

MERGER AND ACQUISITION: EXPLORING THE EFFECT OF INDIVIDUAL PSYCHOLOGICAL AND BEHAVIORAL RESPONSES ON TURNOVER & PRODUCTIVITY

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ABSTRACT:

Mergers and Acquisitions are one of the most sought after inorganic methods of expansion that organizations world over have focused on. Although whether Mergers or Acquisitions create value in the short or long run for the organization is a debatable and highly researched topic. This strategic restructuring brings about a major change in the lives of the stakeholders especially employees, which may have inverse behavioral responses to such events. This article tries to outline the individual employee level factors that hamper their productivity and tries to propose a comprehensive model that can be further empirically tested so that these inverse responses can be accounted for and properly managed to ensure proper and smooth restructuring process that can lead to the organization achieving its expected goals.

Keywords: Mergers and Acquisitions, behavioral issues, employees, turnover, productivity.

INTRODUCTION

Organizations have an inherent need to grow that they fulfill by using various strategies and modes of organic or inorganic growth, Merger and Acquisitions are one of them. Most of the decisions regarding the M&A are taken while taking into consideration financial, legal and market-related aspects of the deal while completely neglecting the issues of the workforce of both the organizations. The Merger and Acquisition research has been growing in considering the human aspects as a prominent predictor of the post M&A performance variations. As this event brings along a great deal of change for the organization, there are fewer means for the employees involved to cope up with the stress related to this change (Turner, 1996). Some researchers have even gone ahead and in pursuit of establishing the relationship between the

Psychological and Behavioural Factors that Directly or Indirectly affect turnover and productivity

In another review article, (Sullivan and Bhagat, 1992) provided strong evidence of an inverse relationship between job stress and job satisfaction. In addition, it

has been shown that job stress has direct and indirect effects on absenteeism, turnover rate, and intention. Researchers have reported the extreme difficulty in managing such large-scale organizational change and its traumatic impacts on employees, such as layoffs, turnover, stress, and illness (e.g., Fried, Tiegs, Naughton, & Ashforth, 1996; Newman & Krzystofiak, 1993). Yet despite these difficulties, academic research on M&A has been limited and too fragmented to provide a comprehensive and integrative explanation of the sources of problems in M&A integration and strategies to effectively manage the problems.

Stress

The stress associated with being a member of an organization that is being merged or acquired is in part a function of particular stressors growing out of, or intensified by, the nature of the process. For example, if a firm is being acquired is it a friendly acquisition or a hostile one? What is the desired degree of integration? That

is, will one organization be absorbed by the other, will they remain operationally separate, or will the degree of integration be somewhere in between? Merger related stress causing employee health issues- The major M&A stressor is the change. Change for most employees means a disruption in the life and work patterns to which they have become accustomed and comfortable with overtime, a state of affairs particularly threatening to the mid-career employee. Mergers, because they involve change, are by their very nature stressful; this will be true even if the changes are positive and beneficial (Marks & Mirvis, 1985). Effective merger stress prevention and management strategies, however, can be valuable in reducing the threat associated with change and in assisting employees to cope more effectively with the stress already experienced.

A negatively experienced change can be defined as a potential stressor that threatens to exceed the adaptive resources of the individual (Monat & Lazarus, 1985). These improvements may therefore have negative effects on

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employees' well-being and health (Brockner, Grover, Reed, & DeWitt, 1992; Terry, Callan, & Sartori, 1996), for example, through job loss, reduced status, threats to self-esteem, and interpersonal conflicts at home and at work (Schweiger & Ivancevich, 1985), and feelings of uncertainty and anxiety (Buono & Bowditch, 1989). The changes during a merger can nevertheless be positive for the employees, for instance, by improving the quality of work (Felderman & Emmerling, 1997), and by offering opportunities for increased decision latitude (see Jackson, 1992). It has been found that these work-related resources protect against health risks (e.g. Vahtera, Kivimäki, Pentti, & Theorell, 2000). For example, Hunsaker and Coombs (1988) reported that, during a merger, white-collar workers at higher levels in the organization experienced less distress than employees at the lower levels (see also Hardey, 1998).

Satisfaction

Past writings on post-merger attitudes, in this case, satisfaction with a merger and turnover intentions, are sparse. This study draws on studies that have examined employee responses to organizational restructurings, such as M&As (Armstrong-Stassen et al., 2001; Buono & Bowditch, 1989; Schweiger & Denisi, 1991) as well as studies of job satisfaction (Tett & Meyer, 1993). Their findings suggest that mergers have an impact on turnover and turnover intentions. Furthermore, Tett and Meyer's (1993) findings conclude that job satisfaction has a negative impact on turnover intentions/ withdrawal cognitions. Drawing on these studies, this researcher postulated that satisfaction with a merger would have a significant negative impact on turnover intentions. Therefore, employees who are happy

