

# **Individual Reactions to a Group Merger: An Integration of Relative Deprivation Theory and Social Identity Theory**

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## **Abstract**

This study examined the causes and consequences of identity problems among members of merged entities through a lens of “multiple identities,” i.e., personal, social (pre-merger organizational), and new organizational identity. Perception of relative deprivation was considered a key contextual variable that influences members’ multiple identities. It was hypothesized that the perceptions of relative deprivation affect multiple identities, and identity to a new merged group is positively associated with employee trust and work effort, but negatively with turnover intention. Experimental data supported strong relationships between new organizational identity and its consequences.

**Keywords:** mergers and acquisitions, social identity, relative deprivation

## **INTRODUCTION**

Despite its popularity among business organizations, decades of studies have consistently shown that about 60 to 80 percent of

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all M&As are financial failures when measured by their ability to outperform the stock market (Tetenbaum 1999). Similar results were found by the survey results of consulting firms (See Pautler 2003). Why does more than half of M&As fail to meet their initial expectations, and sometimes perform even less than market average? To answer this question, academic studies have tried to explain the motives and success factors of M&A in several ways such as economic, financial, strategic, or human resource perspective (See Haspeslagh and Jemison 1991; Larsson and Finkelstein 1999; McCann and Gilkey 1988; Schweiger and Walsh 1990).

Among them, a human resource perspective proposes that “people problem” contributes the success and failure of M&A. As the value creation of M&A depends heavily on the implementation process (Jemison and Sitkin 1986) where people problem plays a key role, financial results of M&A cannot be explained well without considering the human side of M&A. In this sense, Haspeslagh and Jemison (1991) argued that source of value creation lies in the integration process, an “interactive and gradual process in which individuals from two organizations learn to work together and cooperate in the transfer of strategic capabilities” (Haspeslagh and Jemison 1991, p. 106). People problem not only blocks the creation of synergistic values (Larsson and Finkelstein 1999), but also it plays as a direct cause of M&A failure. M&As may fail when the M&A process itself is flawed, particularly during the transition and post-integration stage (McCann and Gilkey 1988) because “bad execution almost always wrecks one that might have had a shot” (Zweig et al. 1995, p. 124).

One conceptual approach to explain the human side of M&As is a social identity approach (See Seo and Hill 2005) that focuses on employee’s identity problems during and after the M&A. A social identity approach asserts individuals derive the meaning of self not only from the individual uniqueness (personal identity), but also from the social group they are attached to, like functional department or organization (social identity). Intergroup relationship is explained by the strength of members’ social identity; to maintain a positive self-concept, people show favoritism to their ingroup members and discrimination toward the outgroup members. When their social groups are

disintegrated and devalued, they experience a loss of identity. M&A is a situation that employees lose their identity to the pre-merger organization by being imposed on adopting a new organizational identity. Within a M&A context, a social identity approach explains the intergroup relationship between merging partners as well as the individual dynamics of identity change during the M&A process.

A distinct advantage of adopting the social identity perspective in understanding merged employees' responses is that it considers both individual and group-level phenomena. Previous studies usually addressed only one level in explaining and predicting human problems. For example, studies on merged employees' psychological anxiety and stress (Fugate, Kinicki, and Scheck 2002) or career issues (Larsson et al. 2001) were interested in individual-level phenomena. In fact the causes and consequences of human problems are not purely individualistic: they are affected by intergroup relationship as well. An M&A brings special problems in intergroup relations for a new organization (e.g., Hogg and Terry 2000). The social identity perspective provides a useful tool for considering both individual and intergroup perspectives simultaneously, as individual identity is a collective concept of embedded multiple identities.

Anecdotal evidences showed that identity problem is an important psychological process that employees have to face during the merger process. After interviewing over 150 merged employees, Schweiger, Ivancevich, and Power (1987) noted that employees of merged companies experiences a loss of attachment similar to children who are separated from their mother. One of their major concerns that exacerbated their sense of loss of attachment was the loss of identity. Once the M&A occurred, their pride in working for their company went away as an anchor was taken from them.

The M&A process imposes employees to identify with the new organization and abandon their identity to the pre-merger organization. When they feel their identity to the old entity is incompatible with the new organizational identity, identity transition through the emulation of new identity (Pratt 1998) becomes not a smooth, easy-going process. Employees' reluctance to accept a new identity by giving up their pre-merger organization identity brings out employees' psychological anxiety,

intergroup distrust (Shin 2000), low commitment and job satisfaction (Bachanan 1993), and low self-esteem (Terry, Carey, and Callan 2001).

