

**THE ROLE OF INSTITUTIONS IN THE INTEGRATION OF CROSS-BORDER
MERGERS AND ACQUISITIONS: A MULTI-LEVEL ANALYSIS**

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Abstract

Research on mergers and acquisitions (M&As) indicates that difficulties during integration lead to negative outcomes for firms and employees, particularly in the case of cross-border M&As. A main problem in this area is that employees in the newly merged firm need to learn how to work together to attain common goals and avoid conflict, yet there is often a lack of connectivity with regard to the human side of M&As. Thus, an important issue is to understand how firms can socialize employees during the post-merger stage. Using a multi-level framework, we argue that organizational socialization, through which employees acquire social knowledge and skills necessary to assume an organizational role in a newly merged firm, can be enhanced by understanding the three types of institutional pillars (Scott, 2001) that are internalized by employees through use of different organizational socialization domains (Chao et al., 1994). We propose a theoretical model for the case of cross-border M&As by hypothesizing a relationship between country institutional profiles—that are comprised of these pillars—and the socialization domains.

Keywords: Cross-Border Mergers and Acquisitions; Institutions; Socialization Domains; Human Resource Management.

INTRODUCTION

After an announced merger and acquisition (M&A) completes and one legal entity eventuates, the newly merged firm's internal labor market is comprised of many employees who have never worked together, yet who are asked to align their interests toward common organizational goals and values. These ambiguities and potential conflicts in the integration stage—which are even more pronounced in cross-border M&As—relate in large measure to the issue of connectivity in the human side of M&As, in terms of the complex, interconnected and synchronized activities that employees must undertake. Thus, for the M&A to enhance employee connectivity in order to successfully integrate, the new entity will have to ensure that employees “learn the ropes” by internalizing rules-of-the-game through different organizational socialization domains. That is, an employee's necessary acquisition of social knowledge and skills, referred to as socialization, involves the internalization of different institutional rules and processes.

We argue that we can better understand organizational socialization during M&A integration by distinguishing among the types of institutions that are internalized by employees, and thereby demonstrate how firms can reduce the risk of failure of a cross-border M&A. In effect, we attempt to show how more careful attention to human resource management (HRM) issues during M&As will ensure a more effective integration. For example, although incentives to merge have led to a continuous increase in the scope and magnitude of M&As in the past decade—with cross-border mergers becoming increasingly common during this period—many of these deals have not achieved the intended results, in many ways due to failures in the integration stage (Bramson 2000; Buono & Bowditch 1989; Capron & Pistre 2002; Chatterjee et al. 1992; Datta 1991; Hitt et al. 2001; Larsson & Finkelstein 1999; Pablo 1994; Schweiger &

Walsh 1990). In particular, although no set of ‘rules’ or ‘best practices’ guarantees a successful M&A (Angwin 2000), a main reason for M&A failure stems from difficulties in effectively integrating the human and institutional side of merging organizations (Aguilera, Dencker & Escandell, 2004; Buono & Bowditch, 1989; Cartwright & Cooper 1996; David & Singh 1993; Haspeslagh & Jemison 1991; Schweiger 2002).

The first step in attaining a successful M&A integration lies in understanding the differences between merging organizations and their environments. Because organizations are shaped by the institutional environments in which they are embedded (Meyer & Rowan 1977), the ‘people’ of the merged organization need to be aligned with the institutional elements guiding both organizations separately. Thus, merging organizations should be aware of these institutional rules for future development and success, for example by enhancing sense-making processes surrounding integration issues (Vaara 2003). This embeddedness therefore speaks to the need to engage in multi-level research that captures factors at individual, organizational, and national levels. In particular, a multi-level approach is appropriate for studying complex organizational phenomena such as occurs in the organizational socialization of different institutions in cross-border M&As.

In merging organizations, the need to become familiarized with institutional rules implies a ‘boundary crossing’, that is a change in any practice or rule (Schein 1978; Van Maanen & Schein 1979). A critical aspect of boundary crossing in M&As is that it should lead to effective employee connectivity rather than towards further divergence in rules and procedures stemming from conflict over differences between merging entities. In addition, because boundary crossing is a part of the organizational socialization literature—which provides invaluable insights as to how organizations could align their practices with each other—it is critical to consider the

organizational socialization process, particularly as it relates to socialization domains and institutions in the context of M&A integration.

This paper is structured as follows. In order to develop our multi-level model, we begin by discussing the organizational socialization literature. We then outline the role of institutions in merging organizations, and identify the most salient institutions in each socialization domain that will have the potential to enhance employee connectivity in post-acquisition integration. We develop our baseline theoretical model by relating the six domains of organizational socialization process to the three pillars of institutionalism in the context of M&A integration. We then extend this model to the case of cross-border M&As by incorporating the concept of country institutional profiles. By doing so, our proposed framework closes the existing gap between traditionally macro and micro studies. We conclude by noting managerial implications of our model and developing suggestions for future research.

ORGANIZATIONAL SOCIALIZATION

In order to ensure successful M&A integration, employees need to learn about the working environment and routines in the newly merged firm. These can be different from what they are used to because two distinct organizational cultures, values and goals are being integrated. In effect, employees have to be socialized into the newly merged organization.

