CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

In this literature review we review the research in mergers and acquisitions considered in eight broad themes. The major research work in each theme is discussed in detail with a view to identify the research construct – human resources responses (HR responses).

The last two decades were characterized by a wave of mergers and acquisitions (M&As) that transformed industries and affected the careers of millions (Golbe and White 1988, Madrick 1987, Magnet 1984). Ad hoc vision and hence limited understanding of M & A canvas has caused many a companies to fail in achieving their objectives post merger (Jemison and Sitkin 1986, Hitt et al. 1991, Porter 1987). Similarly, scholarly research on M&As has grown substantially over the last decade, but our theoretical understanding of what accounts for their success and failure has been constrained by the fragmented nature of the studies (Chatterjee et al. 1992, Haspeslagh and Jemison 1991, Schweiger and Walsh 1990).

Mergers and acquisitions have been studied through several theoretical lenses.
1. The field of strategic management has studied M&As as a method of diversification, focusing on both the motives for different types of combinations (Ansoff et al., 1971; Salter and Weinhold, 1981; Walter and Barney, 1990) and the performance effects of those types (Lubatkin 1987; Seth, 1990; Shelton, 1988; Singh and Montgomery, 1987).

2. Research in economics has emphasised such factors as economies of scale and market power as motives for merger, and has examined acquisition performance with mostly accounting-based measures (Goldberg, 1983; Ravenscraft and Scherer, 1987; Steiner, 1975).

3. Finance scholars typically have studied acquisition performance, relying on stock-market-based measures in doing so (Jarrell et al., 1988; Jensen and Ruback, 1983; Weston and Chung, 1983).

4. Organizational research has focused primarily on the post-combination integration process (Haspeslagh and Jemison, 1991; Pablo, 1994), highlighting both culture clash (Buono et al., 1985; Nahavandi and Malekzadeh, 1988) and conflict resolution (Alarik and Edstrom, 1983; Blake and Mouton, 1985; Mirvis, 1985).

5. Research on M&As in the human resource management (HRM) literature has emphasised psychological issues (Astrachan, 1990; Levinson, 1970; Marks, 1982), the importance of effective communication (Schweiger and DeNisi, 1991; Sinetar, 1981),
and how M&As affect careers (Hambrick and Cannella, 1993; Hirsch, 1987; Walsh 1989).

Although the streams of research are not mutually exclusive, they have been only marginally informed by one another.

The main themes in research related to M & A process are reviewed in detail hereafter under the following broad themes:

**TABLE 2.1: Research Themes**

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**2.2 PROCESS PERSPECTIVE**

The acquisition process has been identified as an important aspect to take into consideration to create a successful acquisition (Jemison and Sitkin, 1986). The process perspective emphasises that the acquisition process is a factor, in addition to strategic and organisational fit, that affects the outcome.
Some researchers emphasise the integration aspect of the process as being more essential for the outcome (Marks, 1982; Haspeslagh and Jemison, 1987; 1991; Shrivastava, 1986). Shrivastava claims that "almost half to two thirds of all mergers simply don't work, and one third of all merger failures are caused by faulty integration" (1986). Jemison and Sitkin (1986) posit that it is the process itself that affects the outcome of many acquisitions. Haspeslagh and Jemison (1991) emphasise the process perspective saying, "although the strategic fit of an acquisition is the basis of the potential for value creation, it is managing the acquisition process efficiently that underlies actual value creation." They describe the whole acquisition process from the first decision to conduct an acquisition throughout the integration. They state that every step in the process is vital for the outcome of the acquisition and "...that key differences between acquisition success and failure lie in understanding and better managing the processes by which acquisition decisions are made and by which they are integrated". Haspeslagh and Jemison suggest that the research should focus on the pre-acquisition decision-making and the post-acquisition integration processes.

Like Levinson (1970), Marks (1982), Larsson (1990) and many other acquisition researchers believe that the acquisition is an open-ended, ongoing process that still affects the organisation years and years after the legal acquisition actually takes place. Walter (1985) suggests that it
takes up to three to five years after the acquisition takes place until the acquired company has adjusted to the new situation.

The merger and acquisition process is often discussed in terms of different phases or stages, and different research areas usually focus on different process stages. In the human resource management literature, the effort is put into the post-combination stage, while in the strategic literature a lot of effort is put into the pre-combination stage to find strategic fits. The financial literature, on the other hand, is mostly concerned with the legal combination and the market's reaction to the actual merger or acquisition announcement.

2.3 MERGER AND ACQUISITION PHASES

Describing the acquisition process in different phases has been quite a common approach in the literature to understand the acquisition process. Marks (1982) identified three different phases of the merger and acquisition process: pre-combination, legal combination, and post-combination. The phase approach was also used by Graves (1981) who identified four different stages: the planning stage, the anxiety stage, the merger itself, and finally, the evaluation stage. Haspeslagh and Jemison (1991) consider the acquisition process to contain four major phases: idea, acquisition justification, acquisition integration, and results. The first two are referred to as the pre-combination stage, while the last two are referred to as the post-combination stage. During the idea phase, the potential acquisition is suggested and eventual combination partners are evaluated. Thereafter the acquisition must be
justified for the rest of the company before the actual decision to go on with the deal is made. When the deal is a fact, the integration starts with a special phase called the stage-setting phase. This phase involves a transition period before the integration actually starts. In Haspeslagh and Jemison's model, the boundaries between the phases are not clear; many of the acquisition questions they raise overlap the different phases. Hence, even though there are different phases during an acquisition, they are at the same time interactive, and the issues arising during the different phases need to be considered together.

Buono and Bowditch (1989) identified as many as seven different combination phases. The phases are called pre-combination, combination planning, announced combination, initial combination, formal combination, combination aftermath and psychological combination. The authors discuss how the decisions in the different phases are affected by ambiguities and uncertainties in the environment. They found that in each phase the ambiguities and uncertainties were more or less salient than in other phases. Buono and Bowditch describe the acquisition process as starting before the actual negotiation.