So far, only a few studies have focused on the employees' identity problems within a M&A context (e.g., Haunschild, Moreland, and Murrell 1994; Terry, Carey, and Callan 2001). For example, Terry and her colleague's study (2001) on employees of merged Australian airline company found that employee's perceived relative status of pre-merger organization and permeability of group boundaries affect their identity to a new organization, and the strength of organizational identity was associated with their ingroup bias, job-related outcomes, and person-related outcomes. Haunschild, Moreland, and Murrell (1994) showed that pre-merger organizational conditions, i.e., strong cohesion and successful past performance make group members less enthusiastic to a merger.

However, a limitation of previous studies is they focused on only one aspect of social identity, i.e., organizational identification. Individuals working in any organization maintain multiple identities (Kramer 1991; Pratt and Foreman 2000) in nature, like personal, departmental, occupational, or organizational identity. Especially under the M&A context, identity to the pre-merger organization becomes salient. No matter how salient or strong the pre-merger organization identity is, employees feel pressure to "de-identify" (Bridge 1986; Dukerich, Kramer, and Parks 1998) their pre-merger entity and "re-identify" to their new entity. By considering multiple identities, it is possible to examine the relationship among multiple identities and the dynamic process of identity changes, which helps us better understanding and prediction of employees' behaviors after M&A in a broad aspect.

A closely related concept with social identity, especially relevant within a M&A context is employees' perception of relative deprivation (Martin 1981). I will examine relative deprivation as a contextual factor that influences the salience of employee's personal and social identity. No study has incorporated relative deprivation with social identity within a M&A context so far. Through the understanding of merged employees' social identities in relation to perception of relative deprivation, I expect people problem during the post-merger

integration process can be better understood and predicted.

To summarize, the purpose of this paper is contributing to the existing M&A research by delving into group-level as well as individual-level aspect of employees' response to M&As through a lens of multiple identities, incorporated with the concept of relative deprivation.

## **THEORETICAL BACKGROUND**

### **Identity and Identity Structure**

Social psychology, especially in the field of social identity theory, makes the distinction between personal identity and social identity (e.g., Deaux et al. 1999; Turner 1982). Personal identity is about individual's uniqueness and the idiosyncrasy differentiating one from others, while social identity denotes a social aspect of the self and the extent to which individuals define themselves in terms of their relationship to others and to social groups (Brewer and Gardner 1996). As for social identity, individuals may have as many identities as their social group memberships. For example, Deaux and her colleagues (1995) reported 64 identities that ordinary people rely on for their social identity. People who are working in an organization may derive their social identity not only from the organization but also from his or her work group, department, union, lunch group, age cohort, fast-track group, and so on (Ashforth and Mael 1989).

Kramer (1991) noted that studies on identification have generally focused on three distinct and particularly important levels: personal, intergroup, and organizational level. Personal level identity relates to personal identity, while intergroup and organizational level identities are different types of social identities. Functional department is a typical source of intergroup level identity. Within a M&A situation, however, employees' previous organization can be a powerful source of intergroup level identity, as premerger entities are contrasted and become salient during and after the merger (Buono, Bowditch, and Lewis 1985; Hogg and Terry 2000). Organizational identity is another type of social identity, defined at the level of organization as a whole. Following Kramer, I propose that three

distinct levels of identities have significance as motivators of employees' behaviors within a M&A situation: personal identity, group identity (identification to a premerger entity), and organizational identity (identification to a new entity).

In studying the relationships among different levels of identities, a common assumption is that they may conflict with one another (Pratt and Foreman 2000, p. 19). Turner (1981) argued that there is a functional antagonism between different levels of self-categorization. Social identities at different levels are not only independent but also possibly incompatible (Brewer & Gardner 1996, p. 90). When a situation calls up a certain identity, there is a change in the identity salience structure. If a specific identity invoked by a situation becomes more salient than the others, then other types of identities are inhibited. For example, when a personal identity is salient, social identities may not be salient at the same time. The degree of incompatibility between identities (Pratt and Foreman 2000) differs from situation to situation. The more incompatible between two identities, the stronger is the tendency that one identity inhibits the other. In M&A situation, maintaining dual identities, i.e., identity to an old entity as well as to a new entity, is difficult because the heightened salience of premerger entity identity may threaten the development of identity to a new entity (Hogg and Terry 2000). Therefore, it is expected that organizational identity is weak when personal identity or group (premerger entity) identity is salient.

**H1:** Salience of personal identity is negatively associated with the organizational (postmerger entity) identification for the merged members.

**H2:** Salience of group (premerger entity) identity is negatively associated with the organizational (postmerger entity) identification for the merged members.

### **Relative Deprivation: An Antecedent of Identities**

Individuals change their identity structure, i.e., the hierarchical order of identities according to their salience, to accommodate different types of events, especially faced with negative ones (Shower, Abramson, and Hogan 1998). M&A and

following turbulent organizational changes is an event that brings some negative feelings to merged employees. A perception of relative deprivation is one of such conditions that might affect changing employees' identity structure by making some types of identity more salient during M&A.