Socialization is an effective mechanism to explain the adaptation process of individual actors to organizations. It focuses on how actors learn beliefs, values, orientations, behaviors, and skills necessary to fulfill their new roles and function effectively within an organization's milieu (Fisher 1986; Van Maanen and Schein 1979). Hence, socialization facilitates the adjustment of newcomers to organizations and to other employees (Ashforth and Saks 1996).

The organizational socialization literature is mostly concerned with socialization tactics, practices, and domains that are synthesized in Figure 1. Since organizational socialization requires interaction between organizational actors, the process itself is one of the primary ways in which organizational values and norms are transmitted and maintained. In return, the effect of the organizational socialization process on organizational actors is long-term and profound (Bauer et al. 1998). For example, socialization ensures the continuity of central organizational values and norms and thereby influences individual level outcomes such as commitment, job and career satisfaction, turnover, stress; organizational level outcomes such as culture, morale, effectiveness; and group level outcomes such as subculture, reputation, effectiveness, network roles, and membership stability (Allen and Meyer 1990; Ashforth and Saks 1996; Cable and Parsons 2001; Jones 1986; Saks and Ashforth 1997; Morrison 2002).

Insert Figure 1 about here

As shown in Figure 1, *socialization tactics* describe the general attitude about the organizations in terms of the socialization process, whereas *socialization practices* refer to the ways that organizations socialize newcomers. In other words, socialization tactics are like the ‘ideology’ of organizations about the socialization process, and practices define the way this ideology is implemented in the organization. Socialization tactics and practices help individuals learn how to become members of the organization. However, what is learned through these tactics is defined as *organizational socialization domains*.

Socialization domains refer to the various aspects of the organization that the individual actor needs to be familiar with, such as their job duties or role in the organization, and the

organization's policies and values. Research on socialization domains finds that organizational members who acquire more knowledge of organizational domains through various socialization tactics and practices are better adjusted to the organization and display higher positive attitudes (Kraimer 1997). Early frameworks of socialization domains were developed by Schein (1968), Feldman (1981) and Fisher (1986), suggesting that an organization consists of three domains: an individual's work role, the organization's goals, and the organization's values (Kraimer 1997). Chao et al. (1994), Morrison (1993), and Ostroff and Kozlowski (1992) extended these domains to include the following six items: individual work roles, organizational goals and values, people, special languages, politics, and organizational history. We will rely on this refined version of organizational socialization domains to build our model.

INTERNALIZATION AND INSTITUTIONS

Organizational socialization is a 'change' process through which the important norms and values are transmitted to and internalized by the organizational members (Chow 2002; Fisher 1986; Evans et al. 2002; Fogarthy and Dirsmith 2001). Therefore, it is imperative for merging organizations to understand "what" institutions are internalized. Institutions, namely values, beliefs, norms and rules of the society and the organization are an integral part of the organizational socialization process. When individuals learn the ropes of an organization (are socialized), they are internalizing different types of institutions such as learning how to conduct a job task and understanding organizational politics. Hence, understanding what institutions are involved in each socialization domain will help merging organizations and organizational members to socialize more effectively into the newly merged organization, and thereby help to enhance employee connectivity and accomplish a successful integration.

Organizations are rewarded for adopting what are considered proper (legitimate) structures and processes in institutional environments (Scott 1987; Scott and Meyer 1983). Legitimacy can be reached by complying with institutionalized rules, requirements, values and standards that are the main characteristics of institutional environments. Different conceptualizations of institutional theory coincide in that organizations gain a shared understanding of what appropriate and fundamentally meaningful behaviors are (Zucker 1983).

Rules, requirements, values and standards of institutional environment or ‘institutions’ are embedded in social reality (Jepperson 1991). Institutional rules are built into the society and are taken into account by individual actors. They might be perceived as being taken for granted, supported by public opinion or enforced by law (Starbuck 1976). In organizations, institutions can be characterized as again taken for granted (cognitive), supported by the public (normative) or enforced by law (regulative), which are considered as three pillars of institutions (Scott 2001).

Regulative institutions directly relate to “rule-setting’, ‘monitoring’ and ‘sanctioning’ activities in an organization (Scott 1998, 2001). They represent the rules and the laws of the institutional environment (Kostova and Roth 2002). From this perspective, power, coercion and authority play an important role for the enactment of institutions. Since regulative institutions directly reflect ‘rules’, regulations’ or ‘formal rules’, failing to obey them results in legal sanctioning. Hence, non-compliance with institutional rules is punished through formal mechanisms, with every organizational member expected to follow and comply with them.

Normative institutions include “rules-of-thumb, standards, operating procedures, occupational standards and educational curricula” (Hoffman 1999). They reflect values, beliefs, norms and assumptions that exist in the institutional environment (Kostova and Roth 2002), and capture prescriptive, evaluative and obligatory dimensions in social life (Scott 2001). They

comprise values (proper ways) and norms (ways that are supposed to be followed) (Scott 1998, 2001). Their influence comes from the existing social obligation, social necessity or shared understanding of what is proper behavior in an organization (Wicks 2001).

