Chaos and Identity Deconstruction: How Employees of Small and Midsized Companies Experience and Make Sense of Acquisitions

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Abstract

This thesis examines how employees in knowledge-intensive small and medium-sized enterprises (SMEs) experience and respond to organizational change during post-merger integration (PMI). Although financial motives of mergers and acquisitions (M&A) are well documented, people-related factors remain a major source for performance shortcomings. This study analyzes (1) how employees experience and make sense of structural change following an acquisition and (2) how these experiences shape their reactions to the changes made during the integration. It draws on the concepts of sensemaking and sensegiving, social and organizational identity, and organizational culture and analyzes how these concepts interact to shape employees' experiences and responses.

A qualitative, multiple-case design was applied. 18 semi-structured interviews were conducted with current and former entry-level employees, middle managers, and executives of 10 software SMEs that were acquired between 2021 and 2024. By analyzing and interpreting the data iteratively in an abductive approach, three reoccurring patterns emerged. First, implausible or absent sensegiving attempts led to stressful sensemaking processes, filled by negative anticipations and uncertainty. Second, employees were seen as replaceable by cost-focused acquirers, leading to knowledge drain and identity deconstruction. Third, vastly distinctive organizational cultures clashed with each other, leading to gradual disengagement and exit. The outcomes call for cultural preservation of the acquired company during post-merger integration to keep employees in knowledge-intensive working environments. Further, this research highlights the importance of thorough planning and creating a strong sensegiving narrative to avoid stressful disruptions during integration.

Keywords: SME, PMI , acquisitions, sensegiving, identity, culture

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1 Introduction

Mergers and acquisitions (hereafter M&A, or acquisitions) have developed as a common strategy for companies to excel in growth and innovation. While a merger includes two or more companies combining efforts to merge in a transaction, in acquisitions a bigger company "swallows" a smaller one (Kansal & Chandani, 2014). Despite the differences, both processes entail integrating two or more companies with distinctive values and cultures into one entity. However, while mergers necessitate changes on both sides, acquisitions primarily impose these changes on the acquired side (Kansal & Chandani, 2014). In 2023, global acquisitions have reached a volume of approximately three trillion US dollars (Broughton, 2023). Investors use acquisitions as a tool to boost their revenue (Capron, 1999). For companies, M&As are used to strategize their growth and development and unlock synergies such as cost reductions, stronger market power, diversification, or tax benefits (Mainrai and Mohania, 2020; Gomes, 2020). For employees, acquisitions are often associated with negative outcomes. Thus, they are often confronted with intense stress, job uncertainty, and ambiguity (Kansal & Chandani, 2014). Despite their growth objective, acquisition values frequently fall behind expectations, as they produce complex challenges. Thus, Bauer et al. (2018) estimate that between 50 and 70 percent of acquisitions do not deliver their expected value.

The most critical phase for merger success is the integration of one company with another. As stated by Budhiraja et al. (2023), M&As consist of three phases, starting with a pre-merger phase, where the merger or acquisition is planned by evaluating scenarios and forming a strategy. This stage is followed by the transaction phase, where specific agreements about the transaction are negotiated and agreed upon, followed by the post-merger integration (hereafter integration or PMI) phase. The PMI is the most challenging phase, as in this phase an integrated organization is established to accomplish the common goals, which requires an understanding of process procedures and ties in and between organizations (Eulerich et al., 2022). Hence, the acquisition's success depends on a company's ability to handle the integration process (Haspeslagh & Jemison, 1991). When changes during the PMI are implemented poorly, this increases employees stress and job uncertainty, and they might resist changes, increasing the chance of failed acquisitions (Kansal & Chandani, 2014).

M&As are an important topic for organizational change and human resource management scholars and require strategic cultural management (Kansal & Chandani, 2014). Cooke et al. (2021) highlight the importance of achieving positive employee outcomes to foster their retention, commitment, and satisfaction as an important long-term goal for PMI success. As Haspeslagh & Jemison (1991) state, gaining participation from necessary people in the

company is key to PMI success. Especially in knowledge-intensive, innovative, and entrepreneurial (KIE) firms, gaining support from key employees during the integration is essential, as they build the foundation of KIE's competitive advantage (Ström et al., 2023). Despite the popularity of acquisitions among change management and organizational scholars, our ability to comprehend their complexity remains limited (Meglio, 2022). Moreover, our knowledge about PMI integration is especially limited for small and medium-sized enterprises (SMEs). These companies are defined by having a size between ten and 250 employees (European Commission & Verheugen, 2005) and are massively underrepresented in M&A research. As Weitzel (2011) states, while SMEs represent 99% of all businesses, most M&A research was conducted on bigger enterprises. According to Weitzel (2011), SMEs perform differently during integrations; however, he focuses on financial aspects. Ström (2024) argues that for knowledge intensive SMEs, partnership strategies with decentralized integration strategies, including no merged departments, work better, as autonomy is essential to keep valuable employees during M&As.

Despite this, there is limited research on the unique aspects of PMI changes in SMEs. Moreover, the employee perspectives of these changes in SMEs have not been focused on enough yet to understand how and why certain responses are triggered during PMI. By drawing on social and organizational identity theory, sensemaking and sensegiving, and organizational culture, this research aims to fill this gap to explore how PMIs are experienced by employees of SMEs from a human-centered approach. To build on an understanding of how employees in SMEs experience change during the PMI in acquisitions, this research poses the following questions:

RQ1: How do employees of knowledge-intensive SMEs experience the post-merger integration phase in mergers and acquisitions?

RQ1b: How do the experiences that employees have during the PMI shape their responses to change?

To answer these questions, the study utilizes a multiple case design with 18 semi-structured interviews of employees that have worked in SMEs when they were acquired. It highlights the importance of keeping culture and identity intact to keep employees engaged.

