The Effects Of Initial Differences In Firms' Espoused Values On Their Postmerger Performance

By: Joseph P. Daly, **Richard W. Pouder**, and Boris Kabanoff

Abstract

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Recent studies have concluded that most mergers and acquisitions (M&As) reduce rather than increase shareholder value for the acquiring firm, but understanding of why this occurs is limited. To date, most research has focused on issues of strategic fit, whereas this study examines the effects of organizational fit—specifically the effects of differences in firms' pre-M&A configurations of espoused values in regards to relationships with employees versus production. The dependent variable of interest is the resulting entities' subsequent financial performance (return on assets, adjusted for industry). The study analyzed 59 M&As between 1989 and 1996. The authors measured the espoused values of both firms in the transaction by content analyzing presidents' letters to shareholders in corporate annual reports. Using a longitudinal design, results show an inverse relationship between differences in espoused values and postmerger performance. Results and methodology are discussed in terms of their application beyond the M&A context.

Keywords: espoused values; mergers and acquisitions; content analysis; postmerger performance

The past decade has seen a tremendous burgeoning of merger and acquisition (M&A) activity. The dollar value of M&A deals leaped more than 120% between 1990 and 1999 (Kaplan, 2001). However, it has also been reported that between 60% and 70% of such transactions failed to deliver the promised increases in shareholder value, and indeed only 30% of deals resulted in any creation of shareholder value (Gunders & Alpert, 2001; KPMG, 2001b). This suggests a cruel scenario, not only for shareholders but also for the employees and managers who undergo wrenching changes in work roles, task environments, and chains of command. For the majority of stakeholders, this scenario involves pain for little or no gain.

At the same time that these changes are occurring, our understanding of the factors that drive postmerger performance is limited. As Hitt, Ireland, and Harrison (2001) point out, there is much unexplained variance in the performance of M&As. Although strategic fit is clearly required for superior performance in a merger or acquisition, it alone is insufficient in explaining much of the variance. Given that so many deals have tended not to perform as expected, researchers' attention—which initially focused on issues of strategic fit—has shifted in the past decade to issues of organizational fit.

ESPOUSED VALUES

In this study, we examine the effects of differences in the espoused values of the firms involved in a merger or acquisition transaction. We need to clarify what we mean here by firms' espoused values. Espoused values are those values that are expressed on behalf of the organization or attributed to an organization by its senior managers in public statements such as in the firms' annual reports. Therefore, espoused values are different from what some have termed *organizational values* (e.g., Rousseau, 1990), that is, values that are shared by all or a large proportion of an organization's members. Espoused values are distinct, too, from values that are treated as a proxy for organizational practices (e.g., Trice & Beyer, 1993). The distinction parallels the one drawn by Argyris and Schon (1978) between espoused and enacted values. Unlike Argyris and Schon, however, our use of the term *espoused* does not imply we view espoused values as ephemeral or an epiphenomenon. Espoused values can, in some cases at least, reflect differences in organizational practices and strategies. In many cases, they may reflect what senior managers actually believe their organizations to be like, what they would like or prefer their organizations to be like, or how they would like their organizations to be perceived by significant stakeholders (cf. Kabanoff & Daly, 2002). Our point is that irrespective of whether a firm's espoused values reflect its actual (i.e., enacted) values, values its top managers aspire to, or values it simply projects, firms

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that differ in the values they espouse are different in an important and significant way that has implications for their mutual fit in M&A situations. The challenge of establishing precisely what differences in organizations' espoused values imply for other aspects of organizational practices, strategies, or beliefs is similar to that faced by researchers into organizational identity (Gioia, Schultz, & Corley, 2000), and the present study can be seen as an initial exploration of the consequences of differences in espoused values in an M&A context.

The study examines differences in organizations' espousal of two broad value dimensions: concern for employees and concern for production. This "task versus person" distinction can be seen as one of the seminal and most consistently identified contrasts in the broad field of organizational behavior (Polley, 1987). It is discussed in a variety of contexts, including the analysis of role structure in groups (Bales, 1955), contingency models of leadership (e.g., Fiedler, 1967; Yukl, 1981), organizational theory (Emery & Trist, 1969; Katz & Kahn, 1978), frameworks of organizational culture (see Cameron & Quinn, 2000; O'Reilly, Chatman, & Caldwell, 1991; Sheridan, 1992), and top management team culture (Klimoski & Koles, 2001).

As shown in Figure 1, the value typology we employ describes four combinations of these two dimensions:

1. concern for both production and employees is low,
2. concern for both is high,
3. concern for production is high and concern for employees is low, and
4. concern for employees is high and concern for production is low.