Lohrum (1992) divided the integration into different phases to facilitate the understanding of what happens during acquisition integration. In her study of an international merger and acquisition, she identified the following five integration phases. The integration process started with
an observation phase, where the two parties observed each other and the situation (Haspeslagh and Jemison's (1991) stage-setting phase). This phase affected the managers the most. The next phase was the planning phase, where the management of the acquiring firm started the formal structural changes. The changes stayed at the formal level while the integration of people and cultures were neglected. Then the execution phase followed, which brought about a lot of changing activities. The human and cultural integration started in this phase, which also triggered a reaction among the employees in the acquired firm. In the consolidation phase, the real socio-cultural integration started, when it was important to establish contacts between all hierarchical levels in both companies. When the two corporate cultures had been blended, the last phase started, namely, the maturity phase.

All the seven phases identified by Buono and Bowditch's phases seem to have a view of culture and organisations that belong to ideas about cultural integration as well as cultural differentiation (Martin, 1992). Buono and Bowditch's initial combination phase and the combination aftermath phase describe the integration in terms of conflicts and the acquired company having difficulties accepting the acquiring company. The notion of "we versus them" indicates a cultural differentiation view where the two combining companies are united within the companies but there are conflicts between the companies. The whole notion of integration, which is especially expressed in the formal combination phase and the psychological combination phase, belongs to a view that
the two companies should be unified. In Buono and Bowditch's latter stage, one does for example speak about "true integration" meaning that the two companies have fully adapted to each other and a new monolithic culture has arisen.

### 2.4 COMBINATION TYPOLOGIES

Combination typologies are developed to determine the strategic or organisational relationship between the combining partners.

#### 2.4.1 Strategic Fit

One way to study strategic relationship is to look at the firms' previous acquisition experience and their relative size (Lubatkin, 1983). If the acquiring company is a frequent acquirer, the outcome of the acquisition is expected to be more positive than if they are inexperienced. When it comes to size, large-scale entries into new ventures are expected to outperform small-scale entries (Lubatkin, 1983).

Strategic fit does not really consider cultural issues, but the notion of fit can nevertheless relate to assumptions of integration. Strategic fits are expected to lead to synergies when the two companies are combined. The idea behind fit is that one can find a partner that fits one's own strategy, a partner that is alike, that shares similarities. In such a case one expects some kind of homogeneity on a strategic level after the acquisition. One can thus say that the notion of strategic fit rests on assumptions represented in an integration view (Martin, 1992). However, there are other ideas of fit represented in the acquisition literature - ideas of organisational and cultural fit.
2.4.2 Organisational Fit

The literature suggests a search for different kinds of fit, for example, organisational compatibility, financial fit (Salter and Weinhold, 1981), business style fit (Davis, 1968), similarity in management styles (Lubatkin, 1983; Marks, 1982), cultural fit (Nahavandi and Malekzadeh, 1988). Companies should, according to the literature, seek for fit, especially cultural and organisational fit, in order to avoid conflicts.

Quite a few researchers emphasise organisational fit (e.g., Buono and Bowditch, 1989; Datta, 1991; Leighton and Tod, 1969; Marks, 1982; Sales and Mirvis, 1984) as important for the acquisition outcome. Organisational fit focuses on the match between administrative and cultural practices and how the personnel characteristics between the two merging firms may affect the ways the firms can be integrated (Jemison and Sitkin, 1986). Chatterjee et al.'s (1992) findings suggest that both strategic fit and cultural fit are important to create shareholder value in related mergers. Still, Datta (1991) claims, research on organisational fit is very limited, fragmented, and anecdotal. Nevertheless, most merger and acquisition researchers strive to find an optimal formula to make acquisitions successful, whether it is strategic, organisational, or some other kind of fit. However, finding strategic or organisational fit and a potential synergy does not necessarily mean that the two organisations will behave as expected when merged. Organisations are made of people, people who do not always behave
in a certain way, just because the organisations have synergy potential. A fit does not automatically lead to beneficial acquisition outcomes.

The notion of fit seems to subscribe to an idea that organisations are homogeneous cultures, and that after the combination, the two companies should reach a cultural consensus. The researchers state that if the combining companies do not fit culturally, conflicts between the two cultures are expected to arise. This view is in accordance with a cultural differentiation perspective where the two merging companies can be seen as islands of clarity and the conflicts or ambiguities are channelled in the interstices of the companies. (Martin, 1992).

Nahavandi and Malekzadeh (1988) classify acquisitions according to the acquiring company’s implementation strategy. They suggest that it is the motive behind the acquisition and the characteristics of the acquired and the acquiring companies, such as cultural similarity or difference, that influence the choice of the acquiring companies’ implementation strategy. To describe the implementation strategy, they use the anthropological concept of acculturation, also used by Sales and Mirvis (1984). Acculturation is defined as a cultural change initiated by the unification of two or more autonomous cultural systems (Berry, 1980). The degree of acculturation is thus dependent on the type of acquisition, the acquiring company’s degree of multi-culturalism, the acquired company’s attractiveness to the acquirer, and the acquired company’s wish for preservation of their culture.
The four identified modes of acculturation are integration, assimilation, separation, and deculturation. "These modes define ways in which two groups adopt to each other and resolve emergent conflicts. In the case of mergers, the characteristics of the acquired and the acquiring companies determine which mode of acculturation will be triggered" (Nahavandi and Malekzadeh, 1988). Nahavandi and Malekzadeh talk about the congruence between the two companies preferred mode of acculturation. They prescribe that the acquiring company should find out which acculturation mode the acquired company's members prefer. When it comes to the acquiring company, it is the degree of multiculturalism and the type of mergers that will determine the mode of acculturation. Another striking thing in Nahavandi and Malekzadeh's model is that, in those cases where changes will take place, they always presume that it is the acquiring company that will impose its practices and culture on the acquired company.

Sales and Mirvis (1984) used Nahavandi and Malekzadeh's acculturation model in a case study and observed that several acculturation modes occurred at the same time in the acquired company. Sales and Mirvis discussed some problems when managing acculturation and made the observation that acculturation following an acquisition is often marked by conflict. First of all, an acquisition involves a large power differential between groups, where the acquired company does not always have the option to choose how it will relate to the acquiring company. Second, the cultural flow is often
unidirectional from the dominant company (read acquiring). Third, the subdominant company, the company being acquired, often resists the acculturation, perhaps feeling that they are giving up their identity in the process of giving up their culture.