2 Theory

As stated in the introduction, employee responses to changes significantly influence the success or failure of an acquisition. As employees are not passive recipients of acquisitions, they

act on their agency, sometimes resisting the changes made during integration (Kansal & Chandani, 2014). Therefore, when many employees oppose the adoption of new practices, it hinders synergies and may result in failed integrations (Larsson & Finkelstein, 1999; Horton et al., 2024). Employee resistance is dependent on timing and integration actions (King et al., 2018; Horton et al., 2024). According to Horton et al. (2024), a slow, gradual integration reduces resistance, while fast-paced changes increase it. When employees do not agree with changes, it is common for them to leave the company, with diminishing results. Krug (2009) emphasizes that companies undergoing acquisition or merger experience significant fluctuations following integration, particularly with key employees like managers and executives. With them, deeply rooted company and industry knowledge leaves, creating a "brain drain". Hence, keeping key employees should be a valued goal of acquirers. On the other hand, employees can also support changes. To learn more about the employee's experiences driving employee change responses, I draw on three interconnected lenses. First, I turn to the social and organizational identity, which is reconstructed in acquisitions and tremendously shapes employee reactions during acquisitions (Giessner, 2016) and shapes employees' feelings of "who we are" as an organization and their identification with the company (Pratt et al., 2016). Second, I move to sensemaking and sensegiving to show how cognitive processes, and shared narratives influence how employees navigate or are navigated through chaotic, identity-threatening change. Lastly, I embed this process in organizational culture to analyze how differences in "how we do things" can be beneficial or disruptive to integrations.

2.1 Identity Reconstruction

Mergers and acquisitions challenge the social and organizational identity of employees. As Van Knippenberg et al. (2002) argue, from a social identity perspective, an M&A can be considered as two social groups that are formally reestablished as one single group. At the core, social identity theory is defined as an "individual's knowledge that he belongs to certain social groups together with some emotional and value significance to him of this group membership" (Tajfel, 1972, p. 292, as cited by Hogg, 2016). In other words, it articulates that individuals value and partially define themselves through the groups they belong to and shapes the way they behave towards these groups. While our social identity is defined by our identification with certain groups, these groups might change during the integration, and organizational identities newly constructed (Giessner, 2016). Organizational identity can be described as the sense of "who we are" as an organization (Pratt et al., 2016). Employees of the acquired firm in M&A scenarios often feel a loss of the organizational identity, as their company's name, practices, and symbols might be replaced (Van Knippenberg et al., 2002). Making the organizational identity part

of the employees' social identity is essential, as employees are more likely to support the acquisition if they can identify with the new organization and see themselves as "part of a winning team" (Giessner, 2016; Kroon et al., 2016). Hence, to reach positive employee change responses, it is important to create a shared identity that organizational members feel part of. This research aims to enhance the understanding of identity work in knowledge-intensive SMEs by clarifying how employees construct and reconstruct their social identities during integration processes.

2.2 Sensemaking and Sensegiving

Organizational identities are crafted through sensemaking and sensegiving, and so are employee reactions to change. Sensemaking is referred to as the process by which individuals cope with surprising, complex, or confusing activities (Weick, 1995). Put differently, it is the process by which people create, and construct meaning of their experiences and has become a popular subject of organizational studies (Lodgemann et al., 2019). Sensemaking actively shapes organizational identities. As Pratt et al. (2016) state, organizational identities are formed by discursive sensemaking processes, such as metaphors, narratives, and antenarratives, which may be destroyed during acquisitions. Accordingly, when organizational identities are destroyed during acquisitions, such events can lead to a loss of identity and identification with the company. To tackle the loss of identity, strategic acquirers invest in sensegiving to craft a new shared identity for the acquired company (Gioia et al., 2013). Sensegiving is the process by which sensemaking and the construction of meaning of others are influenced towards a desired outcome (Gioia & Ghittipeddi, 1991). The outcome can be realized in a unifying vision or set of values to connect the old identity to the new one. As employees frequently experience uncertainty and chaos during acquisitions (Routila, 2022), leading strategic change successfully requires leaders to actively engage in sensegiving (Lodgemann et al., 2019). Lodgemann et al. (2019) point out that effective sensemaking combines a convincing narrative with framing and reduces uncertainty and resistance. As such, it justifies change and answers "why" the change must occur while providing a unified vision. When leaders fail to craft a compelling narrative and a convincing narrative is missing, employees interpret the change on their own (Gioia et al., 2013). This research draws on the experience and interpretation of sensegiving efforts during integrations to further explore how sensemaking and sensegiving shape employee reactions in knowledge-intensive SMEs.

2.3 Organizational Culture

To craft a new, shared organizational identity that employees feel part of and support, it is not only important for leadership to craft a compelling, shared narrative—it is essential to align

cultures. According to the social psychological perspective of Schein (1990), culture is a pattern of common presumptions, developed by a group, which is widely considered as valid inside the group. Hence, in organizations, culture is the widely accepted unwritten set of values, norms, and behavioral rules that define "how we do things". While aligning cultures for synergies is central for integration success, different results on the effect of cultural distance on integration success were reported by previous research. Stahl & Voigt (2008) highlight that great cultural distances between acquirer and target increase frictions and costs associated with the transaction. Hence, if one firm, e.g., values equal teamwork while the other runs on hierarchical structures, workers on both sides might misunderstand or resist practices. Brede et al. (2024) empirically demonstrate how misaligning cultures can negatively affect long-term synergy effects between acquirer and target and innovativeness of the acquiring company. The culturally determined tensions during integrations are often referred to as "culture clash," rooted in a lack of understanding and respect for the other culture (Pan, 2024). However, the effect of distant cultures is not yet clear, as other studies highlight positive effects. Thus, Tarba et al. (2017), on a sample of Israeli high-tech companies, do demonstrate a positive effect of cultural difference between acquirer and target on integration effectiveness, leading to better overall acquisition performance. Prior studies also highlight positive effects of cultural difference, such as increased innovation and knowledge transfer (Sørensen, 2002; Pesch & Bouncken, 2017). The dominant position is that, on average, the costs of cultural differences outweigh learning benefits during the integration (Brede et al., 2024; Stahl & Voigt, 2008). As these studies highlight effects such as effectiveness, innovativeness, and overall integration success, smaller bodies of literature focus on how employees experience such differences. But they are key to understanding how cultural differences help or hurt, as they are affected by it.

