Aftermath of post-merger and acquisition on employee performance in the banking sector

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Abstract---Mergers and acquisitions, as well as other types of business combinations, provide desirable strategic benefits. However, the fear of undermining employee performance is inherent in these business combinations. This paper aims to conduct a literature review on mergers and acquisitions and their effects on employee performance. This manuscript tries to focus on the factors that trigger employee performance in the banking sector in the post-merger era. Through this paper, we intend to understand how these bank marriages affect the human resource of the banks which play a very significant role during this transition. This review of the literature is divided into two sections. The first section of this paper summarises the literature on the mergers and acquisitions-fundamental concept, while the second section summarises the factors influencing employee performance. Culture incompatibility, job insecurity, change in the work environment, ambiguous compensation structure, and emotional issues are all factors that affect employee performance in the post-merger and acquisition period in the banking sector. A conceptual model has been extracted to explain the relationship between factors affecting employee performance and employee performance. Through the review, results indicated that factors affecting employee performance triggered job dissatisfaction and low employee commitment in the post-merger period and further resulted in low employee performance.
Keywords—acquisitions, banking, mergers, cultural incompatibility, job satisfaction, employee commitment.

Introduction

Today's businesses must strive for excellence and quality in their respective fields of operation. Businesses strive for profitable growth. A company's expansion, whether internal or external, can be profitable. Internal growth can occur through introducing or developing new products, the expansion or improvement of existing product capacity, or sales growth. Mergers and acquisitions (M&As) are important sources of external growth. M&As are becoming a more important part of many companies' growth strategies (Cocheo, 2008 Rosta, 2008). Any corporate merger or acquisition is justified if the combined value of the two companies exceeds the sum of their parts. Mergers and acquisitions are increasingly being used to boost a company's competitiveness in today's globalized economy by increasing market share, diversifying risk, entering new markets and countries, and leveraging economies of scale (Kemal, 2011).

According to McGill and Sheehan (2008), few industries have experienced as much strategic change over the past five years as the financial services industry. Internal structures such as management, processes, and employee relations are being restructured as part of this transformation. These organizational shifts in the banking industry are attributable to regulatory and technological developments. Mergers and acquisitions are currently the most visible manifestations of vision and strategy in the banking sectors of both developed and developing nations. Mergers and acquisitions present human resource managers in both the acquiring and acquired organizations with a unique set of challenges. Employee performance is significantly impacted by merger and acquisition activity caused by job dissatisfaction and low employee commitment.

According to a prior study, mergers and acquisitions trends reflect the evolution of the banking business (Rhea, 2004; Chambers, 2008). The combination of liberalization and technology has increased bank rivalry, increasing the banking industry's use of M&As (Cocheo, 2008). M&As are the most obvious manifestation of vision and strategy in both established and developing financial markets. McGill and Sheen (2008) assert that few businesses have seen as many recent strategy shifts as the financial services sector Banks engage in M&A to mitigate risk and maximize returns and regional diversification to build market strength. Banks partner with other banks with branches in several states to expand their client base. When competition is reduced, the resulting bank earns more money. They safeguard smaller banks against larger, more efficient financial institutions. As a result of corporate diversification, bank mergers and acquisitions have risen. However, most mergers and acquisitions do not increase earnings or market share (Cocheo, 2008; Rosta, 2008).

Employees who are impacted by mergers and acquisitions have the potential to make or break the transaction (Appelbaum, Lefrancois, Tonna & Shapiro, 2007; Range, 2006; Schreyogg, 2006; Van Dick, Wagner & Lemmer, 2004). It is well accepted that organizational change is detrimental to employee performance in
mergers and acquisitions (Ashkensas, DeMonaco, & Francis, 1998). However, the degree and intensity of organizational changes might vary significantly depending on the mergers’ reasons and nature. Employees of acquired enterprises frequently experience negative effects ranging from wrath to sadness due to mergers and acquisitions. (Ashkensas et al., 1998;) As a result, significant turnover, low morale, motivation, output, and failure may occur. Changes in human resource policies, downsizing, layoffs, survivor syndrome, worker stress, and information system issues pose difficulties during mergers and acquisitions. According to Pande and Krishnan (1998), significant issues encountered during merger activities include human resource planning, compensation, selection, retention, a performance rating system, employee development, and employee relations.

