Organizational identification and serendipitous value creation in post acquisition integration

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ORGANIZATIONAL IDENTIFICATION AND SERENDIPITOUS VALUE CREATION
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ORGANIZATIONAL IDENTIFICATION AND SERENDIPITOUS VALUE CREATION IN POST ACQUISITION INTEGRATION

This study tells the story of two acquisitions made by a company we call Multifirm. Multifirm acquired two targets, Datagon and Teknico. The Datagon employees immediately identified with Multifirm and the integration process was characterized by few conflicts and satisfied employees. The Teknico employees, on the other hand, failed to identify with Multifirm, and the integration process was fraught with disruptions and conflicts. Contrary to conventional wisdom of identity threats, Multifirm reported that more value was created from the acquisition of Teknico than from Datagon. In this paper, we try to understand why this was the case.

The objective of an acquisition is to create value. Value can be created through the integration of the target and acquiring firms’ organizations and activities (Haseslagh & Jemison, 1991, Birkinshaw, Bresman & Håkanson, 2000). Graebner (2004) differentiates between expected and serendipitous value. Expected value motivates the deal, whereas serendipitous value arises primarily from the sharing of knowledge between the target and acquirer during the integration process, which can result in new, superior but unexpected procedures and processes.

Acquisitions, by definition, broaden and transform organizational boundaries, and often represent a threat to the pre-acquisition identity of the target. Identity threats are negatively related to value creation (Brown & Starkey, 2000; Nag, Corley, & Gioia, 2007). Employees protect their self-esteem through the continuity of their existing identity, and subsequently, they are unwilling to contribute to the new organization. Studies that have focused on the link between identity and acquisition outcomes suggest that identification with the new, integrated organization leads to high employee satisfaction and performance (Terry, 2003; Terry & O'Brien,
The relation between identity and value creation is, however, understudied in the context of post-acquisition integration (Nag et al., 2007).

In this exploratory case study, we examine how identity influences the outcomes of acquisitions. Our findings challenge conventional wisdom that identity threats negatively influence post acquisition performance. We find that threats to identity lead to lower perceived satisfaction, but that it also facilitates serendipitous value creation. Identity threats push target employees to demonstrate knowledge and solutions of their pre-acquisition unit that they assess as superior to their acquirers’. We argue that identification with the former owner stimulates employees to resist the adoption of processes and structures they judge inferior and provides them with the confidence to preserve and promote their “old” and more innovative capabilities in the “new” organization.

THEORY FOUNDATION

Organizational identification is defined as “the perception of oneness with or belongingness to an organization” (Mael & Ashforth, 1992:104). Social categorization and self-enhancement are central to the understanding of organizational identification. Social categorization refers to how people define themselves as belonging to different groups, whereas self-enhancement suggests that individuals need to maintain a positive sense of self derived from the social groups they belong to (Terry, 2003). Acquisition integration represents a confrontation of two groups. It may challenge the identities of both target and acquirer by questioning valued identity attributes of the pre-acquisition organizations. These encounters may result in in-group biases, prejudices, and stereotyping (Tajfel & Turner, 1985). Researchers have studied how identity shapes the responses to mergers (Hogg & Terry, 2000), the impact of the sense of continuity on post merger identification (Ullrich et al., 2005) and the role of continued task activity in post-merger
integration (Van Dick et al., 2004). From a social identity viewpoint, identification with the acquiring firm reduces competitiveness between the units (“us” and “them” dynamics), increases commitment, and is therefore positively related to acquisition outcomes. However, if the target firm employees maintain their pre-acquisition identity, in-group biases, hostility and resistance lower outcomes (Graves, 1981). When the acquirer is seen as legitimate, attractive, with higher status, and as representing a chance to continue with ongoing tasks, employees will more likely identify with the acquirer, and chances are higher that the post-integration process will be successful (Hogg & Terry, 2000; Van Dick et al., 2004). Consequently, there seems to be a strong agreement within the existing literature that identification with the acquirer is positively linked to acquisition performance primarily because of reduced conflicts and hostility towards the acquirer.

Acquisitions represent possibilities for firms to learn, broaden their knowledge base and renew capabilities (Haseslagh & Jemison 1991; Ahuja & Katila, 2001; Zollo & Singh, 2004). Acquisitions generate value due to organizational renewal (Vermeulen & Barkema, 2001) and knowledge transfer (Birkinshaw et al., 2000; Bresman, Birkinshaw, & Nobel, 1999). Exploration processes (March 1991; Levinthal & March 1993) are particularly important in an acquisition because the integration process allows closeness to new knowledge (from the target) in a situation of organizational redefinition (Ranft & Lord, 2002). This situation creates opportunities to get new ideas and ask critical questions challenging old ways of doing things. In any social group, certain routines are taken-for-granted, and if a new person enters, he or she may challenge these ideas, which in itself represents a new source of knowledge. In a quick integration there is little opportunity to challenge and explore new learning. This limits knowledge transfer of tacit and socially complex knowledge (Coff, 1999) because the social structures that contain these
resources are altered (Ranft & Lord, 2002). In this manner target employees’ identification with the acquiring firm may fuel the willingness to socialize and thereby limit potential learning opportunities.

We argue that social identity mechanisms may be contingencies for value creation in acquisitions. In integration processes there is high information asymmetry as managers of the acquiring firm have more knowledge about acquiring managers, structures and solutions than of those in the target firm. There will therefore be biases towards appointing employees from the acquiring firm to fill key management roles, and a tendency to continue with solutions from the acquiring firm. Consequently, we suggest that self confidence and perceived superiority through weak identification with the new owner empower target employees to overcome barriers of asymmetry and “push” their knowledge into the new organization, and subsequently they will more likely contribute to the creation of value.

**RESEARCH METHODOLOGY**

We chose an exploratory case approach to study identity threats and outcomes (Yin, 1984, Ghauri & Grønhaug, 2002) because we wanted to understand how initial identity orientation affected acquisition outcomes over time. Furthermore, we wanted to be open towards the views and experiences of each respondent, and allow each person to use their own narratives to describe the integration process. Qualitative methods are well suited to account for organizational members’ accounts and interpretations (Maitlis, 2005).