However, an acquisition is not only about choosing a combination partner and purchasing another company. According to acquisition theories, the acquiring company must decide whether to integrate the new company into its business or to allow it to remain autonomous. Some scholars argue that it is not the fit between companies that is vital for the ultimate performance but the integration process. For example, Larsson (1993) contends that it is not the initial similarities between two merging corporate cultures that facilitate the integration, but how the integration is managed.

Let us now turn to the integration phase and look at how different researchers consider how integration should be managed.

2.5 INTEGRATION TYPOLOGIES

Integration is highly emphasised as important in acquisition research. "Integration is the key to making acquisitions work. Not until the two firms come together and begin to work toward the acquisition's purpose can value be created" (Haspeslagh and Jemison, 1991).

The primary objective of the integration is to make more effective use of existing capabilities (Datta, 1991). The combining firms can take advantage of economies of scale by reducing unit costs in production,
integrating similar departments, sharing sales forces, etc. Hence, integration seems to be very important to get full value from the acquisition.

According to Schweiger and Weber (1989), the integration must be carefully planned if synergies are going to be achieved. If left to chance, clashes between the firms will likely occur and destroy the potential for a successful outcome. On the other hand, Weber and Schweiger (1992) contend that the higher the degree of integration, the more severe will be the effect of cultural differences. That is, more integration will lead to more cultural clashes in the form of negative attitudes and higher degrees of stress and anxiety. Weber and Schweiger further propose that the acquired top management teams will develop negative attitudes towards cooperation with the acquiring management. They are thus saying that cultural clashes will make integration more difficult, even hazardous, and moreover that it is this resistance and reaction from the acquired management that will hinder the expected acquisition outcomes. There seems to be no simple solution to ensure that acquisitions will work, and the researchers are not unanimous regarding how a successful acquisition should best be accomplished. On the one hand, integration is needed for a successful outcome; on the other hand, integration will lead to cultural clashes and will therefore obstruct a successful outcome.
The integration process has been approached differently in the literature. Three different approaches will be discussed below: the motive behind and purpose of the integration; how and where integration takes place; and finally a process oriented view of integration.

Napier (1989) states that the motive behind the acquisition affects how the integration is managed. She suggests that motives for an acquisition and characteristics of the merging firms relate to a specific type of acquisition, in terms of degree of integration. The different acquisition types may in turn affect the organisation in each firm differently. Napier defines three types of acquisitions: *extension*, *collaboration*, and *redesign*. During the integration in extension acquisitions, the acquired firm is left virtually undisturbed with few or no changes. In collaboration acquisitions, merging companies can either both benefit from exchange of skills or specific skills can be transplanted back from the acquired company to the acquirer. Finally, in redesign acquisitions, one firm adopts the policies and practices of the other.

Also Pritchett (1985) discusses categories based on motive even though he does not discuss the specific effects motives have on integration modes. His acquisition types, however, implicate and indicate integration strategies. His categories - *rescue*, *collaborative*, *contested*, and *raid* - take as a starting point the relations of
cooperation and resistance between the two companies. Rescue being the most cooperative interface between acquiring and acquired firms and corporate raid the most adversarial. Haspeslagh and Jemison (1991), claim that the interactions taking place during the integration can be of three types: substantive, administrative, and symbolic (Shrivastava, 1986). The substantive interactions involve efforts to transfer capabilities, while the administrative interactions focus on developing information and control systems to bring the acquired firm into the overall corporate fold. Symbolic interactions are attempts to promote or influence certain beliefs. All three aspects of interaction were found to be important to the studied firms.

Sometime during the integration process, problems usually occur that may obstruct or delay the integration. Haspeslagh and Jemison (1991) found three problems that may hamper the ability to create the right atmosphere for integration. If the acquiring company clings to the original justification, even though the circumstances for the acquisition have changed, it is called determinism. Even though plans and justifications are important, it is also important to be flexible if the reality confronting the acquisition is changing. Another problem is value destruction; the acquisition itself can actually destroy value for individual managers and employees, for example in the form of a changing reward system, an expected promotion that was cancelled due to the acquisition, etc. This kind of value destruction can cause resistance among people working in the acquired company and turn
them against the integration. The last problem found was a leadership vacuum that is the lack of appropriate leadership to articulate a new purpose for the combined firms. Usually the top management's attention peaked at the time of the deal; when it came to post-acquisition, they typically moved on to other matters calling for their attention. In Haspeslagh and Jemison's (1991) study, these problems, taken together, explained to a large extent the failures in acquisition integration.

Based on the need for strategic interdependence or organisational autonomy, Haspeslagh and Jemison (1991) suggested four different approaches for integration: absorption, preservation, symbiosis, and holding. They also indicated that different types of acquisitions should be combined with corresponding integration approach. For example, they suggest that domain strengthening acquisitions should use an absorption approach. However, what Haspeslagh and Jemison do not mention is that this task is not solely dependent on the acquired management's actions. If the acquired company's management is not informed about the strategic purpose of the acquisition, they have difficulties executing it. Nor can the acquiring management take for granted that the acquired management will perceive the strategic purpose of the acquisition the same way, as they themselves understand it.
2.6 INTEGRATION LEVELS

In addition to phases, integration has been discussed in terms of levels. Shrivastava (1986) says that the primary problem in effectively managing merging firms is to integrate them into a single unit. The post-merger integration can take place on three different levels depending on the acquisition situation. According to Shrivastava, the size of the merging companies will influence the post-merger integration needs: the larger the size, the more difficult the integration, but also, the larger the organisation, the greater the need for integration because of the greater number of units that need to be co-ordinated.

The first integration level, according to Shrivastava, is the procedural, where the objective of the integration is to homogenise and standardise work procedures at operating, management control, and strategic planning levels. This integration will in turn facilitate the communication between the acquired and acquiring companies. One of the most basic procedural integration is to combine the accounting systems, creating a legal entity. Other management procedures and control systems can also be integrated at different functional levels.

The second level is physical integration, where product lines and production technologies are integrated. A typical problem at this integration level is that some assets become redundant and necessitate re-deployment. Related to the integration of new
production technologies is the issue of integrating existing plants and equipment, which in turn may cause relocation of both facilities and employees.