Cognitive institutions embody “symbols-words, signs, and gestures—as well as cultural rules and frameworks that guide understanding of the nature of reality and the frames through which that meaning is developed” (Hoffman 1999). They refer largely to shared social knowledge and cognitive categories such as stereotypes and schemata (Markus and Zajonc 1985). Compliance with cognitive components of the institutional environment occurs because of “taken for granted” traits of the routines (Scott 2001). Organizations and organizational members follow cognitive institutions without any conscious thought (Zucker 1983). Thus, the cognitive pillar represents the models of ‘individual behavior based on subjectively constructed rules and meanings that dictate appropriate thought, feeling and action’ (Wicks 2001).

Organizations adopt institutional rules and beliefs—whether regulative, normative, or cognitive—of their institutional environment (D’Aunno et al. 1991; Scott and Meyer 1991; Meyer and Rowan 1977). DiMaggio and Powell (1983) argue that organizational forms are not a reflection of organizational efficiency concerns but instead they are deeply affected by institutional rules and pressures. These rules, requirements, values and standards influence organizational socialization by signaling to organizations the proper ways of behaving. A main reason why organizations internalize institutional rules is to gain legitimacy and support (Kirby, Sebastian and Hornberger 1998) and thereby increase their resources and survival capacities (Meyer and Rowan 1977).

M&A integration involves not only taking control of hard assets, a market base or technology, but also requires combining organizations with unique histories, practices and

leaders (Daniel 1999; Marks 1991). Hence, the real challenge lies in the integration of their structures, processes and cultures (Aguilera and Dencker 2004; Daniel 1999; Schuler and Jackson 2001). Previous research shows that the clash between organizational cultures of merging organizations is a major cause of M&A failure (DeVoge and Spreier 1999; Marks 1991; Nahavandi and Malekzadeh 1988; Overman 1999; Weber and Schweiger 1992). This clash is only intensified when an M&A is cross-border and national cultures come into the integration equation (Belcher and Nail 2001; Marks 1991).

In effect, a main implication for M&A integration is that merging organizations will be faced with new rules, values and standards that they might not be familiar with. For the new organization to function productively, it needs to be integrated effectively. In the following section, we discuss that achieving a successful integration requires merging organizations to learn about institutional rules shaping socialization domains. We argue that the identification of the main institutions at stake in each socialization domain allows integrating firms to socialize employees effectively because they can thereby implement the necessary mechanisms to adopt and legitimate such institutions. In the next section, we examine the role that institutions play in each socialization domain in the context of M&A integration.

INSTITUTIONS AND ORGANIZATIONAL SOCIALIZATION DOMAINS IN THE CONTEXT OF M&A INTEGRATION

Organizational socialization is a dynamic process in which individual actors and organizations change over time (Fisher, 1986). This trait helps an organization to keep up with changing institutional rules, and affords an organization the chance to adapt and transform its structure without disturbing the inertia it has created. From this view, organizational

socialization provides continuous isomorphism to the institutional environment (DiMaggio and Powell 1983).

Organizational rules, principles, standards and values are the reflection of their institutional environment. Since organizational socialization ensures the continuity of organizational norms and values, it facilitates the internalization of institutional rules into the organizational structure over the time (Fogarty and Dirsmith 2001; Inzerille and Rosen 1983; Meek 1988). The socialization process ensures that existing institutional rules shaping organizational structure are repeatedly diffused (i.e., institutional rules that are part of an organization's environment are transmitted through socialization domains).

Institutional theory draws on the repetition of practices that eventually become institutionalized. Both institutionalization and socialization involve repetition and reproduction; however, this does not mean that socialization is a form of institutionalization. Socialization triggers internalization and institutionalization of organizational values, norms and culture into the organizational structure (Fogarty and Dirsmith 2001). Institutionalization refers to the process by which a social order or pattern come to take on a rule like status in social thought and action (Jepperson 1991; Meyer and Rowan 1991)

In M&A integration, merging organizations need to learn the institutional rules, values, norms and standards that shape the other organization's structure and practices (Morosini et al. 1998). In the integration phase, organizational socialization helps institutional rules, principles, standards and values to become increasingly internalized (Fogarty and Dirsmith 2001). It is therefore important for merging organizations to be aware of what is internalized through socialization domains. Drawing on these arguments, in Figure 2 we propose a constructive relationship between organizational socialization domains and institutional rules.

Insert Figure 2 about here

For the sake of theorization, we have included some assumptions in the discussion of our propositions to set up the appropriate boundaries. First, the M&As that we discuss are not mergers of equals, which implies that acquirer firm and acquired are clearly differentiated. Second, the nature of our stylized model does not capture all complexities of the merger such as variation in strategic objectives as well as levels and types of integration. Instead our main focus is on the integration of human capital, such as how an integration team socializes employees in light of the need for internalizing different institutions. Below, we discuss the role of regulative, normative and cognitive institutions in each of the six socialization domains (individual work roles, organizational roles and values, people, language, organizational politics and organizational history) identified in the socialization literature.

Individual Work Roles

The first socialization domain, ‘individual work roles,’ indicates that individual actors need to learn how to perform their tasks on the job when they join a new organization (Chao et al. 1994; Fisher 1986). This means that the individual actor will be learning about the interpretation of her profession through her specific organization.

Learning about the rules and regulations of a job or a profession requires the acquisition of normative institutions (Scott 1998, 2001) such as standards of work, or norms of conduct. Integrating the individual work domain following an M&A therefore relates to normative institutions. For example, while learning the responsibilities in the newly merged organization, employees will need to recognize what constitutes respectful behavior to/from other employees,

what fair business practices mean, and how managers should evaluate and deal with uncertain situations. Understanding what respectful behavior or fair business practice entails relates to learning about normative institutions surrounding the employees' position in the new organization such as whether she needs to be an expert or a problem solver. While trying to understand her responsibilities, a manager should pay attention to how her role will be interpreted by other employees.

