

Can Stories Breed Commitment? The Influence of Mergers and Acquisitions Narratives on Employees Regulatory Focus

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ABSTRACT

One determinant of merger and acquisition (M&A) success is the extent that an organization's employees commit to the combination. However, employees often have low commitment to merger and acquisition activity. This paper examines the relationship between organizational commitment, regulatory focus, and M&A narratives. It is argued that employees with a promotion focus will have higher affective commitment during M&As than employees with a prevention focus. Further, it is hypothesized that organizations can use particular types of narratives to activate employees' promotion focus, which will result in employees having higher affective commitment than employees in organizations using other narrative-types.

Introduction

Each year tens of thousands of organizations engage in mergers and acquisitions (M&A) activity (Gupta & Gerchak, 2002). The global cost of this activity totals nearly \$4 trillion (Ellis, Reus, & Lamont, 2009). However, mergers and acquisitions represent more than merely an economic cost. There is also a "human side" to M&As, which is laden with employee consequences and can influence both the individuals and the organizations involved (Buono & Bowditch, 2003; Marks, 1982). Specifically, annual merger and acquisition activity influences millions of employees because several common characteristics of M&As, including layoffs, acclimation to new corporate cultures, and the introduction of new forms of management and work roles, can be filled with uncertainty (Griffen, Neal, & Parker, 2007; O'Shaughnessy & Flanagan, 1998; Paruchuri, Nerkar, & Hambrick, 2006). Employees facing a merger often do not know if their organizations' M&A activity will indeed possess these characteristics and, if so, what they will mean for their specific jobs or departments. This uncertainty about the future has a deleterious influence on a host of individual-level outcomes, such as job satisfaction, job performance, stress, and turnover intentions (Johnson, Bernhagen, Miller, & Allen, 1996; Nelson, Cooper, & Jackson, 1995; O'Driscoll & Beehr, 1994; Schweiger & Denisi, 1991). However, of the individual-level factors influenced, mergers and acquisitions have a particularly strong, negative effect on employee commitment and, specifically, on employee *affective* commitment (Ashford, 1988).

Changes in employee affective commitment, which is defined as individuals' emotional attachment to their organization, is critical because increasing affective commitment has a positive influence on organizational citizenship behavior, perceived organizational support, job satisfaction, and job performance, and a negative influence on turnover and

absenteeism (Currivan, 1999; Shore & Wayne, 1993; Van Knippenberg & Sleebos, 2006; Somers, 1995; Stinglhamber & Vandenberghe, 2003). In addition, an organization's aggregate level of employee affective commitment can influence the overall success or failure of a merger, with decreased affective commitment resulting in lower M&A performance (Buono, Bowditch, & Lewis, 1985; Cartwright & Cooper, 1993; Kramer, 2004; Mirvis, 1985; Weber, 1996). This last point suggests that organizations face a distinct problem: the act of engaging in a merger or acquisition decreases a key employee-level factor, which in turn decreases the success rate of the organization's merger activity. In other words, by choosing to engage in a merger a firm is setting into motion a process that, in its typical course, limits the success of its primary outcome. And, given the precarious success rate of M&As (cf. King, Dalton, Daily, & Covin, 2004), organizations certainly do not benefit from an additional factor that negatively influences the likelihood of M&A success.

The dilemma that organizations face raises at least two related questions: (1) Can organizations engaging in M&As maintain, or even increase, their employees' affective commitment? And, if so, (2) what is a specific mechanism through which organizations can influence affective commitment? In answer to these questions it will be argued that M&A activity decreases affective commitment, in part, by influencing employees' regulatory focus. More specifically, employees' interpretations of M&As as uncertain and anxiety-filled events activate their prevention rather than promotion focus. However, a prevention focus is related to continuance, not affective, commitment (Tseng & Kang, 2008; Markowitz, Ullrich, van Dick, & Davis, 2008). So if organizations can influence employees' interpretations of events such that a promotion rather than prevention focus is triggered, then this could be a means of maintaining, or possibly even increasing, employees' affective commitment.