Perceptions of relative deprivation and injustice have been identified as common experiences that organizational members express during and after M&As (Citera and Rentsch 1993; David and Singh 1993; Hogan and Overmyer-Day 1994). Due to the perception of inequality and power imbalance, employees of merged organization often feel relative deprivation regardless of the M&A style, hostile or friendly (David and Singh 1993). Reallocation and redistribution of resources are essential for the implementation of M&A, and this process almost always results in some people who feel relatively deprived. For example, M&A is often followed by layoffs, and chances of being laid off are higher for the employees from the acquired company. The effects of layoffs are critical not only to laid off employees, but also to 'survivors' who remain with the company. The perception of the fairness of layoffs affects survivors' reaction (Brockner and Greenberg 1990) such as low organizational commitment and high turnover intentions (Mollica et al. 1999). Dysfunctional effect of layoff is greater to survivors who identify strongly with the layoff victims (Brockner et al. 1987). Other human resources factors such as pay cuts or loss of career opportunities are other possible sources of employees' perception of relative deprivation (Citera and Rentsch 1994; Millward and Kyriakidou 2004). Relative deprivation perceptions can be also facilitated by postmerger cultural changes in organization, as changes in cultural artifact such as the company name or logos have a significant symbolic meaning for merged employees (Buono and Bowditch 1989).

The concept of relative deprivation denotes people's feeling of resentment and dissatisfaction due to the perception that they are worse off compared to some standards (Tyler et al. 1997). The standards can be expectations about outcome of their own (Crosby, Muehrer, and Loewenstein 1986; Folger 1986) or outcomes of others (Walker and Pettigrew 1984).

A crucial insight in relative deprivation theory that recently gained much attention is the distinction between egoistic

(personal) and fraternal (group) deprivation (e.g., Ellemers and Bos 1998; Foster and Matheson 1995; Kawakami and Dion 1995; Smith, Spears, and Hamstra 1999; Tropp and Wright 1999). Egoistic deprivation represents people's feelings of deprivation due to their dissatisfaction with their position as an individual relative to other(s). It is a product of interpersonal comparison. Comparison targets can be other out-group members (Tropp and Wright 1999; Walker and Pettigrew 1984), however, they are mostly others in the same social group because this comparison dimension is more relevant and easily accessible (Runciman 1966). For example, women may feel personal deprivation in relation to other women, not men (Foster and Matheson 1995). Fraternal deprivation is a cognitive and affective perception of unfairness with their social group relative to other social group. It is a result of group-to-group comparison, a comparison between their group with other social groups.

An advantage of distinguishing between egoistic and fraternal deprivation is that they are associated with different consequences. Fraternal deprivation is more appropriate for predicting social attitudes and behavior, whereas egoistic deprivation is a better predictor of individual-level ones (Walker and Pettigrew 1984). Specifically, fraternal deprivation is linked to social injustice perceptions (Martin 1986; Vanneman and Pettigrew 1972), social identity (Petita and Walker 1992; Tropp and Wright 1999), and collective action (Foster and Matheson 1995; Guimond and Dube-Simard 1983). People, who feel more egoistic deprivation, are likely to show individual-level attitudes and behaviors, such as feeling social isolation and physical stress (Hafer and Olson 1993; Walker and Mann 1987), and individual strategies for change (Ellemers and Bos 1998).

Both relative deprivation theory and social identity theory shares a common ground in that they require social comparison processes (Kawakami and Dion 1995; Walker and Pettigrew 1984). The importance of personal and social comparison is emphasized by both theories. Individuals compare themselves with relevant others as an individual or a group member, and the evaluation of this comparison defines their social relationship. Social identity theory posits that people compare their social group to others in a favorable way for the purpose of increasing their self-esteem. In relative deprivation theory, perception of



inequality is determined by comparing one's own position with referent others'. When the comparison proves to be negative, people experience a feeling of relative deprivation.

Several studies focused on how identity affects perceptions of relative deprivation, finding that perception of relative deprivation depends on the salience of their specific identity dimensions (Ellemers and Bos 1998; Smith, Spears, and Hamstra 1999; Tropp and Wright 1998). Under the condition of social identity salience, people feel strong fraternal relative deprivation. Salient social identity invokes social, not personal, comparison, which in turn results in strong group-level relative deprivation. When personal identity is salient, people compare themselves with others as an individual. This interpersonal comparison process draws egoistic but not fraternal relative deprivation.

However, the opposite is also possible. Identification with a particular group or social categories may also be a consequence rather than an antecedent of disadvantageous intergroup comparison (Tyler et al. 1997, p. 30) as relative deprivation is a context that may increase identity salience. In this sense, the influences between social identity and relative deprivation maybe bi-directional. Kawakami and Dion (1995, p. 563) stated, "Salient group identities may lead to a focus on perceptions of negative outcomes from intergroup comparisons, and, alternatively, negative outcomes from intergroup comparisons may heighten the salience of group identities."