3 Methods

3.1 Research Design

This study utilizes a qualitative research design based on an abductive approach, in line with Timmermans & Tavory (2012). This method was selected as it enables in-depth exploration of participants' experiences, which suits the research question best. Semi-structured interviews were used to cover a fixed set of topics to be covered across the interviews while allowing for flexible probing to further explore unforeseen themes emerging in the interviews. The study procedure includes exploring interview data using constant comparison to detect similarities and differences in participants' replies. This cyclical process of ongoing comparison involves

comparing specific pieces of information, which is performed several times to guarantee completeness.

3.2 Sampling Procedure

To include information-rich cases, this study used a criterion-based purposive sampling approach. Purposive criterion sampling is especially helpful for information-rich cases, as it allows selecting individuals who are particularly knowledgeable about a phenomenon of interest (Palinkas et al., 2015). The main criterion for participants in this study was to have worked for a knowledge-intensive, small or medium-sized enterprise (SME) during the time it was acquired, under the assumption that the subjects would provide in-depth experiences about the integration. To ensure that they had witnessed the PMI phase, the sample only included employees who stayed at least three months in the company after the deal announcement. The participants were recruited via LinkedIn. Thus, another criterion for participants was to have this information visible on their LinkedIn profile to identify their (previous) belonging to the company. The last criterion was the timeframe in which the acquisition happened. Thus, under the assumption that cases should not be too long ago but not too recent to ensure adequate memory of the case while ensuring experience, the time frame was set to M&A cases from 2021 to 2024. Via the LinkedIn Sales Navigator, I contacted over 400 current and former employees of the above-defined company. The acquired companies were found in project references from M&A consultancies. The process resulted in a sample of 19 current and former employees of small and mid-sized German software companies (Table 1) that were acquired by another company and thus either partially or fully merged with the buyer.

Table 1

Sample Structure & Case Overview* (N = 10) | Participants (N=19**)

Case	Acquired Company	Acquiring Company	Participants
1	DataBond Germany ≈35 employees SaaS customer-data platform	OmniReach Netherlands >250 employees Pan-European SaaS group	Lina – People & Culture Manager Maria – Revenue & Finance Steve – Senior Backend Engineer
2	SellSphere Germany ≈ 50 employees Sales-enablement software	DealMark Group Germany 51–200 employees Sales-software vendor	Elisa – Customer Success Frederik – Director Operations Vincent – Customer Success
3	BitVista Germany ≈ 25 employees Business-intelligence software	ProSoft Systems Germany ≈ 200 employees Business-software provider	Raphael – Head of Marketing
4	FlowMatrix Germany ≈ 130 employees	NorthPeak Partners Netherlands Private-equity firm	Frank – Project Manager

Case	Acquired Company	Acquiring Company	Participants
	Business-software developer		
5	SyncEdge Germany ≈ 40 employees Health-IT software	MedSecure USA ≈ 1 200 employees Health-IT software	Denise – Senior Sales Manager Bella –Inside Sales Manager
6	ShiftLogic Germany ≈ 66 employees Workforce-management SaaS	TechHaven Capital Germany Tech-focused private-equity investor	Thomas – Senior Product Manager
7	ProjectNexus Germany ≈ 80 employees SAP-HR specialist	CoreBiz Solutions Germany > 1 200 employees SAP consultancy	Mona – Team Lead People & Service
8	TalentBloom Germany ≈ 190 employees; HR-software developer	WorkWave Group Poland, > 500 employees HR-technology company	Marcus – Mobile Senior Product Designer
9	SupplyGuard Germany ≈ 50–100 employees Supply-risk-management SaaS	Sphereon United States, > 1 500 employees IT services & consulting	Franz – Vice President Sales Jule – Talent Attraction Manager Gerda – Agile Principle Manager Noa – Senior Marketing Manager Synthja – Agile Master
10	ProcessMeadow Germany ≈ 50 employees Business-process-management software	FlowSight United States > 3 500 employees Process-mining software	Julia – Recruitment & Customer Service Manager

*All company and participant names were anonymized with pseudonyms.
**While the number of Interviews is 18, the number of participants is 19. This is because the interviewees in case five held the interview together.

3.3 Data Collection and Analysis

The interviews lasted on average 38 minutes (min=22, max=56), depending on the depth of case experience shared by the interviewee. Due to the spacial distance to the interviewees, all interviews were held via online meeting platforms. A variety of different platforms were used to adapt to interviewees preferences, with most interviews being held via Zoom or Google Meet and one interview via Microsoft Teams. Upfront to the interview, participants were sent a consent form informing them about the study, explicitly asking if audio recording is accepted. Written consent for participation and audio transcription was given before the interviews in most cases. When no signed consent form was sent back before the interview, consent was given verbally in the interview. The first five interviews were recorded via the online meeting platform; the rest of the interviews were recorded with my laptop. The interview guide (see Appendix A) was designed to be theory-driven to include concepts and comprehend topics such as the acquired company's culture and identity pre- and post-acquisition, potential conflicts during the integration phase,

and how the acquiring company has changed its way of working. So, it was made to mimic the integration process, from the transaction announcement to the changes made and how they worked out, to reflect the interviewee's experience from start to finish or the exit of the employee from the company. The interviews were transcribed using the platform 'TurboScribe' and later revised for correctness.

The interview transcripts were analyzed by the principles of abductive analysis. To focus on theoretical development, the transcripts were coded selectively using the method of Glaser & Holton (2004). After the eighth interview, I began the first round of data analysis by repeatedly reading the interview scripts, identifying initial patterns in the data, and comparing these patterns to existing theory. By using alternative casing, I concluded that the experiences of employees were less explainable by institutional logics and more by sensemaking theory, as proposed by Weick (1995). Moreover, I turned to the work of Van Knippenberg et al. (2002) to focus on the social identity perspective during post-merger integration. Hence, I redeveloped the script to include the concept of sensemaking, resulting in a reworked interview guideline (see Appendix B). Moreover, I shifted the focus more towards chaos and lack of planning during the integration process, layoffs, and identity loss. Lastly, the number of questions was reduced in the reworked guideline to enhance the conversation flow. As many subquestions from the first interview guide were answered by the interviewee after the first question already, detailed questions were reduced to follow-up questions that were used in case of short answers.In line with Glaser & Holton (2004), I tested the emerging findings with new data, increasing the reliability of the method.