The last level of integration is the *managerial and socio-cultural integration* that involves merging corporate cultures and managerial viewpoints. At this level, top managers, middle managers, and staff personnel are transferred between the two companies, especially from the acquiring to the acquired company, to ensure control of the acquired business. Transfer of personnel from the acquired to the acquiring company can also be done to facilitate cross-fertilizing the two firms. Shrivastava posits that managerial transfers are not always easy because many managerial skills are not transferable. To transfer key managers alone will not ensure a managerial integration. Shrivastava argues that the transfers must be supplemented by integration of social norms and cultures, which is probably the most difficult integration to achieve. The transfers could help to develop an understanding of the respective companies' norms, values, and decision-making procedures to ultimately achieve a homogeneous way of seeing and doing things.

Another important part of the socio-cultural integration is to gain management's commitment and to motivate personnel. Shrivastava asserts that this could be gained to a large extent by open communication. Shrivastava's view of integration breathes an
assumption of consensus, homogeneous, and monolithic culture. The underlying assumption is that to achieve a successful outcome of the acquisition, the two companies must become homogeneous through integration. It is only if they become one, if they become identical in procedures both physically and socioculturally, that the acquisition will work. There is no space for diversity in this view.

In a study of acculturation barriers, Larsson (1993) found that initial cultural similarities or differences did not affect the acculturation outcome of the acquisition. Instead he contends that it is how the integration is managed that matters. Larsson suggests three different approaches to integration from the acquiring firm's perspective. The most commonly discussed in the literature is what he calls the "hard" or the "soft" way. The hard way is when the acquiring company is imposing its culture and practices on the acquired firm "to forcefully break the cultural maintenance mechanisms as quickly as possible in order to socialize the other firm into the dominant culture". If the acquiring firm is choosing a soft integration, they use an avoiding integration approach "to mollify cultural maintenance by interfering as little as possible, maintaining the other firm's integrity, and hoping for it to appreciate this treatment enough to gradually accept the combination and willingly cooperate". In addition to these two approaches, Larsson (1993) suggests a third one which he calls the supportive approach that is aimed at positive interaction. "Rather than attempting to break or mollify cultural maintenance, it tries to prove
isolationist and condescending 'we versus they' attitudes wrong by showing the benefits of working together". His findings indicate that the supportive approach was more beneficial for achieving high degrees of acculturation, and thereby high acquisition performance.

Birkinshaw, Bresman and Hakanson (2000) drawing from previous acquisition research describe claim that the integration process consists of two parts: task integration and human integration. They found that the integration was not as linear as expected but that it took place in different time phases. Moreover they found that the acquired companies were left rather autonomous in the beginning and that human integration had to precede task integration for a successful acquisition outcome.

2.7 REACTIONS TOWARDS THE ACQUISITION PROCESS

It is not a bold conclusion to draw from the literature that acquisitions have a great effect and create a lot of stress on managers and employees, particularly during integration. Common reactions discussed in acquisition literature are anxiety, uncertainty, ambiguity, etc., reactions that were, for example, mentioned in Buono and Bowditch's (1989) combination phases.

Ivancevich, Schweiger, and Power (1987) summarize different uncertainties claiming they affect the organisational members. The first uncertainty, they point out, is the major event that is happening, the
acquisition, which the employees have little control over. Second, employees perceive an uncertainty about their future because they do not know anything about the objectives of the acquisition. Third, they may face changes in jobs, work, and family relationships that affect their lives. Furthermore, Ivancevich et al. point out that each employee cognitively appraises and interprets an acquisition; thus perceptions of what is happening during the acquisition differ from person to person. They say that some people may perceive the situation as a threat while others may see it as an opportunity. This would thus mean that the opinion of the outcome of the acquisition differs between individuals. Buono and Bowditch (1989) contend that the outcome of the acquisition is determined by employees' combination expectations. To them outcome does not only refer to the financial performance but also employees' reactions and attitudes to the acquisition. Employee expectations are to some extent built upon pre-merger information that comes via the rumour mill, from top management announcements, or other information channels.

Marks (1982) posits that it is how the acquisition is implemented and managed, for example in planning and communication, that determine the employees' attitudes and in turn the acquisition outcome. The literature states that managers may react quite differently from other organisational members to the acquisition (e.g., Marks and Mirvis, 1985, Mirvis and Marks, 1986, Walsh, 1988). Marks and Mirvis (1985) call these reactions to the acquisition "the merger syndrome." They
describe the merger syndrome as something happening to executives by "a combination of uncertainty and the likelihood of change, both favourable and unfavourable, that produces stress and, ultimately, affects perceptions and judgements, interpersonal relationships and the dynamics of the combination itself. If the syndrome is not managed, Marks and Mirvis propose that it may cause poor financial and overall acquisition performance. Sinetar (1981) points out that this stress occurs as the acquisition unsettles the ordinary life conditions and provides a feeling of uncertainty for all persons concerned. In the acquisition literature it is often stated that one of the worst things the acquiring management can do after the acquisition is just to wait and see instead of initiating some action (e.g., Pritchett, 1985; Schweiger, et al., 1987; Schweiger and DeNisi, 1991).

Haspeslagh and Jemison (1991) assert that most organisational behaviour and culture oriented acquisition research have an assumption that when an acquisition takes place, the acquired company should not be disturbed. They say that this may cause the acquiring company's managers to promise autonomy too hastily and lose sight of the fact that the strategic task of the acquisition is to create value. Therefore they fall into the "no changes expected" syndrome. On the other hand "Managers and employees in acquired firms are too smart to be fooled by this syndrome" (Haspeslagh and Jemison, 1991). It is thus common among top management in acquiring firms to tell the staff of the acquired firm that nothing will
change, that everything will remain the same (Austin, 1970). The intention of these statements may be to avoid worries and anxiety among the staff, but the effect is often the opposite. Levinson (1970) propounds that sometimes management from the very beginning intends to impose their controls and practices on the other company, but do not reveal their intentions during the negotiations. Instead they woo the target company by promising nothing will change. As employees often expect changes, a declaration from the top management that nothing will happen, could make the employees believe the management have something to hide. Such behaviour from the top management could undermine their credibility with the staff (Buono and Bowditch, 1989). To leave the new subsidiary totally alone could lead to increased anxiety and ambiguity. Haspeslagh and Jemison (1991) claim that these kinds of ambiguous statements may not only cause confusion and insecurity among the employees; it could also cost unrealised synergies from the combination.

