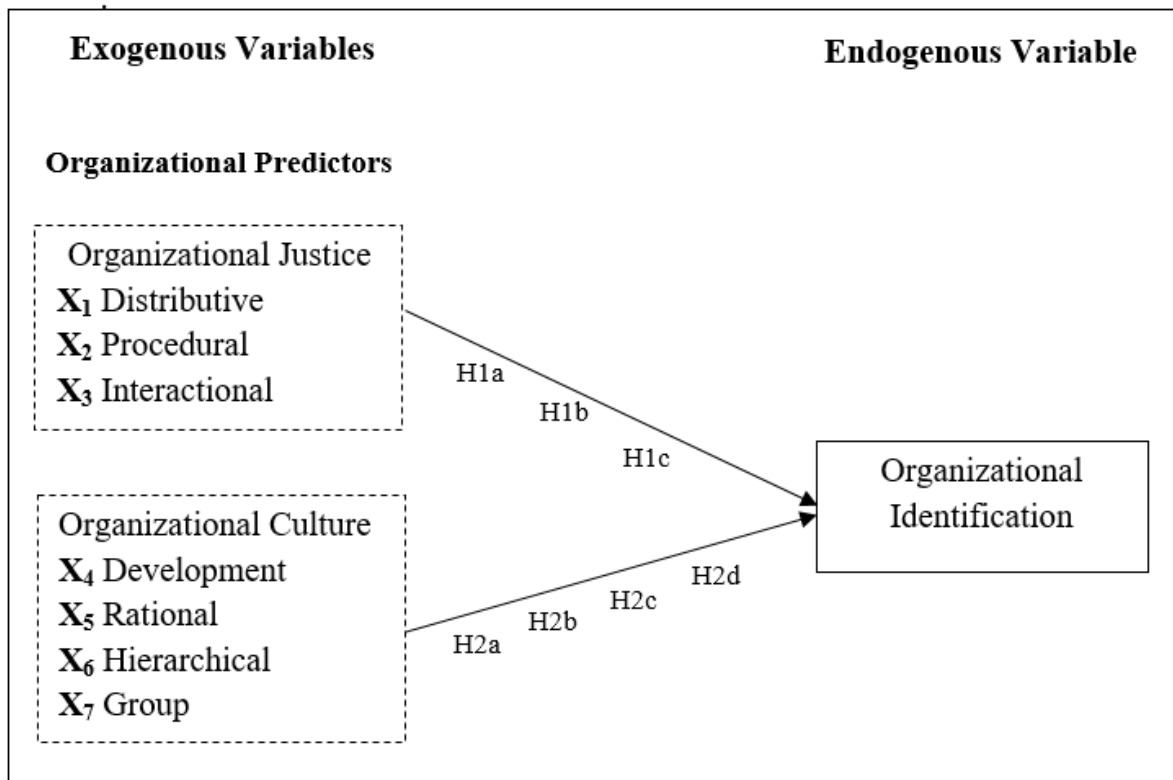


Figure 1: Hypothesized Research Framework Showing the Organizational Predictors and Organizational Identification

Figure 1 indicates hypothesized research framework showing the relationship between organizational justice as well as organizational culture in regard to organizational identification. The specific hypothesized relationships with organizational identification are indicated as: distributive justice (H1a), procedural justice (H1b), interactional justice (H1c), development culture (H2a), rational culture (H2b), hierarchical culture (H2c) and group culture (H2d).

## Method

### *Study sample and procedure*

The study was based on a survey using a set of structured questionnaires conducted through ‘drop-and-pick’ and online methods (specifically emails). The former was conducted through contacts and visits made with the human resource divisions of the organizations. Data were collected from 219 participants who were identified from six selected organizations in the Klang Valley area (comprising Kuala Lumpur, Petaling Jaya, and Putrajaya) that have undergone domestic M&A deals in the past five years. The selected organizations were obtained based on cluster sampling procedures and they represented five sectors of the New Key Economic Areas (NKEA) of the Tenth Malaysian Plan, namely finance, oil and gas, agriculture, services, and education. Meanwhile, random sampling was applied to selected respondents in each organization who met the criteria (i.e. must have worked before and after M&A integration). Based on the G\*Power and Raosoft procedures, the sample size required was from 152 to 385. As the data would be analysed using structural equation modelling (SEM), the sample size of 268 (the midpoint of 152 and 385) was deemed acceptable as it exceeded 200 (Hair, Black, Babin and Anderson, 2010). Hence, the response rate was 81.7%.

