



2015

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Recommended Citation

(2015) "Employee Wellness Declines During Mergers and Acquisitions," *Intuition: The BYU Undergraduate Journal of Psychology*. Vol. 11 : Iss. 2 , Article 5.

Available at: <https://scholarsarchive.byu.edu/intuition/vol11/iss2/5>

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Employee Wellness Declines During Mergers and Acquisitions

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*Intuition: The BYU Undergraduate
Journal of Psychology*

Abstract:

Proposed corporate mergers and acquisitions in the US can have negative consequences for the employees who are involved.

For individuals who are laid off, the consequences may include anger, stress, and health complications. For employees who remain with a company, the consequences include feelings of powerlessness, dissatisfaction, and lack of motivation. Employers should focus more on the psychological well-being of the employees who are involved by offering financial counseling, emotional therapy, job fairs, and skills training.

Doing so could lower employee turnover, raise employee morale, and increase motivation.

In the US, 80% of Fortune 100 companies engage in proposed mergers and acquisitions (M&A) as a strategy to increase growth and profits (Harding & Rovit, 2004). However, the employees of the corporations involved are often dissatisfied with the results of the M&A process (Cartwright & Cooper, 1993). In fact, the layoffs that commonly occur in the process can lead to employee distress and the reduced psychological well-being of employees. Health complications, emotional problems, and social anxiety are not uncommon (Shermon, 2011). These challenges can be detrimental to employee satisfaction and wellness. These feelings can have a significant impact on employees' professional performance and may also have an immediate impact on their personal lives. Maintaining awareness of these issues helps managers keep employees engaged in the employee' roles (Fernandes, Knowles, & Erickson, 2009).

A corporation may pursue several forms of aid to employees going through the M&A process. For example, clear communication across a series of well-timed announcements can have a positive impact d (Hill & Wiener, 2008). Providing resources, such as, personal counseling, financial planning, job fairs for those who are leaving, career counseling, and fair

compensation packages send a clear message that the work of past, present, and future employees is valued (Krumboltz, 2011). Providing these resources can send a clear message that can enhance a company's reputation by showing a strong commitment to helping employees as workers go through a tumultuous period in their lives.

Factors in M&A

Bohin, Daley, and Thomson (2000) listed seven reasons that companies propose M&A:

- Create and exploit synergies
- Increase market share
- Protect markets by weakening or eliminating rivals
- Acquire products and/or technologies
- Strengthen the core business by expanding in areas of greatest competence
- Gain footholds in other countries or continents
- Achieve critical mass or competitive size (p. 226)

It is interesting to note that the list pays no regard to the impact the eventual decision may have on employees within the companies that are involved. Consequently, the term M&A often elicits negative emotions in employees and has negative attributes (Cartwright & Cooper, 1993).

Employee Anxiety During M&A

During M&A, employee anxiety tends to increase due to the prospect of layoffs. According to Aamodt (2010):

. . . From a health perspective, victims of downsizing report increases in headaches, stomach upsets, sleeping problems, cholesterol levels, physical illness, hospitalization rates, heart trouble, hypertension, ulcers, vision problems, and shortness of breath. Emotionally, victims report high levels of stress, increased drug and alcohol abuse, more marital problems, and feelings of depression, unhappiness, anger, frustration, and dissatisfaction with life. Socially, victims are reluctant to share their feelings with friends, avoid family and friends due to feelings of embarrassment and shame, and avoid social situations and entertainment requiring money. (p. 540)

If laid-off employees are unable to adjust effectively, it could delay their ability to find new employment be financially and emotionally detrimental.

Employees who remain within the company following M&A (commonly known as “survivors”) may also have difficulty adjusting to the changes that result. It may become

difficult for employees to focus on their tasks because of worry about their future with the company. Levels of job satisfaction and commitment to the company tend to decrease during M&A (Moron & Panasian, 2005).

Shifting Corporate Views of M&A

Because of the high failure rate associated with M&A, companies have begun to place a higher priority on the employees who are involved with the M&A process as these employees can be influential in aiding the M&A process to be successful (Allen & Weiner, 2008). In the past 15 years, there has been an increased emphasis on the importance of employee wellness during the M&A process. Sculer and Jackson (2001) asserted that the loss of talent within companies may be a primary factor in the success or profitability of M&A. Retaining talented or otherwise experienced employees has become a top priority for companies pursuing M&A. Many employees harbor concerns about the M&A process, concerns related to what is known as a “psychological contract” between employees and their employer. The contract is defined as a set of unwritten expectations that define the employer-employee relationship (Wharton School of Business, 2005). These expectations generally include the employee pledging loyalty

to an organization and, in return, receiving job security (Hart & Thompson, 2007). Altered perceptions of the validity of this contract by employees following M&A may have a large impact on employees' thoughts, beliefs, and attitudes about the company.

Telecommunications mega-mergers: Impact on employee morale and turnover intention.

