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A R T I C L E S

WALKING THE TALK: A MULTISTAKEHOLDER EXPLORATION OF ORGANIZATIONAL AUTHENTICITY, EMPLOYEE PRODUCTIVITY, AND POST-MERGER PERFORMANCE

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Does consistency between how a firm treats employees (what it does) and its espoused employee-oriented values (what it says) affect employee productivity? Furthermore, given that the stakeholder theory perspective holds that what happens to one stakeholder influences other stakeholders, does this sort of consistency vis-à-vis a firm's customers also influence employee productivity? We empirically investigate the influence of organizational authenticity—defined as consistency between a firm's espoused values and realized practices—in the context of a merger, and specifically during post-merger integration. Our findings show that a lack of organizational authenticity in terms of both under-promising and over-promising to both employees and customers is associated with lower productivity, which in turn is related to long-term merger performance, thus affecting outcomes for shareholders. These findings support the importance of authenticity and should therefore be of interest to executives responsible for ensuring the consistency between what a firm says and what it does, as well as those who participate in and study the merger integration process. In particular, we propose stakeholder theory as a helpful lens for examining the merger integration process as well as other joint actions such as strategic alliances.

Despite a significant amount of research on mergers, we still know little about what makes them successful (King, Dalton, Daily, & Covin, 2004). Several researchers suggest that the integration process is critical to the overall success of a merger. Some of the important process-related variables that have been studied include cultural fit (Chatterjee, Lubatkin, Schweiger, & Weber, 1992; Larsson & Lubatkin, 2001; Nahavandi & Malekzadeh, 1993), procedural and distributive justice (Ellis, Reus, & Lamont, 2009), employee resistance (Larsson & Finkelstein, 1999), resource redeployment between the firms (Capron, 1999; Capron, Mitchell, & Swaminathan, 2001), integration speed (Graebner, 2004; Homburg & Bucerius, 2006), task-related characteristics associated with integration (Pablo, 1994), and turnover rates (Cannella & Hambrick, 1993; Siegel & Simmons, 2010; Zollo & Singh, 2004).

A common thread that runs through these studies is the critical role that employee trust plays in post-merger integration (Buono & Bowditch, 1989; Graebner, 2009; Haspeslagh & Jemison, 1991;

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Larsson & Finkelstein, 1999). Trust seems to act as a lubricant that helps to "grease the wheels" during post-merger integration, enabling the firm to efficiently and effectively implement the changes required to extract economies of scale, economies of scope, and other sources of value from the merger. Yet trust is likely weakened precisely when it is needed most. Some argue that the significant changes, uncertainties, and vulnerabilities experienced by employees during a merger impair their trust in the newly merged firm (Stahl, Larsson, Kremershof, & Sitkin, 2011), leading to undesirable outcomes including diminished job satisfaction and unintended turnover (Buono & Bowditch, 1989; Cannella & Hambrick, 1993; Emmanouilides & Giovanis, 2006; Schweiger & DeNisi, 1991).

Because mergers disrupt existing relationships between the firm and its employees, we focus on the role of implicit contracts and reciprocity in building or damaging trust during post-merger integration, and we show that inconsistency between words and deeds has negative consequences beyond what has previously been studied. We use the construct of *organizational authenticity*—defined as consistency between a firm's espoused values and its realized practices—to examine the degree to which certain post-merger integration practices are aligned with the firm's espoused values. Our logic is that espoused values such as fairness, openness, and accountability create expectations for the way the firm will behave. These expectations form an implicit contract (Rousseau, 1995) between the combined firm and its employees (de Luque, Washburn, Waldman, & House, 2008; MacLeod & Malcomson, 1989). If a firm adheres to these values (is authentic), it builds trust with employees because they witness consistency between the firm's words and deeds, resulting in positive reciprocity (Blau, 1964; Bosse, Phillips, & Harrison, 2009; Simon, 1966; Vandewalle, Van Dyne, & Kostova, 1995). Similarly, violation of implicit contracts may result in negative reciprocity as an already fragile trust environment is damaged.

Beyond their relationships with employees, firms espouse values in their relationships with a variety of other stakeholders, and thus create implicit contracts with customers, suppliers, shareholders, and so on. Because employees are highly sensitive to clues of a firm's trustworthiness during post-merger integration, we expect that they will respond to implicit contract breaches not only with themselves (employees), but also with other stakeholders, specifically customers. We build this argument on the concept of generalized exchange (Ekeh, 1974), which is an important assumption in stakeholder theory. Generalized exchange means that the attitudes and behavior of one of a firm's stakeholders (in our case, employees) is influenced by the firm's behavior toward a different stakeholder (in our case, customers) (Harrison, Bosse, & Phillips, 2010). We analyze customers because we believe that employees are attuned to the firm's authenticity toward customers given that employees' opportunities and fortunes are dependent, in part, on firm–customer interactions.

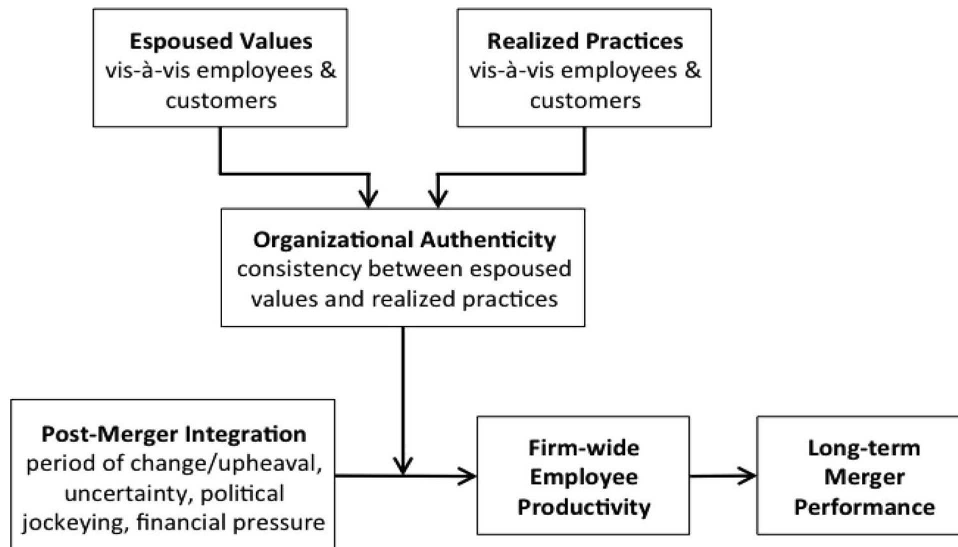
The aggregate impact of employees' individual acts of positive or negative reciprocity may manifest in changes to firm-wide employee productivity and therefore impact a third stakeholder—the shareholder. We thus examine the impact of executive perceptions of changes in employee productivity on long-term merger performance. Figure 1 presents an overview of our conceptual model.