It is difficult to decide how early one can appropriately categorize an acquisition as a success or a failure. The first year is usually turbulent, with the implementation of a new organization and high turnover. Subsequently, the organization will settle, people meet and learn about each other
and realize synergies. We argue that after approximately 2 years, the major turbulence in acquisitions is mostly over and we can start to detect more permanent effects. In our case, the acquirer supported our claim that different outcomes from the two acquisitions could be seen two years into the process. We therefore suggest that if people at this point are generally unsatisfied or feel that they have learned very little, it is reasonable that the overall acquisition has and will create less value also the future.

Multifirm is a leading Norwegian IT-service group and employs about 2500 people. Multifirm follows an explicit strategy of growth through acquisitions, and has over the last few years acquired approximately 20 companies both internationally and domestically. The targets Teknico and Datagon were chosen because they were relatively similar firms, acquired during the same time period, and followed a similar formal integration pattern. Furthermore, the company provided us with unusual access (Eisenhardt and Graebner 2007). The targets were similar in strategic rationale, type of business, and mode of integration, and provided an excellent starting point for comparison of the integration processes as well as outcomes. Both acquisitions were cash based, and both deals transferred important customer contracts to Multifirm. The employees’ ages, experiences and competence levels were confirmed similar in both targets by Multifirm HR management.

Teknico (450 employees) and Datagon (300 employees) were former units in technology intensive multinational companies; one headquartered in Norway (Teknico) and the other in the US (Datagon) however both targets were localized in Norway. The motive behind both deals was access to competences, products and customers. Teknico brought one important customer and the products and competences were in the due diligence process seen as quite overlapping to Multifirm. Datagon came with a whole new customer segment as well as new products, but the
basic technology and competencies were similar to those of Multifirm. The two integration processes followed a similar, strict information protocol with involvement of the targets. Multifirm established a transition project for each acquisition, with representatives from the relevant operational units, human resources and the communication department. In the Teknico acquisition, Multifirm early on announced downsizing that included employees from both Multifirm and Teknico. Datagon, however, was not initially threatened by downsizing, but employees were aware that the business logic of Multifirm prioritized cost-cutting and efficiency, including downsizing as a part of normal business. About 8 months after the transfer of Teknico, and about 2 months after the transfer of Datagon, a new organizational structure that included the two acquisitions was implemented and the two targets were co-localized at Multifirm headquarters. Employees from both targets mixed with Multifirm employees into joint teams.

Our data include interviews, conversations, annual reports, reports from Multifirm employee surveys, company web-sites and other documents made available to the researchers. The main data source, however, is the 61 interviews of 47 respondents performed in Multifirm, Teknico and Datagon (some key respondents were interviewed twice). These data were collected over a period of 24 months, beginning immediately after the initial announcement of the acquisitions. Figure 1 displays the timeline of the acquisitions and Table 1 the distribution of the interviews:

Insert Figure 1 about here

Insert Table 1 about here
We organized the data collection in two phases in each case: immediately following the announcement of the deal, and approximately 2 years into the integration process. Each interview lasted between 1-2 hours and was tape-recorded. We received suggestions from the company of initial key respondents. They suggested other people to talk to, and we kept interviewing until perceived saturation. We picked respondents from different functional areas and organizational levels and from both target and acquirer organizations, representing a variety of viewpoints. This process limits biases from retrospective sensemaking and impression management, as it is more unlikely that a varied sample of informants represent the same biases (Eisenhardt & Graebner, 2007).

In the first phase, we primarily accessed information of the employees’ perceptions of their own firms and the target/acquirer, structure and organizational culture, the history of their firm (either target or acquirer), knowledge of the target or acquiring firm, and their perceptions of the initial phase after the acquisition announcement. Interviews were intentionally kept open, as we wanted each respondent to talk about their work-life in their pre-acquisition organization, their feelings for the old and new organization, and their expectations towards the new organization.

After about 2 years we revisited the companies. At this time, the targets were organizationally integrated and co-localized. We focused on how they perceived the integration process, roles of the target and acquiring firms, as well as outcomes of the acquisition so far. These interviews primarily gave insight into the integration process as well as the outcomes of the acquisitions. We held two presentations of preliminary findings for managers in Multifirm. This was very useful to validate our interpretations of the integration processes. In addition, we used observations and analysis of documents to triangulate the interview data.
The interviews made up about 1600 pages of double-spaced text. We started the analysis by writing out a detailed case story of each acquisition dividing each story in 3 phases: the pre-acquisition context, the post-acquisition integration process and outcomes of the acquisition. Then we looked for key themes, using Atlas.ti to organize core and recurrent expressions, like identity, belonging, status and well functioning structures and processes. We grouped raw data that contained key expressions into categories (Coffey, 1996), and labeled them first order themes (Nag et al., 2007). In this process, we first looked at the raw data and their categories, but later we consulted established concepts from the identity and M&A literatures, like status (Terry & O'Brien, 2001, Podolny, 2005), mitigating and mobilizing actions (Graebner, 2004) and serendipitous value creation (Graebner, 2004). Using previous theory, as well as the nature of the integration process, we collapsed the first order themes into second order categories that we further combined into overarching categories. For instance, identity orientation and status are categories from the early phase triggering identity threats. Hence, we defined identity threat the overarching category. Similarly, in line with Graebner (2004), target efforts in integration processes can be portrayed as mitigating and mobilizing. Finally, we can term acquisition performance perceived satisfaction and serendipitous value. In this sense, we identified the categories and dimensions of analysis by reading and rereading the interview transcripts juxtaposing them with existing theory. This contributes to the depth, openness and detail that are benefits from qualitative inquiry (Patton, 1990:13). The structure of the data is presented in figure 2.

Insert Figure 2 about here

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During the last step of the process we searched our data for evidence of relationships between these categories, in line with axial coding described by Corley and Gioia (2004). The validity of our research depends on whether the parameters and the context of the study are explicitly accounted for (Marshall & Rossmann 1999). External validity in case studies refers to whether or not the findings in the study can be generalized beyond the case. The concept of organizational identity is not specific to Multifirm, and there is no reason to believe that similar processes should not evolve in other acquisition integration processes. More importantly, case studies rely on theoretical generalizations (Yin, 1984. Maxwell, 2005), and our propositions of these can be tested in other acquisitions in the future. Table 2 summarizes possible validity threats and the measures we applied to limit these in the study.