4 Findings

The findings reveal three prevailing patterns. First, a lack of strong sensegiving has led employees to experience chaos and uncertainty. Compelling sensegiving entails sharing a plausible, positive vision, while implausible sense-giving attempts end in one's own sensemaking with negative associations. A strong sense of giving is important for finding a common ground for a new, shared identity. Developing a shared identity that employees feel part of is essential, as it keeps employees engaged with the company. When employees do not feel part of the new identity, they react with withdrawal and exit. Second, an essential factor for identity deconstruction is personnel restructurings in the form of mass layoffs, as for employees, the team they work in shapes the organizations' identity. These mass layoffs threaten the identity and lead to the loss of valuable knowledge and chaos, leading to more exits. Lastly, an organization's identity is threatened when the acquiring company poses an opposing culture, scaring

employees away and making them feel powerless. The findings suggest that to hold employees and keep them engaged with the company, acquirers need to keep cultural elements and thus, the identity intact.

4.1 Lack of Sensegiving and Chaos

The analysis of the interviews displays a clear narrative about the experience employees live through in an acquired company. For most participants, the post-acquisition period was shaped by chaos and uncertainty, far from being a smooth, strategic process. The findings demonstrate how a failure in leadership to craft a compelling narrative of "why" the acquisition has happened and what future collaboration will look like leads employees to a stressful sensemaking process of figuring it out themselves. They underscore how a lack of strategy and intransparent communication during the post-acquisition period create a vision vacuum, which employees fill with negative interpretations and shock.

As discussed by Gioia et al. (2013), acquirers should invest in sensegiving to reduce ambiguity during PMI and craft a unifying vision. The importance of a successful, compelling narrative of the "why" and "how" is best illustrated by Steve, who describes an outstanding positive example. Steve has experienced two different acquisitions and contrasts his chaotic experience with DataBond with a prior acquisition of Salino by the software market leader FLB.

> With Salino FLB it was a bit different. ... There it was much more planned. And it was clear that Salino was going to be a fixed part of this cloud-first strategy of FLB. ... Because Salino is the best product. So there was a very clear focus on communication. You are the startup that delivers really well. And you are worth being integrated. We rely on you. You are important for the future of FLB. ...I think it was a bit of a division (compared to DataBond). What happens now? And with Salino FLB it was already clear. It fits in super well. That's how it will work in the future.

This statement showcases how strong sensegiving can set a clear, positive narrative. In the acquisition of Salino, FLB provided powerful, compelling sensegiving. Steve describes how FLB provided a clear narrative of why the acquisition happened, stating that 'Salino is the best product' and, with a 'clear focus on communication,' shaped a vision for Salino's employees by stating, 'You are important to the future of FLB.' In this approach, it was already clear to Steve what was going to happen with Salino, leaving little room for speculation. Hence, he accepted the sensegiving narrative given by FLB.

Employees who reject the provided narrative create their own interpretation of the events. As discussed by Lodgemann et al. (2019), the narrative given by leadership has to be compelling to be effective. This scenario can be illustrated in the case of Frank, when being asked how the acquisition was announced. Frank had worked as a project manager for FlowMatrix, a German business software developer, when it was acquired by NorthPeak Partners, a Dutch private equity firm.

> We were all very surprised. We were all sitting inside and afterwards the chin was down because a relatively clear anticipation developed in my head. It was a shock for me. It was very loud and for me also very intransparent and also unfounded. I had to bite my tongue not to ask if we were really so naive and so unperturbed that the had to explain to us what a gracious favor is done to us thereby. But I was already a bit in the offbeat. I didn't fit in anymore. You know, maybe I'm not there anymore. That was also one of the failings.

Frank's case displays how a lack of compelling sensegiving forms its own negative anticipations. As he describes how 'intransparent and also unfounded' communication regarding the acquisition goals has frustrated him and led him to develop an anticipation in his mind of what was going to happen, making him feel like he did not fit in anymore. It illustrates how a failed sensemaking attempt leads to a loss of identification with the company.

While Frank's example highlights a lack of transparent communication on the post-acquisition strategy, many acquirers do not even seem to develop one, even serial acquirers. When a sensegiving narrative is not given during integration, employees are left in chaos and uncertainty (Routila, 2022). How this is experienced by employees is best displayed by Maria's case with DataBond, when she was asked about tensions during the integration of her company into the buyer's.

> On the one hand, we actually hoped that we would be taken more by the hand. OmniReach had bought ten or eleven companies in the year and the spring. And then we expected that they had their list of to-do's that they had to work through after such a standard process. And that was not the case at all. They were felt just as chaotic as with the first purchase. And then we often had to work as a company what we actually had to do for the technical integration of our software products, but also to

integrate us in the company construct. ...As a result, 90% of the management have quit.

Maria's case illustrates the absence of an integration plan or vision. Employees were left to improvise an integration plan themselves, leading to chaos in the process and, ultimately, mass resignations by the management. The resulting sensemaking process of the employees was chaotic, as predicted by Routila (2022). It demonstrates how a coherent strategy and narrative are not optional but essential for employee support during the integration.

The findings highlight the importance of a transparent, cohesive narrative that builds a credible shared vision for employees. When communication is perceived as intransparent, employees do not trust the narrative and build up their speculations. Further, when a narrative is lacking, integration is left for improvisation by employees; the resulting chaos leads to mass resignations. This process paves the way for the core problems that the following sections will discuss.

4.2 Personnel Restructuring and Identity Loss

Organizational identity is not only threatened by weak sensegiving narratives but also by personnel restructuring, resulting in brain drain, chaos, and voluntary turnover.