The setting for our study is the post-merger integration of *horizontal* mergers where two firms operating in the same industry combine or restructure operations (see Graebner, 2004; Zollo & Singh, 2004), enabling us to examine organizational authenticity in a high-stress change context. In horizontal mergers, the acquiring firm usually absorbs the acquired firm into its operations to obtain cost efficiencies (see Graebner, 2004; Zollo & Singh, 2004). In these cases, the acquiring firm's management dominates in the combined firm. Sometimes, however, the goals of the horizontal merger dictate more of a blending of the two firms (Haspeslagh & Jemison, 1991); here, the acquired firm's management may play an important role in the newly merged firm.

The origin of the newly merged firm's top managers is a critical issue in our study because espoused values represent a negotiation among top managers (Bowman, 1984). If those managers are mostly from the acquirer, the acquirer's espoused values are relevant for our organizational authenticity construct. But if they originate from the acquired firm, then the espoused values of the acquired firm are most appropriate. Throughout this paper, the phrase "espoused values" refers to the stated values of the pre-merger firm from which most of the top managers originated.

Our findings show that a lack of organizational authenticity in terms of both under-promising (realized practices exceed the expectations set by espoused values) and over-promising (realized practices fall short of the expectations set by espoused

FIGURE 1
Overview of Conceptual Model of Organizational Authenticity During Post-Merger Integration



values) to both employees and customers is associated with lower productivity, which in turn is related to long-term merger performance, thus affecting outcomes for shareholders. The results challenge the conventional wisdom that firms are better off when they "under-promise" by restraining their verbal commitment to values and exceeding those commitments with the firm's behavior.

To understand the theoretical mechanisms at work, we first examine the concepts of implicit contracts, trust, and reciprocity to better explain the relationship between organizational authenticity vis-à-vis employee values and employee productivity. We then discuss the notion of generalized exchange to explore the theoretical foundation of the relationship between employee productivity and authenticity vis-à-vis customer values. We draw on the resource-based view to hypothesize that changes in firm-wide employee productivity will be related to long-term merger performance. A description of our methods, presentation of our results, and discussion follow.

ORGANIZATIONAL AUTHENTICITY IN POST-MERGER INTEGRATION

Alignment between espoused values and realized practices has been hailed for decades in many versions of the phrase "walk the talk." Figure 2 shows, in a simplified way, how the degree of alignment between espoused values and realized practices may fall into one of four general categories: consistency between words and deeds (organizational authenticity) with weak values and with strong values, over-promising (when espoused values are greater than realized practices), and under-promising (when realized practices are greater than espoused values). A misalignment between what the firm is doing and what it is telling its stakeholders it values signals a lack of organizational authenticity that, we argue, influences performance outcomes.

Misalignments raise several questions: Is it best to under-promise and over-deliver? Do espoused

FIGURE 2
Categories of Organizational Authenticity

Employee Espoused Values	*Employee Realized Practices:* *Weak*	*Strong*
Weak	**Aligned: Weak Values**	**Under-promising**
Strong	**Over-promising**	**Aligned: Strong Values**

values matter, or are they merely window-dressing? What impact does misalignment have on various stakeholders? Our organizational authenticity construct builds on Simons' (2002) seminal work on behavioral integrity. An individual-level construct, behavioral integrity is defined as "the perceived pattern of alignment between an actor's words and deeds" (Simons, 2002, p. 19). Others have expanded the notion of authenticity to include the organizational level (e.g., Freeman & Auster, 2011; Liedtka, 2008); they consistently include the idea that a firm that displays authenticity is one that is willing to take action based on the values it espouses (Paine, 1994).

During post-merger integration, there is much temptation for the newly combined firm to disregard espoused values. For example, a firm may espouse values of open and honest communication, but managers may withhold information from employees for fear that leaked negative information could adversely influence either integration efforts or the stock price (Harwood & Ashleigh, 2005). Similarly, although firms may claim to value long-term employee relationships, layoffs are not uncommon after horizontal mergers (O'Shaughnessy & Flanagan, 1998). Depending on how the firm handles the layoffs (whether they are perceived as essential and how laid-off employees are treated), such actions may be perceived as inconsistent with the espoused value.

Theoretical Context: The Role of Trust, Implicit Contracts, and Reciprocity

All else being equal, a rational actor would choose an explicit contract rather than an implicit one because the former clarifies the terms of exchange and creates legally enforceable obligations. Implicit contracts arise in many situations simply because it is either not efficient or not possible to write an explicit contract (Asher, Mahoney, & Mahoney, 2005). Indeed, they are usually the most efficient choice in situations where outcomes can be observed only after the fact and/or when there are tangible benefits from adapting the contract given new information (Baker, Gibbons, & Murphy, 2002). Some employees do not have explicit employment contracts, but all have implicit ones (MacLeod & Malcomson, 1989). The optimal contracting mode with some stakeholders may be a combination of explicit and implicit contracts.

Just as upholding implicit contracts can lead to positive reciprocity, behavior that breaches the implicit contract is likely to lead to negative reciprocity (Robinson & Rousseau, 1994). A breach occurs when a stakeholder believes the firm has acted inconsistently with one or more of its obligations. Such breaches have been found to be associated with a variety of negative outcomes, including lower commitment, higher turnover, erosion of trust, and lower job satisfaction (e.g., Robinson, 1996).

Because they are complex and likely to require change, implicit contracts require constant adjustments and continuous coordination of activities. Trust thus plays a critical role (McAllister, 1995; Teerikangas, Véry, & Pisano, 2011) and often acts as a primary mechanism to encourage the parties to uphold their part of the contract. Trust is "the willingness of a party to be vulnerable to the actions of another party based on the expectations that the other party will perform a particular action important to the trustor, irrespective of the ability to monitor and control the other party" (Mayer, Davis, & Schoorman, 1995, p. 712). Trust is particularly important with implicit contracts because, by definition, such contracts cannot be legally enforced; they must be self-enforcing. A contract is self-enforcing when the value of the future relationship to each party is sufficiently large such that neither party wishes to renege (Baker et al., 2002). Trust lowers the costs and risk perceptions associated with managing a contract (Hill, 1990; Williamson, 1991), and therefore assessments of the value of the future relationship are maximized when one party trusts the other (Barney & Hansen, 1994; Wang & Barney, 2006).