Social identity theory suggests that the salience of the outgroup is a strong predictor of group identification (Ashforth and Mael 1989; Oakes 1987; Turner 1981). Group category is made more salient when group-based deprivation is perceived, as fraternal relative deprivation is associated with intergroup comparison, and during the intergroup comparison process differences between 'we' and 'they' are accentuated. Therefore, fraternal relative deprivation heightens the salience of social identity. Likewise, as personal relative deprivation underscores the difference between oneself and others, it is associated with the salience of personal identity.

Despite its theoretical validity, only one study has tested whether and how relative deprivation affects social identity (Petta and Walker 1992). Here I test a model of the effect of relative

deprivation on social identity in the group merger situation. Group merger constitutes a situation that presents the potential of egoistic as well as fraternal relative deprivation perception for its members.

**H3:** Egoistic relative deprivation increases the salience of personal identity for the merged group members.

**H4:** Fraternal relative deprivation increases the salience of group (premerger entity) identity for the merged group members.

### **Consequences of Organizational Identity**

Self-concept is organized in identities according to a hierarchy of their salience, and the higher the salience of an identity within the self-concept the greater is the probability that a person will perceive a social situation as an opportunity to perform in terms of the identity (Gecas 1982). Therefore, identities are an important source of motivation, providing stability and predictability to individuals' behavior (Foote 1951).

A person whose self-concept is based in part on organizational identities will participate in the activities of that organization because such participation clarifies and affirms his or her self-concept. In this sense, Shamir (1990) argued that social identity provides a mechanism individual contribute to collective work effort. A high level of identification with the collectivity will increase collectivistic motivation (Shamir 1990, p. 326), because it influence individuals' choice of activities and regulate the amount of energy and time devoted to specific roles (Ashforth and Mael 1989). Having organizational identity means accepting roles imposed by the organization. If identity to a merged organization is strong, people expend more personal effort toward it, and as a result productivity is increased (Richter et al. 2006; Worchel et al. 1998).

**H5:** Identification to the organization is positively associated with members' effort in performing tasks.

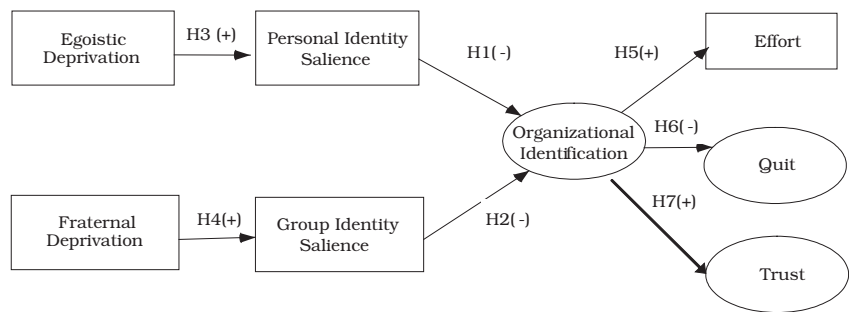
To understand self-concept, Gecas (1982) suggested, the motivation for consistency and continuity in self-concept should

be considered. Self-consistency motive means that people want to maintain a unified conceptual system. They want to maintain self-consistency in terms of their schemata, memories or personal history (Greenwald 1980). In addition, they want to maintain consistency between their self-concept and behaviors in order to operate effectively in the world. People who strongly identifies with an organization will pursue more contact with the organization and its members, as this behavior enhances the sense of continuity of their self-concept (Dutton, Dukerich, and Harquail 1994; 254). Therefore, they are not motivated to quit an organization because quitting the strongly identifying organization implies a discontinuity of self-concept. It is expected that employees with high organizational identification are less likely to resign the organization (Mael and Ashforth 1995).

**H6:** Identity to the organization is negatively associated with members' intention to quit.

Another positive consequence of strong organizational identity is that it facilitates social interactions within an organization. Those perceived in the same category tend to be liked better and evaluated more positively than those perceived to be in the outgroup. Therefore, employees with high organizational identity show high group cohesion (Ashforth and Mael 1989), more cooperative and altruistic (Dutton, Dukerich, and Harquail 1994), and show more organizational citizenship behaviors toward other organizational members (Becker and Billing 1993; Dutton, Dukerich, and Harquail 1994; O'Reilly and Chatman 1986). In addition, strong identification to an organization may develop trust toward other organizational members (Kramer 1999). As Brewer (1981) noted, the same social category may act as a "rule for defining the boundaries of low-risk interpersonal trust that bypasses the need for personal knowledge and the costs of negotiating reciprocity" when interacting with ingroup members (Brewer 1981, p. 356). Even without any reciprocal exchanges, recognizing the same social category can develop a depersonalized trust on other ingroup members (Kramer 1999).