Value Structures or Configurations

Both Rokeach (1979) and Schwartz (1992) emphasize that values should be classified because those holding values, whether people or institutions, can be distinguished from other people or institutions in terms of the importance that they place on individual values in the context of a larger set. The pattern of relationships between values in a larger set may be called a value structure or value profile. Thus, in examining value profiles with regard to espoused organizational values in this study, we are taking a configurational approach (Doty & Glick, 1994; Meyer, Tsui, & Hinings, 1993), which means that we will not be looking at values individually but rather in the combinations specified earlier. As Kabanoff and Daly (2000) put it, comparing values in the context of profiles or structures "is theoretically both more parsimonious and more satisfying, complex or rich" (p. 287). Indeed, most models of values in the organizational context use a configurational approach (Trice & Beyer, 1993).

Using Content Analysis to Measure Values

Rokeach (1979) argues that individuals and organizations leave traces or patterns of values in the documents that they produce, and such traces are observable and measurable. Values themselves are unobservable (Rousseau, 1990), but documents are artifacts, which are observable, and their content, specifically their text content, can provide indications of a person's or organization's espoused values.

The present study looks at the impact of initial differences in espoused organizational values—differences between the values of the acquiring organization and those of the target organization—on organizational performance following a related acquisition. We employ a longitudinal design using archival data sources. Specifically, we use computer-assisted text analysis (CATA)—more commonly known as content analysis—of presidents' letters in annual reports to derive our measure of the values in question. We also use accounting data to measure performance. The use of accounting data enables us to control for biases in self-assessed performance as well as important influences on performance in this context, such as acquisition experience, industry effects, and relatedness.

Content analysis is typically done manually but is more often also being done with the aid of computers. This involves devising a dictionary of categories that serve as variables in some later statistical analysis. The dictionary contains "tags" or words and phrases that are viewed as instances of those categories. The computer program then tallies up the frequency with which those tags appear in a given document. The frequency of occurrence is viewed as indicative of what communicators emphasize in the document—in short, the communicators' values. Content analysis has been used in this manner to measure values since the pioneering work of Lasswell, Lerner, and de Sola Pool (1952). Unlike Lasswell et al., however, we use computers to conduct the content analysis, effectively eliminating biases that might be introduced by the use of multiple human raters.

Content analysis of organizational documents has been described as having a great deal of potential for research on organizations (Kabanoff, 1996). As mentioned previously, the documents we analyze are presidents' letters in companies' annual reports. The letter is a public document, is produced at regular intervals that are consistent across firms, and, for purposes of longitudinal analysis, is available for many public companies going back an appreciable length of time. Once published and recorded with the Securities and Exchange Commission, the document cannot be altered in hindsight. Biases of self-selection do not arise, and by using documents that were produced prior to an M&A event, biases of retrospection are not a factor. Finally, the data-gathering process is nonreactive (i.e., unobtrusive), minimizing the degree to which the process of measurement may alter the phenomenon under study (see Webb, Campbell, Schwartz, & Sechrest, 1966).

Two questions still remain about using presidents' letters to try to capture values that are espoused by organizations' "top teams." The first is, How involved are senior managers in deciding on the content of such letters? The second is, To what extent is the content expressed in the letter associated with actual organizational outcomes and behaviors?

The information we obtained from presidents' letters can be traced primarily to the CEO of each firm, who generally takes a lead role in outlining the contents of the annual report, proofreading it, and changing it (Bowman, 1984; Thomas, 1997). Often, although not invariably, the CEO discusses the content with other senior managers or obtains their views in other ways so that the final content reflects a set of shared views that are broadly reflective of the senior management group. The CEO signs the letter and is held accountable for its contents in a legal sense by the Securities and Exchange Commission and in a social sense by multiple constituencies (Wolfe, 1991).

A number of studies have shown the predictive validity of CATA using annual reports with regard to important outcomes. Abrahamson and Amir (1996) found that investors regarded those textual portions as an important source of investment information. Other studies using content analysis of annual reports in general and presidents' letters in particular have shown the categories produced by such analyses to be predictive of outcomes, such as the survival of the firm (D'Aveni & Macmillan, 1990; Tennyson, Ingram, & Dugan, 1990), successful versus unsuccessful downsizing (Kabanoff, Palmer, & Brown, 2002), propensity for risk (Bowman, 1984), and corporate performance in general (Kohut & Segars, 1992; Swales, 1988). With regard to espoused values specifically, Kabanoff and Holt (1996) content analyzed annual reports and found that expressions of such values are quite stable, at least over relatively short time periods of 5 to 6 years. Kabanoff and Daly (2000) found that a comparison of espoused values as measured by content analysis across a sample of Australian and U.S. firms supported their hypotheses about value differences between the two countries.

DIFFERENCES IN VALUES AND POST-M&A PERFORMANCE

Research in strategic management has shown that a key component of implementing M&A strategies is organizational fit (Datta, 1991; Larsson & Finkelstein, 1999). The potential of M&As for creating shareholder value often is not realized because of difficulties in integrating the two organizations (see Nahavandi & Malekzadeh, 1988), especially when the process involves related diversification (Haspeslagh & Jemison, 1991). Indeed, a survey of more than 200 European CEOs showed that the ability to integrate the new company rated as the most important factor for acquisition success (Cartwright & Cooper, 1993).

