International Journal of Business and Management Review

Vol.2, No.1., pp.13-25, March 2013

Published by European Centre for Research Training and Development UK (www.ea-journals.org)

PLANNING CORPORATE POST-ACQUISITION INTEGRATION: APPLICATION OF SOCIAL PENETRATION THEORY AND MANAGERIAL IMPLICATIONS

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ABSTRACT: *This paper examines the concept of corporate merger and acquisitions within the Ghanaian business environment. It draws on social penetration theory to provide framework for guiding the planning and implementation of the post-acquisition relationship building. The premise of this paper is that people are the most important component of organizations. However, the memoranda of understanding (MOUs) signed in corporate boardrooms tend to focus more on the asset transfer and pay little attention to the human component. This situation has the tendency to undermine the achievement of the financial objective. As a result, relationship building efforts aimed at assimilating the workforce of both firms is more likely to be a key driver of the success of the post-acquisition integration. In applying the social penetration theory for integration, the dynamics, key issues, and managerial implications are discussed.*

KEYWORDS: Social penetration theory, Mergers and Acquisitions, Post-acquisition integration, Organizational Development intervention, Parent employees, Target employees, Relationship building, Ghana

INTRODUCTION

Corporate acquisition is a form of strategic organizational restructuring and change intervention intended to ensure organizational effectiveness. It can be defined as a transaction in which one company buys a controlling interest in another with objective of either making it an independent subsidiary or combining it with its current business or businesses (Ireland, Hoskisson & Hitt, 2006). In a case of a merger, two consenting firms agree to combine their operations on a relatively equal basis. In a sense, mergers involve combining of the original socio-technical systems of the merging organizations. For many non-African observers and observers of African descent (but not of the soil), mergers and acquisitions (M&A) may be a little alien to the African business practices. However, many will also agree that during the late 1980s and 1990s, many African governments including Ghana, Tanzania, Algeria, and Malawi as well as Asian countries such as Malaysia, India, and Tailand in response to International Monetary Fund (IMF) and World Bank conditionalities. The mode of diverstiture included scale of assets and shares, joint ventures, lease and liquidation including mergers and acquisition (Asumeng, 1999; Mensah & Marfo – Yiaboah, 2005) The African continent has had a fair share of the international acquisitions, though fewer African businesses have attempted and successfully acquired or merged with other locally-owned businesses.

During approximately the past 3 decades, research has provided evidence that human challenges pose major problems to the success of corporate mergers and acquisition (Lynch & Lind, 2002; Clemente & Greenspan, 1998; Langley et al, 2012). Research evidence indicates that the way human capital is managed during mergers and acquisitions largely determine the success or failure of organizations in financial terms. Deals that do not pay appropriate attention to the human component suffer long-term financial costs despite making sound initial accounting sense. Three to four years post-acquisition, 50-80% of merged entities are described as underperforming (Buono & Bowditch, 2003; Clemente & Greenspan, 1998; Marks & Mirvis, 2001; Morosini, 1998). Case studies of mergers indicate reduced job and organizational satisfaction, reduced commitment, increased cynicism, stress and intention to leave (Marks & Mirvis, 2001; Robinson & Morrison, 2000). These counterproductive behaviours and attitudes may be attributed to the extent to which employees struggle to cope with merger-induced personal readjustment which involves cognitive and emotional severance from pre-merger organization and a re-alignment of self with a new unknown organizational reality (Ericson, 2001; Weick & Quin, 1999).

Another human challenge post-merger organization employees struggle with is the development and maintenance of good interpersonal relationships between employees of both target and parent organizations. Target employees are employees of the organization being acquired whereas parent employees are those of the organization buying out another or acquiring majority shares in another. Thus, target employees and parent employees constitute post-merger and post acquisition employees. It is unlikely or uncertain that post-merger employees successfully develop good interpersonal relationships. Thus, there is a problem of integrating employees in post-merger organizations. Again, it is unlikely that pre-merger organizational attributes will transfer to post-merger organizations (Jelten, Obrier & Trindad, 2002; Langley et al, 2012; Van Knippenberg et al, 2002). This paper address this problem located in the M&A literature by using the social penetration theory as a framework for integrating employee in post merger and post-acquisition organizations.