**H7:** Identity to the organization is positively associated with members' trust toward their organizational members.



**Figure 1. A Hypothesized Model of the Relationship among Deprivation, Identities, and their Consequences**

Figure 1 summarized the research model and hypotheses.

**METHODS**

Many M&A studies are based primarily on retrospective field data, even though conducting a field study is not easy due to the high degree of uncertainty and the secrecy surrounding M&As (e.g., Cartwright and Cooper 1992; Newman and Krzystofiak 1993). Though field studies have provided a base for understanding the psychological effects of M&As, a more systematic research is necessary. As M&A phenomenon is very complex and composed of intertwined sets of organizational factors, it is hard to infer the direct causal relationships only from the results of field studies.

For this study, I used an experimental method for several reasons. First, it has been said that an experimental method is more appropriate when the central research questions are about causation between variables and identifying mediating processes (Dobbins, Lane, and Steiner 1988; Ilgen 1986). As the main focus and contribution of this study is to assess whether employees' identity mediates the effect of merger contextual variable, i.e., relative deprivation, on their behaviors, an experimental method is well suitable for this study.

In addition, it was suggested experimental research is appropriate in the early stages of a research because it can play an important role in the generation of hypotheses and the

refinement and redefinition of variables (Schwenk 1982). As no study has been done to test the relationship between relative deprivation and social identity within a M&A context, adopting an experimental method seems to be an appropriate first step for this study.

Although there exist a debate, some reviews proved the positive generalizability of experimental research for field settings (Anderson, Lindsay, and Bushman 1999; Locke 1986), it seems reasonable to apply an experimental approach to test the effect of M&As on employee identity issues. Several studies have already proved the validity of using experimental method in studying employees' psychological issues within a M&A context (e.g., Haunschild et al. 1994; Mottola et al. 1997).

### **Sample**

A total of ninety-four students at a Northeastern university in the US participated in this study to fulfill their upper level business course requirement. Their average age was 21.8; sixty percent of them were males. Fifteen experimental sessions were conducted, with 5 to 8 participants at each session. This study employed a 2 (egoistic deprivation)  $\times$  2 (fraternal deprivation) factorial design. During the sessions, subjects were randomly assigned to one of four experimental conditions with at least one participant in each condition. Each experimental session lasted about an hour.

### **Task**

The Moon Survival and Minnesota Survival tasks (Johnson & Johnson 1975) were adapted for this study, which have been successfully used in studying group decision-making and performance (e.g., Bottger and Yetton 1988; Haunschild et al. 1994). In these tasks, subjects were asked to imagine themselves stranded in a particular situation (on the surface of the Moon or in the winter wilderness) and had a set of items that may help them to survive. Their objective was to rank the items in terms of their potential importance for survival. Individual and group scores were calculated by summing up the absolute values of the differences between their rankings and the experts' rankings.

Higher score indicates a worse performance as score represents the discrepancy between their answer and experts' answer. Post-experimental interview informed that most participants were highly involved in these tasks.

### **Procedure**

All subjects were told the experiment was about to investigate the effect of group size on decision-making. When subjects arrived at the laboratory, they were randomly divided into two groups, named 'Group Triangle' and 'Group Square'. To make group distinction more salient, they were asked to put a badge that represents their group. They were asked to complete two decision-making tasks, and each decision-making task had two phases, individual decision-making phase first and group decision-making later. Group discussion was permitted only during the group decision-making phase. It was told that the best scored individual and group would be offered a ten-dollar gift certificate.

After they were informed all the rules about the experiment, one group (Group Triangle) was led to move another room. Each group separately worked for the first task, the Moon Survival. When the first task was finished, they filled out a questionnaire on their personal identity and social identity (identity to the pre-merger group).

Before the second task began, participants were given feedback about the result of the first task; this was the manipulation of egoistic and fraternal deprivation and will be discussed below. After the manipulations were given, participants were told two groups be merged into one for the second task. Members of Group Triangle were led to move back to the room where members of Group Square were in. Before starting the second task, all participants were asked to complete another questionnaire about their personal identity, identity to the premerger group, and identity to the new group. In addition, trust toward members of the new group and intention of quitting the new group were measured.

Next, participants worked in the second task, a Minnesota Survival, and again performed the task as an individual and then

as a group. After the second task was finished, they filled out a third questionnaire on their effort for the group task along with demographic information. At the end of the experiment, participants were debriefed, allowed to ask any questions about the experiment and asked not to discuss the experiment to fellow students.