The role of trust is likely to be especially relevant during post-merger integration. The announcement of a horizontal merger triggers anxiety in most employees—be they from the acquiring or the acquired firm (Buono & Bowditch, 1989; Emmanouilides & Giovanis, 2006). People are highly sensitive to trust-based information and cues during times of uncertainty, such as mergers between companies (e.g., Schweiger & DeNisi, 1991), because organizational changes cause people to question whether their own perceptions of fairness are accurate (Lind, 2001; Van den Bos, Lind, & Wilke, 2002). For example, Lind, Greenberg, Scott, and Welchans (2000) found that fairness-related judgments were more strongly determined by events that occurred during periods of organizational restructuring than by judgments held before restructuring. Because our organizational authenticity construct captures inconsistencies between what the firm is doing and

what it is telling its stakeholders, it is one important way employees will assess the fairness of the newly merged company.

Consider, for example, a firm that states that it values employee empowerment. Such a firm creates expectations that it will encourage employee participation, voice, and authority to make decisions at lower levels. When the firm adheres to these values in its realized practices during post-merger integration—by, for example, involving employees from both the target and acquiring firms on the integration teams—it upholds its implicit contract with employees, trust in the firm is reinforced, and employees can be expected to positively reciprocate, which should be manifest in increased productivity. In contrast, the firm may keep all decision authority in the hands of a few key advisers and thereby fail to realize the values it espoused. Here, the firm has over-promised, and we would expect negative reciprocity and a reduction in productivity.

But what happens when the firm substantially under-promises? Perhaps the firm was silent vis-à-vis its espoused values regarding employee empowerment, but immediately after the merger it forms teams composed of both target and acquiring firm employees from various levels and empowers them to make meaningful decisions about issues that affect them. This firm has not demonstrated organizational authenticity in that its behavior was not aligned with the expectations it created. It has breached its implicit contract with employees, but it has done so in a positive way. Nonetheless, we argue that this firm will fare less well than the firm that demonstrates consistency between its espoused values and its behavior (although probably better than the over-promising firm). Employees, not expecting to be empowered, may at first react cynically to the genuineness of the post-merger integration initiatives, observing with a careful eye the question of whether or not empowerment will be a lasting value in the newly merged firm.

Our argument is contrary to conventional wisdom that claims that under-promising and over-delivering generally leads to the best outcome. The marketing literature (e.g., Oliver, 1980) has provided evidence that firms should work to "delight" customers by providing them with a product or service that exceeds their expectations. While this phenomenon may apply to products and services, values are different. In the context of employees and post-merger integration, a mismatch in terms of espoused values and realized practices—even when the realized practices are greater than the espoused values—may result in negative reciprocity and lower employee productivity relative to firms that demonstrate organizational authenticity.

Theoretical Context: Generalized Exchange Effects During Post-Merger Integration

Recall that in addition to employees, we are also interested in knowing how espoused values and realized practices affect other stakeholders. The idea that the behavior of a particular stakeholder is influenced, in part, by the firm's relationships with other stakeholders is foundational to stakeholder theory (Harrison et al., 2010). Stakeholder-based arguments tend to rely on the inherent assumption that the whole of a firm's relationships with its stakeholders is greater than the sum of individual relationships. This interconnectedness has been somewhat neglected in the merger literature (Haleblian, Devers, McNamara, Carpenter, & Davidson, 2009), and the concept of generalized exchange (Ekeh, 1974), a central tenet of stakeholder theory, helps explain why a firm's relationship with one stakeholder influences its relationships with other stakeholders. Generalized exchange means that the attitudes and behavior of one of a firm's stakeholders (in our case, employees) is influenced by the firm's behavior toward a different stakeholder (in our case, customers). This logic suggests that employees will respond to implicit contract breaches with other stakeholders, including customers.

Generalized exchange involves multiple actors who are part of an integrated set of transactions in which reciprocations are indirect (Bearman, 1997; Ekeh, 1974). Interestingly, there need not be a one-to-one correspondence between what they directly give to and take from another actor. Because people have memories, it is even possible that significant time will elapse between events (Wade-Benzoni, 2002); the actors put decisions or behavior in the context of other decisions or behavior over time. Generalized exchange explains why employees may be willing to take a pay cut or customers may agree to rewrite a contract if they believe that such behavior may be a part of the greater good for the firm's network of stakeholders (Harrison et al., 2010). As Bosse et al. (2009, p. 449) explained: "Reciprocity means that parties to an exchange willingly sacrifice self-interest for the sake of their principles. This can occur within dyadic relations as well as among actors in a network of relationships. Given the opportunity, third-party observers

of an exchange will systematically reward or punish those they perceive as fair or unfair, respectively." Unfair behavior is likely to be more severely punished than good behavior is to be rewarded (Offerman, 2002).

There is reason to believe that newly merged firms may fall short in delivering on customer espoused values during post-merger integration because so much time and attention are typically devoted to integration activities (Yu, Engleman, & Van de Ven, 2005), and the firm's authenticity vis-à-vis customers will be a signal to employees about its trustworthiness. Pollock and Gulati (2007) argued that in order for a signal to have an impact it should be important and visible to those who receive it. In other words, they must know about it and care about it. Employees care about how their firms treat customers because their own employment situation is directly related to the revenues customers provide. Research has demonstrated that the way a firm treats its customers can influence employee satisfaction (Brown & Lam, 2008). Regarding visibility, employees receive regular reports regarding customers from internal and external sources, and some employees interact with customers directly.

Applied to our current context, we expect that if employees witness a lack of organizational authenticity with respect to customer values during post-merger integration, their trust in the merged firm will be damaged, leading to negative reciprocity and relatively lower employee productivity. We expect this negative reciprocity in response to implicit contract breaches arising from both over-promising and under-promising. Similarly, firms demonstrating organizational authenticity with customers can expect positive reciprocity behaviors that lead to relatively higher employee productivity.

Theoretical Context: Impact on Shareholders

A key question is whether the costs (benefits) from negative (positive) reciprocity by employees stemming from a lack (presence) of organizational authenticity are passed along to shareholders. As noted earlier, researchers argue that post-merger integration contributes to performance problems (e.g., Datta, 1991), but the previous literature has been criticized for inadequate theoretical development (Hitt, Harrison, Ireland, & Best 1998). One source of criticism is that most studies examine the direct effects of explanatory variables on merger performance without regard to important mediating variables (Cording, Christmann, & King, 2008). We propose that a lack of organizational authenticity is first associated with lower employee productivity, and that lower employee productivity is then related to shareholder-based financial performance. One reason we expect this sort of effect is that productivity gains associated with organizational authenticity are likely to be hard to imitate, or at least somewhat uncommon (Barney, 1988).