Most of the research on organizational fit as a factor in predicting performance of merged firms has focused on three dimensions: organizational resistance (Buono & Bowditch, 1989; Cannella & Hambrick, 1993; Schweiger & DeNisi, 1991), acculturation processes (Elsass & Veiga, 1994; Nahavandi & Malekzadeh, 1988), and cultural compatibility (Buono, Bowditch, & Lewis, 1985; Cartwright & Cooper, 1993; Datta, 1991). The organizational fit literature highlights the effects of incompatibilities between firms.

We expect that differences in values across the two organizations involved in a merger or acquisition will have negative consequences for the performance of the resultant organization because the task of integration is likely to be more difficult and ultimately may be less successful in those instances. In turn, as Klimoski and Mohammed (1994) argue, the lack of shared values or assumptions in a collectivity is likely to negatively affect the speed of implementation of decisions, to inhibit problem solving and coordinated action, and to hamper learning. With respect to values specifically, a considerable body of research on the group level shows that value consensus enhances whereas important value differences detract from such performance (for a review and extension, see Jehn & Mannix, 2001). Thus, to the extent that individuals in an acquired organization feel that their values are widely different from those of their new "partners," those people are more likely to leave the organization, taking valuable knowledge with them. These individuals may be top executives of the acquired firm (Buchholtz, Ribbens, & Houle, 2003; Cannella & Hambrick, 1993), or they may simply be valued employees. As an example of what can happen when values turn out to be relatively similar, there was much speculation preceding IBM's Lotus acquisition that Ray Ozzie, who conceived the centerpiece-product Lotus Notes, would resign rather than see his organization become part of IBM. At the time, Ozzie was described as "one of the most brilliant programmers in the world" (Kirkpatrick, 1996, p. 62). Ozzie did not resign, and as a likely opinion leader within Lotus, his decision may have convinced others to stay as well. On the whole, the acquisition of Lotus can be counted as a financial success. Sales of Lotus Notes rose almost 60% in the year following the acquisition, to more than $650 million (Judge, 1997).

Thus, the integration process following a related merger or acquisition is likely to go more smoothly to the extent that members of the acquirer and target see "eye to eye" regarding which values are important in the conduct of the organization, given that the relative emphasis between concern for employees and concern for production is such a fundamental issue. In this context, a smoother integration process will likely result in a higher level of postmerger organizational performance.

METHOD

Sample

The sample of firms was drawn from the list of M&As published in the *Journal of Mergers and Acquisitions* during the years 1989 through 1996. Firms selected met the following criteria: (a) Both firms were publicly traded to ensure the potential availability of annual reports and financial performance data; (b) the merger or acquisition was between firms classified as competing in related businesses, because when the businesses of acquired and target firms are similar, both entities will interact more frequently than when the businesses of acquired and target firms are dissimilar (Krishnan, Miller, & Judge, 1997); (c) both firms were independent entities at the time of the acquisition; and (d) the acquirer had not been involved in another merger or acquisition for the 3 years prior to the year of the acquisition and the 3 years after the year of the acquisition. The latter two criteria ensured a more precise measure of the effects of the acquisition by avoiding the confounding influences of other acquisitions (Lubatkin, 1987; Ramaswamy, 1997), whereas a postmerger period of 3 years allowed for assimilation of the merged entities. Although a longer time period following the merger or acquisition may have more accurately captured the desired effects, we found that a substantial number of firms in the sample had made additional mergers or acquisitions shortly after the 3-year window. Overall, 115 companies met these criteria. Of these, our final sample consisted of the 59 firms (initially, pairs of firms) for which

TABLE 1
Dictionary of Content Analysis Categories in the Study

Category	*Definition and Examples*
Affiliation	Concern with interpersonal warmth and solidarity: admire, affection, confidence
Employee focus	Concern for employees of the organization (nonmanagerial): employee, staff, worker, associate
Goals	Concern for end states: benchmark, target, projection, aim
Performance	Concern with performance and outcomes: perform, productivity, achieve, results

NOTE: Affiliation terms come from the *Harvard IV Dictionary* (Stone, Dunphy, Smith, & Ogilvie, 1966). Remaining entries written by Kabanoff, Waldersee, and Cohen (1995).

there were complete data to conduct the analysis. Although this is a relatively small sample, it has the advantage of meeting rigorous selection criteria, which should help to minimize the influence of factors unrelated to the actual M&A events being studied.

Data and Measures

Main independent variable. Because the derivation of the major independent variable in this study—the difference in firms' initial espoused values—involved a number of steps, we provide here an overview of the process involved. In the appendix, we offer a more detailed description of how the difference score was derived.