The acquisition literature has thus established that acquisitions can be traumatic experiences for both managers and employees working in the acquired company. One can also assert that researchers insist that the acquiring management should be open and frank with the acquired company and tell the acquiring company their intentions rather than pretending that nothing will change. Another issue that has been frequently discussed in the literature is how managers react to the acquisition.
2.8 MANAGER'S REACTIONS AND MANAGEMENT TURNOVER

Many researchers have emphasised the fact that managers working in an acquired company tend to leave the company after the acquisition. It is suggested that different management styles between the two merging partners lead to a high level of apprehension among managers in the acquiring firm (Datta, 1991).

Mirvis and Marks (1986) found that target management often turns into crisis management as a reaction to the acquisition and as a manifestation of the merger syndrome (Marks and Mirvis, 1985). To manage the situation, the target management centralise the decision-making and start to make decisions in an authoritative mode. They tend to reduce their accessibility for employees and colleagues and lessen the flow of communication. A motive for this reaction could be that the managers sense a loss of independence in their company (Marks and Mirvis, 1985) and want to reassure themselves of some sort of control. Something else increasing the managers' stress after a merger is the insecurity of job loss due to either redundancy or simply not fitting into the parent company's organisational structure, which in turn may cause an increased turnover. These findings are in accordance with Walsh's (1988) study where he found that top management often deal with the uncertainty in an acquisition by leaving the company. He concluded that acquisitions cause an increased turnover among top management compared to ordinary conditions. In a follow up study, Walsh (1989) tried to find explanations
to the increased turnover rates. His findings seem to indicate that different take-over approaches cause different turnover behaviour. Walsh found, for example, that unrelated take-over and hostile take-over negotiations cause abnormal degrees of turnover. As a result of the study, Walsh could establish the fact that nearly fifty percent of a target company's top management turnover within three years of an acquisition. Neither in his 1988 nor 1989 study could Walsh establish why the top management turnover is so high.

In 1999 Lubatkin, Schweiger and Weber, tested how perceived cultural differences and how perceived losses of autonomy, affects top management turnover. They found that "the relationship between relative standing and turnover not only explains executive turnover after a merger, it may also predict it" (1999). That is, how the managers perceive their new position in the company after the acquisition (in this case cultural differences and autonomy) will affect their behaviour (leaving the company). The authors, however, admitted that they did not get a deep understanding of why the managers actually left the company and suggested a more in-depth study where one asks the affected managers.

Ivancevich and Stewart (1989) take a different approach to management turnover. Instead of trying to establish why managers leave, they make suggestions how to stop them from leaving. More exactly, they suggest management appraisal as one solution to
diminish management turnover. They contend that if the acquired management is not effectively and fairly appraised, they tend to leave the company to avoid uncertainty, the risk of getting a job at lower level, or the risk of getting laid off. Walter (1985) also discusses managerial turnover in acquired companies. He argues that if acquisitions are best understood as manifestations of corporate control, it would lead to increased control over the acquired company from the acquiring company. According to Walter, the limitations of managers' freedom cause the most talented and self-directing managers, those most needed and wanted by the acquiring management, to leave.

Graves (1981) expressed that "in times of anxiety, employees may actually welcome strong central control because it crystallizes a need to impute coherence to what is essentially a destabilization of their social process." However, Graves declares, that too much control is inhibiting. Instead he suggests that the top management should come to terms with the need to let people in the acquired company to do things in their own way.

There are in the literature other explanations for managers' reactions. Jemison and Sitkin (1986) suggest, for example, something they call "parent firm arrogance." They identified three forms of the acquiring management's attitude, negotiation climate, or cultural differences, but we do not get any further understanding of how the managers actually
might perceive acquisition. The greatest concern with this issue in the literature is that the acquiring company is losing parts of what they acquired when people with valuable skills and knowledge leave the company. This will in turn affect the strategic value creation of the acquisition.

The research remains at a strategic level, where people are more or less viewed as value-creating factors and resources. If one could get an understanding of how top-managers perceive the acquisition, it might lead to a better ultimate acquisition outcome.

But it is not only the top management that is affected by the acquisition. Other organisational members will also be affected and have various experiences.

2.9 EMPLOYEE’S REACTIONS

In many acquired companies there is not much attention paid to the concerns of the employees. The top management in some companies were found to be so caught up in their own survival that they did not offer enough time and attention to how the employees were taking the acquisition (Schweiger et al., 1987). "Even when employees were considered, management faced so much uncertainty and ambiguity about the future that they were not always clear about what actions needed to be taken and by whom."
Schweiger et al. compare the reaction of employees in an acquired company to "the loss of attachment experienced by the child that is separated from her mother" (1987). In their study of an acquired firm, they found five major personal reactions among the employees. People experienced a loss of identity when they no longer could identify themselves with their company. This loss of identity confused them as their successful self-image changed. Lack of information and anxiety was something that almost all organisational members in the study mentioned. During the acquisition there was a shortage of timely and accurate information about the future, something that created a lot of anxiety for the employees. Survival became an obsession for many people as they were spending more time protecting themselves from changes or worrying about their own personal futures than doing their work. Because many people could not stand the uncertainty, the loss of attachment, and the changes, they left the organisation, resulting in the loss of talented people. Family repercussions occurred as many employees involved their families in the psychological dynamics of the acquisition. The acquisition affected the employees on both a professional and a personal level.

The employees' reactions can in turn affect the organisation, either by loss of good people or by people less engaged in their work (Schweiger, Ivancevich and Power, 1987; Haspeslagh and Jemison, 1991). At the personal level, the employee can experience lowered self-confidence and self-esteem because of the changes the
acquisition brings about (Sinetar, 1981). The stress created through the acquisition can also lead to a sense of loss, psychosomatic difficulties, and marital discord (Buono and Bowditch, 1989). At the professional level the reaction can show itself as lowered commitment and productivity, increased dissatisfaction and disloyalty, high turnover, and power struggles among managers (Buono and Bowditch, 1989).

Employees experience several negative reactions connected with the acquisition announcement. Initially, the workers can experience shock, disbelief, and grief, as if someone close had died (Sinetar, 1981; Marks and Mirvis, 1985). The employees need to grieve for the company if they think it will lose its identity due the acquisition. Moreover, Sinetar found these emotions to be followed by resentment, anger, and/or depression.