Since the definition and regulations of a profession may vary across institutional settings and fields, the newly merged organization may need to provide some formal guidelines about the requirements of individual roles and tasks during the integration process so that individuals can be more effectively socialized. In these instances, individual work role domains would entail the internalization of regulative institutions. For instance, managers will need to be aware of legal boundaries due to their supervisory role in the organization.

We do not suggest a relationship between individual work roles and the cognitive pillar of institutionalism because we believe that the individual roles related to organizational tasks are seldom taken for granted or learned without a formal or normative framework. Individual work roles are defined either by the profession in which they are exercised and held accountable, or by the explicit rules within the organization. The socialization of work roles is constructed and clearly spelled out to the individuals and organizations will ensure that individuals understand and learn their work roles in a certain period of time.

Organizational Goals and Values

The second domain of organizational socialization, 'organizational goals and values,' refers to the fact that individual actors learn about organization's goals and values, or the rules that maintain the integrity of organization (Schein 1968). The main two components of

organizational goals and values are formal and informal rules and principles. Formal rules are written rules and regulations regarding the organizational goals and values. Unwritten, informal, and tacit rules and principles are promoted by individual actors, especially by those who hold powerful positions in the organization (Fisher 1986).

In the context of M&A integration, the organizational goals and values of the newly merged organization are internalized through two different institutions: regulative, in terms of formal rules and principles; and cognitive, in terms of unwritten, informal and tacit rules and principles. We discuss each of them in turn below.

The socialization of formal rules and principles in a new organization requires the internalization of regulative institutions since formal rules by definition ought to be accepted by each organizational member. Thus, the merged organization needs to ensure that its members will follow and understand these organizational goals and values and restrict other behavior. Organizational members are explicitly required to learn and know the formal rules and principles of the newly merged organization because they are general laws or standard rules (regulative) and procedures (normative) as oppose to taken-for-granted principles (cognitive).

Employees will also need to recognize that the rules and values of the newly merged organization are likely to differ from those in the pre-acquisition organizations. For instance, if the definition of what fair business practices are differs between merging organizations, employees will need to learn what a fair business practice means and which kind of reprimands they might face in violation of the formal rules, both legally as well as socially implemented.

The second component of organizational goals and values—unwritten, informal, and tacit rules—is related to the integration of cognitive institutions since such goals and values are learned by emulating others in the newly merged organization. In effect, rules are learned as

well as taken for granted. They cannot be regulative because they are unwritten and tacit. Also, regulative rules are explicitly made known to all members because they require conformity. Moreover, informal goals and values are not normative because they reflect certain procedures and standards that are the result of social interaction. For instance, the supervisor-subordinate relationship might differ across organizations. The determining features of such relationships would probably not be codified, but it is generally assumed that employees would learn about these relationships through time in the organization. Learning such an organizational value implies cognitive learning, i.e. employees will get socialized by internalizing cognitive institutions such as observing the relationship of supervisors with employees.

People

The third socialization domain, ‘people,’ is defined as learning about work groups with which the individual actors communicate (Fisher 1986). This socialization domain consists of two components: learning about work characteristics of people, and learning about structurally defined organizational relationships (Chao et al. 1994). In M&A integration, organizational members in the newly merged organization need to learn about other actors’ work behavior and characteristics, and the structurally defined organizational relationships of these actors.

Learning about people’s work characteristics involves the internalization of cognitive institutions because traits will be taken for granted and accepted as they are without much questioning. Also, work behavior and characteristics in the newly merged organization will be learned through the daily organizational life without any formal intervention by the organization. We believe that getting familiar with people’s work characteristics will be the result of repetition throughout a certain period. Organizational members will assimilate this knowledge without even recognizing it, suggesting a cognitive type of learning. For example, the characteristics

such as whether coworkers are fair, responsible, and timely in their decisions and actions, or function under stressful conditions, will be learned through time as the newly merged organization matures. These features are learned as the employees together address various organizational challenges and perform every-day tasks.

Socialization of the ‘people’ domain in terms of work characteristics will not require the internalization of regulative institutions because this domain is neither imparted to the newcomer through formal mechanisms, nor does it relate to normative institutions because their assimilation has little to do with norms or standards resulting from social interaction. Even if rules and regulations existed, the effective socialization process would still involve the internalization of cognitive institutions where other people’s behavior is taken for granted.

We associate the second component of the ‘people’ socialization domain, learning about structurally defined organizational relationships of organizational members, with internalization of regulative institutions because these structures are introduced to the organizational members in order for them to follow the new organizational hierarchical relationships. Certain hierarchical relationships and positions, particularly of upper level organizational members, will be explicitly defined and communicated in the newly merged organization, and therefore this outcome might be considered as the adoption of formal rules and regulations.