Holding key employees is essential during acquisitions, as they hold key knowledge and form a vast part of the organization's identity (Krug, 2009; van Knippenberg & van Schie, 2000). However, many acquirers did not seem to hold interest in keeping employees, as Marcus's example shows. Marcus is a former mobile senior product designer for TalentBloom, an HR software developer from Berlin, Germany, and illustrates how the company wanted to kick him out after it was acquired by the Polish WorkWave Group.

They didn't want to keep me. ...So I thought, what's better, to get fired or to resign?.... And I just resigned. ...But I only resigned because I already had another job. ... Because I don't remember the name, but when I was working for Fling, my latest company in Stuttgart... It was pretty small, like six, seven people. But they already said, like, we just want them for the technology. We might keep one, two people and the rest, like, fire them. Because when you buy another company, you don't want the people. You don't want the talent. You want the product. And that's the truth. It's hard, yeah, but that's what companies do.

Marcus describes how he was set to the decision to resign or be let go, describing that 'they wanted me gone.' The company prioritized the value of the product over that of the employees, risking a diminished identity and the loss more valuable employees. After all, Marcus left the company by his own decision, fearing a negatively connotated dismissal.

When the team changes, the organizational identity is threatened (Krug, 2009), leading remaining employees to resign. How this is experienced by employees can be seen in the example of Steve, as he describes the integration process with DataBond.

> ...There was a feeling that the team could fall apart. Of course, officially you were happy about everything. But I already had the feeling that there was a bit of a thought in other people's heads. How is it going to be now? It's not really DataBond. It's a bit different now. Maybe I have to look for something else. I don't know. It was an indirect loss of trust. The problem is that the company can't do much. That's just what creeps in.

Steve's case highlights how a feeling that the team could change leads to uncertainty about 'how is it going to be now?' stating that 'it was not the same company after all.' This scenario clearly describes a loss of organizational identity, connected to uncertainty about the future, based on possible changes in the team. It displays how employees stay in a company or resign, based on their estimation of what their colleagues will do. While this is in line with the predicted exits by Krug (2009), it adds up on this by showcasing that only the fear that the team can change can be enough for employees to leave. For Steve, the merger has led to an 'indirect loss of trust.' Later in the interview, he stated he had left the company a few months post-acquisition.

Companies often make cuts in staffing to save costs during PMI (Feldman & Hernandez, 2021). Staff cutting does not only hurt the organizational identity, but it can also lead to chaos and brain drain (Krug, 2009), as well as vaster structural drawbacks, as the example of Vincent shows. Vincent describes how layoffs of whole teams have led to chaos and voluntary co-exits. At the time of the acquisition, Vincent was a customer success manager at SellSphere, a German software developer firm for sales enablement with about 50 employees 'pre-acquisition, which was bought by the DealMark Group, a sales software vendor with over 150 employees.

> We had a complete product team at SellSphere, which basically built everything internally. That has now been thrown out. ... I guess either all the tools were used by DealMark or they themselves have a product team that takes over everything. How

that went, I pulled myself out of there because it was too chaotic for me, too unstructured. ... I'm still in contact with my colleagues and the other half has also announced that they are all gone. And it's going down the river right now. So, they don't get the curve at all so far. At least what I hear from them now, that they pass on that it is not necessarily ideal and that the buyer has probably played a little with the numbers because he was too busy with it. ...He just bought it and now he realizes, oh, it's not that simple at all. ...I'm doing something similar with the other company and all the former customers are switching to us.

Vincent highlights what happens when acquirers aim for a cost reduction synergy as 'they themselves have a product team' but underestimate the consequences. In this case, the dismissal of the whole product team led to chaos and mass exits and the brain drain, as discussed by Krug (2009). He describes how seeing that has made him resign as well, as for him it was 'too chaotic' and 'too unstructured.' Vincent's case highlights how radical personnel decisions make the remaining employees resign willingly, leaving the company behind expectations and taking customers with them. Therefore, when companies let go of key employees or entire teams who have developed the product or interacted directly with clients, they lose valuable information and relationships.

The findings highlight how companies' focus on short profits connected to mass layoffs can have chaotic drawbacks. While companies frequently do not focus on holding talent, letting go has shown to have destructive consequences for the company, leading to a loss of identity and chaos, making remaining employees resign.

4.3 The Importance of Culture

Chaos and mass exits were further amplified when opposing cultures were forced to come together, leading to psychological withdrawal, disengagement, and eventual exit.

A strategic vision is not only important for developing a clear sensegiving narrative but also for assessing synergies of the companies prior to the acquisition. While distinctive cultures can clash with each other (Bauer & Friesl, 2022; Brede et al., 2024), they have also been seen to increase innovativeness and knowledge transfer (Sørensen, 2002; Pesch & Bouncken, 2017). A case drawn by Frederik shows a clear example of how employees experience opposing cultures. Frederik has worked as Director of Operations and People with SellSphere when it was acquired by the DealMark Group in July 2024.

I think the investor who took over now, that was already a very traditional company, which also looked at profits or costs relatively quickly. …I would say there are almost only five people left. In this case it was extremely so that corporate cultures clashed with each other. …That was a very, I would say, trust-based startup. …It was very open, remote work, hybrid work, no problem at all. I would say maybe also partly a little bit too people-oriented, a little less performance-oriented in my opinion. …Then that was exactly the complete opposite… super strict. That clashed with each other. …I think that also scared people very much.

Frederik's case depicts how opposing cultures scare employees and lead them to resign, according to the predictions of Bauer & Friesl (2022) and Brede et al. (2024). By illustrating how a traditional, profit-focused company has taken over a 'trust-based startup,' Frederik draws the perfect example of a cultural misfit that results in a culture clash. New, stricter practices frightened employees, making them feel like the people-oriented culture has turned 'exactly the complete opposite.' It highlights how an opposing culture of the acquiring company can feel threatening to employees of the target, leading them to resign.