Before the second task began, the result score of their first task was notified to subjects. Two different performance scores, individual and group score, were reported to each participant. Members of the Group Triangle received a penalty score of 10 point for their group task score (fraternal deprivation condition), while those of Group Square did not. In addition to this fraternal deprivation manipulation, half of the subjects from both groups got a penalty score of 10 point for their individual task score (egoistic deprivation condition). So a quarter of subjects got both fraternal and egoistic deprivation, another quarter fraternal deprivation only, another quarter egoistic deprivation only, and the other quarter did not get any deprivation manipulation. All this information was given in a written form. An explanation on the penalty score was added by saying that receiving a penalty score would decrease their chance to get a reward. No explanation was provided why some of them were penalized and some did not.

### **Measurement**

All items below were measured on a seven-point Likert-type scale, ranging from 1 (Never, Definitely No) to 7 (Always, Definitely Yes). Personal identity was measured by eight out of the ten items from Rosenberg's (1965) self-esteem scale. The Premerger group identity measure was adopted from the four items Collective Self-Esteem Scale (Luthanen & Crockner 1992). Sample item includes, "I feel good about this group." To assess the degree of identification with the new merged group, I used the five-item social identity scale developed by Ellemers et al. (1988). Sample items include: "It is pleasant to be a member of new group," and "I like to work together with this new group." Personal (social) Identity salience was measured by the absolute difference in personal (social) identity level between Time 1 (before merger) and Time 2 (after merger). Trust to the new group

members was measured by a five-item scale from Simons and Peterson (2000). Examples of the items include: “I am certain that we can fully trust each other,” and “I count on each other to fully live up to our words.” To measure Intention to quit, three items were used from Michael & Spector (1982). Effort was measured by asking: “Did you work hard to solve the task as a member of this group?”

RESULTS

Each variable’s mean score, standard deviation, reliability assessment if applicable, and correlations among variables are shown at table 1.

To check whether participants felt fraternal deprivation and

Table 1. Descriptive Statistics and Correlations<sup>a</sup>

	Mean	S.D	1	2	3	4	5	6	7	8	9	10	11	12
1. Personal Identity (Time 1)	6.01	0.81	(0.86) <sup>b</sup>											
2. Premerger Group Identity (Time 1)	5.75	1.09	0.24**	(0.79)										
3. Egoistic Deprivation	0.48	0.50	-0.13	0.00	-									
4. Fraternal Deprivation	0.50	0.50	0.01	-0.01	-0.02	-								
5. Personal Identity (Time 2)	6.10	0.86	0.70**	0.08	-0.16	-0.05	(0.90)							
6. Premerger Group Identity (Time 2)	5.84	1.03	0.25*	0.41**	0.02	-0.12	0.44**	(0.85)						
7. Personal Identity Salience	0.45	0.48	-0.27**	0.08	0.19 <sup>+</sup>	0.11	-0.44**	-0.25*	-					
8. Premerger Group Identity Salience	0.81	0.82	0.09	-0.26*	0.05	0.19 <sup>+</sup>	-0.10	-0.34**	0.19 <sup>+</sup>	-				
9. Merged Group Identity	4.74	0.92	0.21*	0.24*	-0.15	-0.13	0.23*	0.35**	-0.10	-0.20 <sup>+</sup>	(0.83)			
10. Intention to Quit	2.61	1.17	-0.27**	-0.31**	0.07	0.06	-0.34**	-0.47**	0.13	0.09	-0.57**	(0.88)		
11. Trust	5.09	1.26	0.20 <sup>+</sup>	0.50**	0.13	-0.08	0.21*	0.48**	-0.18 <sup>+</sup>	-0.20*	0.36**	-0.42*	(0.90)	
12. Work Effort	5.30	1.42	0.17	0.13	-0.16	-0.14	0.19 <sup>+</sup>	0.22*	-0.15	-0.08	0.34**	-0.13	0.35**	-

<sup>a</sup> N = 94  
<sup>b</sup> Reliability estimates are in parentheses on the diagonal.  
<sup>+</sup> p < 0.10, \* p < 0.05, \*\* p < 0.01



egoistic deprivation in the intended way, two items from Ellemers and Bos' study (1998) were asked. Sample item includes "I feel that I am (we are) unfairly treated." It was shown that participants in the egoistic deprivation condition felt more personal deprivation ( $M = 2.84$ ) than did participants in the no egoistic deprivation condition ( $M = 2.14$ ),  $F(1,92) = 4.00$ ,  $p < .05$ . Participants in the fraternal deprivation condition felt more group deprivation ( $M = 3.38$ ) than participants in the no fraternal deprivation condition ( $M = 2.17$ ),  $F(1,92) = 14.6$ ,  $p < .01$ . This provides evidence that manipulation in this study was successful. However, it should be noted that the absolute scores of manipulation for both egoistic deprivation and fraternal deprivation were relatively low, which will be described more at the discussion section of this paper.