TRIGGERS OF IDENTITY THREAT: IDENTITY ORIENTATION AND STATUS

From the early information gathering we identified two first order concepts: identity orientation and status. If identity orientation is directed mostly towards the acquirer and the status of the acquirer is high, there are few threats to target identity. On the other hand, if the target’s identity orientation is towards pre-acquisition unit, and the target considers the acquired firm’s status as low identity threats are high. Table 2 displays the quotes for identity orientation and status.
Identity Orientation

Identity orientation refers to the loci of self-definition (Brickson, 2000). In our data, the loci of self-definition (the definition of “we”) were either the former owner or the acquiring firm. We detected these “identifications with” in the informants’ stories of their heritage and their described feelings of belongingness to the organization.

Teknico had developed through several earlier mergers as an internal IT-service unit in Teknico MNC. Many Teknico employees had worked in Teknico MNC for years, others their entire career. Teknico employees expressed a sense of belonging to Teknico. The basis for their identification with Teknico was the development of state-of-the-art technological platform, work processes and organizational culture. Teknico considered the acquisition as an opportunity for their business to get more focus belonging to a larger professional IT company. However, even though they appreciated the strategic rationale of the deal, they were still concerned that the acquisition was not the right decision for Teknico MNC, illustrating their strong sense of loyalty towards their former owner.

Datagon MNC acquired the majority of Datagon employees 10 years earlier, but the locus of their identity was not Datagon MNC, but rather Datagon itself. They felt alienated from Datagon MNC as an organization, expressed nostalgic sympathies with former corporate owners, and approved of what they perceived to be the Multifirm culture. The alienation from Datagon MNC was materialized by language barriers and distance to where decisions were made. Becoming part of a Norwegian system was positive, as information would be in Norwegian and more readily available. Several Datagon respondents expressed the willingness to represent the distinguishing features, management style, and authority structures of Multifirm.
Datagon employees described the Datagon MNC decision structure as bureaucratic and they emphasized lack of individual decision power in Datagon MNC. They awaited a more “democratic” decision making structure and expected Multifirm to properly invest in the development of their products.

**Status**

Status refers to an organization’s position in a hierarchy of comparative organizations, in the context of an acquisition: the acquiring firm, target firm, or prior owner. We define status as a target’s perceived position or rank on dimensions defined by the target. Our data show that respondents referred to a variety of status dimensions such as technological innovation, autonomy granted to the employees, competencies and skills, organizational culture and attractiveness as an employer.

Teknico employees described the acquisition as a move from an owner that was “young and cutting edge” to an owner that was “old-fashioned and sturdy”. However, from the HR department we learned that there were insignificant demographic differences between the firms. The assertion of their own superiority on some status dimensions, such as work processes, management competencies, and technology, can be interpreted in light of inferiority on other status dimensions such as their size (smaller than Multifirm) and poor financial results. Datagon employees raised very few concerns about Multifirm’s image or status. On the contrary, Datagon employees perceived Multifirm to have a high status as an employer. This feeling was attributed to the company culture, Norwegian headquarter control and the similarities they saw between former host companies (pre Datagon MNC) and Multifirm. They described the distinguishing features of Datagon MNC in negative terms, expected Multifirm to be a favourable owner, and looked forward to becoming a member of the Multifirm “family”.

TARGET CONTRIBUTION: MITIGATING AND MOBILIZING

Approximately 18-24 months after the announcement of the deals, we studied the integration process and the actions of the targets’ managers and employees. We identified two categories of actions performed by target managers from the integration process; 1) actions to facilitate task integration, which we call mobilizing actions, and 2) mitigating actions performed to facilitate social integration. We found more evidence of mobilizing actions among Teknico managers, and although both targets performed mitigating actions, they did it differently.

Mitigating actions

Target employees must deal with a variety of post-acquisition changes, including new reporting structures, new office locations, new IT-systems and company policies. We found that managers in both Datagon and Teknico acted to shield their employees from these potential disruptions by performing mitigating actions such as providing information, communication and conflict-solving. However, the way these actions were performed differed.

Even if Teknico employees worked in teams with Multifirm employees, the sense of belonging to Teknico was salient and supported by Teknico managers. Teknico had a strong and visible leader that provided information on the integration process and gave support to employees that experienced “harmful” integration attacks. They described how Teknico managers shared concerns about problems they experienced with Multifirm management, and actively took part in conflict solving among individual Teknico and Multifirm employees. We label these efforts self-preserving mitigating actions.
Whereas the mitigating actions in Teknico at times were confrontational and noisy, Datagon managers tried to prevent conflicts and problems from impacting Datagon employees. Rather than sharing concerns with employees, they wanted to “make employees happy” and keep the positive spirit of the integration. The Datagon managers kept their frustrations on the management level, and did not involve the employees in the integration issues with Multifirm. In this manner, they appeared more loyal to the Multifirm organization and communicated a positive attitude to the rest of the organization. We have labelled these efforts complying mitigation.

**Mobilizing actions**

We found evidence of mobilizing actions in the descriptions of how the target employees and managers integrated systems, tasks and knowledge into Multifirm. Teknico managers were visible and active in the integration process suggesting how their solutions could be integrated by promoting their prior knowledge and solutions. Multifirm managers portray these actions as a series of questions and challenges to existing Multifirm processes and routines.

On the other hand, Multifirm reported that Datagon managers were reactive, and only limitedly took active steps to integrate systems and procedures from Datagon into the new organization. The Datagon managers described that their efforts to link activities to Multifirm were met with resistance and lack of support from the Multifirm system. Datagon managers attempted to suggest their ways of working, but were unsuccessful, and therefore abandoned these efforts.