MERGERS AND ACQUISITIONS: A MEMORY LANE IN GHANA.

In the wake of the 1972 coup d'état that brought General Ignatius Kutu Acheampong to power (1972-1978), there were acquisitions of foreign-owned enterprises by Ghanaians as the "repudiation" foreign policy of the regime forced foreign investors to sell or merge with Ghanaian investors as a matter of survival. Similarly, as a consequence of the Aliens

Compliance Order (1970) of the Second Republic under Dr. K. A. Busia, the Prime Minister, many West Africans, particularly our brothers and sisters from Nigeria, were forced by circumstances to sell their businesses to Ghanaians (Gadzepko, 2005). This was acquisition of African businesses by fellow Africans on an unprecedented scale in the history of Ghana. In Ghana, there have also been several of such cross-border or international acquisitions during her heydays of structural adjustment programmes. In the private sector, there have been a number of acquisitions, particularly in the telecommunication, maritime, textile mining, and downstream oil and gas sectors. For instance, Mobil was acquired by Total Petroleum Ghana in 2006; again, Westel, a telecommunication company, was acquired by Ghana National Petroleum Corporation (GNPC) as part of its unrelated diversification and later bought from GNPC by Zain.

Recently, Zain also sold its assets to Airtel, an Indian telecommunication company. In a similar manner, Spacefon, another, telecommunication firm, was acquired by Areeba and later bought by MTN where as Ghana Telecom Company has been acquired by Vodafone UK. In the mining sector, Ashanti Goldfields was acquired by AngloGold, a South African gold mining company in 2004. A number of acquisitions has also taken place in the textile sector as well. For instance, in 2010, the Actis Group acquired Vlisco Group, the printers of GTP and Woodin (Business & Financial Times [B&FT], 2010). Again, the Pwalugu Tomatoes Factory was acquired and renamed Northern Star Limited. In the financial sector, UT Holdings Ltd (a wholly-Ghanaian owned institution) acquired BPI Bank and established in its place UT Bank in 2008; Societe Generale, in 2004, acquired the then Social Security Bank (Oduro & Agyei, 2013) . In the brewery sector, Guinness Ghana Company Limited acquired Ghana Breweries Limited to form Guinness Ghana Breweries Limited in 2004 (Oduro & Agyei, 2013). In the recent times, the latest acquisition has been the take-over of Merchant Bank Ghana Limited by Fortiz Equity Private Fund Limited (Graphic Business, 2013). The catalogue of instances of acquisitions shows that mergers and acquisitions (M&As) are after all not alien to less developed economies like Ghana's.

Despite these developments, M&As are far from being commonplace and compatible with indigenous business practices. In the formal organizational and business contexts, effects of M&As on employees include threat to employment, psychological consequences such as lowering or loss of status, self-esteem, and self-identify (Dawson, 2003). For many Ghanaians in the informal economy, your enterprise also defines your self-identity and losing it through any means may constitute failure. As result, several explanations are propounded to account for such failures. These may range from greed on the part of the acquiring partner, witchcraft and demonic attacks, and laziness to destiny. In the sense of its incompatibility with indigenous business practices in the informal economy, one can dare say that M&As is truly an alien concept. It needs emphasizing that takeover (whether friendly or hostile) cannot be imagined to happen within the current indigenous business framework in the nearest future. However, to the extent that globalization, cross-border acquisition and deregulation of the African economies continue unabated, it is reasonable to say that M&A has come to stay. The earlier Ghanaian business owners learn the tricks the better.

Why Mergers and Acquisitions?