Newcomers will be officially expected to follow formal structure during everyday functioning of the newly merged organization, and report to appropriate supervisors. Learning about structurally defined organizational relationships of organizational members thus relates neither to cognitive nor to normative institutions since they are not left to the discretion of organizational members in terms of learning, and they do not reflect social norms or procedures, but rather structural characteristics of the organization. For example, employees in the merged

organization will immediately learn to whom they need to report, with whom they will work and for whom they will be accountable. They will also learn the boundaries of their responsibilities as well as those of others. Since these responsibilities are formally defined and determined, individuals will need to internalize regulative institutions in order to be socialized effectively in this domain and learn organizational relationships at the detailed required by the organization.

Language

The fourth socialization domain, 'language,' refers to learning the necessary communication tools needed to transfer and acquire information within the organization. It has two dimensions. The first one is related to knowledge or learning the technical language that is necessary to perform a given task (Chao et al. 1994). The second one relates to getting familiar with specific organizational slang and jargon.

The first dimension of the 'language' domain is related to learning specific professional technical language such as knowledge of acronyms or standard communication procedures (e.g. writing versus face-to-face meetings), which are characteristic of a profession. We suggest that the acquisition of technical language in the M&A integration is related to the diffusion of normative institutions because they arise from professionalization and thus will reflect certain standards and procedures within a given institutionalized group. By belonging to a certain profession, organizational members will be expected to know and follow the skills and standards this profession obliges.

Learning about the technical language might also reflect certain formal rules that are imposed by higher authorities regulating a given profession such as lawyers. Hence, the second relationship we propose in the people socialization domain is that newly merged firms will also need to internalize regulative institutions, although the transmission of normative ones is

believed to be stronger because it is enforced by social pressures. Conversely, this domain cannot be related to the internalization of cognitive institutions because it is different for each job or profession so will vary among each member of the organization and will be assimilated by individuals in different ways.

The second component of the language domain is learning slang and jargon unique to the merging organizations. The acquisition of this language component is related to the diffusion of cognitive institutions. For example, some of the organizational language might be learned over time and will involve a cognitive part of learning while engaged in a given task (Fisher 1986). The internalization of organizational jargon through normative institutions is less likely because in that case it would probably qualify as professional technical language, and is less likely to be internalized through regulative institutions because it is difficult to police vocabulary in a firm. Moreover, slang and jargon tend to be dynamic, developing and changing over time as employees interact.

For instance, different ways of introducing people to each other or ways of entitling people in both organizations may exist. Although organizations could introduce these ways of entitling—particularly in case they have a higher importance—employees will also learn them thorough time.

Organizational Politics

The fifth socialization domain, ‘organizational politics,’ refers to learning the power structures within the organization (Fisher, 1986). The power structure of the organization might be revealed to an individual actor formally, such as an organizational level schema, or informally through peers. In the context of M&As, the power structure of a newly merged organization might be revealed to an individual actor through formal sources such as an organizational level

schema where regulative institutions are internalized or through informal sources such as interacting with different peers and uncovering the power relationships in which case cognitive institutions are internalized.

Learning about the organizational power structure is generally not associated with normative institutions because it has little to do with organizational standards or procedures that are created as a result of social interaction; rather it is specific to learning an organizational schema. For example, employees will learn who the key decision makers or influential leaders of their restructured departments are because they are explicitly told or because they discover it in their day-to-day routines. The internalization of cognitive institutions is very important because in occasions even if it is formally announced that all employees have a similar title, through cognitive processes we will come to the conclusion that a certain person might carry more weight than others. Although organizations formally try to give some sense of these different hierarchical dynamics, employees will also discover some of them over time through the internalization of cognitive institutions.

Organizational History

The sixth socialization domain 'organizational history' is defined as learning the organizational traditions, customs, myths, and rituals that are part of organizational culture (Ritti and Funkhouser 1987). It also includes learning about the organization's background. Since regulative institutions arise from cultural or formal pressures, the diffusion of organizational history will be related to the diffusion of regulative institutions. All members are expected to comply with them and lack of compliance will be reprimanded. Although the new organization will design these rules and regulations to be as clear as possible to their members, traditions, rituals and culture will also be learned through time as a result of repetition. Thus, learning

about them will also relate to the transmission of cognitive institutions. They do not directly reflect normative institutions since they tend to be specific to an organization.

For example, the ceremonies, customs, rituals and celebrations might differ across organizations. Therefore, employees of both merging organizations might need to be aware of what and how ceremonies or rituals matter for each of them. The most important of such ceremonies or rituals would be made known formally to both merging parties (regulative) but minor ones would be learned over time (cognitive).

COUNTRY INSTITUTIONAL PROFILES AND SOCIALIZATION IN CROSS-BORDER M&AS

In this section, we expand our multi-level multi-disciplinary model by discussing how national contextual characteristics influence the diffusion of institutions through organizational socialization domains. The national level is an important factor in research on cross-border M&As, not only because of the increasing importance of mergers across borders, but also due to their complexity vis-à-vis domestic M&As. For example, a host of studies have shown that institutions such as values, norms, and rules—as well as organizational practices—differ in numerous ways across countries. In many cases, these differences are attributed to national culture that is often drawn from Hofstede's (1980) ubiquitous four-fold categorization. A difficulty with using national culture to apply our model to the case of cross-border M&As is that it is not clear that national culture can be separated from Scott's (1995) three institutional pillars. For example, Scott considers the regulative, cognitive, and normative dimensions to be conceptually and empirically distinct.