**Literature review**

**Concept of Mergers and Acquisitions**

According to Bertrand (2004), a merger involves joining two or more businesses for a common purpose. Mergers indicate that only one entity will remain. In contrast, an acquisition is a transaction between unrelated parties in which each company acts in its own best interests. The acquiring company acquires both the assets and liabilities of the target. No longer can the company’s stockholders assert ownership. Occasionally, the acquiring firm will acquire the target firm (Bertrand, 2004). According to Manne (1965), in a merger, the purchasing company is a corporation, and the acquiring company’s shares are used to gain control rather than cash. Businesses looking to merge or acquire others have had difficulty determining their long-term profitable target market (Hill & Jones, 2001). The board approves most mergers of directors and the shareholders (Hill & Jones, 2001).

Cartwright and Cooper (1996) distinguish four types of mergers: vertical, horizontal, conglomerate, and concentrated. Vertical mergers occur when one company buys another company’s products and uses them as raw materials in its manufacturing process. Horizontal mergers occur when one bank acquires and merges with another. A horizontal merger occurs when one company buys another company in the same industry and merges them. This could be to gain market share, technological advantages, geographical expansion, or other strategic advantages. Conglomerate mergers occur when one company acquires another unrelated to the operations of the acquiring company. A conglomerate merger occurs when a bank purchases and merges a cement company. The acquiring company may select one of the aforementioned types of mergers to meet its requirements. Horizontal mergers are common in the Indian banking sector due to the organizations' similar academic backgrounds. The 'merger syndrome' is a nine-stage sequential model of employees’ emotional reactions during a Merger or Acquisition, as described by Hunsaker and Coombs (1988).

- **Denial:** Initially, employees believe that the merger will not occur or will not affect their work or organization.
- **Fear:** As merger plans begin to take shape, employees fear the unknown and dread the worst. As rumours of mass layoffs and terminations spread throughout the organization, employees become preoccupied with losing
their jobs. Typically, this leads to poor performance and decreased satisfaction.

- **Anger:** When employees believe they have no control over the situation and the merger is unavoidable, they begin to lash out at those responsible for the merger. After years of providing quality service to the company, they may believe they are no longer needed.

- **Acceptance:** After a sufficient mourning period, employees realize that resistance is futile and begin to accept reality. This may imply behavioural compliance but not necessarily renewed organizational dedication.

- **Relief:** After most of the integration is completed, employees begin to feel more settled in the new organization and become more accustomed to working with employees from the other company. They believe that things are going better than anticipated at this point.

- **Interest:** As individuals' new positions become more secure, they begin to evaluate the advantages of the new organization. They view their situation as a challenge and work hard to prove their worth to the new company.

- **Liking:** Employees begin to enjoy their jobs after recognizing new opportunities and enthusiasm for their work.

- **Enjoyment:** Employees develop an attachment to their new employer. In her research on the psychological assessment of employee behaviour in an M&A, Bellou (2007) discovered that employees could experience merger syndrome, characterized by increased self-interest as they become preoccupied with what the integration means for them, their incomes, and their careers. In fact, according to Bellou, employees appeared to react similarly to the loss of a loved one, and the merger was frequently viewed as a personal crisis. This sense of loss manifested in Bellou’s subjects as listlessness, apathy, a preoccupation with the past, a lack of commitment to the new culture, fear, and active resistance to the new system. Several negative attitudes and behaviours have emerged, including decreased job satisfaction, a lack of organizational commitment, disloyalty, nonproductivity, an increase in defective products, workplace errors, and withdrawal behaviours (Bellou, 2007).