The question is why do companies decide to pursue an acquisition strategy? Many firms embark on acquisition strategy to achieve a number of objectives. While some companies do so to reduce cost, others do so to gain market power or an expanded market for its products. Many of the acquisitions in the telecommunication sector in Ghana are largely driven by a need to expand one's market. Other firms pursue acquisition in order to increase growth rate relative to competitors, learn new capabilities for the acquired firms, and diversify in order not to be dependent on one industry or market (Ireland, Hoskisson & Hitt, 2006). If one adopts an objective measure of M&As (Hogan, 1994), the many of the acquisitions in the Ghana's telecommunication sector have been a success. However, acquisitions of many other state-owned enterprises (SOEs) have not been successful. Many of the acquired firms have been abandoned and machinery left to rust and rot.

Whatever the reason for the acquisition, in the final analysis, acquisitions succeed or fail on the basis of how well the target or acquired firm and the parent or acquiring firm integrate their operations (Ireland et al., 2006). Buono and Bowditch (2003) commented that the merging of two organizations involves several organizational systems such as people, resources, task and the supporting information technology. The mention of 'people' first by Buono and Bowditch (2003) in the organizational systems brings on board the psychology of M &As. This implies that a lot of the success of the acquisition depends on the people. Despite this, British Institute of Management (1986:3) warned that acquisition strategy is "an area of corporate strategy where inappropriate mathematical theory and a yearning for greener grass has prevailed over commonsense". Similarly, Coopers and Lybrand (1992) studied 50 large UK acquisitions during the late 1980s and early 1990s; based on in-depth interviews with senior executives. They reported that 54% of the acquisitions were regarded as failures. When asked why, they mentioned that failures were due to target firm's management attitudes, cultural differences, and lack of post-acquisition integration planning (PAIP).

Studies of the mergers and acquisitions suggest that between 60% and 70% of mega-mergers fail to improve shareholder wealth and more than half actually reduce it (Cartwright, 2005; Coopers & Lybrand, 1992). However, within the psychology of mergers and acquisition literature, it has been constantly argued that human factors are the key drivers of M&A success or failures and that planning and implementation of M&As have received insufficient attention (Cartwright, 2005; Coopers & Lybrand, 1992). A conservative estimate of failure rate of the acquisitions of the state-owned enterprises in Ghana may be 96%.

In a more recent Ghanaian study of post-acquisition profitability in Ghana, Oduro and Agyei (2013) examined the effect of M&As on performance of firms in Ghana from 1999 to 2010. They reported that firm profitability reduced during the post-merger period and concluded that M&As had significant negative effect on firm profitability. Oduro and Agyei (2013, p.102) recommended that:

> "… efforts should be made to attract and retain key personnel of the merged firms through performance contracts or bonuses, proper conflict resolution measures should be put in place and conscious effort made to reap the expected benefits of the merger."

These recommendations are largely people management issues rather than tangible asset management which managers are often pre-occupied with. Their recommendations also make a business case for understanding and working out proper people integration as part of M&As as suggested by Buono and Bowditch (2003).

On the basis of human resources/capital-based view of organizations, this paper argues that organizations are people not technologies and tangibles assets, even though the latter are the key to service delivery or production. As a result, negotiations among target and acquiring managers and the ultimate conclusions on paper do not imply buying the humans. After all, no organization can claim to have bought its worker body and soul. This means that acquiring firms should plan well for the post-acquisition integration of the humans. In psychological terms, integration implies improving interpersonal relationships among the employees of the target and the acquiring firms vis-a-vis other organizational systems. In the ensuing paragraphs, interpersonal relationship is discussed in relation to social penetration theory with illustrations as to how it applies to post-acquisition period.

This paper makes that assumption that target and parent employees are required during the post-acquisition period to work together in the same work or office space. This assumption is consistent with Ireland et al. (2006) framework for acquisition decision and business integration. Ireland et al. (2006) identified target screening and selection, target negotiation and due diligence, in the order, as the stages of acquisition decision-making process after which acquisition integration process takes place (Ireland et al., 2006). Of particular interest to the acquisition integration process are inadequate due diligence, paying too much, excessive debt in the post-acquisition period, over-diversification, and managers who are overly focused on making the acquisitions (Ireland et al., 2006). The social penetration theory is to be used as framework for planning the acquisition integration process after management has been satisfied with the outcome of the due diligence. In other words, the memorandum of understanding to be signed should also make provision for the post-acquisition integration.