A salient issue at all levels of the organization was the perception of numbers of individuals from Teknico and Datagon in management positions. HR representatives in Multifirm reported that initially they considered the management potential in both Datagon and Teknico to be equal, but
after some time they found few with management drive in Datagon. They saw this as strange since Datagon MNC was a large, international corporation with extensive competence development, performance management and an elaborate career development system. It seems, however, as if Datagon managers in the integration process became passive and only limitedly put in effort to take on high level management positions.

Teknico managers were more visible and active; and as such they were more likely to be appointed to management positions. Once they were in management roles, they were equipped with the information and leverage to manage integration between Teknico and Multifirm structures where Teknico knowledge was made visible.

**OUTCOMES OF THE INTEGRATION PROCESS**

Both Datagon and Teknico delivered expected value according to their business case. However, when probed about the actual outcomes of the acquisitions in both financial and non-financial terms, the stories of the two acquisitions differed. The Teknico acquisition was described as a success in all areas and as a “star buy” by Multifirm managers, even though they pointed to the integration process as having been difficult.

The Datagon acquisition delivered the bare minimum, although employee satisfaction was high. Their systems and solutions had a slightly lower quality than expected and their organization was a disappointment. The value of their public sector customer base and competencies, however, was as expected. Table 5 displays serendipitous value and employee satisfaction.

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Serendipitous value

Serendipitous value refers to the unexpected benefits from the acquisition. We define this value as new processes and ways of doing things, unexpected technology solutions, new strategic ideas and organizational and cultural renewal.

Multifirm managers reported that the Teknico acquisition impacted the Multifirm organization through the introduction of new work processes as well as challenges to the existing organizational culture. For instance, Teknico employees upgraded core service concepts, introduced a new sales procedure, and brought in modern project management processes. The quotations procedure was also improved through knowledge brought in by Teknico. Furthermore, Teknico employees impacted Multifirm by questioning existing norms, work-processes and “how we do things around here”. Teknico employees focused on the “old-fashioned” way of working at Multifirm, and insisted that their solutions were more modern and efficient.

Whereas the acquisition of Datagon provided the competence and products expected some respondents focused on Datagon solutions as being in need of more development than Multifirm initially expected. This was a surprising finding as the value from Datagon had the potential to be at least equally high. They provided a new promising customer set, and had more complementary knowledge with Multifirm than Teknico. In addition, Datagon MNC was a large, successful, multinational organization, well known for its professional management and efficient structures. We would expect more learning from the complementary unit (Datagon) than from the more overlapping unit (Teknico). Datagon made an important contribution by bringing in a new customer set, but entering the new market was an expected outcome, and little value was described beyond the expected. On the contrary, the public sector business from Datagon was
over time taken over and developed further by “old” Multifirm employees and managers from subsequent acquisitions.

**Employee Satisfaction**

We account for employee satisfaction by using quotes from the interviews as well as reports from the employee satisfaction survey performed by Multifirm. Generally, Datagon employees were more satisfied than Teknico. Even though there was some unrest and dissatisfaction on the management level, the lower level managers appeared satisfied and socially integrated in the Multifirm organization. Datagon employees appreciated Multifirm as an employer. They were satisfied with Multifirm’s culture and “way of doing things”. The retention rate was 79% after approximately 2 years, and Datagon was perceived as a lenient target in the integration process.

The Teknico integration process was more fraught with conflicts. The Teknico employees were not happy to be acquired and were more unsatisfied with the integration process. In Teknico, more key personnel left because of dissatisfaction with the Multifirm system. Even so, the retention rate in Teknico was 72% after 2 years. The fact that the retention rate was not lower was argued to be because the market for Teknico competency was not very good, leaving unhappy employees with few exit opportunities.

**THE RELATIONSHIP BETWEEN IDENTITY THREAT, TARGET CONTRIBUTION AND ACQUISITION OUTCOMES**

Our data illustrate potential links between identity threats, target manager actions and acquisition outcomes. The Teknico employees strongly identified with their former owner and target group *(identity orientation)*, felt that their organizational culture, knowledge, processes and technology were superior to that of Multifirm *(status)*, which provided threats to their identity *(identity*
threats). Responding to these threats, managers and employees (from the acquired unit Teknico) took an active role in promoting their knowledge, technology and processes (mobilizing actions) in the new organization and the managers actively dealt with employee’ concerns (self-serving mitigation) focusing on the promotion of Teknico as a unit. The Teknico acquisition brought a new way of working, which energized and improved Multifirm routines (serendipitous value creation). However, there was more disruption and a general feeling of distrust, lack of pride and negative attitudes to both the integration process and being acquired by Multifirm (employee satisfaction).

The Datagon employees immediately identified with Multifirm (identity orientation), expressed admiration for the Multifirm organization and culture, and ranked Multifirm more favourably than their former owner (status). Subsequently, the acquisition did not pose a threat to their identity (identity threat). Over time, former Datagon employees were seen as passive and inconspicuous in the new organization, and they themselves described few initiatives to perform task integration (mobilizing) Some Datagon managers, however, protected employees from the “noise” and disruption of the acquisition and sheltered their employees from the conflicts and ambiguities of post-acquisition integration (complying mitigation). From the Datagon acquisition, there were few signs of organizational renewal, new work processes or other benefits (serendipitous value). However, Datagon employees generally were positive towards the acquisition, the way the integration process had been handled and enjoyed working for Multifirm (employee satisfaction).

Identity threats triggering mobilizing action

Teknico managers and employees felt their identity was threatened by the acquisition. They expected that they would be part of a firm with a lower status, inferior work processes and an
unattractive image. As their self-perception was threatened, they increased their self-enhancement activities in the integration process. Simply accepting the Multifirm work processes that they perceived as “old fashioned and backwards” would leave them with an organization characterized by less attractive attributes; hence they were motivated to act.

According to social identity theory, people react to identity threats to preserve the distinctiveness and attractiveness of their group (Haslam 2004), and protect and restore their identities (Dutton and Dukerich 1991). These self enhancing actions include emphasizing valued identity attributes, such as competency, knowledge, technology or culture. Target managers act to include these valued attributes as part of the new merged organization to restore attractiveness. Our data suggest that when the identity of a target unit is threatened, the unit will mobilize what they see as their own strengths to protect and restore their own identity. Our findings are in line with social identity theory, as we found that target employees respond to identity threats by acting to preserve their identity.