**Factors affecting employee performance in post-merger and acquisition period**

Mergers and acquisitions (M&As) have received much press and academic attention, and the vast majority of M&As fail to meet their objectives (e.g., Cartwright and Schoenberg, 2006, Schoenberg, 2001). One of the primary reasons for mergers and acquisitions failure has been cited as human side factors (Cartwright & Cooper, 1993), and scholars have recently focused on the human side of M&As (Cartwright and Cooper, 1993, Gomes et al., 2011, Halebian et al., 2009, Larsson and Finkelstein, 1999, Larsson and Lubatkin, 2001, Rees and Edwards, 2009, Stahl et al., 2013). These studies have shed light on the human side of mergers and acquisitions by focusing on understudied influential human factors within the organizations involved in these transactions, such as cultural compatibility, management style similarities, organizational cultural tolerance, and emotions (Gunkel et al., 2015, Paviglionite, 2007; and Sinkovics et al., 2011 and Schreyogg, 2006). Recent research has also studied employee stress during and after mergers and acquisitions (Ager, 2011, Ashton-James and Ashkanasy,
2008, Huy, 2012, Wilderom et al., 2011). These emotional moments in the initiation, conduct, and conclusion of M&A transactions can significantly impact the target organizations’ employees’ emotional states and the overall performance of M&A transactions. Several factors can cause poor employee performance after a merger or acquisition:

**Culture incompatibility**

Cultural incompatibility is consistently rated as the most significant barrier to successful integration in several studies. For example, in a 1992 Coopers and Lybrand study, 85 per cent of executives polled said that differences in management style and practices were the most significant issue in one hundred failed or troubled mergers. According to a survey conducted by the British Institute of Management in 1996, underestimating the challenges of blending two cultures was a major factor in failure (Galpin & Herndon, 2000). During M&A, organizational culture is critical because it has a significant impact on organizational practices, managerial styles, and structures. Each company has its own culture and value system, which may clash due to the merger and acquisition activity. "Cultural clash" is a term that has been used to describe widespread resistance. As a result of being exposed to a new culture during M&A, a cultural clash occurs. Employees must accept an entirely new culture in addition to abandoning their own culture, values, and beliefs.

Employees are stressed due to this exposure, which calls into question the old organizational value system and practices. When there is a cultural clash, the dominant culture may be given preference in the workplace, causing frustration and loss among the other employees. Employees from non-dominant cultures may experience a sense of loss of identity due to the acquisition. Certain situations, such as acquiring a lesser-known or less profitable organization by a more profitable one, can lead to feelings of superiority complex among the acquiring organization’s employees. Employees from both organizations may develop a "us" versus "them" attitude in the event of hostility in the workplace, which could be detrimental to organizational growth. Stahl et al. (2005) identified several different perspectives on employee reactions to mergers and acquisitions. According to one perspective, the reactions are cultural clashes between corporate cultures. The M&A’s success is determined by the compatibility of the two banks’ cultures, but culture is also a failure factor that is largely ignored (Terranova, 2007). Employees of both the acquiring and acquired banks are nervous because they are unsure whether they will keep their jobs or be fired.

Furthermore, according to Mylonakis (2006), the acquired bank’s employees appeared to be biased against the acquiring bank, believing that they would be treated unfairly if they did not accept the M&A’s stated purpose and the acquiring bank’s objectives. Employee performance is harmed due to the new bank’s formation, which results in a clash of two cultures and disagreements over which bank culture will prevail. Due to cultural differences, several studies have focused on employee reactions to mergers and acquisitions (e.g., Albert & Whetten, 1985; Ashforth & Mael, 1989; Dutton, Dukerich & Harquail, 1994 Oualid,2001). Dissimilar cultures, according to research, can lead to feelings of hostility and significant discomfort, lowering employee commitment and cooperation. Employee
commitment, cooperation, and turnover have all been negatively impacted by cultural clash (Sales & Mirvis, 1984; Buono, Bowditch, & Lewis, 1985). Other research has looked at how employees identify with the culture of one merger partner over another (Buono et al., 1989; Greenwood, Hinings, & Brown, 1994; Fried, Tiegs, Naughton, & Ashforth, 1996). Krug and Hegarty (2001) discovered that most managers who left within five years of acquisition felt that the acquirer firm did not understand their firm's culture, similar to Lubatkin et al. (1999).