Moreover, Sinetar (1981) found that the following behaviours could be observed during the acquisition. There may be increased dysfunction where people become very ineffective. People may take a large amount of time to solve minor issues or take time off work, and they spend a lot of time gossiping and worrying about what is happening. The anxiety can disturb the operations as people's minds are not on business, but on their own situations and anxieties. There may be an increase in depression that leads to a decrease in productivity. People feel burnt-out, and all the emotions they feel bring productivity to a standstill. Sinetar's findings indicate that acquisitions can create
serious personal and emotional problems for the members of the organisation, problems that may even lead to illness.

Marks and Mirvis (1985; Marks and Mirvis, 1986; Mirvis and Marks, 1986) have labelled employee and managers' reactions to acquisition as "the merger syndrome." They say that "the merger syndrome is triggered by the often unavoidably unsettled conditions in the earliest days and months following the combination and encompasses the executives' stressful reactions and development of crisis-management orientation" (Marks and Mirvis, 1985). They set out to do more than merely identify the merger syndrome and discuss its roots, causes, and manifestations. Marks and Mirvis (1985) state that for executives, a combination of uncertainty and the likelihood of change create the syndrome. This situation produces stress and affects perceptions and judgements, interpersonal relations, and the dynamics of the combination itself. The syndrome is "a total anathema to a successful integration." Mirvis and Marks (1986) provide ways to minimise the syndrome, claiming several times that the best way is open and full communication throughout the post-acquisition phase. They say that full communication means "providing all information, be it positive or negative, as soon as legally and practically possible."

One study found that the managers withdrew from daily operations after the acquisition. This in turn made the employees feel alienated from the company. They did not recognise their "old" company and felt
that they did not belong there any longer. This withdrawal by management can also lead to a decline in the working moral and the employees' feeling less committed to the company (Sinetar, 1981), which in turn can lead to less efficiency, perhaps less productivity, and ultimately to a drop in sales (Marks and Mirvis, 1985). If the management cannot give proper directions, often because they are not sure themselves about the directions from the new parent company, the subordinates may feel even more lost and uncertain in the new situation. In some cases, this uncertainty and unfamiliarity may lead to employee turnover.

Other reactions by the managers, like top management turnover discussed earlier, can affect employees. If the company's leader leaves the company, the employees are no longer sure of what to expect as former organisational norms and expectations may not be appropriate for the new organisation (Buono and Bowditch, 1989). What seems to be important here is that the subordinates' reactions are affected by their supervisors' actions. The employees watch their supervisors carefully, interpreting their actions and reactions as guidelines for their own. Further, these reactions of both management and staff toward the acquisition many affect not only the internal matters in the organisation, i.e., relations between hierarchical levels, but also efficiency, sales, and possibly quality.
Thus employees are affected by the acquisition in several ways. First, they are affected by the event itself; secondly, they can be affected by their manager's reactions; moreover, they can also be affected by rumours and gossip. This final effect of rumours and gossip can play a very important role in the outcome of an acquisition.

All these reactions - turnover, merger syndrome, uncertainty, anxiety and lowered working morale have been offered as explanations to disappointing acquisition outcomes. What is found missing in the literature is an attempt to understand how people experience the acquisition process which could be a way to understand particular acquisition outcomes. Even though Marks and Mirvis (1985) claimed to discuss roots and causes of the merger syndrome, they never really went that far. They came to a conclusion that the best solution to acquisition reactions is full and open communication.

Previous acquisition researchers' perspectives on acquisition reactions are permeated by an assumption that these reactions are diseases that must be cured. Such a view is not a very positive way to perceive the people working in the acquired company and it will most likely affect preconceived attitudes and assumptions about acquisition. There must be a more positive way to view and understand employee's reactions and acquisitions.
2.10 AMBIGUITIES AND UNCERTAINTIES FOLLOWING AN ACQUISITION

Ambiguity is quite often discussed in the acquisition literature. One of the earlier studies of the human side of acquisitions by Costello et al. (1963) found a wide range of attitudes and equivocal meanings in a bank merger. Jemison and Sitkin (1986) contend that many of the ambiguities that occur during the acquisition process arise immediately during the negotiations. To close the deal, the parties often agree to disagree for the moment. Jemison and Sitkin mean that during the negotiation process, ambiguities are useful to close the deal. But they also claim these same ambiguities can become a source of problems and conflicts after the agreement is finalised wherefore they have to be resolved. Jemison and Sitkin (1986a) suggest that the ambiguities and uncertainties should not be eliminated; rather management should focus them. According to them, the managers should decide which of the ambiguities must be solved and agreed upon and which can be left ambiguous or to be resolved later. Thus ambiguities are here seen as problems that must be solved now or later. Some of the problems are not that important and can be ignored, at least for a while.

Schweiger et al. (1987) found three human resource-related issues that significantly affect people’s perception and behaviours regarding the acquisition situation - issues that were perceived as ambiguous by the employees:
• The first issue related to how terminations were addressed by the management. People did not worry so much about termination per se; most of them understood the reasons for termination. Instead employees complained about how management handled decisions to terminate and the amount of time they took to make and communicate these decisions. These factors caused a great deal of uncertainty and anxiety; people did not know who would be the next person to go.

• The second issue they found was that the merging of corporate cultures often resulted in culture clashes. There were three main points regarding the cultures that concerned the employees: "What are the expectations for my performance in this organization?" "What kind of behavior will generate the kind of rewards that I prefer and need?" "What are the do's and don'ts of social conduct within the firm?." The researchers mean that these questions can result in ambiguities for people who do not know how they are expected to behave.

• The third human resource issue noted by Schweiger et al. was regarding the reward systems. They state that without a clearly established and communicated reward system, it may be difficult to attract, motivate, and retain people.

Schweiger et al. concluded that it is, therefore, necessary to clearly communicate the reward system to create a successful acquisition.