### **The Effect of Deprivations on Identity Change**

Research hypotheses on the relationship between relative deprivation and identity were that egoistic deprivation affects individuals' personal identity (hypothesis 3), and the fraternal deprivation affects the premerger group identity (hypothesis 4). A  $2$  (Egoistic Deprivation-Yes/No)  $\times 2$  (Fraternal Deprivation-Yes/No) Analysis of Variance was conducted for both Personal Identity Salience and Premerger Group Identity Salience. The main effect of Egoistic Deprivation was marginally significant for Personal Identity Salience,  $F(1, 90) = 3.63$ ,  $p = .06$ , the main effect of Fraternal Deprivation was marginally significant for Premerger Group Identity Salience,  $F(1, 90) = 3.60$ ,  $p = .06$ . No interaction effect between egoistic deprivation and fraternal deprivation was found for both Personal Identity and Premerger Group Identity Salience.

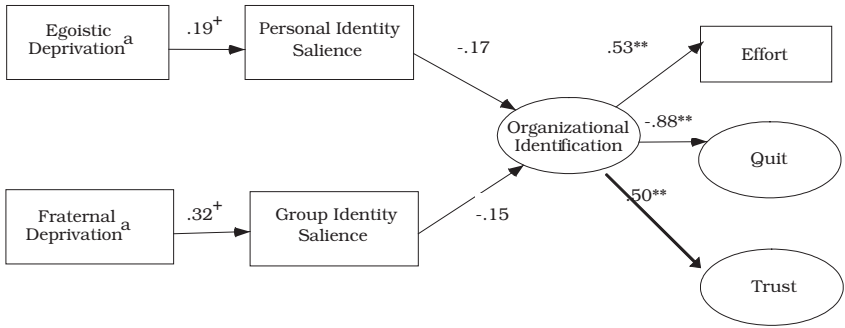
### **Antecedents and Consequences of Merged Group Identity**

To test the relationships among measured variables, a Structural Equation Modeling analysis was performed using AMOS 4. Structural Equation Modeling is applicable to not only observational studies but also experimental studies (MacCallum and Austin 2000). First, measurement models were tested for the three latent variables: Merged Group Identity, Trust, and

Intention to Quit. For Merged Group Identity and Trust, Normed Fit Index (NFI) = .997, Tucker-Lewis Index (TLI) = 1.000, Comparative Fit Index (CFI) = 1.000, and Root Mean Square Error of Estimation (RMSEA) = .000. For Intention to Quit, NFI = .997, TLI = .990, CFI = .998, and RMSEA = .107. Except for the RMSEA for Intention to Quit, most of the fit indices for the measurement models were within the cutoff rates suggested by Hu & Bentler (1999). As measurement models were satisfactory, I tested a structural model. A hypothesized structural model seemed to be close enough to the data to accept,  $\chi^2$  (113, N = 94) = 142.14,  $p = .033$ . In addition, fit indices such as NFI = 0.965, TLI = .990, CFI = .993, RMSEA = .053, were all within the recommended criteria. Therefore, subsequent hypothesis testing was based on this structural model.

Hypothesis 1 and 2 predicted changes in personal or social identity would decrease an identity to a new merged group. This hypothesis was not confirmed, as path coefficients to new merged group identity both from changes in personal identity ( $\beta = -0.148$ , n.s.) and from changes in premerger group identity ( $\beta = -0.171$ , n.s.) were not statistically significant.

Hypothesis 5 to 7 predicted the consequences of post-merger group identity. Hypothesis 5 was confirmed as the path coefficient from merged group identity to effort was significantly positive ( $\beta = .526$ ,  $p < .005$ ). Hypothesis 6 was confirmed as the



**Figure 2. A Path Model of the Relationship among Deprivation, Identities, and their Consequences**

a. Egoistic Deprivation and Fraternal Deprivation are dichotomous variables as they were manipulated during the experiment.  
+  $p < 0.10$ , \*\*  $p < 0.01$

path coefficient from merged group identity to Intention to Quit was significantly negative ( $\beta = -0.881$ ,  $p < .000$ ). Hypothesis 7 was confirmed as the path coefficient from merged group identity to trust was significantly positive ( $\beta = .502$ ,  $p < .001$ ).

## **DISCUSSION**

The purpose this study was to investigate whether a) perceptions of relative deprivation change merged group members' identity structure, and b) organizational identity predicts merged members' attitudes and behaviors. This study highlighted the importance of organizational identity for understanding and predicting members' behavioral responses after a merger. Overall, the result supports that the social identity perspective is important for understanding members' behaviors in the group merger context.

The result of this study indicates that identity to a new merged group is a strong predictor of group members' attitudes and behaviors. Members with strong identity to a merged entity showed more work effort, more trust to other members, and less intention to quit.