OVERVIEW OF SOCIAL PENETRATION THEORY

Interpersonal relationships are associations between two people or among a group of people who are interdependent, who use some consistent pattern of interaction, and who have interacted for an extended period of time (Pearson, Nelson, Titsworth, & Harter, 2003). Social penetration theory is a very useful framework to examine interpersonal relationship development. Social penetration theory states that interpersonal exchanges move from superficial, non-intimate information transfers to more intimate information exchanges through the process of revealing personal information (Altman & Taylor, 1973). West and Turner (2000) refer to the interpersonal exchanges as social penetration or a process of relationship bonding that moves from superficial communication to more intimate communication. Interpersonal relationships progress from non-intimate to intimate and self-disclosure is at the core of relationship development.

Building on Altman and Taylor's theory, Knapp and Vangelisti (2000) have identified five (5) stages through which interpersonal relationships evolve to more "solid" relations. Knapp and Vangelisti identified the following stages: initiating, experimenting, intensifying, integrating, and bonding (see Table 1). In comparison, West and Turner (2000) also identified orientation, exploratory affective exchanges, affective exchanges, and stable exchange. They are essentially the same but Knapp and Vangelisti's (2000) terminologies will be used for sake of simplicity.

Table 1: Knapp and Vangelisti's (2000) Social Penetration Theory

Stage	**Key issues**
Initiating	Formation of first impressions during first encounters
Experimenting	Beginning to find out more about one another
Intensifying	Increased awareness of other another and participation in information exchange
Integrating	Evolution of culture or shared values, beliefs and norms
Bonding	Commitment to successful relationship

Knapp and Vangelisti (2000) describe the *initiating stage* as short beginning of an interaction in which parties involved start to form first impressions of one another, size up one another and attempt to identify if there are any shared characteristics. At the *experimenting stage*, the parties decide to find out more about one another and to start getting serious about one another while forgetting sizing up the other persons. During *intensifying stage*, the parties become more aware of one another and actively participate in the relationship with information exchanges becoming more personal and more intimate. This may be due to the fact that neither party has quit the relationship nor both parties discouraging its development. At *integrating stage*, Knapp and Vangelisti contend that the parties begin to mirror one another's behaviour in manner, dress and language as well as shared values and norms. Finally, at *bonding stage*, the parties commit themselves to make the relationship work and become relatively permanent.

Though initially developed to explain interpersonal relationships, social penetration theory can be extended to explain workplace relationship among employees, particularly in the event of mergers and acquisitions when employees of the acquired and acquiring firms are "forced" into marriage by their managers. In this situation, each group of employees are seen as strangers and may unwilling have to work together to make the acquisition a success within the shortest possible time. In the next section, the social penetration theory is used to explain how the relationship among employee of the acquired firm and those of acquiring firm develop and how long it will normally take such a relationship to develop if unaided by management through organizational development (OD) intervention.

Application of Social Penetration Theory to Mergers and Acquisitions

To facilitate the application of the social penetration theory to integration management during the post-acquisition period, there is a need to make three important assumptions. First, employees of target firm (to be called target employees) and those of the acquiring or parent firm (to be referred to as parent employees) are closely-knit groups who have not had prior encounter that requires working together as one team. Second, the integration process will take longer to evolve if not facilitated. The tendency of either employees entertaining fear, distrust, uncertainty and disagreement is quite inexorable. Third, it is also important to note that the degree of organizational commitment possessed by target employees prior to the merger can influence the post-acquisition integration. Those with affective commitment are more likely to have difficulty adjusting while those with continuance and normative commitment are more likely to adjust easily if they see the merger as an opportunity to meet their personal needs. This is because those with affective commitment display affective attachment to their organization (Meyer & Herscovitch, 2001). As a result, such employees are more likely find it difficult to let go the past and embrace the future. This means that the process being described here may be moderated by the degree of organization commitment. In applying the social penetration theory, the key issues in each phase are discussed. Second, we explain the dynamics of the relationship formations and developments between parent and target employees. Finally, the role of management as facilitators of the relationship formation is highlighted.