However, not all employees dissatisfied with the developments in a company leave directly, as they might resist the changes (Horton et al., 2024). Contrarily, the most common reaction during this study was to slightly care less about the company, disconnect, and leave after some time. Synthia, formerly working for SupplyGuard, describes how she became disconnected from and ultimately left the company.

As soon as the email [announcing layoffs] was sent, I started looking really for a new job. So I didn't care that much anymore. I cared about the people that were still there. … But yeah, from my perspective, I just disconnected. … I couldn't identify at all with the culture of the company. … The lack of asking, you know, the lack of coming to people and saying, hey, this is what we're thinking. Do you want to do it? Do you feel like part of this? I couldn't identify at all with the culture of the company.

Synthja's example displays the most frequent form of employee response during this study that is distinct from resistance or support: a silent exit. She describes how a combination of impersonal layoffs and a lack of consultation has led her to disconnect from the company and not care that much anymore.' Synthja's case demonstrates how withdrawing from the situation is a rational reaction to denied agency and a threat to professional identity.

Disengagement and psychological withdrawal were further fueled by opposing cultural aspects such as leadership style. This further diminished personal agency, leading to frustration and resignation, as Maria illustrates with her experience at DataBond after the acquisition by OmniReach.

I talked to the CEO several times and I noticed that there was a stronger wind blowing. A decision was then made and it didn't matter whether it was possible or not, he wanted it that way. And then everyone had to be behind it, to implement it that way. And I didn't feel like I belonged there, if you had other suggestions or argued that it actually didn't make much sense, but he just wanted it that way and then you did it that way. That was my first impression. But I also only worked with him for two or three months and then I left.

Maria describes the CEO as making decisions without caring if the execution is possible and not listening to suggestions. That has led Maria to the feeling that he pushed decisions that 'didn't make much sense,' leading her to not feel like she 'belonged there' anymore.

Preserving the culture enhances chances for a successful integration. This is seen in the outstanding countercase of Mona, team lead for people and service with ProjectNexus, who reported that they were able to keep most employees, thanks to preserving the culture.

So there were no releases. The fluctuation increased compared to before. But I would not push that on the purchase alone now. Okay. Simply because we had a very, very low fluctuation before. But then we also grew very strongly with the years of buying, sometimes regularly 20, 25 percent. And then it just sets the probability that even more people will leave. ... I can imagine that a small share had a reason in the purchase. Definitely. But I would not say that it was blatant that a lot of people left.

Later in the interview, Mona reported that her team was able to preserve the culture, emphasizing that it 'holds a lot together'. The case highlights the outcomes that occur when the employee sensemaking process after an acquisition is not dominated by negative cues and the culture can be preserved.

The findings highlight the importance of preserving cultural elements to keep employees and keep them engaged. When cultures clash, they clash; it leads to chaos and uncertainty and

mass exits. They are experienced as scary by employees. While many employees do not quit directly, they quit internally before ultimately resigning. Additionally, changes in leadership cause employees to lose their identification with the company and disconnect before they ultimately leave. Lastly, it highlights how they not only resist or support changes; rather, they disengage and withdraw when drastic changes occur.

5 Discussion

This research explored how employees experience the PMI (post-merger integration) phase in the acquisition of knowledge-intensive SMEs by using the lenses of sensemaking and sensegiving, social identity, and organizational culture. Regarding the research question RQ1a: *"How do employees of knowledge-intensive SMEs experience the post-merger integration phase in mergers and acquisitions?"* the findings demonstrate how employees' experiences and their responses to change are deeply shaped by chaos in integrations, the presence or absence of compelling sensemaking, and personnel restructuring in relation to identity change. Regarding the second research question, RQ1b: *"How do the experiences that employees have during the PMI shape their responses to change?"* the findings show that the aforementioned factors often lead to disengagement, loss of identity, and exits, which ultimately cause employees to resign. To keep employees engaged, the findings call for acquirers to respect and keep cultural elements of the acquired company. Next, I will discuss the findings in greater detail and connect them to previous research, explaining how they enhance our understanding of employee responses in mergers and acquisitions (M&A).

5.1 Main Findings and Theoretical Implications

The findings of this research confirm the central role of sensemaking and sensegiving in navigating the chaotic process of post-merger integration, as emphasized by Gioia et al. (2013) and Lodgemann et al. (2019). When leaders craft a compelling, sensegiving narrative that forms a shared vision of the company's future, employees adopt the narrative and make sense of the merger in the management's intended form. This behavior is in line with effective sensegiving as defined by Gioia & Ghittipeddi (1991). The case with FlowMatrix highlights that when sensegiving is attempted but not compelling, employees do not adopt the narrative shared by the acquirer, in line with Lodgemann et al. (2019). In the employees' experience, that leads to a stressful sensemaking process in the form of a negative anticipation and a direct loss of identification with the company, paving the way for an exit. Maria's case with DataBond reveals that though a detailed integration plan is advised (Gioia et al., 2013), even serial acquirers might not develop a clear integration plan or narrative. The resulting chaos leads key employees to resign, resulting in

a loss of deep company knowledge, as discussed by Krug (2009). Thus, the research expands on previous research by delving into the employees' experiences on how a lack of sensegiving appears in PMI. It showcases how chaotic integrations challenge employees sensemaking

Secondly, the findings underscore how a narrative that employees can be replaced can underestimate the complexity of reactions. They demonstrate how personnel restructuring threatens organizational identity and employee's identification with it. Thus, while it is known in theory that keeping key employees should be a main motive during PMI phases (Krug, 2009), the narrative that employees can be replaced directly and easily seems to be a common motive for some acquirers. The narrative of 'They wanted me gone... They only want the product' Given by Marcus, it clearly describes companies' priority for the product over the people, risking an identity loss. Steve's case highlights this identity loss, as only the fear of team changes has led him to lose trust and feel a change in the company 'creeping in'. Moreover, they confirm the "brain drain" introduced by Krug (2009), as Vincent's case with SellSphere showcases, with the layoff of the whole product team ultimately leading to chaos and the exit of left employees and customers. The findings add to previous research by providing nuanced perspectives, demonstrating that employees experience layoffs as a threat to their identity. This perception fosters disengagement and withdrawal, which supports and expands on Giessner's (2016) prediction that identity threats risk employee support for integration.