The two main value themes we assessed were concern for employees and concern for production. Two variables relating to concern for employees were extracted. These were affiliation (or the use of "warmth" words in each document) and employee focus (the number of references to employees). Similarly, two variables relating to concern for production were extracted: references to goals and references to performance (for a brief description of the content of these categories, see Table 1). We obtained these value measures using computer-assisted content analysis, which counted the frequency with which terms relating to these two dimensions occurred in the presidents' letters in the annual reports of acquiring and target firms for the 3 years before the merger.

We then constructed a difference score across each acquirer-target pair in their espousals of these two themes as follows. Having obtained counts of the words and phrases relating to our four content categories, we used these four scores in a cluster analysis to categorize firms—separately for acquirers and targets—into one of the four possible value groupings or "types" shown in Figure 1.

We used all four measures; we did not combine the two concern for employees measures nor did we combine the two concern for production measures, because the process of combining variables would have reduced the amount of information that was available to the cluster routine for classifying organizations into the different value groupings. We then assigned a difference score to each acquirer-target pair, which reflected the number of differences in their espoused themes according to the group or type they had been assigned to. Each difference score could take one of three values based on the number of themes on which a pair of organizations varied: 0, for no

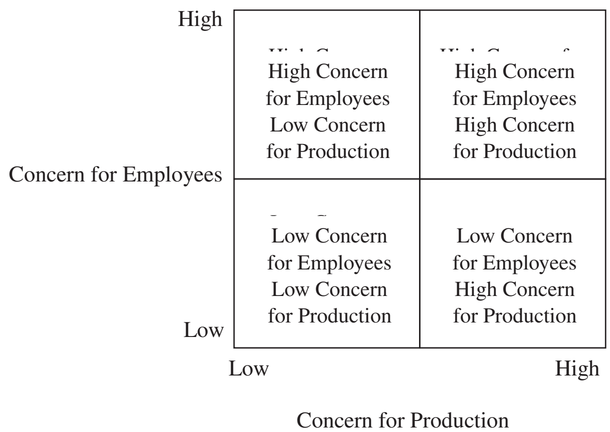

FIGURE 1: Typology of Espoused Values

differences between acquirer and target across the four value categories (i.e., both had been assigned to the same value type); 2, for two differences (i.e., they were similar on two of the content categories and different on two); or 4, for four differences (i.e., the firms differed in directionality of emphasis—positive or negative—on all four themes). A summary of the method used to construct the difference scores can be found in Figure 2. The difference variable was therefore an index of correspondence between the espoused value profile of the acquirer and that of the target. The variable describes the number of value categories that were given a different emphasis across the two firms. It is an ordinal-level measure with a range of 0 to 4. For a more detailed description of the process used to derive the independent variable, see the appendix.

Dependent variable. Acquisition performance, our dependent variable, was measured following the procedure specified in Haleblian and Finkelstein (1999). We derived acquisition performance as the revenue-weighted, industry-adjusted difference between ex ante and ex post profitability, measured as return on assets (ROA) for the 3 years preceding and following the year of the acquisition. We corrected for industry influence for targets and acquirers at the four-digit Standard Industrial Classification (SIC) level by subtracting the median industry ROA from firm-level ROA. Performance data were obtained from COMPUSTAT.

Control Variables

Relatedness of target and acquirer. We read articles on all M&As in the business press and classified each as related or unrelated. However, the degree of relatedness and, thus, interaction between target and acquirer can be expected to vary. Following Haleblian and Finkelstein (1999), we developed a continuous measure of relatedness based on a weighting scheme in which matches of target and acquirer were evaluated at each digit level of the four-digit SIC codes across the firms' businesses. Data on SIC