Given the logic above, we tested three research questions: (1) Is the change in employee productivity during post-merger integration more positive for firms whose employee espoused values are consistent with their realized practices than for firms whose employee espoused values and realized practices are substantially inconsistent (e.g., over-promising and under-promising)? (2) Is the change in employee productivity during post-merger integration more positive for firms whose customer espoused values are consistent with their customer realized practices than for firms whose customer espoused values and customer realized practices are substantially inconsistent? (3) Does increased employee productivity associated with organizational authenticity facilitate greater merger performance?

METHODOLOGY AND MEASURES

We used three data collection methods. First, a survey questionnaire collected data on realized practices as well as executive perceptions of changes in firm-wide employee productivity. Second, computer-aided text analysis (CATA) of annual reports measured the espoused values of the firms that responded to the survey. Third, archival data were compiled to measure long-term merger performance and control variables. Our multi-source research design is intended to maximize the validity of our results.

Sample

We restricted our study population to horizontal mergers to ensure that integration activities were required. We defined horizontal mergers as those in which the target and acquirer had at least one four-digit Standard Industrial Classification code in common. To avoid cross-cultural issues, we also required that both the acquirer and the target were United States–based. We used Securities Data Corporation's (SDC) Platinum database to identify

these mergers. In addition, the acquiring firms had to have stock price data available for 36 months after the merger. A total of 428 mergers met these criteria.

Telephone conversations indicated that 51 acquirers had policies prohibiting survey responses. Our mailing sample thus comprised 377 transactions. Responses corresponding to 137 mergers were returned for a 36% response rate. Eight responses were eliminated due to missing data, resulting in a final sample of 129 mergers. These mergers occurred in a wide range of industries, from aerospace to financial services to telecommunications. Respondents were the senior-most executive with direct responsibility for the post-merger integration: 40% were top executives,[1] 40% were heads of business development, and the remaining 20% were executives with direct line responsibility. To test for inter-rater reliability, we received multiple responses from 33 of the mergers. We found a high level of generalizability in the responses.

Measures

Table 1 summarizes our operationalization of the variables in our study. Below, we describe how we measured merger performance, employee productivity, and the components of organizational authenticity: espoused values and realized practices.

Merger performance. We measured merger performance with the three-year post-merger abnormal stock performance of the acquirer. The length of the window studied is important, and longer periods can lead to confounding effects and weaker statistical power (cf. McWilliams & Siegel, 1997). However, the nature of an event is crucial to the length of the event window chosen for study (Oler, Harrison, & Allen, 2008; Ryngaert & Netter, 1990), and for post-merger integration variables, several years is a recommended time frame (cf. Schweiger & DeNisi, 1991). We selected a three-year time horizon for two reasons. First, it is consistent with existing guidance (Lubatkin, 1983) and common practice in the merger literature (e.g., Cording, Christmann, & Weigelt, 2010; Farjoun, 1998). Second, three years is sufficient time to observe changes in post-merger performance after merger integration (Lubatkin, Schulze, Mainkar, & Cotterill, 2001). We use Jensen's alpha (Jensen, 1968) as our measure of shareholder-based merger performance. Jensen's alpha is a measure of the abnormal return between competing investments and has been used in the merger (Cording et al., 2008) and diversification literatures (e.g., Farjoun, 1998; Hoskisson, Hitt, Johnson, & Moesel, 1993). The Center for Research on Securities Prices (CRSP) equally weighted index was used for the market benchmark.

Employee productivity. We used a four-item scale adapted from Brockner, Grover, Reed, and DeWitt (1992) and Brockner, Tyler, and Cooper-Schneider (1992) to measure employee productivity. These authors measured the change in employee work effort after a firm-wide layoff initiative relative to before the initiative. Our interest was in the change in employee productivity during post-merger integration relative to before the merger. Respondents were asked to report the extent to which each item changed, considering all affected employees, during the height of the integration process relative to before the merger was announced. We averaged the four items (α = .91) for our measure.

Espoused values. We used CATA of annual reports to collect data on espoused values. Public documents such as annual reports reflect a consensus among the top management team, and therefore represent the values of the firm (e.g., Hambrick & Mason, 1984; Weber, 1996) and not the idiosyncratic values of any one individual (Bowman, 1984; Enz, 1988). We thus analyzed the annual report of the pre-merger firm from which most of the post-merger top management originated. The acquiring firm was the dominant pre-merger firm in 83% of the mergers in our sample. That is, target firm managers formed the bulk of the newly merged top management team in only 17% of cases.

The underlying assumptions in CATA are that the firm leaves traces of its value patterns in its documents and that those patterns can be measured by counting the frequency with which the values are referenced. A strong value is referenced often; a weak value is not (Huff, 1990). In the CATA process, a computer examines the text for specified words or phrases contained in a content dictionary, a compilation of words or phrases that refer to the concept being measured. The computer program rates each sentence according to whether it contains theme-related words. Standard dictionaries exist (e.g., Harvard IV Psycho-Social Dictionary), although we, as others (e.g., Kabanoff, Waldersee, & Cohen, 1995), found it necessary to build a custom dictionary.

[1] Chair and Vice-Chair; Chief Executive Officer; President; Chief Financial Officer; Chief Operating Officer; Chief Information Officer.

TABLE 1
Variable Definitions and Construction

Variable	Data source	Description	Alpha
Dependent variables			
Changes in employee productivity	Survey questionnaire	Please think back to two points in time: the height of the integration process and just before the merger was announced. Please indicate your opinion as to how each item changed, considering all affected employees, during the height of the integration process relative to before the merger announcement (1 = significant decrease; 7 = significant increase): (a) employee job performance, (b) employee productivity, (c) amount of work effort expended by employees, and (d) employee morale.	.91
Merger performance	CRSP	Three-year post-merger abnormal stock performance measured with Jensen's alpha (Jensen, 1968). The CRSP equally weighted index was used for the market benchmark. As a robustness check, we also tested the employee productivity–merger performance relationship using the monthly cumulative abnormal returns for the period beginning one month prior to the merger's effective date and ending 35 months later.	NA
Independent variables			
Employee espoused values	Computer-aided text analysis	Average of eight values oriented toward employees: employee orientation, employee development, interpersonal relations, empowerment, openness, fairness, accountability, and community contributions. (See Table 2 for additional information.)	.70
Customer espoused values	Computer-aided text analysis	Average of three values oriented toward customers: customer value/product quality, product orientation, and customer orientation. (See Table 2 for additional information.)	.77
Employee realized practices	Survey questionnaire	a. Please indicate below the extent to which the following principles or objectives guided decisions during the integration phase of the merger (1 = not at all; 7 = to a very large extent): • The best people were retained regardless of company affiliation. • Integration included participation from executives of both firms at every step. • People were treated with dignity, respect, and fairness. • During the integration process, promises made were promises kept. b. Please indicate the extent to which the integration process (1 = not at all; 7 = to a very large extent): • Involved members of both organizations. • Included employees from various levels within both firms. • Applied consistent procedures and principles in making and implementing decisions. c. Please indicate below the extent to which your company utilized skills retraining programs to help employees with the horizontal merger integration (1 = not at all; 7 = extensively). d. During the integration phase, please indicate your assessment of the frequency of the company's communications regarding the merger and integration process to employees (1 = none; 7 = frequent). e. Please indicate below the extent to which you agree or disagree with the following statements regarding the merger-related employee terminations (1 = strongly disagree; 7 = strongly agree): • The company offered significant assistance to terminated employees in finding a new job. • The company offered severance packages in excess of the industry average to terminated employees. • The company invested substantial resources to facilitate the transition of terminated employees. • The criteria for employee terminations were applied consistently across all employees.	.85