Kostova (1999) offers a novel theoretical solution to this conundrum using institutional rather than cultural characteristics of countries to create a construct called a country institutional profile (CIP). As Kostova (1999: 314) notes, “a country’s social environment can be characterized by its CIP: a three-dimensional construct defined as the set of regulatory, cognitive, and normative institutions in that country.” As such, this construct fits nicely with our theoretical model as it allows us to retain our focus on the diffusion of Scott’s (1995) three institutional pillars through various organizational socialization domains.

There is, of course, some overlap between Kostova’s CIP construct and national culture—for example, both cognitive and normative dimensions have similarities to culture—but the CIP is broader and has unique elements. For instance, the regulatory dimension is unique to CIP but not to national culture. The CIP is, however, a broader framework. Moreover, as Kostova notes, the CIP allows for analysis at multiple levels in addition to the national level, and can be constructed at different levels of specificity. More importantly for the purposes of this paper, there are a number of elements of the CIP that lend themselves to an analysis of cross-border M&As. For example, Kostova (1999) demonstrated the relevance of the CIP construct in understanding the transfer of organizational practices across borders. Clearly, a cross-border M&A can be seen as involving the transfer of a number of practices from the acquiring firm to the target firm, the more so the more integrated the companies become. An important factor is that there may be inconsistencies in the transfer of some of these practices across borders that can lead to conflict, with the greater the difference in CIP between countries, the greater the likelihood of misfit between the transfer of practices across borders. This difference, which Kostova refers to as institutional distance, can therefore create difficulties in transferring practices across borders.

In effect, the link between CIP and the transfer of organizational practices across nations via cross-border M&As is fairly straightforward. In particular, assuming at least some degree of integration in a cross-border M&A¹, the greater the institutional distance between countries of the merging firms, the greater the difficulty in diffusing the regulative, normative, and cognitive institutions through organizational socialization domains. Thus, the greater the institutional distance, the greater the emphasis a firm will need to place on socialization to diffuse the various institutions.

Transactions across borders are, of course, rarely as straightforward as the above prediction would suggest. This is evident in empirical research based on Kostova's CIP concept that shows the usefulness of this concept in different contexts, such as entrepreneurship (Busenitz et al., 2000) and the adoption of an organizational practice by subsidiaries of multinational corporations (Kostova & Roth 2002). In particular, these studies demonstrate that measures of the three institutional pillars using surveys are often inconsistent, with mean scores for each pillar differing significantly within a given country. Moreover, the nature of these institutions likely is specific to a given context or practice.

At a basic level, the empirical research on CIPs indicates that firms may need to allocate more resources to diffusing different institutional domains through certain organizational socialization domains rather than through others. We argue, as shown in Figure 3, that when there exists a large difference in the regulatory dimension between the countries of two merging firms (assuming little or no difference in normative and cognitive institutions), the entity will need to spend a significant amount of time and energy diffusing the regulatory institution through the

¹ Most cross-border M&As involve at least a fair amount of integration, the exceptions being perhaps those involving Japanese acquiring firms (Child et al., 200x), or M&As as substitutes for Research and Development (Bower, 200x). Even in these minor cases, the acquiring firm will need to communicate its intentions, and likely diffuse its institutions over time.

domain of formal rules and principles². By contrast, if the institutional difference between countries is greatest for the normative dimension, the newly merged entity will need to focus on diffusing these norms and values by socializing employees about their individual work roles, structurally defined relationships, and the history and politics of the organization.

As we have suggested, reality is more complex than what our model indicates. Nevertheless, we argue that our model can be extended to include exceptions to our baseline case. For example, if cross-border M&As involve the transfer of practices that are associated with different CIP, firms will need to vary the socialization domains they use for each different practice. While such management techniques can become increasingly complicated—for example, if the degree of integration is high, rather than medium or low, or if firms are in radically different industries—the nature of CIP and our multi-level framework can provide solid guidance and thereby minimize potential difficulties. For the case of different industry groups, this outcome can be resolved by developing an industry institutional profile, as Kostova (1999) notes is possible.

DISCUSSION AND CONCLUSION

In this paper, we analyze the relationship between the three pillars of institutionalism and the six domains of socialization process in the context of post-M&A integration, and extended this multi-level, multi-disciplinary model to the case of cross-border M&As. Our main assumption is that the internalization of institutional rules enhances the organizational socialization process (e.g. Fogarty and Dirsmith, 201; Inzerille and Rosen 1983; Meek 1988). Drawing on this assumption, we identify the main institutions at stake in each socialization domain (individual

² This assumes that the difference in the regulatory dimension is not very large. As Kostova (1999) notes, if a practice is perceived to be in conflict with the regulatory institutions of the recipient country, there is a high likelihood that the practice will not be transferred and implemented.

work roles, organizational goals and values, people, languages, organizational politics, and organizational history). We then incorporate the notion of the country institutional profile to demonstrate how institutions can be diffused during merger integration when the deal occurs across borders.

We believe that examining the complex relationships between environmental and organizational rules, norms and values provides merging organizations with the necessary tools for enhancing employee connectivity. The differences in the institutional environments of merging organizations are important factors that will reflect on organizational success and survival of the merged organization in the long-term. Unless these institutional forces are fully understood and internalized through legitimizing the newly merged organization, the chances of success and survival of the merged organization are low. Thus, we argue that socialization can be undertaken more effectively by understanding the necessary simultaneous internalization of different types of institutions.