*Proposition 1: Identity threat is positively related to mobilizing actions*

**Mobilizing actions and serendipitous value creation**

Teknico managers actively linked their activities to Multifirm by contacting Multifirm counterparts to find ways to latch their activities onto Multifirm. They inquired about how Multifirm did things, challenged the way Multifirm conducted their business and fronted their own solutions, knowledge and technology. In doing so they conveyed their knowledge, solutions and technologies. These mobilizing activities accelerate task integration and contribute to serendipitous value creation in the form of new work processes, technologies, and organizational and cultural renewal in Multifirm. In Datagon, on the other hand, managers did not mobilize
successfully, and little unexpected value was detected because no one stepped forward to defend and promote Datagon core knowledge and solutions.

Graebner (2004) found that target managers are critical for value creation because of their deep knowledge of target firm resources and competencies. Managers from the acquirer lack this deep knowledge, and this information asymmetry prevents effective integration. Target managers play a significant role in bridging information asymmetry by making target resources known and providing facilitation in the integration process. Integration is not only structural, but also cultural and symbolic (Ranft and Lord 2002), and keeping some distance between the target and the acquiring firm if only in symbolic terms may preserve socially complex knowledge. Consequently, when target managers take an active role in the post-acquisition processes, sufficient boundaries are created around target knowledge so that it is preserved and later transferred. In this sense, the overall structural integration may proceed as long as target managers are strong enough to shelter core resources of the target firm.

Studies have shown that actions to preserve identity inhibit strategic change (Fiol and O'Connor 2002) and restrict learning (Gagliardi 1986). Previous studies also suggest that merging units with different identities will resist knowledge sharing (Empson 2001; 2004). In other words; this literature concludes that identity threats are negatively related to value creation. Our findings contradict this by showing that identity threats trigger mobilizing actions that facilitate task integration and subsequently the creation of serendipitous value.

Proposition 2: Mobilizing actions are positively related to serendipitous value creation
Identity threats and mitigating actions

In Datagon the immediate identification with the Multifirm organization made self-enhancement and actions to preserve the existing Datagon identity unnecessary. The distinctiveness of the Datagon organization was not threatened; on the contrary it was emphasized as compatible with Multifirm. Even though the acquisition didn’t threaten Datagon’s identity, the integration process still produced uncertainties for Datagon employees. The Datagon managers reported that they dealt with these frustrations at management level, and protected the employees from the disruption and eased the impact of the integration on the employees. Datagon managers encouraged social integration with Multifirm, by emphasizing the attractiveness of Multifirm as an organization, and focusing on the positive aspects of the integration. This led to complying mitigation focusing on calming the organization by promoting social integration with the Multifirm organization.

In Teknico, identity threats led to actions to preserve identity by enhancing the central and distinct features of Teknico, and juxtaposing them with the perceived attributes of Multifirm. The Teknico managers emphasized Teknico features and reassured the employees that these would continue post-acquisition, thus easing employees’ concerns in the integration process. The way these concerns were addressed was through enhancing and promoting the Teknico identity in Multifirm. These actions did not facilitate human integration or develop a sense of belonging with Multifirm, rather they kept the Teknico identity salient and demarcated the social categories of Teknico and Multifirm. Teknico managers mitigated and eased employees concerns, but they did it in a manner that was confrontational. They emphasized Teknico as a separate social category, even though they were structurally integrated in Multifirm.
Prior research on acquisitions show that threats to organizational identity cause disruption and conflicts in post-acquisition integration (Empson, 2001; Ullrich et al., 2005). When target managers perform mitigating actions in the integration process, this reduces tensions and eases target employees concerns. The complying mitigating actions facilitated social integration with the acquirer in the Datagon case, whereas the mitigating actions seemed to preserve the pre-acquisition unity in Teknico which prevented social integration. Our findings show that target managers have different motivations for performing mitigating actions depending on the level of identity threat. When the threat is high, mitigating actions become self-preserving aiming at continuing with the pre-acquisition identity, whereas when the threat is low mitigating actions are complying aiming at providing human integration between the two units. However, both types of actions intend to ease employees’ concerns.

*Proposition 3: Identity threat is positively related to a) self-preserving mitigation and negatively to b) complying mitigation*

**Mitigation and employee satisfaction**

In Teknico, we observed that mitigating actions that preserved and enhanced pre-acquisition identity were unfavourable to employee satisfaction. Teknico managers openly discussed integration problems and challenged the acquirer which made target employees aware of negative issues in the new firm, remembering more “happy days” in Teknico MNC. This is in line with social identity theory predicting that lack of identification leads to lower employee satisfaction (Terry, 2003). Social integration will not take place when management actively support pre-acquisition identity, and social integration is critical for employee satisfaction (Birkinshaw et al 2000).
Proposition 4: Self-preserving mitigation is negatively related to employee satisfaction

In the Datagon integration process, we observed that actions to shield employees led to a relatively smooth integration process and satisfied employees. Datagon managers focused on protecting the employees from the disruptions in the integration process. They conveyed the Multifirm identity and culture to Datagon employees as a continuation of their former owner’s identity and culture, promoting social integration. They focused on the positive aspects of the acquisition, and eased employees concerns about the changes the acquisition implied for them. In this manner they supported the development of satisfied employees.

This finding is supported by social identity theory as continuity for the target employees is beneficial for the acquisition integration (Ullrich et al. 2005). Managers that mitigate in a complying way shield their employees from the disruptions of the integration process, leading to a smoother integration process and higher employee satisfaction. Studies have shown that reducing intergroup conflict is beneficial for employee well being and morale, and as such for the outcome of the merger (Terry, 2003).