If organizations must indeed try to provide their employees with a particular interpretation of a merger or acquisition, then this suggests that organizations could focus on the communication they use because through communication interpretations can be transmitted and shaped (Daft & Lengel, 1983). Moreover, it will be argued that a certain form of communication, namely, communication with a narrative structure, is particularly effective at influencing interpretations and regulatory focus. Specifically, mergers and acquisitions narratives can be classified as either prevention-oriented or promotion-oriented and hence can be used to invoke either of the two types of regulatory focus. Therefore, organizations using promotion-focus invoking narratives will influence employees' affective commitment. This influence should attenuate, or even negate, the negative influence of M&A activity on employees' affective commitment. The primary objective of this paper is to examine the validity of the previous claim, and thus to analyze whether or not narratives can be used to influence employees' affective commitment during mergers and acquisitions.

Organizational Commitment

Individuals who develop a psychological attachment to an organization, and who internalize the characteristics and perspectives of their organization, are said to possess

organizational commitment (O'Reilly & Chatman, 1986). This psychological linkage is a multidimensional construct that can take three distinct forms (Allen & Meyer, 1996). Individuals can possess affective, continuance, and normative commitment (Meyer & Allen, 1991). Affective commitment refers to an "employee's emotional attachment to, identification with, and involvement in an organization", continuance commitment concerns "a focus on the costs associated with leaving an organization", and normative commitment is based on an obligation, or moral duty, to remain with an organization (Allen & Meyer, 1991, pp. 63-66). To summarize the three types of commitment more succinctly, individuals who possess affective, continuance, or normative commitment remain with an organization because they want to, need to, or ought to, respectively (Allen & Meyer, 1990).

Affective commitment influences several key outcomes including citizenship behavior, job performance, and turnover-intentions (Shore & Wayne, 1993; Stinglhamber & Vandenberghe, 2003; Somers, 1995). Also, employees' affective commitment, during both the merger integration process and the post-merger period, is a significant predictor of the overall performance of a merger or acquisition (Buono et al., 1985; Cartwright & Cooper, 1993; Kramer, 2004; Mirvis, 1985; Weber, Shenkar, & Raveh, 1996). However, research has found that continuance commitment is either not associated with the previous outcomes or is actually negatively correlated, as in the case of citizenship behavior (Meyer & Allen, 1991). So because of the positive effects of affective commitment, from the standpoint of both organizations and employees, high levels of this type of commitment are almost universally desirable.

Unfortunately, M&A activity tends to have a strong, negative influence on affective commitment (Mottola, Bachman, Gaertner, & Dovidio, 1997). This influence is attributed to several factors. For instance, the increased stress of mergers, as well as the general decrease in job satisfaction that often accompanies them, has been found to lower employees' affective commitment (Buono & Bowditch, 2003). Further, Walker, Armenakis, and Bernerth (2007) found that mergers are associated with increased levels of employee cynicism, which, in turn, is negatively related to affective commitment. Finally, Klendauer and Deller (2009) found that merger activity often has a negative influence on employees' perceived organizational justice, which then negatively influences employees' affective commitment.

Decreased affective commitment has a deleterious influence on employee outcomes, such as job performance, precisely when organizations are most in need of *increased* levels of these outcomes (Van Dick, Ullrich, & Tissington, 2006). However, this suggests that firms could improve their M&A performance in two ways. Namely, firms could either focus on factors that reduce the negative influence of M&A activity on employees' affective commitment or they could target factors that maintain or increase affective commitment. One factor, which may actually be able to accomplish both of these outcomes, and which may be particularly salient in the context of M&As, is employees' regulatory focus.