Organizational members and especially managers should understand which kind of norms will be circulating in the newly merged organization, as well as where they come from. This fine grained understanding will allow managers of merging organizations to be able to choose the most effective strategic tools and human resource practices—which also contain organizational socialization practices—to integrate both organizations and their workforces. For example, regulative institutions might be codified during orientation and training so that formal organizational rules and principles are clearly communicated to all employees. Normative institutions might be articulated through supervising, mentoring, peers, secretary/support staff so that employees learn the necessary professional technical language to assume the necessary organizational roles. Cognitive institutions might be facilitated through social/recreational

activities in order for employees to comprehend the power structure of the newly merged organization. In addition, as the empirical results of Busenitz et al (2000) and Kostova and Roth (2002) suggest, institutional profiles for a given practice can be readily calculated for different countries using surveys of managers. Thus, it is fairly straightforward for academics and managers to extend this approach to different contexts and levels of analysis.

Our proposed framework might also be applicable to other contexts involving changing organizations that require organizational socialization, such as in the case of joint ventures, green field investments, new subsidiaries, divisions or local branches, or entry of new employees. All these organizational transformations will undertake some degree of integration.

Finally, we are aware that we have simplified our model for the sake of theorization, however future empirical research should control for different types of M&As (friendly versus hostile), whether the M&A is vertical or horizontal, the relative status of the two merging organizations (in terms of size and strategic fit), and the desired degree of post-M&A integration.

To conclude, we believe that our proposed model contributes to the existing socialization literature by explicitly distinguishing the institutions that will be involved in each socialization domain and for M&As that occur across national borders. Our paper also complements the existing learning and sense-making studies suggesting that deliberate learning develops through ‘coevolution’ of three mechanisms: tacit accumulation of past experience, knowledge articulation and knowledge codification (Zollo and Sidney 2002). It provides a different angle to examine how socialization might be more effectively undertaken with the support of different institutions.