Proposition 5: Complying mitigation is positively related to employee satisfaction

Graebner (2004) also found a negative relation between mitigation and turnover as well as disruptions. We further specify the orientation of mitigation and argue that self preserving mitigation preserves and promotes pre-merger identity whereas complying mitigation facilitates social integration in the new organization. We find that complying mitigation leads to the effects described by Graebner, whereas self-preserving mitigation has the opposite effect.
DISCUSSION AND CONCLUSION

Our study challenges conventional wisdom that identity threats are negative for value creation in acquisitions. We find that in some cases the opposite is actually true. Identity threats may facilitate serendipitous value creation, whereas immediate identification with the acquirer creates more satisfied employees. These findings dispute acquisition studies based on social identity theory that claim that it is necessary to create a common identity to get value from acquisitions. We advocate a more nuanced view as identity threats may have both positive and negative implications. Our findings confirm that when the target identifies with the acquirer, the integration process is smooth, and there are few conflicts and high employee satisfaction (Van Dick et al, 2004, Hogg and Terry, 2000, Ullrich et al 2005). This situation describes a process where the target quickly gets absorbed into the acquirer and synergies can be exploited. In our study, this was the case for Datagon. It led to expected results, satisfied employees, but little value beyond the expected. The Teknico case, on the other hand, demonstrated identity threats, but also unexpected value creation. We think these findings have at least three interesting theoretical implications, concerning both identity threats and the acquisition process.

First, identity threats make acquired employees more inclined to act. This is in line with Ellemers, De Gilder & Haslam (2004) who propose that when individuals must identify with a collective, they become energized when their inclusion in this collective is not acknowledged. Hence, when employees feel that the new collective does not recognize their superiority, they will act to preserve their current identity. Teknico employees felt their identity threatened by Multifirm, and this stimulated action to preserve the solutions they saw as superior.

Secondly, the acts from Teknico managers and employees created “noise” and conflicts. Several studies have shown that such disruptions may be positive for a learning outcome. Andreade et al
(2008) argue that conflicts present an opportunity to improvise and try something new that will improve the organization. Conflicts may represent a source of creativity (Heifetz & Laurie, 2001). In addition, conflicts urge managers to act mindfully and be more sensitive to enhance chances of success. These findings also support the notion that dialectic inquiry facilitates learning better than consensus methods (Brickson, 2000; Dean & Sharfman, 1993).

Third, acts based on identity threats require direction, support and guidance through active (self-preserving) mitigation and mobilization. Previous research (Puranam & Srikanth, 2007; Haspeslagh & Jemison, 1991, Coff, 1999) suggest that a quick “seamless” structural integration risk that integration managers oversee complex, tacit resources from the target simply because of asymmetric information; they have less information about the target than of themselves. This issue points to the critical role of target managers as promoters of target resources (Graebner, 2004). Target managers are informed of target knowledge, and can ensure that acts from target employees become more than individual initiatives. In the Teknico case, target managers performed self-preserving mitigation. They provided emotional support as well as information which kept target employees up to date on where and how their resources and competences could be used. Target managers also mobilized, which helped organize the acts from individual target employees and ensured better chances of implementation in the Multifirm system. Ranft and Lord (2002) suggest that cultural and symbolic autonomy may preserve socially complex knowledge embodied in a target firm. We extend these notions and argue that target managers secure cultural and symbolic autonomy through mobilizing and self-preserving mitigation.

Teknico employees were physically integrated in Multifirm, but the mitigating and mobilizing actions of Teknico managers preserved knowledge as well as provided avenues for this knowledge into the Multifirm organization. Birkinshaw et al. (2000) argue that value is created
through an interaction of social and task integration. We propose that this interaction process may benefit from disruptions created by identity threats supported by target manager’s self-preserving mitigation and mobilization.

Our findings extend Graebner’s (2004) framework, as we suggest that identity threats stimulate mobilizing and mitigating actions. In her framework, these are independent tasks, while in our study these tasks are linked to identity threats. Furthermore, we argue that mitigating actions can be self-preserving or compliant. Compliant mitigation creates a smooth transition and conflict-free environment for employees. Self-preserving mitigation supports target employee’s pre-merger identity. We have argued that self-preserving mitigation better facilitate knowledge transfer because it encourages initiatives, whereas compliant mitigation eases conflicts. Our study observes outcomes after two years. It could be argued that the positive short-term effects from self-preserving mitigation could have possible negative long-term effects. Over time, negative attitudes towards the new organization may eventually overshadow the positive effects of learning. The long-term effects of identity threats and self-preserving mitigation is therefore an important topic for further study.

Future studies should also investigate the shape of the relation between identity threat and value, as this link most likely is not strictly linear. Based on our two cases, we argue that at some point the link is positive, but it seems likely that if identity threat becomes too high it is impossible to create learning synergies based on knowledge initiatives from the target. Future studies should aim to identify which levels of identity threats that have positive effects, and when they turn to be negative.
We also encourage studies that investigate the role of alternative explanations of learning in acquisitions and how these are linked to identity threats. One factor could be more motivation to share knowledge; another could be degree of knowledge overlap. In our case there was no initial indication that Teknico was more motivated to share knowledge, actually we thought the opposite as Teknico had developed as an internal IT unit whereas Datagon had served external customers and therefore better mastered marketing skills. Teknico came to Multifirm with more knowledge overlaps than Datagon, which should give less learning. A third alternative explanation is prior expectations. Teknico could have been underappreciated at the outset, and Datagon the opposite, although we find no evidence of this assumption in the data. These three factors of motivation, knowledge overlap and prior expectations are valuable starting points for future studies in this area.

Most studies have viewed integration processes from the perspective of the top executives of the acquiring firm. We include both employees and managers in our study, take the perspective of both target and acquiring firm, and do so over time. This might have provided a more nuanced insight into the value creation process in an acquisition. As Multifirm, Datagon and Teknico respondents confirm the serendipitous value created in the integration of Teknico, but not Datagon, we feel more confident in our findings. We argue for the inclusion of employees in post-acquisition research, as they give better real accounts for value creation, with better examples than the more general impressions of value given by managers.

Our findings have two clear managerial insights. First, acquisition managers should be more open to identity threats. This means that they must acknowledge that target employees are proud of their past affiliations and feel that their solutions are superior to those of the acquiring firm.
Instead of pushing for a quick and seamless integration, firms should more carefully hire and train integration managers that can live with some disruptions and conflict.