However, the effects of relative deprivation on the identity salience, and the effects of personal and premerger group identity salience on identification to a merged entity were not strong. One possible speculation on the cause of this insignificant result falls on weak manipulations of this study. Although the perception of egoistic deprivation was significantly stronger for egoistic deprivation group ( $M = 2.84$ ) than no-egoistic deprivation group ( $M = 2.12$ ), this score was far below a neutral point 4.00. In the same fashion, the perception of fraternal deprivation was significantly stronger for fraternal deprivation group ( $M = 3.38$ ) than no-fraternal deprivation group ( $M = 2.17$ ), but this score also was below a neutral point. I speculate that relative deprivation manipulations were not strong enough to invoke sufficient identity changes, and small changes in identity salience did not have a strong impact on the identity to a new merged group. Why subjects did not have a strong feeling of deprivation even though they looked like involved in their tasks? During the experiment, relative deprivations were

manipulated by giving a penalty score to some conditions. This penalization, I expected, would invoke their perceptions of relative deprivation cognitively by decreasing their chance to get a reward as well as affectively by increasing emotional resentment for the unfair treatment. However, at the post-hoc interview, some participants mentioned they did not feel relative deprivation because their primary interest was to fulfill a course requirement, not receiving rewards. The perception of relative deprivation might be less strong for members of ad hoc group than those of real group.<sup>1)</sup> Members of ad hoc group might not possess strong emotional attachment to the assigned group, which resulted in weak perception of relative deprivation (e.g., Ellemers and Bos 1999; Smith, Spears, and Hamstra, 1999)

### **Limitations and Suggestions**

People in organization retain multiple identities (Nkomo and Cox 1996), not restricted to the three identities that I examined above. For example, ascriptive characteristics like gender or ethnicity (Wharton 1992; Williams and O'Reilly 1998), or professional groups (Blau and Scott 1962; Wallace 1995) are sources of identification for members in working organizations. In this study, I examined a restricted set of interactions: how identification to a new group is derived as a result of changes in personal identity and identity to the premerger entity. Delving into the relationships between organizational identity and other types of identities such as professional (e.g., Empson 2004), gender, and ethnic identities deserves future study.

I investigated how relative deprivation affects members' personal and social identity. Not addressed here is why and when people feel relative deprivation (Olson et al. 1995). Cognitive models of relative deprivation theory such as Crosby's two-factor model (1976, 1986) or Folger's referent cognitions theory (1986) provide extensive insights for these questions.

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1) When the same manipulation and procedure were given to a 46 students of ten groups that maintained for three months, subjects under deprivation conditions expressed more fraternal and egoistic deprivation than those in this study;  $M = 3.73$  for egoistic deprivation group, and  $M = 4.14$  for fraternal deprivation group. This result suggests that group members in real life situation would perceive more importance of their group membership and consequently feel more deprivation than those of ad hoc group.

According to Crosby, necessary and sufficient conditions for relative deprivation are individuals' desire for a particular attainment (wanting), and their feeling that they deserve it (entitlement). Folger (1986) suggested that individuals' resentment will occur when (a) individuals can easily imagine that better outcomes could have been occurred, (b) the processes that could have produced better outcomes seem more justifiable than the process that actually occurred, and (c) it seems unlikely that better outcomes will be obtained in the future. A leader who recognizes employees' wanting and entitlement levels after a merger will be better in reducing their feelings of resentment toward the new organization.

To integrate relative deprivation theory and social identity theory in understanding individual reaction within a merger situation, I contrived an experimental situation of merging two groups. The internal dynamics of merges between business organizations might be different and much more complicated than those between small groups. For example, the effect size of relative deprivation or social identity on its consequences might be different between members of real organizations and those of ad hoc group in the experimental settings. Unfortunately, our accumulated knowledge in the field of organizational identification is not enough to make a clear distinction between them. Pratt (1998) confessed, "it is also not yet clear how identifying with an organization may be fundamentally similar to or different from identifying with the kind of social and demographic groups examined in social identity theory and social categorization theory." (Pratt, 1998, p. 192)

As Schwenk (1982) noted, it is more desirable when experimental study and field study is concurrently used. Experimental study can assist field researchers in identifying potential compounding variables present in the field setting, while field study provides external validity of the research question. Therefore, testing this research model from the real-world organizations in the field setting is strongly required for future study. However, the research finding should be carefully applied in generalization as group merger is not equated with corporate merger.

Some practical implications can be derived from the social identity perspective. For example, increasing organizational

identity can be attained by decreasing the salience of social identity. Social identity theory has long studied how to decrease the social identity salience that often generates intergroup conflict and is consequently detrimental to the organization itself. Such studies include increasing the salience of superordinate boundaries (re-categorization to a new entity), individuating members of outgroups (de-categorization from a premerger entity), and using cross-cutting identities (Dovidio, Gaertner, and Validzic, 1998; Kramer, 1991). Those methods can be directly applied to corporate training, compensation policy, or business strategy for reducing the negative effect of M&As on employees.

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