(table continues)

TABLE 1
(Continued)

Variable	Data source	Description	Alpha
Customer realized practices	Survey questionnaire	a. Please indicate below the extent to which the following principles or objectives guided decisions during the integration phase of the merger (1 = not at all; 7 = to a very large extent): • Decisions were made based on what was best for the customer. • Integration decisions sought to improve the value delivered to customers. b. Did the following marketing- and sales-related items increase or decrease after the merger relative to before the merger, considering the combined pre-merger activities of both the acquirer and the target? (1 = decreased greatly; 7 = increased greatly): • Depth of customer coverage. • Product/service quality. • Company commitment to serving customers. • Measures of customer service.	.85
Control variables			
Integration speed	Survey questionnaire	Approximately how long did the integration process take? 1 = less than 6 months; 2 = 7−12 months; 3 = 13−18 months; 4 = 19−24 months; 5 = more than 24 months; 6 = not yet complete.	NA
Relative size of target to acquirer	SDC	Average of the ratio of the (1) target's market capitalization in the year prior to the merger to that of the acquirer's and (2) target's annual sales prior to the merger to that of the acquirer's sales.	.87
Acquirer merger experience	SDC and survey questionnaire	Count of acquisitions made in the five years prior to the focal merger. Over the five years preceding this acquisition, approximately how many acquisitions did the acquirer complete? 1 = none; 2 = 1−2 months; 3 = 3−4 months; 4 = 5−6 months; 5 = 7 or more months.	.81
Target's pre-merger ROE	SDC	Average of the target's pre-merger return on equity for the three years preceding the merger minus the average of the industry return on equity over the same time period.	NA
Acquirer's pre-merger ROE	SDC	Average of the acquirer's pre-merger return on equity for the three years preceding the merger minus the average of the industry return on equity over the same time period.	NA
Pre-merger respondent affiliation	Survey questionnaire	Prior to the acquisition, your affiliation was with the: acquirer (scored as "1") or target ("0").	NA
Announcement effect	CRSP	Cumulative abnormal returns for the acquirer for the 3-day period surrounding the merger announcement.	
% of employees laid off	Survey questionnaire	Approximately what percentage of the combined workforce was terminated as a result of this merger? 1 = none, 2 = 1%−5%; 3 = 6%−10%; 4 = 11%−15%; 5 = 16%−20%; 6 = more than 20%.	NA
Subsequent mergers	SDC	Count of acquisitions made by the acquirer in the three years subsequent to the focal merger.	NA

Our CATA analysis yielded eight espoused values related to employees (e.g., fairness, empowerment, and accountability), and three related to customers (e.g., customer service). Each value is described in Table 2, along with examples of coded text. Our employee espoused values measure is the average of the eight employee-oriented values ($\alpha = .70$); our customer espoused values measure is the average of the three customer values ($\alpha = .77$). We rescaled both measures of espoused values from the frequency scale to a 1–7 Likert scale to be consistent with our realized practices measures scale.

Realized practices. We collected data on realized practices in the merged company via our survey questionnaire, which sought to measure realized practices that are consistent with espoused values in the context of post-merger integration. For instance, the employee value of openness corresponds well with the "frequency of the company's communications" during the merger integration, the employee value of fairness is linked to the behavior of treating people "with dignity, respect, and fairness," and customer value/product quality is associated with whether "integration decisions

TABLE 2
Espoused Values

Value	Definition	Examples of dictionary words/phrases	Examples of selected text
Employee espoused values			
1. Openness	Being transparent in relationships	Open, transparent, communicative, straightforward, sincere, honest	". . .eliminate ambiguity in our *communications*" "We strongly encourage . . . *honesty*. . ."
2. Fairness	Being fair in all relationships	Fair, justice, equity, merit	". . .using *objectivity* in the decision process. . ." "*Justice* is a particularly important value. . ."
3. Accountability	Taking responsibility for one's actions	Deliver on our promises; responsible for our; the buck stops; answerable	"We followed through on our *commitment*. . ." ". . .as we work to deliver on this *promise*. . ."
4. Community contributions	Concern with making a positive community contribution	Employee volunteer; good citizen; improve the quality of life; social responsibility	". . .the *volunteer efforts* of so many of our *colleagues*. . ." ". . .*employees* who work to *improve the lives of the people* where we work. . ."
5. Interpersonal relations	Respect; valuing human relationships	Respect, dignity, ethical, integrity, morality	". . .important value in *human relationships*" ". . .carefully thought-out *moral* codes. . ."
6. Empowerment	Empowering employees in decision making and participation	Participative, voice, authority to make, improved responsibility	"This responsive, *decentralized* organization. . ." "Our management style is *participative*. . ."
7. Employee orientation	Valuing employees and their contributions	Quality people, best and the brightest, qualified individuals	". . .focus the energy of our *employees*. . ." ". . .building an exemplary *workforce*. . ."
8. Employee development	Employee training and development	Career development, continuous learning, grow professionally	". . .a very high level of *training*. . ." ". . .invest in education and *training*. . ."
Customer espoused values			
1. Customer value/product quality	Providing a high value to customers, product quality, meeting clients' needs/expectations	Customer-focused, benefits to clients, client loyalty, satisfied customers, clients' trust, quality product, value for customers	"This strategy is based on dedicated *client service*. . ." "Our strategy is to fulfill the *needs of our clients*. . ."
2. Product orientation	A focus on the firm's product/service offerings	Product, service, product attribute, distribution channel, sales network, sales and service	". . .continually enhancing and expanding its *service* capabilities. . ." "New *product* releases, like our. . ."
3. Customer orientation	A focus on the customer	Client, customer, shopper, subscriber, passenger, policyholder, service area	". . .that allows our *clients* to meet. . ." ". . .what really matters: our *customers*"

Italicized words or phrases are the CATA (Computer-Aided Text Analysis) dictionary items.

sought to improve the value delivered to customers." See Table 1 for the actual survey questions.