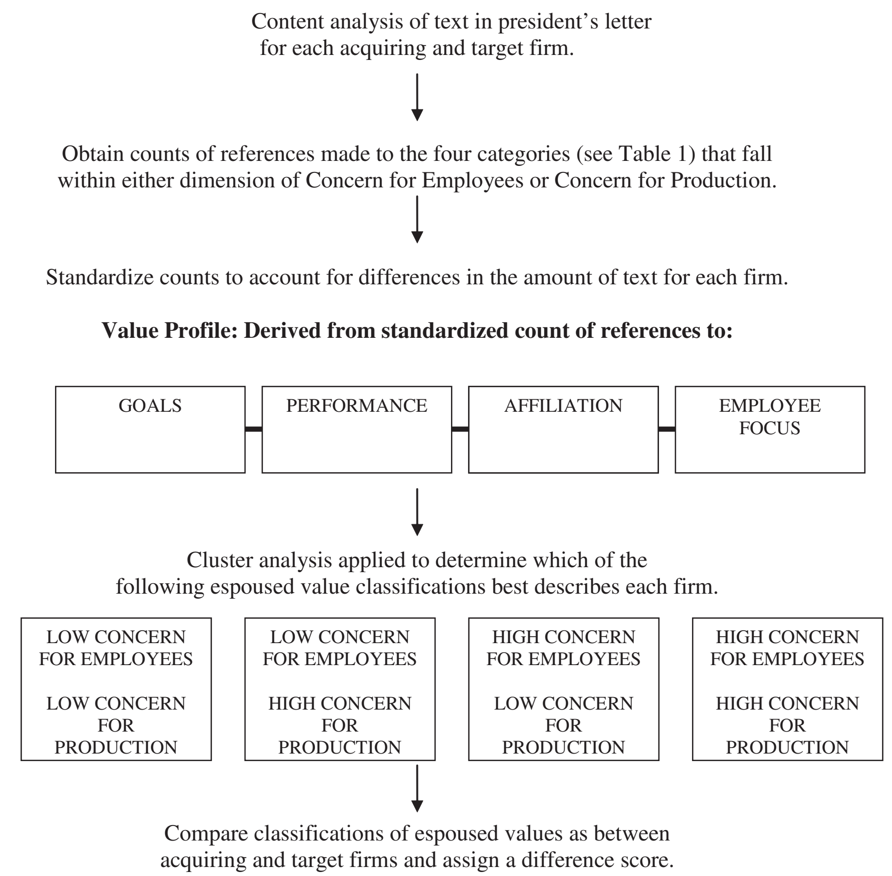

FIGURE 2: Steps Followed to Compute Espoused Values Difference Score

codes in target and acquiring firms were obtained from COMPUSTAT and Compact Disclosure.

Prior acquisition experience. Although our sample includes only acquiring firms that made no acquisitions in the 3-year period preceding the focal acquisition, previous research shows that performance is influenced by prior acquisition experience (Bruton, Oviatt, & White, 1994; Fowler & Schmidt, 1989; Haleblian & Finkelstein, 1999; Vermeulen & Barkema, 2001). We controlled for acquisition experience because the majority of acquiring firms in the sample had made at least one acquisition prior to the 3-year window. We measured acquisition experience as the total number of acquisitions made by the acquirer in the 10-year period preceding the 3-year pre-acquisition time period. Data were collected from the *Journal of Mergers and Acquisitions*, *Moody's Industrial Manual*, and the LexisNexis mergers and acquisition database.

Relative acquisition size. The ratio of target to acquirer size may be positively related to the inability of the acquirer's management to grasp the complexities of postmerger integration, yet negatively related to the attention that the target receives from the acquirer (Chatterjee, Lubatkin, Schweiger, & Weber, 1992). Such factors can negatively affect the performance potential of the merger by inhibiting postmerger integration. Indeed, researchers have shown that size differences between the acquiring and target firm may have a direct influence on financial performance (Datta, Grant, & Rajagopalan, 1991; Kitching, 1967; Kusewitt, 1985). We controlled for relative acquisition size using the ratio of target assets to acquirer assets. Data were collected from COMPUSTAT.

Acquirer slack. Slack resources provide available capital that may be used to fund projects (Baysinger & Hoskisson, 1989) and create incentives for managers to initiate projects related to firm growth (Jensen, 1987), such as the ongoing integration of merged firms. Slack may directly influence acquisition performance by reducing the need for costly debt financing. We measured slack as the acquiring firm's industry-adjusted debt-to-equity ratio, which was obtained from COMPUSTAT.

Preacquisition performance. Following Ramaswamy (1997) and Haleblian and Finkelstein (1999), we used preacquisition performance (defined above) to control for two potential problems when change scores are used. As Ramaswamy notes, firms that performed well prior to a merger

> might not be able to improve their performance as much as the low performers simply because their base rate of performance was higher. [In addition] the pre-change value is invariably correlated with the post-change value. Therefore, using the magnitude of change as the dependent variable could lead to spurious effects if the model does not account for the ex ante effect. (p. 706)

RESULTS

Table 2 provides descriptive statistics and Pearson correlations for all the variables. The data were tested for multicollinearity to determine whether a variable contributed substantially to the variance of one or more other variables, particularly between preacquisition performance and change in performance following the acquisition. No significant multicollinearity was detected among the variables. Note that the zero-order correlation between the independent variable and the dependent variable is –.38 ($p <$ .01), which is consistent with our prediction.

Main Effects of Value Configurations

Although the main effects of cluster membership are not of central concern to our hypothesis, we analyzed them to make sure that they could not be posed as alternative explanations for our results. For example, a high concern for employees–high concern for production combination could be viewed as an indicator of a high-performing value profile (cf. Blake & Mouton, 1964).

TABLE 2
Means, Standard Deviations, and Correlations (N = 59)

Variable	M	SD	*1*	*2*	*3*	*4*	*5*	*6*
1. Prior acquisition experience[a]	1.53	0.94						
2. Relatedness of target and acquirer	4.27	2.14	–.06					
3. Relative acquisition size	0.54	0.59	–.23	–.09				
4. Preacquisition performance[a]	1.92	0.71	–.12	.15	–.21			
5. Acquirer slack[a]	1.55	0.37	.02	–.05	.22	–.17		
6. Espoused values difference score	2.07	1.53	–.13	.08	–.15	–.07	–.24	
7. Acquisition performance	–1.26	3.41	.24	–.10	.12	–.14	.09	–.38

NOTE: Correlations with an absolute value greater than .36 are significant at the .01 level
a. Logarithm.