Initiating phase

In terms of the post-acquisition integration, we can think of this phase as the period following immediately after the offer by the acquiring firm has been accepted by the target and a memorandum of understanding (MOU) has been signed. This is the period during which employees are brought together to work together to achieve the acquisition objectives or at least to make the process a success. Unknowing to the planners of the acquisitions, who are looking forward to quick results, for the first time, the target and parent employees only share with employees from each group a superficial relationship fraught with less than honest communication. This is because the employees from each group begin to size up the others and form their first impressions of the others; again, each group of employees begins to look for ways in which they are similar or dissimilar to the others. As a result of the novelty of the relationship, wrong impressions can be formed.

In acquisitions in which it was publicized that the parent firm was acquiring the target firm because of less than favourable financial performance, parent employees enter this initiating phase with a sense of superiority which can “piss off” the target employees who may resort to sabotage or any other form of counterproductive behaviour.

Role of Management

It is crucial to note that this initiating phase may take not less than 6 months. To shorten the duration of this phase, it may be important for management of both firms to brief their employees about the characteristics of the new employees they are going to work with. For instance, a video-taped recording of interviews of employees telling their new counterparts of who they are and how they do their work can go a long way to skip through the gradual process of impression formation.

Similarly, unannounced working visits by delegates nominated by employees themselves to the worksites of the other group may help them understand who the other people are. In addition, any form of communication that can be used to clear doubts and preconceived ideas should be employed to facilitate the initiating phase. The focus of the communication should be to help each group of employees understand that they are all human and no group of employees is infallible and that the target employees should consider themselves to have been displaced by the target firm and rehired by the parent firm. It should also emphasize the point that no group of employees is above the company rules and regulations.

Experimenting Phase

At the experimenting phase, employees of both firms begin to decide to find out more about one another and stop sizing up one another. Here, employees decide to break down the psychological barriers that prevent the formation of unofficial groups consisting of members from both groups. This also means that the employees begin to share personal information at a safe level including which music, people, hobbies, and movies they like or dislike. Unaided, this phase can take longer to occur within hostile takeovers unless an ex-ordinary event occurs that calls on all the groups to work together like a disaster. It is too bad that at worst a disaster threatening the survival of human life may be needed to force such employees to understand that they are all humans. This situation need not happen at all.

Role of Management

Management of the parent firm needs to put in place measures that can break the psychological barriers that prevent the social mixing of both target and parent employees. For instance, management of the parent firm can set up work teams that draw on personnel from the ranks of both target employees and parent employees. This should only happen after the management has taken steps to facilitate the initiating phase other than that efforts at teambuilding at this phase will be pointless and wasteful. A social event with pre-determined sitting patterns of employees may be useful to “force” employees from both firms talking about something.

Intensifying Phase

After learning more about one another, the relationship then moves into the *intensifying phase*. It is at this phase that there is an awareness that the relationship is growing. It is characterized by active participation in the relationship. This means that whole process is characterized by more personal and more intimate information exchanges. Again, both target and parent employees become comfortable with one another, share jokes and express commitment to grow the relationship

Role of Management

Management can facilitate this phase by means of organizational development (OD) efforts such as team-building. Such OD intervention is expected to provide opportunities for both target and parent employees to work together and to enjoy one another’s company in the workplace. This many also help improve the cohesiveness with the new post-acquisition organization.

Integrating Phase

At the *integrating phase*, both target and parent employees now know more about each than they used to and than people outside the two groups with the exception of their long-term best friends. They also will see themselves are a unit and be seen by others as a unit. This is key; both target and parent employees must perceive themselves as one seamless unit and be perceived as such by outsiders. They will no longer be a divided house but a united house. This is when meaningful work can take place without relationship issues and problems getting in the way. In other words, the employees can now settle down to pursue meaningful organizational goals.