Analytic Technique

To examine the effects of organizational authenticity on employee productivity, we used polynomial regression analysis and response surface modeling (Edwards, 2002; Edwards & Parry, 1993). This analytic approach enabled us to explore the effects of different combinations of realized practices and espoused values on employee productivity because it provides more specific information than can be gleaned with difference scores (see Edwards, 2002, for a useful review). In polynomial regression analysis, differences are not calculated directly but are evaluated via the pattern of results of progressively higher-order equations.

Our first step was to specify the proper unconstrained linear equation for testing, which is represented conceptually by the algebraic difference and predicted employee productivity with the following general equation:

$$\text{Employee Productivity} = B_0 + B_1 \text{ Realized Practices} + B_2 \text{ Espoused Values} + e$$

If this unconstrained equation is significant, then we proceed to test the quadratic equation. A significant change in the R^2 of the quadratic equation when compared to the linear equation indicates that the effects of espoused values and realized practices (organizational authenticity) on employee productivity are more complex than a simple difference score. In this case, response surface modeling is used to estimate a three-dimensional data display representing the relationships between espoused values, realized practices, and employee productivity. Our model's general expression is:

$$\text{Employee Productivity} = B_0 + B_1 \text{ Realized Practices} + B_2 \text{ Espoused Values} + B_3 \text{ Realized Practices}^2 + B_4 \text{ Realized *Espoused} + B_5 \text{ Espoused Values}^2 + e.$$

RESULTS

Table 3 presents descriptive statistics and correlations among the studied variables. Measures of espoused values and realized practices were scale-centered (Edwards, 2002). We assessed the presence of multicollinearity through condition indices and variance inflation factors; it was not a substantive concern (Atkins & Wood, 2002).

Table 4 presents the results of our empirical tests. Models 1 and 2 provide evidence on the effects of organizational authenticity vis-à-vis employee values; Models 3 and 4 address organizational authenticity vis-à-vis customer values. The linear equa-

TABLE 3
Descriptive Statistics and Correlation

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Employee productivity	1.00														
2. Merger performance	.27	1.00													
3. Employee espoused values	.02	.01	1.00												
4. Employee realized practices	.34	.03	.07	1.00											
5. Customer espoused values	.20	−.08	.15	.14	1.00										
6. Customer realized practices	.47	.17	.15	.36	.45	1.00									
7. Integration speed	−.18	−.25	−.04	−.11	.08	−.15	1.00								
8. Relative size	−.21	−.10	−.05	−.12	−.18	−.15	.24	1.00							
9. Merger experience	.01	−.12	.04	.04	.19	.17	−.01	−.30	1.00						
10. Target pre-merger ROE	.01	−.20	−.08	−.11	−.01	−.15	−.05	−.05	.19	1.00					
11. Acquirer pre-merger ROE	.10	−.11	.15	.13	.34	.17	.02	−.27	.17	.01	1.00				
12. Respondent affiliation	.21	.11	−.08	.19	.15	.21	−.16	−.33	.21	.02	.14	1.00			
13. Announcement returns	.04	.18	.02	−.20	.02	.07	−.14	−.12	.08	.06	.10	−.11	1.00		
14. % laid off	−.13	−.05	−.06	.08	.01	−.08	.06	−.04	.08	.05	−.01	.13	−.14	1.00	
15. Subsequent mergers	.05	−.11	−.02	−.02	−.03	−.07	.24	.19	.08	.14	−.07	−.01	−.08	.05	1.00
Mean	4.35	.00	1.07	1.09	1.06	1.03	2.81	.51	3.31	.04	.02	.83	−.03	2.36	2.20
Standard deviation	.95	.02	.87	.93	1.01	.91	1.35	.54	1.31	.18	.25	.38	.07	1.56	2.81

Abbreviations: $p < .05$: correlations greater than .17; $p < .01$: correlations greater than .22; $p < .001$: correlations greater than .28.

TABLE 4
Results of Empirical Tests

	Organizational authenticity vis-à-vis:					
	Employees		Customers		Merger performance	
Variable	Model 1: linear	Model 2: quadratic	Model 3: linear	Model 4: quadratic	Model 5: controls	Model 6: main effects
Control variables						
Speed of integration	−.10	−.03	−.06	−.03	−.21*	−.20*
Relative size	−.12	−.11	−.14	−.11	−.11	−.06
Merger experience	−.08	−.08	−.15	−.13	−.11	−.09
Target profitability	.05	.05	.11	.04	−.21*	−.20*
Acquirer profitability	.03	.07	.00	−.01	−.13	−.15
Respondent affiliation	.11	.09	.09	.05		
Announcement returns					.18*	.18*
% employees laid off					.00	.03
Subsequent mergers					.00	−.03
Employee authenticity						
Realized practices (b_1)	.30***	.06				
Espoused values (b_2)	−.01	−.22				
Realized^2 (b_3)		−.09				
Espoused × realized (b_4)		.50**				
Espoused^2 (b_5)		−.04				
Customer authenticity						
Realized practices (b_1)			.48***	.35**		
Espoused values (b_2)			−.03	.01		
Realized^2 (b_3)				.22		
Espoused × realized (b_4)				.12		
Espoused^2 (b_5)				−.08		
Employee productivity						.24**
R^2	.17**	.24***	.28***	.34***	.16**	.22**
Change in R^2		.07***		.06***		.08***

(Standardized coefficients; $n = 129$)