### ***Study instrument***

The questionnaire used in this survey was adapted from several sources and it consisted of four sections: (i) background of M&A and profile of the respondents; (ii) organizational justice items (Niehoff and Moorman, 1993), (iii) organizational culture items (Cameron and Quinn, 2006) and (iv) organisational identification items (Mael and Ashforth, 1992). A 7-point Likert scale was used in the questionnaire, ranging from 'strongly disagree' (=1) to 'strongly agree' (=7). Example of items for each justice dimensions (based on sequence of distributive, procedural and interactional) are: 'My work schedule is fair'; 'To make job decisions, my manager collects accurate and complete information'; 'I was treated with dignity by my manager'. Examples of items for organizational culture (based on sequence of development/adhocracy culture, rational/market culture, hierarchical culture, and group/clan culture are 'This organization is very result-oriented'; 'The organization is a very dynamic entrepreneurial place'; 'The organization is a very controlled and structured place'; and 'The management style in this organization is characterized by teamwork, consensus, and participation'. An example of item for organizational identification is: 'I am very interested in what others think about my organization'. The items used showed strong consistent results with Cronbach's alphas for organizational justice, organizational culture, and organizational identification obtained were .969, .989 and .945, respectively.

### **Data analysis**

To test the research hypotheses, structural equation modelling (SEM) using Analysis of Moment Structures (AMOS) was used to analyse and test the model. The SEM analysis was conducted using a three-level procedure including confirmatory factor analysis (CFA), measurement model, and structural model analysis. A CFA purposely assesses model fit, convergent validity, and construct validity. The analysis then was followed by measurement model to test the model, test for discriminant validity, test for normality, and test for outliers. Items that did not meet the criteria of the above test were removed from the final analysis of structural model. The last procedure, the structural model, was tested for the model fit and the relationships between organizational justice and organizational culture with organizational identification.

This study applied the standard criteria listed by Hair *et al.* (2010) which determine that the model is accepted if the factor loading is positive and greater than .5, and at least three of the model fitting indices are significant and exceed their cut-off values. There are many terms used for the model fitting indices, including GFI (Goodness-of-Fit Index), CFI (Comparative Fit Index), AGFI (Adjusted Goodness-of-Fit Index), IFI (Incremental Fit Index), NFI (Normed Fit Index), TLI (Tucker-Lewis Index) and Root Mean Square Error of Approximation (RMSEA). Items in the model would be discarded from the analysis if the item is problematic until three to four indices as shown above meet the model fit or if the value has been improved compared to before it was discarded. Subsequently, all items of hierarchical culture were discarded from the analysis because it did not meet the criteria listed.

### ***Profile of the respondents***

The respondents' ages ranged from 20 to 59 years (with M=35.02, SD=8.54). The respondents (43.8% male and 56.2% female) had various levels of educational attainment; 47.9% of them were graduates with Bachelor's degree, 18.3% had secondary education, 14.6% had Master's degree and 12.8% had post-secondary education. This indicates that the respondents have a large range of educational attainment. In addition, 50.23% of the respondents work in public organizations while the rest of 49.77% work in private organizations. Table 1 also indicates that

more than half respondents showed neutral perception on the M&A decision, 29.4% were in favour of M&A and 9.6% were not in favour to it.

Table 1: Profile of the Respondents (n=219)

Profile	Frequency	Percentage
Age (year) ( $M=35.02$ , $SD=8.54$ )		
20-32	101	46.1
33-45	88	40.2
46-59	30	13.7
Gender		
Male	96	43.8
Female	123	56.2
Type of organization		
Public	110	50.23
Private	109	49.77
Highest level of education		
Primary education	1	.5
Secondary education	40	18.3
Post-secondary education	28	12.8
Undergraduate Degree	105	47.9
Postgraduate- Master Degree	32	14.6
PhD	11	5.0
Other Professional qualifications	2	.9
In favour of the M&A decision		
Yes	52	29.4
Neutral	108	61.0
No	17	9.6

## Findings, Discussions and Recommendation

### Results

The results (as shown in Table 2) indicated that the structural model met the criteria at  $\chi^2(303) = 640.926$ , Relative Chi-Sq ( $<5.0$ )= 2.115,  $p = 0.000$ , GFI= 0.828, AGFI= .786, CFI= 0.933, IFI= 0.934, NFI= .881, TLI= 0.922, and RMSEA (.03 to .08)= 0.072. The model, comprising organizational justice and organization cultures determining organizational identification, explained as much as 62% of the variance in employees' organizational identification at the M&A. This shows that it was an acceptable model with six predictors involving 219 respondents.