We therefore set out to test for the existence of a main effect of cluster group membership using regression. However, when we entered group membership variables as a block, the model did not explain a significant amount of variance in organizational performance, $R^2 = .051$, $F(3, 55) = 0.993$, *ns*. We therefore did not pursue any further investigations into a possible main effect of the value configurations studied here, focusing instead on the effects of differences in values between acquirer and target.

Qualitative Analysis of Portions of Text

An important aspect of the content analysis procedure is to investigate the passages of text that the computer has counted as reflecting different content themes to make sure that the selected portions relate to the themes we desire to measure. We read through all of the selected text as a check on the validity of the computer analysis. A sample of the kinds of passages extracted, relevant to the configurations of values studied and the difference score measure that was our independent variable, is given in Table 3. Table 3 presents examples of passages taken from acquirer-target pairs that are sorted according to three possible combinations: (a) both firms were classified as having the same espoused value profile (i.e., assigned a difference score of 0), (b) the two firms share the same emphasis on two value categories but differ on two others (a difference score of 2), and (c) the two firms share no similarity of emphasis across the four value categories (a difference score of 4).

Analysis of the Effects of Acquirer-Target Differences in Initial Values

Hierarchical regression analysis was used to analyze the data so that the effects of the control variables could be separated from those of differences in values. The regression results presented in Table 4 show the influence of differences in values. The results show strong support for our prediction that there would be an inverse relationship between those differences and performance following the acquisition. They provide evidence that similarities in initial value profiles between target and acquirer have

TABLE 3

Examples of Passages Taken From Letters to Shareholders

Category of Value Profiles	*Example of Passages*
Both firms have same value profile	
Acquiring firm	For the year 1989, we met our overall revenue and profit goals. As noted in the Highlights, our revenues and net income were up 6.3% and 29.4%, respectively. Net income per share was $3.54 compared with $2.79 in the prior year. Income before realized investment gains and losses net of tax was $3.49 per share, up 9.7% from 1988. We continued to achieve growth in stockholders' equity, cash dividends, and total assets. Cash dividends paid to stockholders were increased for the 38th consecutive year.
Target firm	During 1989, we continued to make the strategic investments necessary to return the company to profitability and sustained growth. While making these investments, we looked hard at operating costs in unproductive areas and made the necessary cuts. As we move into the 1990s, controlling expense growth will continue to be a very important means toward achieving improved efficiency. Income minus expenses equals profit is the fundamental law of business. As our offices around the world manage to regain profitability, this simple equation will be our guiding force.
Firms share the same emphasis on two values but differ on two others	
Acquiring firm	We have expected a lot from our employees in 1992 in virtually every aspect of our operation, and they have performed admirably. We define this company by the character, commitment, and involvement of our employees. As a result, I am confident in their ability to define our new company as one that creates value for our customers and our shareholders.
Target firm	Last year, we began a major corporate improvement program that involves an intensive, yet orderly, examination of all aspects of our businesses to identify opportunities for improved efficiency and productivity by eliminating outmoded or unnecessary work practices.
Firms share no emphasis on any of four values	
Acquiring firm	Our mission is to provide you with a superior return on your investment. In an industry in which returns are greatly influenced by margins set by worldwide market forces, we can best achieve our goal by maximizing the productivity of our assets, carefully controlling costs and pursuing strategic growth opportunities. Because industry margins were lower in 1994, we did not improve earnings per share over last year. We did, however, take steps to position the company to grow while achieving excellent results in asset productivity and cost control.
Target firm	Our dedicated employee team is the most important part of our total system. All employees with more than a year of service are shareholders, and they are empowered to provide our customers with the highest quality products and services.

TABLE 4
Results of Hierarchical Regression Analysis of Differences in Espoused Values and Change in Performance Following Acquisitions (*N* = 59)

Variable	*Model 1*	*Model 2*
Control variables		
Prior acquisition experience[a]	.27*	.21
Relatedness of target and acquirer	–.06	–.04
Relative acquisition size	.15	.09
Preacquisition performance[a]	–.06	–.12
Acquirer slack[a]	.04	–.04
Independent variable		
Espoused values difference score		–.35***
Model R^2	.10	.21
ΔR^2		.11
F	1.20	2.23**

NOTE: Standardized coefficients are reported.
a. Logarithm.
*$p < .10$. **$p < .05$. ***$p < .01$.

a positive influence on performance following the acquisition. Model 1 showed that the influence of control variables was not significant, explaining 10% of the variance. Prior acquisition experience was only marginally significant ($p < .10$). Model 2 was significant in explaining 21% of the variance in performance change following the acquisition ($p < .05$). The differences in initial values explained 11% of this variance.