Secondly, target managers have a very important role in value creation in acquisitions. Our study shows that even if firms physically integrate, target managers may provide social and cultural autonomy that facilitate action, as well as support and structures that help these actions get implemented into the new organization. Acquirers must therefore be willing to give responsibilities to target managers and allow them to carefully nurture target employees.

This paper is based on early impressions of the integration processes of two units in an IT company. The cases demonstrated strong effects from identity threats on serendipitous value creation and employee satisfaction. Further studies should, however, examine the generalizability of our findings to other types of firms, types of acquisitions and industries as well as look deeper into the possible long term negative effects of identity threats in organizations.
REFERENCES


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<td>4</td>
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<td>5</td>
<td>8</td>
<td>10</td>
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<td><strong>22</strong></td>
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</table>
### TABLE 2
Possible validity threats and measures applied to limit these

<table>
<thead>
<tr>
<th>Validity test</th>
<th>Objective</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intensive, long-term involvement</td>
<td>• Rule out spurious associations and premature theories&lt;br&gt;• Testing of alternative hypothesis</td>
<td>• Interviewed over a period of two years</td>
</tr>
<tr>
<td>“Rich” data</td>
<td>• Provide a full and revealing picture of what goes on&lt;br&gt;• Addresses researcher bias</td>
<td>• In-verbatim transcripts were organized in Atlas.ti for easy retrieval</td>
</tr>
<tr>
<td>Respondent validation</td>
<td>• Rule out misinterpretations&lt;br&gt;• Identify own biases</td>
<td>• Feeding back information about the data and conclusions to contact persons and top management team in the case firms</td>
</tr>
<tr>
<td>Searching for discrepant evidence in deviant cases</td>
<td>• Increase credibility</td>
<td>• Get feedback from other researchers&lt;br&gt;• Get feedback from case firms&lt;br&gt;• Report discrepancies in the presentation of data&lt;br&gt;• Within case and across case comparison</td>
</tr>
<tr>
<td>Triangulation</td>
<td>• Increase construct validity&lt;br&gt;• Reduce chance associations and bias due to method&lt;br&gt;• Better assessment of the generality</td>
<td>• Using multiple sources of evidence, interviews, observations and archival material&lt;br&gt;• Having a second researcher review coding</td>
</tr>
</tbody>
</table>
### TABLE 3

Triggers of identity threats: Identity orientation and status

<table>
<thead>
<tr>
<th>Firm</th>
<th>Identity orientation</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teknico</td>
<td><strong>First order themes:</strong></td>
<td><strong>First order themes:</strong></td>
</tr>
<tr>
<td></td>
<td><em>Strong feelings of belonging to Teknico MNC</em></td>
<td><em>Teknico perceived superiority in technology and work processes</em></td>
</tr>
<tr>
<td></td>
<td><em>Strong feeling of pride in Teknico</em></td>
<td><em>Multifirm culture described as not attractive</em></td>
</tr>
<tr>
<td></td>
<td><em>Lack of identification with Multifirm</em></td>
<td><em>Multifirm brand dull</em></td>
</tr>
<tr>
<td></td>
<td><strong>Quotes:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;... Teknico MNC, which, no matter what, is where I come from and where I have my roots...&quot; (Teknico manager)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;... the feeling of pride isn’t as great any more&quot; (Teknico employee)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;People in Teknico do not identify with the culture that the top management in Multifirm represent.&quot; (Teknico manager)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;It has to do with identity, we have our history in Teknico.&quot; (Teknico employee)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;... personally, I would have rather belonged to the Teknico MNC system.&quot; (Teknico employee)</td>
<td></td>
</tr>
<tr>
<td>Datagon</td>
<td><strong>First order themes:</strong></td>
<td><strong>First order themes:</strong></td>
</tr>
<tr>
<td></td>
<td><em>Lack of identification with Datagon MNC</em></td>
<td><em>Multifirm perceived as better employer</em></td>
</tr>
<tr>
<td></td>
<td><em>Immediate identification with distinguishing features of Multifirm</em></td>
<td><em>Describes Multifirm’s culture as “positive”</em></td>
</tr>
<tr>
<td></td>
<td><strong>Quotes:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;They (Multifirm) are interested in our business and want to develop it&quot; (Datagon employee)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;In Datagon MNC... our business was very strange to them.&quot; (Datagon employee)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;When I was asked to become a leader here (in Multifirm) in November, I already had that feeling that made me say yes immediately—it was a knee-jerk reaction.&quot; (Datagon manager)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;They have never felt at home in Datagon—it was very American, decisions were made far from us. They’ve told me: ah it’s like coming home.&quot; (Multifirm manager)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;We are entering a culture that is (...) known as a little more backward and old fashioned&quot; (Teknico employee)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;One has been part of something big (in Teknico MNC).&quot; (Teknico employee)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;Multifirm has a backward image.&quot; (Teknico employee)</td>
<td></td>
</tr>
</tbody>
</table>
### TABLE 4

**Target contribution: Mobilizing and mitigating actions**

<table>
<thead>
<tr>
<th>Firm</th>
<th>Mitigating</th>
<th>Mobilizing</th>
</tr>
</thead>
</table>
| Teknico| **First order themes:**  
  - Strong, visible leader in Teknico dealing with employee concerns  
  - Initial inward focus in Teknico  
  - Self-preserving mitigation  
  
  **Quotes:**  
  - "We have Peter as a leader and he definitely wants us to reach our goals and believes we’ll be able to do it... he gives a lot of himself, and brings a lot of energy." (Teknico employee)  
  - "I am perceived (by Teknico employees) as a promoter of Teknico, and I want to be that. I see it as my duty to challenge Multifirm." (Teknico manager)  
  - "The managers from Teknico used a lot of time to facilitate so we could carry on our work." (Teknico employee)  
|        | **First order themes:**  
  - Questioning existing ways of doing things in Multifirm  
  - Promoting Teknico competency in Multifirm  
  - Teknico employees have self confidence and willingness to take on management roles  
  