**Leadership style**

Transformational and transactional leadership are two leadership styles widely studied in employee performance (Advani & Abbas, 2015; Baltaci, Kara, Tascan, & Avsali, 2012; Riaz & Haider, 2010). Transformational leadership is a method of influencing and transforming others (Hall, Johnson, Wysocki, & Kepner, 2008). Transformational leadership was developed by Burns and Bass (1978). (1985). Because there is intellectual stimulation, transformational leaders, according to Bass, stimulate their subordinates to form new perceptions of leadership. Through inspirational motivation and charisma, leaders can create perceptions of themselves as individuals who can support and care for their subordinates with individualized attention (Bass, 1985). According to Mekpor and Darrey-Baah (2017), transactional leadership is a managerial leadership style that prioritizes supervising, organizing, assigning, controlling, and monitoring each individual's performance. Transactional leaders will reward outstanding employees directly, monitor employee jobs, and issue warnings and punishments to employees who deviate from predefined standards. Some previous studies showed that there is a significant effect between transformational leadership to employees' work performance (Al-Amin, 2017; Ali, Ali, Ahsan, Rahman, & Kakakhel, 2014; Mangkunegara & Miftahuddin, 2016); on the other research, Almutairi (2016) found that there is a mediation effect of organizational commitment on the relationship between leadership styles of transformational leadership with the employees' work performance. Besides, Advani and Abbas (2015), Bass, Avolio, and Jung (2003), Sundi (2015), Paracha, Qamar, Mirza, Hassan, and Waqas (2012) and Albion and Gagliardi (2007) and Pastor and Mayo (2006), stated that transformational leadership has an effect of motivating employees' work performance effectively (Eliyana et al., 2019).

Furthermore, one of the most important factors influencing the success of post-M&A integration has long been recognized as leadership (Lind and Stevens 2004; Sitkin and Pablo 2005; Nemanich and Keller 2007; Vasilaki, 2011). For successful post-M&A integration, a sound leadership style is required that allows for organizational and cultural adaptation as well as alignment of expectations between the merging entities (Covin, Kolenko, Sightler and Tudor 1997; Thach and Nyman 2001; Sitkin and Pablo 2005; Kavanagh and Ashkanasy 2006; Nemanich and Vera 2009; Waldman and Javidan 2009; Gomes, Cohen and Mellahi 2011). If employees believe their leaders care about them during the post-M&A integration transition period, they develop a positive attitude toward change and commit to greater involvement in the integration (Able, 2007).
**Job insecurity**

Employees who have difficulty collaborating with the new addition to the workforce suffer from mergers and acquisitions. Employees from the other merging company may even refuse to cooperate. One company is likely to have a stronger market position than the other in a merger and acquisition, resulting in a power struggle. In order to keep their jobs, employees in this situation are more likely to overlook organizational goals. During M&A activity, employees' attention is diverted away from productive work to designation changes, career paths, working in new departments, and the fear of working with new teams. Due to the duplication of certain departments resulting from M&A activity, the excess workforce must sometimes be downsized. As a result, employees' first thoughts are concerned with their job security. Employees' well-defined career paths and future opportunities in the organization are also affected by M&A activity. For job security, some employees are also required to relocate, resulting in a completely different situation with changes in job profiles and work teams. Employee satisfaction may suffer as a result of this. Another practical issue is differences in grading or organizational structures in the systems. Because different organizational structures have different designations for their employees, the acquiring organization must devise a mechanism to eliminate the differences in the grading system and bring them all to the same level, as compensation is often linked to employee grade. Following a merger or acquisition, layoffs are unavoidable. Employees are understandably concerned about expanding the workforce, which can lead to job insecurity.

**Change in a Work environment**

Post-M&A Integration and Performance companies to gain new knowledge, broaden their perspectives, and acquire new capabilities (Ahuja & Katila, 2001; Zollo & Singh, 2004). Businesses can achieve these benefits through knowledge transfer and organizational renewal (Birkinshaw et al., 2000; Vermeulen & Barkema, 2001). Mergers and acquisitions, as a result, have an impact on a company’s performance and innovation (Fernandez, 2019; Hitt et al., 1991). On the other hand, firms do not always get what they want out of M & M&A. (Lubatkin & Lane, 1996; Steigenberger, 2017). One of the reasons is the post-merger integration process. M&As change the organizational structure (Seo & Hill, 2005), necessitating adaptation at all levels of the two companies (Cooke et al., 2020). During the integration process, employees may find it difficult to form new working relationships and psychological contracts, preventing the merged firm from achieving the expected returns. Most acquiring companies are prepared to manage financial and operational integration after a Merger or Acquisition, but only a few are ready to access and oversee cultural integration with the same rigour (Brueller et al., 2018).