DISCUSSION

Our study represents an important contribution to an understudied area, namely the effect of differences in espoused organizational values between acquirer and target top management teams on their successful integration into a new organization. Given that most transactions are pursued to achieve strategic fit, and that a growing number of surveys of top management have found that the challenge of integrating the target firm rivals strategic considerations in importance (e.g., Booz, Allen, and Hamilton, Inc., as cited in Cartwright & Cooper, 1993; Corporate Strategy Board, 2002; KPMG, 2001a), further research into the effects of factors beyond strategic fit that influence the outcomes of M&As continues to be important.

Specific cluster memberships in our study showed no significant effects; however, the effects of differences in membership across partners in a given merger or acquisition were significant. Thus, our results corroborate Ensley and Pearce's (2001) conclusion, drawn on a sample of new-venture top management teams, that the process of developing shared understandings—here, the result of the integration of two organizations—was more predictive of outcomes than was the content of individual understandings.

There are a number of advantages to our design. Our design used archival data and was longitudinal in nature. Our measure of organizational values came from content analysis of presidents' letters, an innovative data source that is unobtrusive and avoids biases of self-selection, retrospection, and the Hawthorne effect. Finally, we controlled for important sources of potential contamination in the study. Despite these strengths, we recommend that other researchers pursue the same question using other methodologies (such as the survey method), so that the strengths in each method (e.g., the directness of the survey method and the lack of reactivity and retrospective biases in content analysis) can offset weaknesses in the other.

Interestingly, none of the other variables measured besides differences in initial values were found to be significant. For example, the *p* level for the effect of acquisition experience was .122. That is likely due to the fact that any acquirers that had been involved in an acquisition during the 3 years prior to the focal acquisition were excluded from the sample to avoid contamination from the integration of other targets, thus restricting the range of the acquisition experience variable.

Another reason some of the control variables did not show a significant effect may be because of our somewhat low *N* of 59 cases. As noted previously, the sample size was not larger because, in the interests of controlling for contaminating effects, we excluded acquirers that had multiple, major acquisitions within the 3-year pretransaction window. Parenthetically, that result speaks to the fact that many acquirers in the past 15 years have been on "binges," acquiring multiple firms in fairly rapid succession. One possible way that researchers might address this issue of a low *N* is to extend the time frame over which firms are sampled. To the extent that our *N* is low, the present study represents a conservative test of our prediction.

We see our use of presidents' letters as the source of data on espoused values to be a strength, for the reasons enumerated above. We have previously acknowledged that some may criticize the use of presidents' letters on the grounds that annual reports do not present the organization as it is but rather as its managers wish it to appear. Although we accept that we still need to establish the precise nature of the constructs underlying content measures of the type we have used here, our findings arguably add weight to the view that such variables are tapping into constructs that have real implications for organizations, rather than being "mere public relations fluff."

Rousseau (1990) has argued that culture is a many-layered construct with fundamental assumptions at the deepest level and that documents as artifacts can represent expressions of those assumptions on the surface. Content analysis was used in our study to measure such "traces" of assumptions, both conscious and unconscious, in documents. Content analysis measures a form of behavior, that is, communication behavior. Our analysis includes making inferences by what organizations do not talk about as well as by what they do mention. The notion that organizations may emphasize one set of stakeholders' interests over another, as a fundamental aspect of organizational functioning, is captured in Keeley's (1988) social-contract theory of organizations.

Directions for Future Research

Certainly, more research is needed to corroborate our findings. One possible avenue for future research would be to obtain documents beyond the presidents' letters. Ideally, these would be internal documents that are, of course, more difficult to obtain than are public documents. A further disadvantage of internal documents that should be taken into account is that they are not produced at regular intervals in a standard format as are annual reports.

A number of avenues for further research using the CATA method described here are worth considering. Although Kabanoff and Holt (1996) demonstrated that espoused values seem to be moderately stable over a short period, both the consequences and causes of changes in espoused values over a longer time frame have yet to be studied. Can we find evidence that the relative stability of such values is related to superior performance, perhaps due to the existence of a strong, stable culture (cf. Gordon & DiTomaso, 1992; Kotter & Heskett, 1992)? Or is change in espoused values more likely to be associated with improved performance, indicating the presence of a more dynamic, adaptive value framework (Denison & Mishra, 1995)? Considering the causes of changes in espoused values, what is the effect on espoused values of a new CEO taking the helm at a firm, particularly if it is possible to measure the CEO's espoused values prior to joining the organization? To the extent that the CEO's a priori values are different from those that prevail in the organization, what is the impact on both espoused organizational values and organizational performance?