Role of Management

This is the stage at which management can expect to reap fruits, if any. This can take not less than two years to happen if management does not plan for this kind of integration by putting in place measures to fast-track the development of the interpersonal relationship among the target and parent employees through the first three phases smoothly.

Bonding Phase

Finally, during the *bonding phase*, the integrated workforce commit to one another as employees of the same organization rather than employees of different organization. This is the highest level of openness we can expect from employees who have been together for an extended period of time.

Role of Management

Management has a responsibility at this point in the relationship building to show continued commitment and support to the "new" organization. Thus, the employee relationship characterized by openness and willingness to work together should be celebrated by management. This is because both target and parent employees have accepted at heart to be one organization and are willing to work together like they would if the separate organizations hired new employees that they cannot change and had to work with for their work life in the organization.

The application of social penetration theory in the context of mergers and acquisition can be summarized in Table 2. It is worth noting that though the application of social penetration theory presented appears generic, it needs to be noted that the application provides guidelines for planning post-acquisition relationship building in different organizational contexts.

Table 2: Application of Social Penetration Theory to M&As

Stage	Key issues	Applied in M&As	Role of Management
Initiating	Formation of first impressions during first encounters	Employees of both target and parent organizations begin to encounter another and form their first impressions	Open and honest communication; avoid disparaging and demeaning comments about each company
Experimenting	Beginning to find out more about one another	Employees break down the psychological barriers that prevent the formation of unofficial groups consisting of members from both groups	Break the psychological barriers that prevent the social mixing of both target and parent employees.
Intensifying	Increased awareness of other another and participation in information exchange	Awareness of a growing relationship and active participation in the relationship by employees of constituent organizations.	Organizational development efforts such as teambuilding is needed
Integrating	Evolution of culture or shared values, beliefs and norms	Employees begin to see themselves are a unit and are also seen by others as a unit	Management actions and reactions to critical events should show commitment to the new culture.
Bonding	Commitment to successful relationship	Integrated workforce commit to one another as employees of the same organization rather than employees of different organization	Continued commitment and support to the “new” organization.

CONCLUSION

What is key to the success of any M&A is the integration of the workforce and that an integrated workforce can only be developed through carefully planned relationship development activities by management. This also means that corporate decision-makers and venture capitalists are too quick to expect financial returns which the literature on M&As show are unlikely to happen if appropriate attention is not paid to human component (Coopers & Lybrand, 1992). After all, you can force the horse to riverside but you cannot force it to drink. It is also important to note that social penetration theory provides a viably useful framework for exploring and planning for the post-acquisition integration. Again, it is important for corporate decision-makers to see M&As as another change effort. It is apparent that in embracing change such as merger-acquisition, few employees find it easy or a welcome experience and this needs appropriately implemented organizational development (OD) interventions to cater for foreseeable challenges. These OD interventions may include interpersonal skills training, transactional analysis, teambuilding activities, employee surveys, and a host of related techniques (Cole, 2009; Levy, 2006).

Notwithstanding the analysis, discussion and recommendations made in this paper, the variables identified by Hogan (1994: 254) within the framework for psychology of M&A such as M&A characteristics, parent firm characteristics, target firm characteristics, and organizational fit are still important to the success of the integration process. For instance, given a lack of fit between the organization culture of target and parent firms, no amount of effort at relationship building by management will achieve any success unless management wants a new organizational culture to evolve out of the old ones each firm brings. Again, this paper agrees with the integration process variables identified by Hogan (1994) such as communication, speed of change, control mechanism, conflict and resistance management, and human resource interventions.

Finally, some of the suggestions made to facilitate the post-acquisition integration may be costly, especially in the context of cross-border acquisitions; for instance, worksite visits by target and parent employees. As a result, management may apply such suggestions as an alternative resort and apply their ingenuity to identify less expensive means of achieving the same objectives.

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