  **Quotes:**  
  - "Teknico employees are more proactive, they argue more ..." (Multifirm manager)  
  - "Teknico employees continuously ask questions as to how we do things here, clever questions, they are very development oriented." (Multifirm manager)  
  - "(We have worked hard to emphasize Teknico (in the organization). (....) And I was terrified that (our competence would be lost) ... I know how much competency we bring with us into Multifirm)" (Teknico manager)  
  - "I have a lot of knowledge of this part of the organization (Teknico), and they (Multifirm) don’t – so I have to bring it to them." (Teknico manager)  
  - "Many of the employees from Teknico have management positions here (in Multifirm)." (Multifirm manager) |
| Datagon| **First order themes:**  
  - Mitigated to stop unrest from reaching lower level employees  
  - Complying mitigation, focusing on avoiding disruption  
  
  **Quotes:**  
  - "But I think we managed to stop that frustration here... the organization was positive. And we agreed that that was our story, and to the customers of course, but also to the employees. (Datagon manager)  
  - "We who were first-line managers were motivating our employees to come over to Multifirm – telling them how great it was going to be." (Datagon manager)  
|        | **First order themes:**  
  - Failed to mobilize because of lack of support from Multifirm  
  - Multifirm perceives target managers as not proactive  
  - Multifirm considered Datagon to have little management potential  
  
  **Quotes:**  
  - "... we felt downright obstruction, where information was withheld from us." (Datagon manager)  
  - "Datagon is a little slack. Their response time is sometimes very long. It can take a long time before they answer e-mail or a phone call. (Multifirm manager)  
  - "We’ve done evaluations... and didn’t find any managers who were good enough to push the Multifirm managers out (from Datagon)." (Multifirm manager)  
  - "they (Datagon managers) positioned themselves from the start, to get their benefits. But then they’ve sort of let go. Now they are stuck way down in the organization, but have the same salary." (Multifirm manager) |
**TABLE 5**

Acquisition outcomes: Serendipitous value and employee satisfaction

<table>
<thead>
<tr>
<th>Firm</th>
<th>Serendipitous value</th>
<th>Employee satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telnico</td>
<td>First order themes:</td>
<td>First order themes:</td>
</tr>
<tr>
<td></td>
<td>*Organizational renewal</td>
<td>*Employees report varied satisfaction with the integration process</td>
</tr>
<tr>
<td></td>
<td>*New technologies and processes</td>
<td>*Reports of unsatisfied employees</td>
</tr>
<tr>
<td></td>
<td>Quotes:</td>
<td>*Reported job satisfaction low</td>
</tr>
<tr>
<td></td>
<td>&quot;We’ve gotten a broader understanding and a broader</td>
<td></td>
</tr>
<tr>
<td></td>
<td>culture through the acquisition.&quot; (Multifirm manager</td>
<td></td>
</tr>
<tr>
<td></td>
<td>on Telnico acquisition)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;The most important issue in that acquisition – it was</td>
<td></td>
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<tr>
<td></td>
<td>that we got a lot of good, creative people.&quot; (Multifirm</td>
<td></td>
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<tr>
<td></td>
<td>manager)</td>
<td></td>
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<tr>
<td></td>
<td>&quot;They have contributed with several technological</td>
<td></td>
</tr>
<tr>
<td></td>
<td>concepts&quot; (Multifirm manager)</td>
<td></td>
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<tr>
<td></td>
<td>&quot;Without Telnico our Nordic expansion would have been</td>
<td></td>
</tr>
<tr>
<td></td>
<td>more difficult&quot; (Multifirm manager)</td>
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<tr>
<td></td>
<td>&quot;The new and creative things are to a large extent</td>
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<tr>
<td></td>
<td>driven by Telnico resources – they have the cutting</td>
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<tr>
<td></td>
<td>edge and sought after competency in the market.&quot; (</td>
<td></td>
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<tr>
<td></td>
<td>Multifirm manager)</td>
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<tr>
<td></td>
<td>&quot;It was a star-bay&quot; (Multifirm manager)</td>
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<td></td>
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<tr>
<td>Datagon</td>
<td>First order themes:</td>
<td>First order themes:</td>
</tr>
<tr>
<td></td>
<td>*No reported serendipitous value creation from acquirer</td>
<td>*Reported satisfied employees</td>
</tr>
<tr>
<td></td>
<td>*Target reports some contributions</td>
<td>*Few conflicts</td>
</tr>
<tr>
<td></td>
<td>Quotes:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;Datagon has delivered as expected regarding IT-</td>
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<tr>
<td></td>
<td>operations. However, in relation to the solutions</td>
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<td>part it has been difficult to find the key to pulling</td>
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<td></td>
<td>it into the future. Find the investments fund and find</td>
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<td></td>
<td>the plan.&quot; (Multifirm manager)</td>
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<tr>
<td></td>
<td>&quot;We brought structure with us. Related to budgeting and</td>
<td></td>
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<td></td>
<td>economy in projects.&quot; (Datagon employee)</td>
<td></td>
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<tr>
<td></td>
<td>&quot;...and they don’t really contribute as such or add</td>
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<tr>
<td></td>
<td>anything (...we have some people who are going on</td>
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<tr>
<td></td>
<td>idle. I think so.&quot; (Multifirm manager)</td>
<td></td>
</tr>
</tbody>
</table>
FIGURE 1

Timeline of the acquisitions and the study observation period
FIGURE 2

The structure of the data

First order themes

Explicit feelings of identifying with either target, acquirer, former owner or profession

Relative standing of target vs. acquirer on various dimensions such as technology, competence, performance

Actions performed or not performed by acquiring managers to facilitate task integration

Actions performed or not performed by acquiring managers to facilitate social integration

Positive or negative emotions towards the acquisition, the integration process, and the acquiring firm

Unexpected knowledge, technology, “ways of doing things” that the target brought to the acquiring firm

Second order categories

Identity orientation

Status

Mobilizing actions

Mitigating actions

Employee satisfaction

Serendipitous value

Overarching concepts

Triggers of identity threat

Target contribution

Acquisition outcomes
FIGURE 3

Proposed relationships between the concepts

Identity threat

Mobilizing

Self-serving mitigation

Value creation

Complying mitigation

Employee satisfaction