Much remains to be done in coming to an understanding of the factors that explain successful integration in M&As. Content analysis presents us with a powerful tool in furthering our understanding of this context. It may be valuable for researchers because it enables them to assess the issue of value similarity in a quantitative and nonreactive fashion that is not reliant on direct access, and it makes use of archival data that allow for longitudinal analysis. Considering the level of debate about both the financial and human consequences of M&A activity, a method that increases our ability to study it more effectively surely deserves serious consideration.

APPENDIX
Detailed Description of How the Difference Score Was Derived

Standardizing the Frequency Counts

Presidents' letters in annual reports were the data source for our text analysis of espoused values. Such letters often differ in length considerably across firms. To compensate for such differences, we took the counts for each of the four values categories—affiliation, references to employees, references to goals, and references to performance—and divided them first by the number of sentences of text in each window (i.e., each year preacquisition for which there was a president's letter) and second across the three windows. Differences in the availability of text across firms were further dealt with by computing standard (z) scores for each variable. These z scores, with a mean of 0 and a standard deviation of ±1, were then used in all subsequent analyses.

Cluster Analysis

K-means cluster analysis (MacQueen, 1967) was used to classify firms. Configurations for the two dimensions in the study were created by inserting "seed points" or initial cluster centers for all four variables describing the four cluster profiles in Figure 1. For variables that were expected to be emphasized in a given combination, we used a seed point of 1 or 1 standard deviation above the mean among these standardized variables (recall that all scores were now z scores with a standard deviation of ±1). Where a variable was expected to be deemphasized, a seed point of –1 (1 standard deviation below the mean) was used.

As would be hoped, for variables that are meant to be measuring the same value theme, the two variables measuring concern for employees were positively correlated ($r = .80$, $p < .01$, for the acquirer subsample; $r = .69$, $p < .01$, for the targets). A similar, if weaker, pattern held for the two variables that indexed concern for performance ($r = .26$, $p < .05$, for the acquirers; $r = .24$, $p < .05$, for the targets). In turn, the average correlation between theoretically "unrelated" content categories was small (average $r = .07$). However, rather than averaging across the two pairs measuring each value theme for the purposes of clustering, we retained all four content categories because the averaging process would have reduced the amount of information that was available to the cluster routine for allocating organizations to different value profiles. Because organizations can use different terms to espouse the same value theme, we deemed it appropriate to use the more detailed, word-count data rather than averaging. Four theoretical profiles were thereby generated using the four variables:

1. low on both dimensions (seed points of –1 –1 –1 –1),
2. high on concern for employees and low on concern for production (1 1 –1 –1),
3. low on concern for employees and high on concern for production (–1 –1 1 1), and
4. high on both dimensions (1 1 1 1).

The acquirer and target firms were categorized separately using cluster analysis, producing a split-sample analysis as recommended by Hair, Anderson, Tatham, and Black (1998). The value profiles of the four clusters that appeared for both groups were quite similar, giving us confidence that the two sets of organizations were comparable in terms of their espoused value profiles.

Assigning Difference Scores

The actual difference scores were computed by comparing the cluster membership of the acquirer with that of the target and assigning a number based on the number of variables in the comparison that bore different signs across the two firms. Thus, as mentioned above, if both firms were in the same cluster, the difference score was 0. If the two shared two final cluster centers with the same sign, the difference score was 2. Finally, if the comparison of the final cluster centers for the two firms showed no overlap in the direction (plus or minus) of those cluster centers, a score of 4 was assigned to that pairing.

Further Validation of the Cluster Analysis Solutions

Ketchen and Shook (1996) criticize prevailing uses of cluster analysis, including failure to validate the solution. We note that most of their criticisms were specifically directed at inductive clustering, as opposed to the kind of deductive, theory-based analyses we have done here. Panj and Stewart (1983, p. 146) recommend a split-half procedure for cross-validating a cluster solution. Following this procedure, the sample of acquirers was split in half, and the cluster analysis was run on both halves independently The two solutions were then compared. The results can be seen in Table A1. Using this test, both halves of each subsample showed a similar solution, demonstrating external validity.

TABLE A1
Results of Split-Half Cluster Analysis

	Cluster 1			*Cluster 2*			*Cluster 3*			*Cluster 4*		
Variable	*ICC*	*1st Half*	*2nd Half*	*ICC*	*1st Half*	*2nd Half*	*ICC*	*1st Half*	*2nd Half*	*ICC*	*1st Half*	*2nd Half*
Affiliation	–1	–0.4871	–0.6096	–1	–0.5811	–0.6061	+1	3.2881	0.4801	+1	1.2295	0.5874
Employees	–1	–0.4665	–0.7854	–1	–0.6633	–0.3033	+1	1.2974	0.5998	+1	1.4404	0.9214
Goals	–1	–0.5228	–0.4138	+1	1.0393	0.7635	–1	–0.5598	–0.5431	+1	0.5794	0.9076
Performance	–1	0.0102	–0.6303	+1	1.2189	1.2721	–1	–1.1889	–0.5935	+1	0.1492	0.7748

NOTE: ICC = initial cluster center.

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