Lastly, the findings support the view of Stahl & Voigt (2008) and Brede et al. (2024) that cultural misalignments pose challenges to post-merger integration (PMI). They demonstrate the value of assessing cultural differences upfront and addressing them properly. Frederik's case showcases how employees in a trust-based startup perceive opposing cultures as frightening, leading them to resign. However, actual resistance to changes is rarely the case. Synthja's example illustrates the internal processes that employees undergo during these phases, which include withdrawal and disengagement prior to leaving. It showcases how when employees endure changes that they cannot influence, they care less about the company, meaning they do not identify anymore and resign internally before quitting. The outstandingly positive case of Mona with ProjectNexus further cements the importance of respecting and preserving the culture to reduce turnover and keep engagement and support.

5.2 Practical Implications

Given the chaotic nature of the integration phase, acquiring companies must assess the complexity of the process strategically and address possibly emerging challenges upfront. As the findings show, even serial acquirers often do not engage in enough planning. Moreover, the findings call for strong sensemaking in the form of a transparent, plausible, positive, unified vision

for the company to reduce uncertainty and chaos. These requirements might include sharing the "why" and "how" of the transaction. The findings highlight that companies might underestimate the long-tailed outcomes of drastic staff reduction, calling for deliberate planning and consideration before mass layoffs and only enacting such in the last instance. Lastly, companies must assess cultural differences more thoroughly before acquisitions and keep essential cultural elements of the acquired company.

5.3 Limitations and Future Research

The qualitative approach of the study enabled in-depth exploration of employees' experiences and triggers for change responses during integrations. By doing so, the research contributes to shedding light on the underrepresented "people side," especially in SMEs. Using an abductive approach has allowed for flexible data collection and benefited the nuanced theoretical contribution of existing theories for sensemaking identity and culture in M&As.

However, there are limitations regarding the methodology used. The most profound limitation is the constitution of the sample. While an approximately equal number of each of the former employees and current employees of the acquired companies were contacted on LinkedIn, many former employees that have already left the company answered and, thus, are more represented in the sample. Current employees who still work for the respective companies might have felt less comfortable sharing sensitive information during the interview and thus responded less. Moreover, individuals who had strong negative memories of the experience likely felt a stronger motivation to participate in the study. This suggests that the experience made of these employees not matching the average experience of employees made during integrations. While the qualitative design allowed for in-depth exploration of employees' experiences, it leaves out the perspective of the acquirers, which might offer another perspective on the situation. While the multiple case design provided useful knowledge about multiple different companies, it leaves out important information, especially for cases with only one interviewee. Moreover, as each acquisition brings a different integration phase as they were integrated to different degrees in the acquiring organization. Thus, while some companies have been fully merged with the acquirer, others stayed mostly independent. Upcoming studies should therefore address how the degree of integration matters. Further, access to more reliable data on fluctuation or vision sharing, based on internal company data, would have led to more precise data. Lastly, the data only displays memories of the participants within six to 24 months after the acquisition. Hence, the study poses a risk for recall bias in reflecting on the issues.

Future research should address these limitations by comparing cases more systematically to better capture the chaos and complexity of integrations. Furthermore, more

nuanced, qualitative research should focus on the mechanism behind the psychological withdrawal from the company.

5.4 Conclusion

This research contributes to the knowledge of employee's experiences during PMI phases. It does so by drawing on the lenses of sensemaking, sensegiving, social and organizational identity, and organizational culture. In doing so, the finding shows how these lenses are interconnected and essential factors for influencing employee responses during PMI. It reveals how experiences made by employees in integrations are deeply shaped by chaos and uncertainty, which can be addressed by thorough planning, strong sensemaking, and keeping the culture of the acquired company intact, as they shape employee's identification with the company and thus their responses.

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Appendices

Appendix A: Interview Guideline 1.0

0.1 General perception of the M&A process

    a) How did you first hear about the takeover?

    b) What were your first thoughts and feelings?

    c) What were the main sources of information (official announcements, rumors, colleagues, etc.)?

    d) How transparent was management during the process?

    e) Has your perception changed over time? If so, how?

1. Values and decision-making principles before the takeover

    a. How would you describe the most important values and principles by which your company operated before the takeover?

    b. What was particularly important in the organization of work and decision making?

    c. How were important business decisions made and justified in the company before the takeover?

2. Perception of the buyer company's values and way of working

    a. How do you perceive the values and way of working of the company that took over your business?

    b. In what areas does Spotler's way of working differ from that of Crossengage?

    c. How were these differences in working practices and decision making explained to employees?

3. Conflicts and adjustments in the integration of the two companies

    a. Did you experience any tensions or conflicts between the two companies during the integration? If so, in which areas?

    b. How did management address these differences?

    c. Were employees encouraged to adopt new values and ways of working? How did you react to this?

    d. Did you feel you had to adapt your way of working? If so, how did you deal with it?

4. Communication and explanation of the changes

    a. How was the purpose of the takeover explained to employees?

    b. Did management explain how the two companies would work together?

    c. Did you have the opportunity to ask questions or talk about the changes?

5. Impact on the corporate image and culture
    a. Has the takeover changed your image of the corporate identity?
    b. Have you felt a change in what is considered particularly important in the company? If so, how?
    c. How have employees reacted to changes in traditions, policies or norms?
6. Adaptation and resistance
    a. How have you personally adapted to the changes in priorities, decision-making processes or values?
    b. Was there resistance to certain changes? If so, why?
    c. Were there strategies to preserve old ways of working or values?
7. Long-term impact and integration
    a. Looking back today: Did one of the two ways of working prevail, or is there still a mix of both?
    b. How have employees influenced the integration of the different ways of working?
    c. Do you think the new values and ways of working have been fully accepted or are there still tensions?

Appendix B: Interview Guideline 2.0

1. Introduction & Timeline
   - Main question: When and how long had you been with the company when the takeover was announced?
   - Follow -up, if short: Draw me a little timeline: Announcement to today. Where were the three biggest turning points?