Chambers and Honeycutt (2009) discussed the impact of M&A on the telecommunications industry. They cited the effects of AT&T's sale and purchase of several companies in an effort to increase the parent company's portfolio. The Communications Workers of America, a union that dealt with AT&T during the mergers, represented employee interests and concluded that the M&A "had the greatest impact on low morale and generally high turnover intentions...being merged or acquired has a pervasive, negative impact on every aspect of how an employee views his organization" (p. 45).

Retaining Key Talent During M&A

Retaining key talent during the M&A process is crucial to ensuring its success. Kay and Shelton (2000) reported a survey of professionals who were involved in M&A and asked them to rate a variety of "people issues". The four that

were considered most critical for success were the retention of key talent (76%), communication (71%), the retention of key managers (67%), and an integration of corporate cultures (51%). The authors concluded that:

. . . People problems are a major cause of failed mergers, and you must ensure that most if not all of the people you want are still in place at the end of the integration period. This is best achieved by carrying out an employee selection process whose pace and substance match the kind of merger involved. (p. 32)

Schuler and Jackson (2001) emphasized four major concepts that should guide companies desiring to retain key talent negotiating financial deals with key employees, giving retention bonuses, writing employee agreements before the integration begins, and managing the communication process.

Each of concept points to ways that companies may incentivize an employee to stay. The first three are monetary. Regarding the fourth, Moran and Panasian (2005) stated:

. . . Any failure to communicate leaves employees uncertain about their future and will lead them to seek other means to reduce this uncertainty, such as reliance on rumors and other means of informal

communication, which are not an effective means of reducing anxiety since they tend to focus on negative and often inaccurate information. (p. 3)

The Psychological Contract

Creating a psychological contract between employees and the companies they work for may also be valuable during M&A. As stated earlier, this contract is based on the expectations that exist between employees and an organization (Tomprou, Nikolaou, & Vakola, 2012). For example, companies may agree to provide monetary compensation to employees in exchange for employees' formal commitment to remain with the company. When M&A are proposed, organizations may run the risk of violating the psychological contract, as expectations it contains may change. According to Tomprou, Nikolau, and Vakola (2012):

. . . [E]mployees who realize that their organization has broken its promises experience negative feelings that can have an impact on both job satisfaction and organizational commitment. Company executives should be aware of this potential source of decreased job satisfaction and organizational commitment to act quickly on broken promises and negative feelings that

may follow. In addition, understanding the nature of psychological contract breach and feelings of contract violation in relation to organizational change might be useful in identifying the most appropriate process for addressing employees' emotional responses....

When considering this finding, one should look at trust building as a way of preventing psychological breach and violation. Trust is not a new concept since it is found to be positively related with various positive work behavior and organizational outcomes. Managers are advised to foster perceptions of trust...and create appropriate conditions for psychological contract fulfillment. (pp. 401-402).

Experiencing organizational change in Greece: The framework of psychological contract.

A study conducted in Greece examined how organizational changes impacted psychological contracts in the banking sector (Tomprou, Nikolaou, & Vakola, 2012). Because of the nation's economy, banks' business environment changed, requiring them to shift their operating practices and to downsize. The goal of the study was to determine whether banking employees had perceived a breach in their

psychological contracts. The authors reported that employees experienced a breach of the contract, which negatively impacted their performance. Although they understood that downsizing may have been necessary for the banks' survival, they still felt stressed, angry, and betrayed. They dealt with their frustration in different ways, but employees who seemed to handle the downsizing best were those who had not planned to stay with their bank for a long period of time.

Discussion

When undergoing M&A, organizations need to be aware of the potential emotional impact on both survivors and "victims". By failing to adequately consider employees, organizations may risk the success of M&A.

In this review, I have described means by which organizations may offset the toll on employees during the M&A process. For example, they could train their managers in effective listening skills, contract with local career-counseling services, hold a job fair, and offer career services and resumé workshops. The company's attempts to meet the needs of the victims, may persuade survivors that the company also cares about their personal well-being.

Employee Wellness

Organizations could more fully meet the needs of employees M&A by focusing on psychological needs. When informing employees about how the process may impact them, it is important that the news be delivered in person. Training managers on the best ways to have these conversations with employees could assure a positive impact (Aadmodt, 2010). Managers should recognize that employees go through a grieving process when informed of the loss of a job. By providing access to emotional- counseling services, they could better aid employees' e emotional transition (Fishman, 2014). Aadmont (2010) described four stages of change: denial, anger, fear, and acceptance. Financial counseling could also be beneficial. Some psychologists advocate that marriage and family therapists receive financial training so as to better understand the financial troubles clients may be struggling with during the M&A process (Rappleyea, Jorgensen, Taylor, & Butler, 2014). Career counseling by industrial and organizational psychologists could also be an asset to victims. According to Aadmont (2010), "To help layoff victims find new employment, workshops [could be] conducted on such topics as understanding the job market, finding potential job openings,

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writing resumes, performing well in the employment interview, and making decisions about job offers” (p. 540).

Such efforts may impress survivors that the company cares about the wellness of its employees and thereby could improve employee morale and increase commitment to the company’s objectives.

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