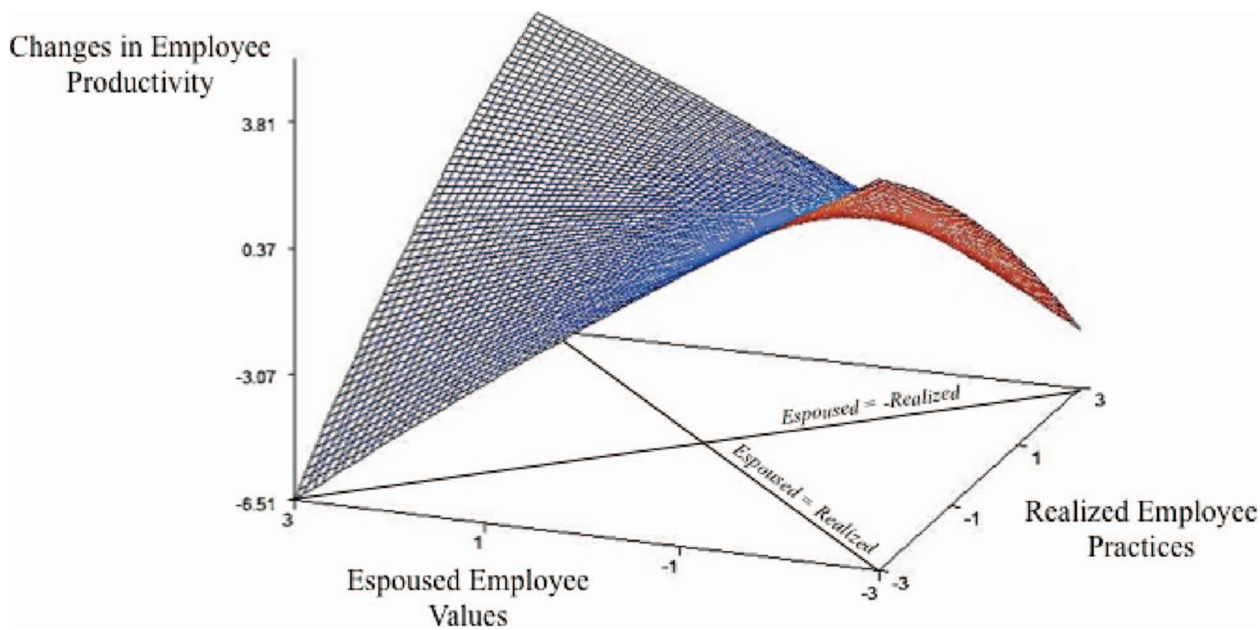
$^*p < .05$; $^{**}p < .01$; $^{***}p < .001$

tions for employees (Model 1) and customers (Model 3) are significant ($R^2 = .17$, $p < .01$, and $R^2 = .28$, $p < .001$ respectively), indicating statistically significant effects of realized practices but not of espoused values. However, the quadratic equations (Models 2 and 4, respectively) reflect a statistically significant increase in variance explained when compared to the linear models ($\Delta R^2 = .07$, $p < .001$ for employees and $\Delta R^2 = .06$, $p < .001$ for customers). We evaluate the improvement in the overall fit of the model (as reflected by changes in R^2) rather than the significance of individual coefficients because the quadratic equation simply adds three quadratic terms (realized practices squared, the product of realized practices and espoused values, and espoused values squared) to the linear model (Edwards & Parry, 1993).

Our results suggest that the relationship between organizational authenticity and employee productivity is more complex than a simple linear model can capture. The impact of realized practices on employee productivity is a function in part of the level of espoused values. Hence, we do not interpret individual coefficients but rather interpret the effects using response surface modeling.

We plot the quadratic equations in Figure 3 (employee values and practices) and Figure 4 (customer values and practices). Because we scale-centered the variables, they range from −3 to +3. Interpreting two areas of these graphs is critical for our analysis. The first is the shape of the surface along the line where espoused values are equal and opposite to realized practices (the espoused = –realized line). This line runs diagonally from the lower left to the upper right along the horizontal plane in Figures 3 and 4. The end points represent the points of maximum misalignment (i.e., espoused values are maximized and realized practices are minimized and vice versa). The second

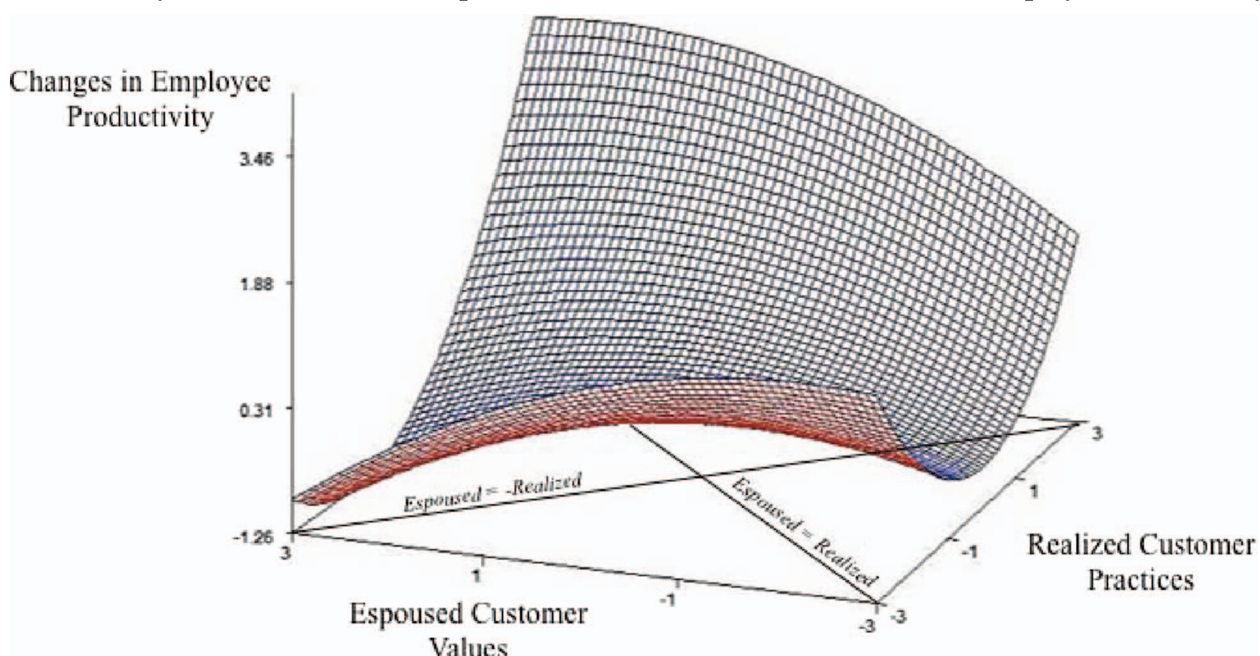
FIGURE 3
Inconsistency Effects of Employee Espoused Values and Realized Practices on Employee Productivity



important area is along the line where espoused values are equal to realized practices (the espoused = realized line), which runs from the upper left corner to the lower right corner. This is the line of "perfect" alignment between espoused values and realized practices.