2. First perception of the deal
   - Main question: How did you first hear about the sale and what was your initial feeling?
   - Follow -up: Who told you that and in what setting? What did you do immediately afterward or who did you tell first?"

3. Information sources & trust
   - Main question: What sources of information did you rely on in the first few weeks (rumors, town halls, Slack...)?
   - Follow --ups: Which source did you believe the most and why? Were there any contradictions between the sources?

4. Before -Culture
   - Main question: What values and decision-making principles shaped the company before the takeover?
   - Follow -ups: Tell me a concrete example where these values were visible. Which symbols or KPIs were the focus at that time?

5. Buyer's culture
   - Main question: "What values or working practices do you think the buyer embodies today?"
   - Follow -ups: How do you determine this – policies, language, tools? Was there a symbol (e.g. B. new dashboard or ritual) that made the new logic tangible?

6. Structural integration
   - Main question: What has -specifically changed in terms of structure or process structures (teams, reporting, tools)?
   - Follow -ups: Which parts remained autonomous, and which were quickly integrated? How did you notice who was really making the decisions now?

7. Culture -collisions & hybrid practices
   - Main question: Were there moments when the two 'rules of the game' clashed?

- Follow --ups: Describe the most intense conflict – where, who, what was it about? Did it result in a new, mixed way of working?

8. Communication & Meaning-making
   - Main question: How did management try to explain the purpose of the acquisition?
   - Follow -ups: What story was told? Has it changed over time? What questions remained unanswered?

9. Identity & Belonging
   - Main question: Do you still feel like a part of your old company, the buyer, or both?
   - Follow -ups: When did you first notice that your identity was shifting? Which rituals or symbols strengthened or weakened your sense of belonging?

10. Personal Agency
    - Main question: "How did you react to the changes – adapt, shape, resist?"
    - Follow -ups: Give an example of active resistance or adaptation. What freedom did you have to design things yourself?

11. Long-term outcome

    - Main question: When you look back today: Which logic dominates, or do both exist in parallel?
    - Follow -ups: What tensions remain? What would have to happen for things to really run smoothly?

Appendix C: Search Log

Date	Database	Search string	Total hits	Remarks
28.02.2025	Scopus	("mergers and acquisitions" OR "M&A") AND ("employee" OR "workforce")	~4,500	~12 relevant articles
28.02.2025	Web of Science	("M&A" OR "merger") AND ("review" OR "overview")	~1,500	~9 relevant articles
04.03.2025	Inderscience Publishers	("M&A" OR "merger") AND ("SME" OR "small and medium enterprise")	~230	~10 relevant articles
04.03.2025	Google Search	"European Commission" "SME definition" "user guide"	~5,200	~1 relevant article
20.03.2025	SAGE Journals	("institutional theory" OR "institutional logics") AND ("competing" OR "multiple")	~1,100	~2 relevant articles
10.04.2025	Academy of Management Journal	("mergers and acquisitions" OR "M&A") AND ("institutional logics")	~45	~5 relevant articles
28.04.2025	Wiley Online Library	("M&A" OR "merger") AND ("sensemaking" OR "sensegiving")	~190	~3 relevant articles
28.04.2025	Google Scholar	"sensemaking" AND "strategic change"	~11,500	~4 relevant articles
09.05.2025	SAGE Journals	("merger" OR "acquisition") AND ("social identity" OR "organizational identification")	~480	~4 relevant articles
09.05.2025	Google Scholar	"social identity theory" AND "organizational change"	~6,000	~6 relevant articles
21.05.2025	ScienceDirect	("M&A" OR "merger") AND ("organizational culture" OR "cultural distance")	~980	~9 relevant articles
21.05.2025	SpringerLink	("M&A" OR "acquisition") AND ("cultural integration" OR "culture clash")	~750	~5 relevant articles
30.05.2025	Wiley Online Library	("merger" OR "acquisition") AND ("synergy" OR "value creation") AND "culture"	~600	~7 relevant articles
19.06.2025	Google Search	"M&A trends"	>50,000	1 relevant article

Appendix D: AI Statement

During the creation of this thesis, several AI tools were used. Following, I state which tools I used and how I used them.

The QuillBot Grammar Checker (https://quillbot.com/grammar-check) was used to correct grammar mistakes and improve the readability of the report. Hence, a small minority of sentences was reconstructed with this tool for simplicity. While applying, I carefully checked if suggestions would have changed the meaning of my sentences and revised changes on my own. With that, I declare that I am fully responsible for the correct use of words and sentence structures.

I used ChatGPT (https://chatgpt.com/) for brainstorming and idea collection. Thus, I used the generative AI to broaden my thinking and explore various research topics related to the PMI phase in M&A. While the idea was initiated by myself, I used the tool to gain a first overview of possible theoretical lenses, such as institutional logics or sensemaking. After gaining an overview of different lenses, I continued researching by myself to assess which lenses would fit my purpose best. Additionally, I collaborated with ChatGPT to brainstorm potential topics for the interviews. While some suggestions from the AI were accepted by me for the final interview guidelines, I revised them carefully and implemented my own ideas of which questions would best resemble my research purpose, in comparison with literature on the theories. Thus, the resulting interview guidelines and their ability to reflect the concepts of interest are up to my own responsibility.

As stated in the methods section, TurboScribe (https://turboscribe.ai/) was used for interview transcription. Audios from the interviews were uploaded on the website and transcribed by its AI-enhanced transcription service. The scripts were then corrected by me for correctness. By that, I am fully responsible for the correctness of the content in the interview scripts.

The citation generator by Scribber (https://www.scribbr.com/citation/generator/) was used for APA reference creation and management by the use of the browser extension for Chrome. The correctness of the citations was later checked by me; thus, I take full responsibility for their precision.

Appendix E: Ethical Approval

This study was reviewed and approved for the ethical aspects by the Humanities & Social Sciences (HSS) Ethics Committee of the University of Twente. By thus the research received a positive advise on the 15th of April 2025 under the application number 250691.