Regulatory Focus

The hedonic principle states that people are motivated to approach pleasure and avoid pain. The theory of regulatory focus begins with the assumption that the hedonic principle will operate differently when serving different needs (Higgins, 1997). Specifically, the theory distinguishes between nurturance-related needs and protection-related needs (Higgins, 1997). The alternative ways of regulating pleasure and pain in response to these two types of needs are referred to as regulatory focus (Higgins, 1998). Nurturance-related regulation is referred to as promotion focus while security-related regulation is referred to as prevention focus (Higgins, 1997). As Higgins (1998) explains, the two types of regulatory focus involve both pleasure and pain; however, each focus involves different types of pleasure and pain and different approaches to framing pleasure and pain outcomes. For instance, promotion focus is based on the need to fulfill ideals and is characterized by framing outcomes in terms of gains and non-gains (Faddegon, Scheepers, & Ellemer, 2008). In contrast, individuals with a prevention focus are guided by oughts rather than ideal-states and frame outcomes as either losses or non-losses (Faddegon et al., 2008; Shah, Higgins, & Freedman, 1998). In other words, individuals with a promotion focus “are concerned with gains (i.e. the presence of positive outcomes), whereas in a prevention focus [individuals] are concerned with losses (i.e. the absence of negative outcomes)” (Sassenberg & Postmes, 2002, p. 49). It follows that promotion-focused individuals will be more likely to pursue goals associated with advancement, growth, and accomplishment, while individuals with a prevention focus will be more concerned with goals related to safety, security, and responsibility (Crowe & Higgins, 1997). These tendencies cause promotion-focused individuals to be “strategically eager” to achieve advancement and gains, and prevention-focused individuals to be “strategically vigilant” to assure safety and against losses (Meyer, Becker, & Vandenberghe, 2004; Brockner & Higgins, 2001). An example that can be used to clarify the difference between the two foci is the following: employees who are promotion-focused are more likely to be motivated to excel in their jobs in order to win an award or a bonus. In contrast, employees with a prevention focus are more likely to be motivated to not perform poorly in their jobs in order to maintain their current level of income or to not lose the respect of their superiors. Further, for employees with a promotion focus, success means a positive outcome being achieved (e.g. winning an employee award), while a failure means a positive outcome not being achieved (e.g. not winning an award). In contrast, for employees with a prevention focus, success means a negative outcome being avoided (e.g. not losing the respect of their manager), while a failure means a negative outcome not being avoided (e.g. losing respect) (Nan, 2005).

While regulatory focus can be dispositional and reflect a general, chronic tendency to satisfy either achievement needs (i.e. a promotion focus) or security needs (i.e. a prevention focus), both of these foci can also be situationally and temporarily induced (Meyer et al., 2004; Brockner & Higgins, 2001; Sassenberg & Postmes, 2002). As Meyer et al. (2004, p. 996) explain, either focus can be triggered by “increasing the relative salience of different needs through priming (e.g. activation through recall or threat) or problem framing (e.g. emphasizing the attainment of positive outcomes or the

avoidance of negative outcomes).” In other words, the strength of a situation’s cues determines whether the chronic or situationally-induced focus dominates. If there are multiple conflicting situational cues, the strongest cue will dominate (Shah et al., 1998). For instance, if an individual is prevention focused by disposition but enters an environment with strong promotion focused cues, then a promotion focus will likely dominate. This implies that an individual’s regulatory focus is, to a large extent, malleable.

Although regulatory focus is a relatively new construct, because of its fundamental emotional, motivational, and behavioral implications it has been linked to several key individual-level constructs, including organizational commitment. Specifically, research has found that promotion focus is strongly related to affective commitment while prevention focus is strongly related to continuance commitment (Tseng & Kang, 2008; Markowitz et al., 2008). One theoretical explanation for these findings is that individuals who are promotion focused, or whose promotion focused has been triggered, tend to be guided by intrinsic motivation and are therefore more concerned with achieving their inner ideals than with responding to external forces (Kark & Van Dijk, 2007; Van Dijk & Kluger, 2004). A recent study found this to be the case; namely, individuals with a promotion focus displayed greater intrinsic motivation and individuals with prevention focus displayed greater extrinsic motivation (Smith, Wagaman, & Handley, 2009). Intrinsic motivation has been found to influence the development of identification, attachment, and involvement, which form the basis of affective commitment (Markowitz et al., 2008; Meyer & Allen, 1997; Meyer et al., 2004). In contrast, individuals who are prevention focused, or whose prevention focus has been activated, tend to be more influenced by external pressures (e.g. the possibility of disappointing one’s superior) and extrinsic motivations (e.g. meeting the requirements needed to keep one’s job) (Kark & Van Dijk, 2007; Van Dijk & Kluger, 2004). These externally focused concerns, in turn, are more likely to manifest themselves as continuance commitment (Johnson & Chang, 2006; Meyer & Allen, 1997). In the context of mergers and acquisitions, this leads to the following proposition:

Proposition 1: Organizations engaging in M&As whose employees have greater promotion focus will have higher employee affective commitment than organizations whose employees have less promotion focus or a prevention focus.