Looking at Figure 3, we see that employee productivity is roughly maximized along the espoused = realized line for organizational authenticity vis-à-vis employee values. The figure also suggests that employee productivity is maximized when employee espoused values and realized prac-

FIGURE 4
Inconsistency Effects of Customer Espoused Values and Realized Practices on Employee Productivity



tices are both high. The minimum point occurs when espoused values are at the highest point and realized practices are at the lowest point—the maximum over-promising point. Employee productivity is also low when espoused values are at the lowest point and realized practices are at the highest point—the maximum under-promising point. Employee productivity is higher for firms that under-promise relative to firms that over-promise. These results address our first research question: Changes in employee productivity during post-merger integration are more positive for firms whose employee espoused values are consistent with their realized practices than for firms whose employee espoused values and realized practices are substantially inconsistent, even when the firm under-promises.

Turning to organizational authenticity vis-à-vis customer values (Figure 4), we find that realized practices have a greater influence than was the case with employee values. The graph more resembles a plane, although employee productivity is still maximized at the point where espoused values and realized practices are both high (the upper left corner) and minimized at the point of maximum over-promising: espoused values (the lower left corner). However, under-promising has a more muted effect on employee productivity, perhaps because employees may be less attuned to the espoused values of the firm as they relate to customers. Thus, in answer to our second research question, employee productivity is affected by the firm's authenticity relative to customers.

Table 4 also presents the results of our empirical tests regarding the effect of employee productivity on merger performance (Models 5 and 6). We find that employee productivity has a significant effect on merger performance when measured by Jensen's alpha ($b = .24$, $p < .01$). As a robustness check, we also tested to see if employee productivity had a significant effect on merger performance when measured by 36-month cumulative abnormal returns, and found that it does ($b = .18$, $p < .05$), which establishes some validity to our results using Jensen's alpha.

We also checked to see if employee productivity mediated the relationship between organizational authenticity and merger performance. Using Baron and Kenny's (1986) approach, we find that it is a partial to full mediator. Accordingly, in answer to our third research question, employee productivity due in part to organizational authenticity is related to merger performance using several measures (Jensen's alpha and cumulative abnormal returns).

DISCUSSION

The merger literature suggests that effective post-merger integration is essential to creating value from mergers. Post-merger integration is a time of uncertainty and distrust; layoffs and executive turnover are common, and the divergent cultures of the acquiring and target firms can cause integration difficulties. At this time attention is turned to firm values. Often, the intent of horizontal mergers is to increase efficiency by integrating the operations of the acquiring and target firms. Consequently, the managers of the combined firm need their employees to cooperate to achieve a successful integration. We argue that employees will reciprocate positively through additional effort if they feel that the newly formed firm's behavior during the post-merger integration period is consistent with the implicit contracts they have formed through expectations based on espoused firm values. We refer to this concept as organizational authenticity. A violation of implicit contracts—through either over-promising or significant under-promising—will lead to negative reciprocity.

Using polynomial regression analysis, we were able to glean a nuanced perspective on the relationship between our variables. Our results suggest that the notion of under-promising—being "quiet" with words but "loud" with behavior—is a suboptimal strategy when employee realized practices substantially exceed employee espoused values. This counterintuitive finding deserves to be highlighted. While realized practices had a strong direct effect on employee productivity in our models, firms that materially under-promise performed worse than those where the rhetoric matched the realized practices, all else being equal. As our theory predicted, we find that even "good" behavior can breach implicit contracts and have negative effects on employee productivity. However, we do not find that under-promising with respect to customer values and practices results in lower employee productivity. This may be because the firm's espoused customer values are less important to employees than are espoused employee values, especially when employees are focused on their own situation (e.g., future employment).

Our finding with regard to the relationship between customer authenticity and employee behavior (in terms of productivity) makes an important

empirical contribution to the stakeholder literature. Scholars in a variety of disciplines have argued that excellent treatment of their particular stakeholder of interest can lead to economic advantages—marketing focuses on customer interests, human resource management on employee relationships, and so on. But stakeholder theory is not just the sum of other disciplines. It is unique in its claim that the nature of the relationship with a particular stakeholder is dependent, in part, on the firm's behavior toward other stakeholders (Freeman et al., 2007; Rowley, 1997). This assumption is referred to as generalized exchange (Ekeh, 1974; Harrison et al., 2010). Thus, stakeholder theory argues that there are not only one-on-one effects from stakeholder relationships but synergistic effects as well. Despite its importance to the stakeholder literature, empirical evidence of generalized exchange in a business setting is almost nonexistent.

Internally focused process variables have been studied at length in relation to post-merger integration, and as a result cultural misfits and values clashes are typical perceived culprits preventing smooth successful mergers or acquisitions. Stakeholder theory may prove to be a different and complementary lens for understanding post-merger integration (as well as other strategic initiatives such as alliances and joint ventures) because it draws our attention to the management of key (inter)relationships that underlie value creation and destruction.

Through its focus on honoring or breaching implicit contracts with stakeholders, organizational authenticity emerges as a central factor requiring management's attention during periods of organizational change. We found evidence that is contrary to the idea that mergers may provide opportunities for acquiring firms to disregard previously established implicit contracts with employees (e.g., Shleifer & Summers, 1988). While our focus was on employee reactions to organizational authenticity vis-à-vis employees and customers, future research should examine the effects of contract breaches and generalized exchange effects with a wider range of stakeholders (e.g., suppliers) as well as other forms of contractual breaches.

Much of the merger literature models the direct effects of explanatory variables on merger performance. Our finding that employee productivity is an important intervening variable deepens our understanding of how post-merger integration decisions affect merger performance. By providing more evidence on the links among implicit contracts, employee productivity, and shareholder returns, we provide a clearer picture of the relationship between stakeholder management and merger performance. Despite this contribution we acknowledge that post-merger integration is a complex matter. Consistency, and thereby authenticity, captures an important element and explains some more of the unknown variance alluded to in our introduction. Nevertheless, authenticity alone is not the holy grail of merger integration, and negative outcomes might occur despite high authenticity, just as integrity does not make a person good by itself. For example, some employees may not like the changes and new values "imposed" during a merger and will choose to resign.

Our study has important implications for managers. Executives engaged in post-merger integration should pay attention to the match between espoused values and realized practices. Our results indicate that a large gap between espoused values and realized practices in either direction (i.e., over-promising or under-promising) is suboptimal. They also highlight the interconnectedness of stakeholders; employees react significantly to breaches in the implicit contract not only with themselves but also with customers. Managers should therefore use caution in communicating, thinking carefully about a firm's values to ensure that it is prepared to live by them before speaking them. As such "walking the talk" and "talking the walk" are two sides of the same authenticity coin.

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