**Ambiguous Compensation structure**

Because of organizational culture and sectoral differences, H.R. systems differ from one organization to the next. Suppose the acquired firm’s compensation is lower than the acquiring firm’s. In that case, the acquisition will raise employee expectations (for acquired firm employees) of a potential pay increase that may or
may not be realistic. Employees in the acquiring firm, on the other hand, may press for equal pay across all divisions of the company if their pay is lower. The pay differential may demotivate acquiring firm employees, which could have long-term consequences. There may be a legal component to compensation issues. Organizational compensation structures may also differ, causing issues; for example, one firm may have a higher proportion of fixed pay while the other has a higher proportion of performance-based pay. As a result, to achieve equity in H.R. systems and treat employees equally, disparities in compensation structures and performance appraisal systems must be addressed. Poor compensation structures can lead to dissatisfied customers and a lack of employee commitment, leading to poor performance. Hurt et al., 2001; Yunker, 1983; Hurt et al., 2001; Hurt et al., 2001; Hurt et

**Emotional issues**

(M&As entail major organizational change, which might create stressful situations for employees (Very, Lubatkin, & Calori, 1996). Post-M&A results in various emotional issues

- **Loss of identity:** Employees experience total identity loss (organizational, professional and workgroup). Employees experience loss, anger, grief, denial, and a refusal to change due to this. Organizations’ failure to consider the needs of their employees during M&As may contribute to disappointing results (Cartwright et al., 2007).

- **Feelings of Anxiety or Alienation:** Employees are more stressed and anxious when their future is uncertain (Hunsaker & Coombs, 1988). During an impending or actual merger and acquisition, the workforce may become disengaged, resulting in absenteeism or employees leaving these companies. Employee performance and output suffer as a result of such dissatisfaction. Inadequate communication strains the employer-employee relationship and lowers employee morale. Employees feel alienated when their offices are relocated to a new location, regardless of the presence of the merged company. Senior management frequently excludes H.R. heads when deciding on an impending merger or acquisition. However, once the event occurs, the company’s H.R. department is rendered powerless to mitigate the damage and alleviate employee anxiety.

- **Low morale:** According to Fish (2007), the two primary outcomes of interest to organizations are morale and performance. The H.R. side of the equation defines morale as how employees have a positive attitude toward and commitment to their work and organization. Employee morale can change almost instantly or gradually over time. Finally, Fish contends that high performance and high morale equals organizational success. The link between successful M&A planning and integration of H.R. issues and the achievement of key business objectives should not be overlooked. Morale, commitment, and loyalty have also declined (Newman & Krzystofik, 1993; Schweiger & DeNisi, 1991). Depression and poor performance may result from the merger. Arkansas and colleagues (1998). Companies that are dishonest with their employees about layoff and downsizing plans tend to see a drop in employee morale and satisfaction and an increased turnover and absenteeism (Pappanastos et al., 1987).
• **Fear of the unknown:** According to Mabin et al. (2001), such apprehension results from uncertainty regarding the nature of change, the feeling that one does not know what is occurring or what the future holds. Change entails a transition from the known to the unknown, so Bovey and Hede (2001) assert that resistance is a natural part of the process.

• **Loss of control:** Mabin et al. (2001) define the loss of control as the perception that the change is being imposed on the individual, resulting in the belief that the individual does not influence the unfolding events. Moron and Brightman (2001) clarify that if a change threatens a person's sense of control, that change will be perceived as a threat to survival.

• **Loss of competency:** People are concerned that their current skills and competencies will become obsolete once the change occurs, according to Mabin et al. (2001). The prospect of losing their jobs and the ensuing economic crisis is extremely concerning. Furthermore, Cartwright and Cooper (1996) contend that mergers and acquisitions result in employee turnover and loss of competitiveness, owing to staff duplication. Employees will look for work elsewhere to regain control or because they are unsure of their ability to fit into the new organization due to the uncertainty of change.

• **Lack of confidence:** According to Mabin et al. (2001), employee resistance may be due to a lack of confidence that the outcome of the change will be better than the status quo. According to Moran and Brightman (2001), in any situation involving a change, people may be afraid that the loss will be greater than the gain, negating any potential positive outcomes. Furthermore, Nguyen and Kleimer (2003) contend that organizational changes reduce employee loyalty and perceptions of the organization's trustworthiness. The accompanying emotional issues could potentially lead to decreased motivation, lower job satisfaction and changed commitment toward the company.