The previous discussion suggests that according to regulatory focus theory, organizations that desire their employees to be affectively committed have two options. They can either attempt to hire employees who are chronically promotion focused or they can rely on the work environment to situationally activate a promotion-focus in their employees. However, the problem with the first option is that, as was explained previously, situational regulatory focus can “trump” chronic regulatory focus (Tseng & Kang, 2008). This implies that even if organizations were somehow able to hire only promotion focused employees that depending on the properties of a given situation a prevention focus could be activated. If it were salient enough, this prevention focus could then take precedence over the employees’ chronic promotion focus. The second

option, relying on a promotion focus-inducing context to trigger promotion focus, is also problematic because M&As are precisely the type of tumultuous, anxiety-filled context that triggers a prevention, rather than promotion, focus (Brockner & Higgins, 2001). Therefore, organizations engaged in M&A activity cannot rely on employees' dispositions; nor can they passively allow the situation to dictate the regulatory focus that is activated. In short, these organizations must take a more active role. Since events are neither inherently promotion nor prevention focused but merely interpreted as such, one way that organizations can be more active is by attempting to frame how situations are interpreted. This "framing" can be done through communication.

Organizational Communication

Organizational communication is key to influencing how employees interpret situations – and hence, to influencing their regulatory focus – because as Brockner and Higgins (2001, p. 58) explain,

“Given the uncertain nature of work environments, organizational authorities as “makers of meaning” may influence members’ regulatory focus through the use of language and symbols. The more that the rhetoric of authorities focuses on ideals (e.g., continuously reminding employees of the exciting vision that the organization is trying to enact), the more likely are organization members to develop a promotion focus. The more that the rhetoric focuses on responsibilities (e.g., such as the mutual ones that employers and employees have to each other), the more likely are organization members to adopt a prevention focus.”

This suggests that depending on the kind of communication organizational leaders use during M&As that they can influence employees' interpretation of events and invoke either a promotion or prevention focus. Moreover, Brockner and Higgins' (2001) argument suggests that organizations wanting to increase employees' affective commitment could do so by using ideals-based, or promotion-focused, rhetoric. Specifically, the organization would want to describe the merger as an opportunity for personal or organizational advancement, growth, or accomplishment, rather than as an action necessary for organizational or personal security and stability. Or, more generally, the organization would want to communicate to employees in such a way that employees interpret the merger as a source of gains rather than as a way to avoid losses.

While on the surface the notion of organizations using communication to shape employees' interpretation of a merger may seem relatively straightforward, it raises the question: how exactly would an organization do this? This question can be answered by examining the narratives organizations use to communicate to employees about impending merger or acquisition activity.

Mergers and acquisitions narratives

A narrative can be defined as a collection of events or experiences ordered in a temporal sequence and imbued with a causal explanation (Onega & Landa, 1995). According to this definition narrative structure is characterized by the possession of two, co-occurring components: temporality and causal explanation (Elliot, 2005). The first element, temporality, gives narratives the ability to order (and organize) a collection of events by placing them in a temporal sequence (Shaw, Browning, & Bromiley, 1998). Whereas the causal component, which is commonly referred to as a “plot”, is the organizing theme that identifies the significance of, and relationships between, the individual events or experiences in a collection (Polkinghorne, 1988). In other words, the plot provides the “intelligible whole that governs the succession of events” (Ricoeur, 1981, p. 167). Moreover, it organizes, shapes, and structures events so that they build on each other in a way that clarifies how each event contributes individually and as part of the whole (Polkinghorne, 1988). Together, these two components of narratives provide communication with more than “A then B”, and in fact more than “A causes B.” But rather, a narrative expresses “A causes B, *because...*” However, this “because” can be either explicit or implicit (Lehnert, 1981).

Many would argue that the co-occurrence of temporality and plot should be considered a “minimal” definition of narrative (Herman, 2007). For instance, in addition to these two characteristics, Burke (1969) states that a narrative must also possess: an actor, an action, a goal, a scene, and an instrument. Other definitions require that the discourse include specific types of characters (e.g. a protagonist), a disruption of the status quo, or other literary devices (cf. Altman, 2008). However, as will be described, the above definition is well suited for the purposes of this analysis.

Based on the previous definition, an “organizational M&A narrative” can be defined as temporally ordered and causally connected communication from an organization’s management to its lower-level employees about an impending merger or acquisition. If an organization merely presents employees with a list of the merging firm’s positive qualities, then this is not an “M&A narrative” because it contains neither temporality nor a causal explanation. However, if an organization provides employees with an outline of the steps necessary to complete the merger (i.e. temporal order), then this is *more* narrative than the previous example, but *less* narrative than if the organization were also to include, say, rationales or explanations for how each of the steps will work and why they will be necessary (i.e. both temporal order and a causal explanation). M&A narratives can be of many different types ranging from texts (e.g. a document in an employee newsletter) to spoken discourse (e.g. a speech to employees by an organization’s CEO).