Table 2 further indicates that distributive justice ( $B = .074$ ,  $C.R = .668$ ,  $p = .504$ ), procedural justice ( $B = .028$ ,  $C.R = .141$ ,  $p = .888$ ), and interactional justice ( $B = -.318$ ,  $C.R = -1.693$ ,  $p = .090$ ) were found to be non-significant predictors of organizational identification. The results also show that the two predictors of organizational culture positively and significantly contributed to organizational identification, namely rational culture ( $B = .764$ ,  $C.R = 4.436$ ,  $p = .000$ ) and group culture ( $B = .920$ ,  $C.R = 2.692$ ,  $p = .007$ ). One of the culture variables, i.e. development culture, was found to have a significant negative influence on organizational identification ( $B = -.879$ ,  $C.R = -2.447$ ,  $p = .014$ ). Therefore, all H1 (H1a, H1b, and H1c) were not supported while H2a, H2b and H2d were supported.



Table 2: Predictors of Organizational Identification

Construct	Beta	S.E	B	C.R.	p
Distributive Justice	.075	.112	.074	.668	.504
Procedural Justice	.022	.154	.028	.141	.888
Interactional Justice	-.249	.147	-.318	-1.693	.090
Development Culture	-.704	.288	-.879	-2.447	.014
Rational Culture	.654	.147	.764	4.436	.000
Group Culture	1.042	.387	.920	2.692	.007

Note: Significant at  $p < .05$

### Discussion and recommendations

The result of the three organizational justice constructs contradicted findings in previous studies in which perceived fairness such as the distribution of resources, the decision-making process, and interactional justice have been linked with organizational identification, satisfaction and commitment (Bebenroth and Ismail, 2014; Fuchs 2011; Edwards, 2009; Tyler and Blader, 2003). The results obtained in this study were believed to be related to recent changes in the environment of Malaysian organizations as an impact of the financial crisis and an increase of unemployment that made employees accept whatever remunerations available (Azizollah, Hajipur and Mahdi, 2014). Employees also accepted the existing process and decision-making in the organizations involved with M&A (Choi *et al.*, 2014), and information provided by their organization without question (Gomes *et al.*, 2013); which all these did not affect their identification with the restructuring organization.

Next, the findings of the three dimensions of organizational culture showed that rational and group culture contributed positively to organizational identification. Rational culture, also known as market culture, refers to an organization's production and goal-oriented culture that is suitable for newly restructured organizations because one of the principal aims of integration is to pursue organizational goals. The results indicated that an 'extended family' culture was embraced by employees who desired to be treated like family members so that harmonious interaction would be fostered during the integration (Choi *et al.*, 2014). However, the result shows that the influence of development culture contradicted previous findings. A higher development culture leads to a lower organizational identification. That means employees emphasizing flexibility and growth did not identify to their organization any more. That is understandable because in this study, a large number of respondents (50.23%) are employees in government-related organizations which are not only affected by public policy but also may have a more conservative understanding than other employees in private companies. As such, their restructuring vision is not inclined towards generating profit. As they are bound by strict employment contracts, they are quite contented to maintain the status quo; the culture of risk-taking and innovativeness among employees (O'Donnell and Boyle, 2008) seem to be less common among these respondents.

Smola and Sutton (2002) found that most employees in any organization prefer to stay at a workplace that practices group culture, especially the seniors who are under pressure to care for their children and aged parents. Their personal traits of attitude and personality are brought to the workplace and they prefer a harmonious organization with friendly working environment that emphasizes teamwork (Yu and Wu, 2009).

Nevertheless, this study is not without its limitation. We studied a combination of private and public organizations in Malaysia where generalizability to other sectors in other countries is limited. However, we enriched the literature apart from the mainstream of western-based research. We have several recommendations for future research. Firstly, future investigation is recommended on cross-border M&A involving multinational corporations as this would involve areas of multiculturalism and global organizational identification. This study focused

only on domestic M&A; therefore, culture was not measured in country specific aspects but in enterprise culture. Secondly, we suggest investigating organizational identification as a mediator variable, and other variables such as intention to stay, organization performance, and group cohesiveness as dependent variables, as this study only considered the direct influence of the predictors on organization identification. Lastly, it would also be interesting to see qualitative studies in the future, on how organizational justice and organizational culture influence organizational identification. For this, in-depth interviews and focus group discussions among managers and key human resource personnel would be appropriate to generate knowledge based on personal feelings and experience pertaining to a successful organizational integration.

### Conclusion

Based on the empirical evidence in this study, we can conclude that it is organizational culture rather than organizational justice that contributed significantly to organizational identification in organizations undergoing M&A deals. This evidence is explainable through the use of the Social Identity Theory (Stoner *et al.*, 2011). Findings from this study have proven that social categorization and social identification of the Social Identity Theory are able to explain factors that influence organizational identification. Hence, this study enhances the understanding of the use of the Social Identity Theory into one of the dynamic aspects of the human-side of M&A. Therefore, our hypotheses are partially supported and this study certainly adds new insights to the field of organizational identification in the context of organizational restructuring through M&A in Malaysia.

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