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FIGURE 1

Organizational Socialization Process

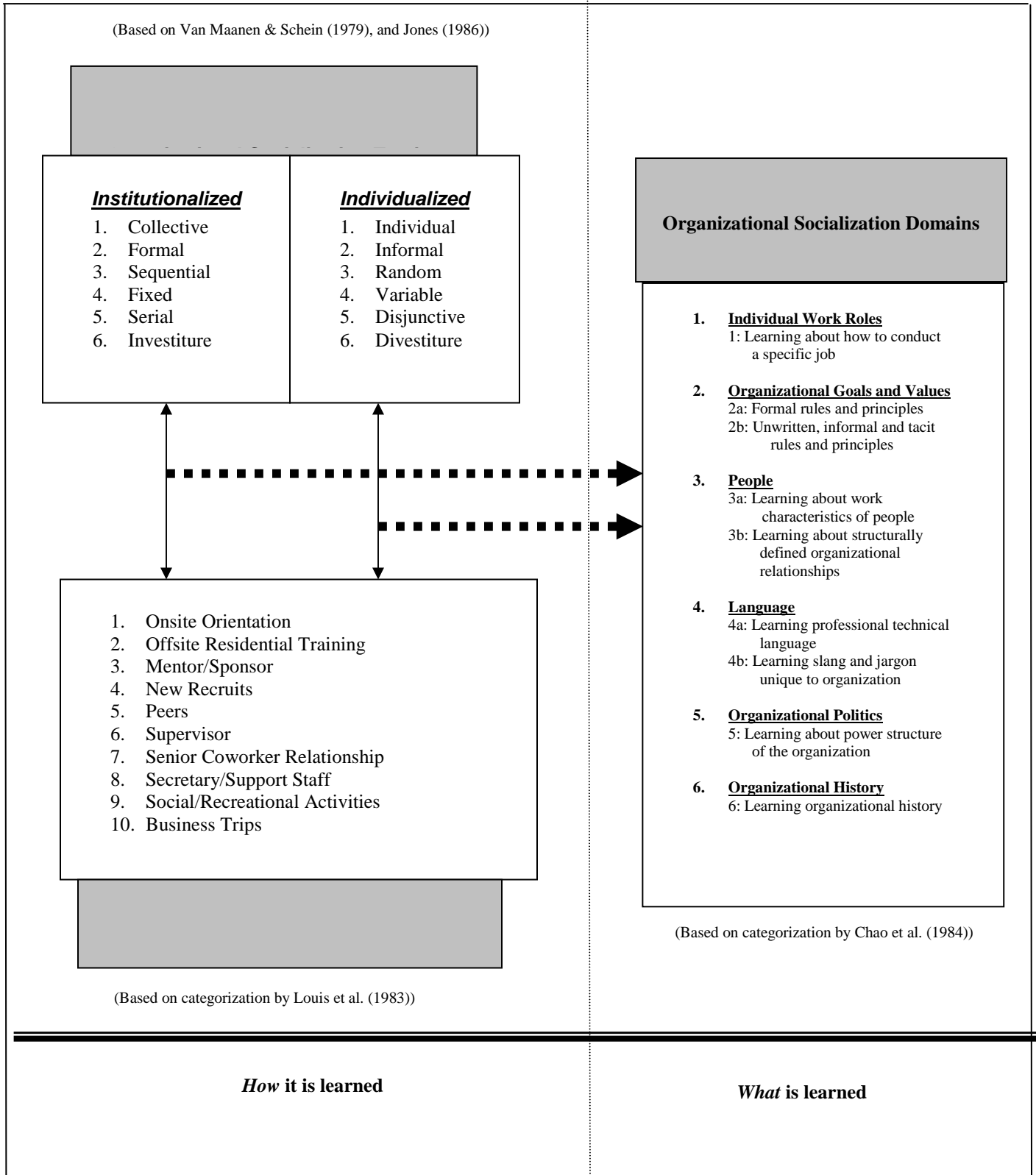


FIGURE 2

Theoretical Model Explaining the Diffusion of Regulative-Normative-Cognitive Institutions through Domains of Organizational Socialization during the M&A Integration

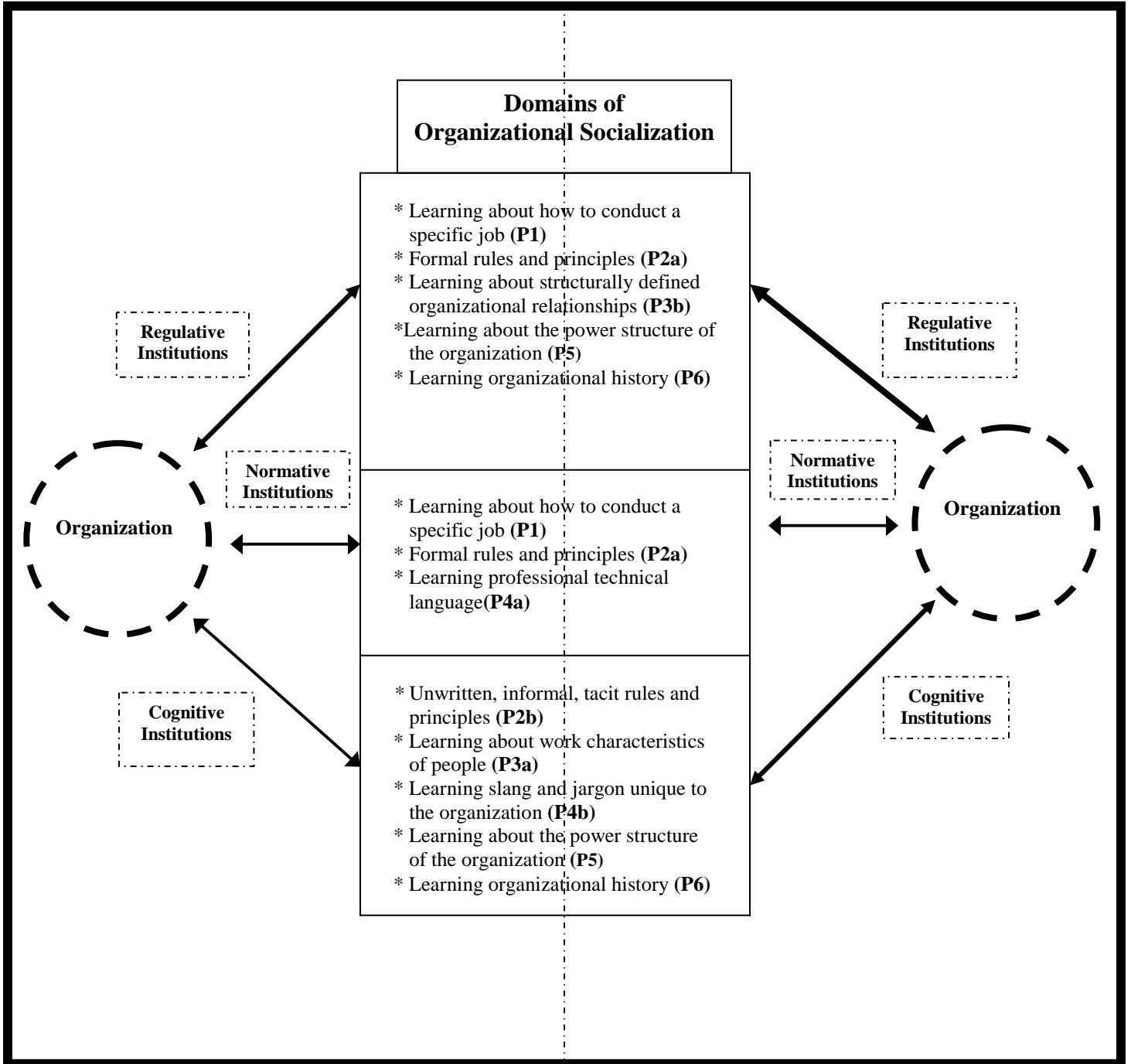


FIGURE 3

Key Socialization Domains for Diffusing Institutional Pillars across National Borders when Institutional Distance is High

	<i>High Regulatory Difference</i>	<i>High Normative Difference</i>	<i>High Cognitive Difference</i>
	2a. Formal rules and principles	1. Individual work roles	2b. Unwritten, informal, and tacit rules and principles
<i>Socialization</i>		3b. Structurally defined relationships	3a. Learning about work characteristics of people
<i>Domain</i>		5. Organizational politics	4. Language
<i>Emphasized</i>		6. Organizational history	