In a study of organizational mergers and acquisitions communication, Demers, Giroux, and Chriem (2003) found four different “marriage” narratives: marriages of future-orientation, familial union, reason, and affinity. The marriage of future-orientation was based on an “exciting vision of the future” where “two high performers in the field” come together to make “major strides” towards achieving both firms’ “ambitious goals for the

future” (Demers et al., 2003, p. 234). The marriage of affinity was described as an “historic purchase”, which would make the combining companies the “dominant players in many markets” and “promised them a bright future with unparalleled opportunities” (p. 236). The marriage of familial union was portrayed as the coming together of two “well-established” families” who were striving not for “an opportunity for change” but for “a means of ensuring continuity with tradition” and “preserving their heritage” (p. 232). Finally, the *marriage of reason* was portrayed as a “business transaction” where the focus was “not on the future” but on the “legal, financial, and strategic” importance of the merger for the firms’ survival. Even though these four M&A narratives each have distinct content and a distinct plot, they can be further classified by their overall motivational orientation, or regulatory focus. Specifically, two of the narrative-types – marriages of future-orientation and marriages of affinity – possess a promotion focus because they frame mergers as sources of goal achievement and as opportunities for success. While the other two narratives – marriages of familial union and marriages of reason – possess a prevention focus in emphasizing firm survival, preservation, and continuity.

Table 1

The regulatory focus of merger and acquisition narratives*

REGULATORY FOCUS	M&A NARRATIVE TYPE	EMPHASIS OF NARRATIVE
Prevention	Marriages of Familial Union	Ensuring continuity Preserving heritage
	Marriages of Reason	Financial security Firm survival
Promotion	Marriages of Future-Orientation	Ambition Future goals
	Marriages of Affinity	Opportunities for success

*Please see Demers et al. (2003) for more detailed descriptions of the four narrative types.

That some of the narratives organizations use to announce and to explain M&A activity are promotion focused while others are prevention focused is suggestive given that regulatory focus can be situationally induced and that one way to do so is through “language and rhetoric” (Brockner & Higgins, 2001). In particular, if M&A narratives possess distinct regulatory foci then this suggests that organizations wanting to activate a promotion focus should use narratives similar to marriages of future-orientation or

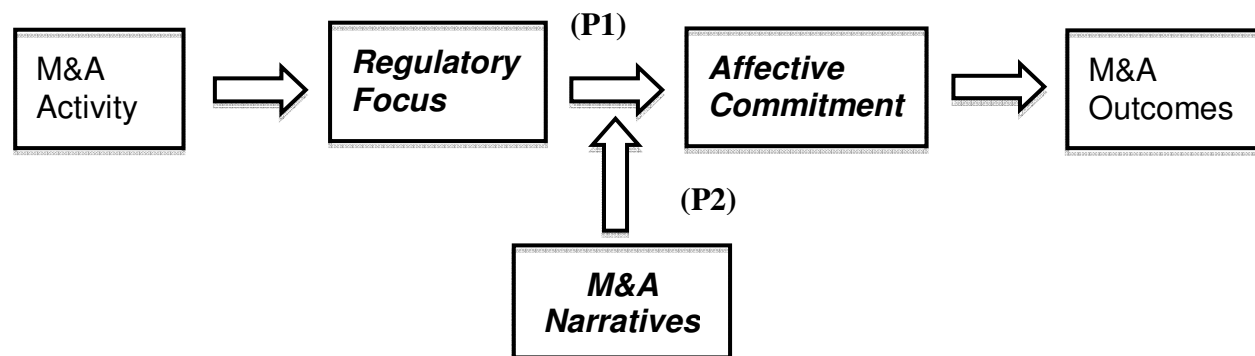
marriages of affinity (i.e. narratives with a promotion focus). Differences in the regulatory focus of M&A narratives also suggest that organizations would be well-advised to avoid using narratives similar to marriages of familial union or marriages of reason. As previously described, M&As are naturally interpreted as prevention-focused, so to provide a narrative that is also prevention focused would only compound, or even augment, employees' prevention focus and continuance commitment. In fact, the theory of Regulatory Fit (Higgins, 1997) would predict just such an outcome. The theory says that when individuals' motivational orientation (i.e. their prevention or promotion focus) matches their manner of goal pursuit, the congruence produces a "feeling of rightness" that intensifies their orientation (Higgins, 1997; Higgins, Idson, Freitas, Spiegel, & Molden, 2003; Higgins, 2005). But the "manner of goal pursuit" is precisely what is described in an M&A narrative. So while matching a prevention-focused narrative with a prevention focused situation might increase employees' psychological "fit" it would also serve to make their prevention focus even more intense.