Sinetar (1981) found that employees view acquisition as a major life change that negatively affects their behaviour. She states that major shifts in our normal lifestyles act as triggers for stress and insecurities. Uncertainty about the future can in turn produce lowered self-esteem, and ambiguity causes the employees to question their ability to deal with the events. She contends that acquisition, by its very nature, introduces ambiguity into the organisational member's life, and this may reduce that individual's effectiveness.
As we have seen, anxiety, stress, uncertainty, ambiguities etc. are often mentioned as effects of the acquisition process. Ambiguity has however mostly been treated as obstacle to the acquisition, as effects of the acquisition that cause problems. In the literature, ambiguities are treated as something bad, as a threat to the acquisition outcome. *Ambiguity is seen as something that must be resolved.* Jemison and Sitkin claimed that *ambiguity should not be eliminated but focused.* However, their focus on ambiguity was intended to resolve some ambiguities and ignore others. They saw ambiguities as useful during the negotiations but issues that have to be resolved later when the deal is closed. Ambiguity does not have to be negative in an organisation and can instead be viewed as representing diversity, multiplicity and homogeneity among the people working in the organisation, something that can be positive for the organisation (Fine, 1991; Larkey, 1996). One could also see ambiguity as something that is almost always present in the organisational life and that is sometimes viewed as bad and sometimes as good (Risberg, 1999; 2001; 2003).

### 2.11 COMMUNICATION DURING THE ACQUISITION PROCESS

Communication has been recognised in acquisition literature as being important in the acquisition process, especially to effect integration and change.

Open communication between the companies and within the acquired company has been suggested as a way to minimise ambiguity during the acquisition process.
According to Schweiger and DeNisi (1991), it is not the changes after acquisitions that are stressful to the employees; it is the uncertainty about the future. When nothing is communicated about the future, it leaves the employees with great uncertainty, and they will seek answers to their questions one way or another, even if there is no communication from the management (Napier et al., 1989). If the employees seek their own answers, it can lead to rumours and other informal communication (e.g., Sinetar, 1981; Mirvis and Marks, 1986). However, rumours are expected to have the effect of adding fuel to the anxiety instead of reducing it. Left to rumours, employees often create worst-case scenarios, which can in turn create an obsession with the acquisition and its impact on their lives (Marks and Mirvis, 1985).

Marks (1982) posits that most post-merger problems develop from the lack of sufficient information and these problems could be avoided by communicating with acquired personnel throughout the whole merger process.

In Schweiger et al.'s (1987) study, almost all individuals interviewed in an acquired company were concerned with the shortage of timely and accurate information regarding the future, for both themselves and the company. Top managers mentioned that they had difficulties providing information because they themselves did not know what was going on. The top managers perhaps were not involved in the acquiring firm's plans; they were involved in broader issues of the acquisition, or they
were just unaware of what information to communicate. A lack of information created a reduced sense of security and, ultimately, anxiety for the employees. Moreover, they found that as the uncertainty continued and rumours heated up, there was typically a flow of conflicting information. Rumours were followed by more rumours, resulting in a lack of clarity, validity, and logic in the rumours that produced frustration.

It has been suggested that managers communicate to the employees (Bastien, 1987) as soon as possible (Schweiger and DeNisi, 1991) to manage anxiety and uncertainty. The rumour mill may start early in the acquisition process, when pieces of information about the negotiation start leaking out. In order to reduce the rumours and the anxiety, communication should start from the acquiring company early in the acquisition process (Marks, 1982; Shrivastava, 1986).

Managers should provide complete and realistic information to form a genuine basis for action other than rumours and to avoid uncertainty and anxiety for the employees. That basis will in turn reduce uncertainty (Schweiger and DeNisi, 1991).

Marks and Mirvis (1985) suggest that if managers are informed about the burdens and possible problems that the acquisition will bring about and how the managers might be affected in advance, they will be able to handle the acquisition situation better.
Birkinshaw, Bresman and Hakanson (2000) found that in companies where the integration process at first was perceived as problematic, the acquired companies first got autonomy while the communication increased at the same time. After a while the problems disappeared and the autonomy decreased.

Schweiger and DeNisi (1991) claim the communication process symbolises the organisation's concern for its employees. The symbolic value of communication may be as important as its actual content. The notion of the importance of communication during acquisitions is not only about actually providing accurate information, but an opportunity for the acquiring company to show their concern for the newly acquired company. Shrivastava (1986) propounds that communication should begin immediately in the pre-merger phase. The acquiring company should communicate to all relevant stakeholders, including the employees. Honesty is highly valued by employees. Schweiger et al., (1987) write that and they appreciate receiving information, both positive and negative. If no information is provided, the employees may perceive it as a sign that the management is hiding something or as Marks (1991) observes "no news is bad news."

When it comes to layoffs, the literature suggests people want open and frank information about the situation. Even people who are not laid off will relate their own situation to how the people being let go are treated (Mirvis and Marks, 1986). If the laid off people are treated fairly,
attitudes toward the acquiring management will be more positive. Thus, the researchers have found that employees require full and frank communication at all times whether the information is positive or negative (Mirvis and Marks, 1986).

In a case study of behaviour and communication during acquisitions, Bastien (1987) discovered three central issues. First, he concluded, almost all people in the acquired company perceived some kind of uncertainty during the process. Bastien suggests that the acquisition process should best be managed through communication. He moreover found that people's attempts to cope with the uncertainty included sudden switches between opposing viewpoints, for example, between very negative and very positive future scenarios. Finally, he concluded that cultural shock is by definition present in acquisitions. Communication did, in these cases, set the climate for either uncertainty or assurance. Extensive formal or informal communication about the situation was important to reduce uncertainty. When there was a shortage of communication during certain periods, personal uncertainty peaked, and many of the members turned their focus to alternative jobs in other companies.

Sinetar (1981) argues that to communicate throughout the whole process, managers need different communication strategies for different acquisition phases. Likewise, Ivancevich et al. (1987) use a phase approach to acquisition communication, a framework later used
by Napier et al. (1989). Their framework consists of four acquisition phases: planning, in-play, standstill / transition, and stabilisation. This framework provides a structure of what type of communication occurs during the acquisition and how employees react to it. Consistent with Ivancevich et al.'s (1987) suggestions, Napier et al. (1989) found that employees took much of the responsibility for managing stress and acquiring information. Three main conclusions came out of Napier et al.'s study:

- First of all, there never seems to be enough communication.
- Second, it is important to have continued and repeated communication and contact from top management.
- Third, the type of communication may need to be varied among various groups of employees.

Even though employees seem to have a never-ending need for communication during the acquisition process, many researchers speak about communication as a one-way transfer from top management to employees (e.g., Sinetar, 1981; Ivancevich et al., 1987; Napier, et al., 1989).