**Theoretical framework**

Employees and managers in both the acquiring and acquired firms frequently experience significant trauma due to mergers and acquisitions, resulting in attitudinal and satisfaction issues and valuable personnel turnover. According to Cartwright et al. (2007), negative reactions can result in lower job satisfaction and security and less favourable attitudes toward management. Employees frequently deal with the uncertainty of a merger by lowering their commitment levels and focusing their energy on coping with anxiety and confusion or looking for new jobs. Reduced job commitment and increased job dissatisfaction and disloyalty, high turnover among key managers, leadership and power struggles among those who stayed, and, in general, an increase in dysfunctional work-related behaviours at all levels of the hierarchy were all manifestations of these feelings (Cartwright et al., 2007). According to Astrachan (2004), employees who remain in an organization undergoing a merger may feel betrayed by their leaders, and their negative feelings may lead to a drastic change in their work patterns.

Employee refusal to relocate, subtle slowdowns in work activity and lowered work goals, increased turnover, employee theft, and even attempts to sabotage corporate efforts are all consequences. Many employees suffer from separation
anxiety, which may be to blame for these consequences (Astrachan, 2004). In addition, studies have shown that mergers and acquisitions can be a traumatic event in the lives of the people and companies involved. Many employees are bereaved, resentful, and dissatisfied with their jobs, and their reactions can lead to poor performance. Mergers and acquisitions (Appelbaum et al., 2007; Cartwright & Schoenberg, 2006) Negative employee reactions to a Merger or acquisition, according to Buono et al. (1989), can result in lower job security, satisfaction, and less favourable attitudes toward management.

Employees will redirect their energy toward coping with anxiety and confusion when faced with uncertainty, according to Fulmer and Gilkey (1988), negatively impacting satisfaction. In a merger or acquisition context, scholars have looked into various aspects of cultural discontinuity, communication, identity, and organizational citizenship behaviours. Employees were found to be dissatisfied due to various factors, including the work environment, pay, recognition, responsibility, teamwork, and security. According to Rathogwa's (2008) study, in an M&A, management should not focus solely on the 'bottom line' but should also consider the organization's human resources, which could determine whether the M&A succeeds or fails. Hence, there is considerable support for a connection between M & M&A and job satisfaction, employee commitment, and employee performance.

Conclusion and outlook

The literature on mergers and acquisitions is extensive. Mergers and acquisitions are among the most important corporate activities, affecting a wide range of stakeholder groups. The main findings and propositions of previous studies are reviewed in detail in this paper to create a complete picture of the existing literature on factors affecting employee performance in the post-merger and acquisition period. The concept of merger and acquisition and factors affecting employee performance in the post merger and acquisition period is discussed in two sections of this review. Culture incompatibility, job insecurity, change in a work environment, ambiguous compensation structure, and emotional issues are all factors that affect employee performance after a Merger or Acquisition. Post-
merger and acquisition integration necessitates difficult managerial tasks, and mergers may fail to add value if the merged company cannot overcome integration challenges (Nahavandi & Malekzadeh, 1988). Managers must deal with organizational concerns such as cultural clashes (Stahl & Voigt, 2008), uncertainty (Cording et al., 2008), stress and negative emotions (Cooke et al., 2020), and resistance to change while attempting to create synergy and value from the merger (Buono et al., 1989).

Mergers are one of the most important corporate activities that significantly influence various stakeholder groups. In this paper, prior studies' main findings and propositions are reviewed in detail to create a complete picture of the extant literature on factors affecting employee performance in the post merger and acquisition period. This review comprises two sections in which the concept of merger and acquisition and factors affecting employee performance in the post merger and acquisition period are discussed. There are several factors which affect an employee's performance in the post-merger and acquisition period like Culture incompatibility, job insecurity, change in the work environment, ambiguous compensation structure, and emotional issues. Post-merger and acquisition integration requires difficult managerial tasks, and mergers may not create value if the merged firm cannot overcome integration challenges (Nahavandi & Malekzadeh, 1988). While attempting to create synergy and value from the merger, managers must deal with organizational concerns such as cultural clashes (Stahl & Voigt, 2008), uncertainty (Cording et al., 2008), stress and negative emotions (Cooke et al., 2020), and resistance to change (Buono et al., 1989).

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