The preceding arguments suggest the following proposition:

Proposition 2: Employees of organizations that use promotion-focused M&A narratives will have greater promotion focus than employees of organizations that use non-promotion focused narratives.

The previous two propositions form the basis for the following model (proposed relationships are italicized):

Figure 1
A Model of M&A Narratives, Regulatory Focus, and Employee Commitment



Conclusion

Potential contributions

This paper has the potential to make four contributions. First, it includes the first application of regulatory focus theory to the context of mergers and acquisitions. This is important because a recent meta-analysis by King et al. (2004), which examined every

academic, empirical study of M&A performance from 1921-2002, finds that a sizeable portion of the variance in M&A performance cannot be explained by the currently used predictors of M&A performance. For this reason, the authors issued a call for new variables to be explored and, particularly, for the analysis of individual-level variables. Second, this paper adds to the small, but increasing number of articles examining the relationship between regulatory focus and organizational commitment. It also includes the first analysis of narrative's ability to influence individuals' situational regulatory focus. Finally, if the paper's propositions about the influence of organizational narratives find support, then the author will have identified a relatively costless way (at least in comparison to other organizational initiatives) to improve affective commitment, which in turn can influence overall M&A performance.

Limitations and directions for future research

There are two obvious limitations in the paper's arguments. These could be improved upon and extended through future studies. First, organizational communication is treated as originating only from organizational leadership. Between-employee communication and the communication responses of employees (as well as employees' narratives) are not examined. Hence, organizational communication is assumed to be unidirectional rather than bidirectional or interactional. This simplified view of communication was chosen in order to focus specifically on the way that communication from an organization's management (i.e. an organization's "official" narrative") can influence employees' regulatory focus and commitment. However, future work could enrich this analysis by examining other forms and sources of M&A narratives.

Second, the paper fails to take into account any of the host of moderating or mediating factors that may influence the effect of narratives on regulatory focus and commitment. For instance, the perceived legitimacy of the merger or acquisition, employees' trust in management, and the reputations of the firms involved, may all effect the strength of the relationship between M&A narratives and the regulatory focus and commitment of employees. Also, the analysis fails to include a temporal component despite the fact that research has found that regulatory focus can be time-dependent (Pennington & Roese, 2003). In particular, promotion focus has been shown to be more associated with long term goals while prevention focus is more related to a short-term orientation (Pennington & Roese, 2003). This suggests that employees' level of regulatory focus may depend on what stage of the M&A process they are experiencing (e.g. the short term stage of initial combination versus the long term stage (or goal) of successful implementation). Finally, even though the analysis focused on the M&A narratives that originate from an organization's leadership, the possible influence of specific characteristics of leadership on the relationship between regulatory focus, narratives, and commitment, was not explored. For instance, a study by Moss and Ritossa (2007) found that the beneficial impact of transformational leadership on employee commitment actually decreases as individuals become more performance-avoid oriented (which is comparable to becoming more prevention-focused). Further work needs to be done to examine how each of these factors may augment, attenuate, or alter the relationships in the proposed model.

Concluding remarks

If the narratives organizations use to communicate to employees about merger and acquisition activity indeed influence employees' regulatory focus, then this would suggest that organizations wanting to improve the organizational commitment of their employees and, in turn, improve the economic success of their merger and acquisition activity, should pay greater attention to understanding and developing a narrative of the merger or acquisition. Moreover, if the propositions put forth in this paper find support, it would mean that managers would be prudent to go beyond focusing solely on the more obvious questions associated with employee communication, such as "what details should I provide?" and "how often should I communicate?" Rather, as this paper argues, when engaged in a merger or acquisition, it is just as critical for an organization's leadership to consider, "what is the story of this change?"

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