Researchers also claim that communication should be full, frank and early (e.g., Mirvis and Marks, 1986; Shrivastava, 1986; Bastien, 1987; Schweiger and DeNisi, 1991). Most often the full and frank communication is described, as a one-way process where the employees are expected to interpret the management's communication exactly as the sender intended. It has been noticed that there never seems to be enough communication (Napier et al., 1989) but the
reason for this lack has not really been discussed. It could be that the employees interpret the management information in another way than the management intended. Open communication and a lot of communication does not mean the problem with insufficient communication is solved if the employees perceive that they have not had the "right" information.

Jemison and Sitkin (1986a) propose that discrepancies between experienced information at different levels in the organisation can be avoided by early involvement of middle and operating managers and open communication with all employees throughout the merger and acquisition process. The communication from the acquiring firm has been found to be more extensive with acquired employees at higher organisational levels than at lower organisational levels (Schweiger and Weber, 1989). It was also found that some information was not communicated to certain groups because they were not affected. Mirvis and Marks (1986) suggested that to avoid last minute management during the integration, the top management should use open and full communication, and they should involve people at all levels in the combination process. Young and Post (1993) recommend communication to decrease employee resistance towards changes after the acquisition. Their results indicate that the initiative for communication must come from top management and that communication should be continuous throughout the whole change period.
Researchers stress the importance of the need for avoiding discrepancy between action and words (Bastien, 1987) as too often "the implicit messages that managers send contradict the official messages as conveyed in formal communications" (Young and Post, 1993). Research findings indicate that if the employees are informed about the motives behind the changes, they will be less inclined to resist them (Napier, et al., 1989; Young and Post, 1993).

To reduce the anxiety following the acquisition Siehl et al. (1988) contend that the employees want to hear directly what the new management stands for. The employees may then wait and see if the management acts in a manner consistent with their spoken words. In addition to espoused values, Siehl et al. suggest that more indirect communication is equally important. "Employees of the acquired organization are likely to be unusually alert to signals from the acquirer, and may read more into specific behaviors than is appropriate."

Actions by the acquirer are often read as intentional communications even though they were not intended as such (Bastien, 1987). The relative importance of actions over words was indicated in Bastien's (1987) study. Actions by the acquirer that were not intended to be communicative interpreted as such by the acquired organisation. Communication is important during acquisitions but inconsistent communication may make people confused. Inconsistent communication, Bastien found, could be detrimental during the first
phases of the acquisition process as many employees form their opinions about the acquiring company early in the process.

The unified message from acquisition research appears to be that to make a merger work, one should offer timely, full, and open communication early in the process: the more communication the better. But who decides if the communication is enough? Who decides if it is timely, open, and full? While it seems to be good advice to communicate a lot, there are some problems. Even though management may perceive that they have communicated much information and been very open, the employees may not perceive that the communication is sufficient. The employees can interpret, what to the management seems to be very clear and straightforward communication, very differently. An employee who expects redundancies may interpret a message about reorganisation as an indication that a lot of people will be let go even though the management might have meant reorganisation with no redundancies.

It may also be hard for different reasons for management to communicate their plans with the acquisition. Maybe they do not have everything planned. Maybe the plans will change, and if they have once made a promise or statement, it could be difficult to change later (Eisenberg, 1984). Giving out too much information initially could hinder management as the merger progresses and plans change.
Lack of full and frank communication has been said to lead to rumours and other informal communication (Sinetar, 1981; Mirvis and Marks, 1986). Schweiger et al. (1987) found in a study that almost all the people interviewed were concerned with the shortage of timely and accurate information regarding the future for both employees and the company. Thus, the provision of realistic information to the employees and not rumours and speculation will give them a basis for action (Schweiger and DeNisi, 1991).

Marks (1982) posits that most post-merger problems develop from the lack of sufficient information, problems that could be avoided by communication with acquired personnel throughout the whole acquisition process. Providing what Marks calls realistic information could thus reduce the uncertainty.

In a study of culture and communication, Brown and Starkey (1994) found that a lack of planned communication policy often leads to the increase of informal grapevine communication. Brown and Starkey's conclusion is that the very top management must settle the communication policy and customs within a company.

Schweiger and DeNisi (1991) reason that "the only way for managers to deal with the anxiety that follows a merger or acquisition announcement is to communicate with employees as soon as possible about all the anticipated effects of the change." Timeliness is vital, according to them.
The managers should communicate what they know when they know it, instead of trying to resolve every detail first (Young and Post, 1993). If the managers wait too long, it is more likely that everybody already has formed opinions, and the grapevine is in full swing. The cost of not communicating in a timely manner could be loss of trust.

The top management may have good reasons not to communicate their intentions. Managers may, for example, intentionally deliver vague and ambiguous information to give themselves some room for play regarding decisions to be made later on (Eisenberg and Witten, 1987). This view is emphasised in Levine's (1985) work. He suggests that the use of ambiguity provides the person with the possibility to better express oneself while still protecting oneself.

It seems like communication is a good way to help people accept changes, as people who believe that they have been treated fairly become more favourably disposed toward the situation (Greenberg, 1990). The employees require frank and open communication about intentional changes to be able to deal with their uncertainty, while managers want to be more implicit in their communication because of an uncertain future. Providing ambiguous information gives managers an opportunity to respond flexibly to changes during an acquisition. If the managers have not made any promises, they can make decisions which are more consistent with changing environment (Eisenberg and Witten, 1987). However, one could argue that the people working in the
company have to deal with the changes; therefore, openness should be vital to enable them to work with the changes instead of against them. The two opposing views can be summarised as follows: managers strive for ambiguity in communication partly because of future decisions while subordinates demand unambiguous communication to decrease uncertainty and anxiety. Any kind of interaction with people may be dysfunctional at both extremes. Absolute openness in communication would probably be neither possible nor desirable. Even in the most intimate personal relationship such as marriage, absolutely open communication could destroy the relationship (Eisenberg and Witten, 1987).

Literature that propose early, full, and open communication as a solution to merger problems seem to be taking a rather simplistic view of communicative processes. While important, open communication is not always easy in acquisition processes and it can increase as well as decrease problems, uncertainties, and ambiguities.