with the merger will desire to remain with their new organization, consequently diminishing turnover intentions, and in contrast, employees who were unhappy with the new organization would think about leaving it. The results indicated no significant relationship. This may indicate that employee merger satisfaction may not be an important factor to consider when attempting improving employee retention after a merger or that its effects are fully mediated by other variables such as indicated by the commitment variables. Another reason for satisfaction with a merger not having a direct impact on turnover intentions maybe that liking or disliking the merger is not what makes the employee think of quitting the organization, but rather being satisfied with their job after the merger. This speculation is based on a research finding reported by Clugston (2000) and Tett and Meyer (1993) that job satisfaction had a greater direct impact on intent to leave than the three forms of organizational commitment. Another plausible explanation may be that the satisfaction with a merger variable measures the overall degree to which the employee was satisfied with the merger. However, a scale that provides separate measures for specific aspects of merger satisfaction (for example, job security, pay and other compensation, supervision, and opportunity for personal growth after the merger) may have produced different results with turnover intentions. Also, the satisfaction with a merger measure may have been problematic as it was relatively new and untested

Job insecurity

Critical to feelings of job insecurity is the individual's felt vulnerability

originating from the perceived threatening signals in the work environment, especially when there is a need to preserve the steadiness in a state of vulnerable jobs (Greenhalgh & Rosenblatt, 1984). Some of the threatening signals from the work environment come from the anticipation of changes and the uncertainty that often surrounds a merger or acquisition (Ashford, Lee, & Bobko, 1989; Ivancevich, Schweiger, & Power, 1987; Marks & Mirvis, 1985; Schweiger & DeNisi, 1991). Gossips and rumors within the workplace about who is likely to be retained and who stands a greater chance of being discharged may even deepen the experienced anxiety (Jacobson, 1991). These gossips and rumors reflect inferential events that are perceived as threatening indicators that might heightened job insecurity. Thus, during the process of mergers and acquisitions, employees of the acquired firm may perceive higher uncertainty and job insecurity than employees of the acquiring firm since they often see themselves as the ones most likely not to survive any reduction in workforce (Marks & Mirvis, 1985).

Anxiety

The stream of literature that centers on attitudes and behaviour if generally from the point of view of the target or acquired company and examines how executives and staff respond during M&A at distinct phases (Ivancevich et al., 1987), as after the takeover or acquisition is announced or the intent is announced (Costello, Kubis and Schaffer, 1963) and becomes compulsory after the merger or acquisition (Blake and Mouton, 1985; Buono et al., 1985; Marks and Mirvis, 1985; Wishard, 1985).

Usually, the response from the target firm's employees is of 'fear' or being 'sold-out,' or feeling the lack of autonomy followed by anxiety and poor motivation and morale. According to an estimate, the literature discovers that the efficiency of the worker is badly impacted during the merger or acquisition which is equivalent to the reduction of roughly two hours of useful working time per worker per day for the entire period of the M&A process (Wishard, 1985).

Many scientists (Hunt et al., 1987; KMPG, 1997; Ravenscraft and Scherer, 1987) have discussed that M&A generally fails to accomplish the required results due to the company's failure to assess and handle employee issues and responses (Marks and Mirvis, 1982). Because it is seen that anxiety, stress, confusion in a scenario of merger or acquisition contribute to psychological and behavioral discomfort and their work is subject to obligations on these problems. This results in a decreased or bad performance, absence of efficiency, commitment, and organizational citizenship inclinations.

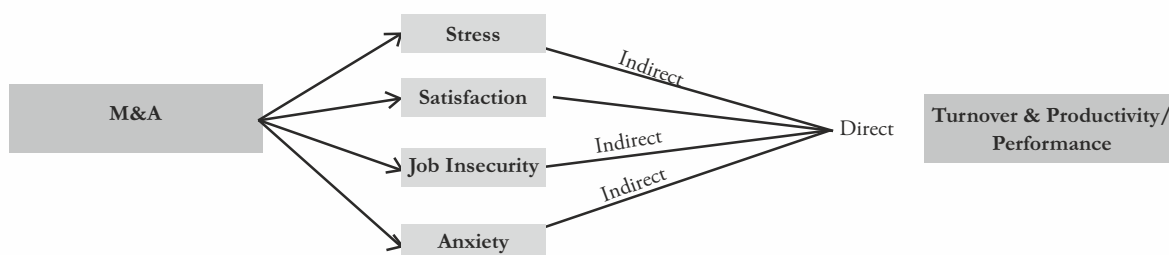
(Schedule outlining the proposed relationship between the dependant and independent factors)

Independent Factor	Impact	Dependent Factor	Literature
Stress	Indirect (Health)	Turnover, Absenteeism	Sullivanand Bhagat,1992;Terry, CallanandSartori,1996
Satisfaction	Direct	Turnover, Absenteeism	Armstrong-Stassen,Cameron, Mantler, &Horsburgh, 2001;Newman &Krzystofiak, 1993;Schweiger&DeNisi,1991
Job Insecurity	Indirect (Uncertainty, Lack of information)	Turnover	Ashford, Lee, &Bobko,1989; Ivancevich, Schweiger,&Power,1987;Marks & Mirvis,1985;Schweiger&DeNisi,1991
Job Insecurity	Indirect (Commitment)	Performance, Efficiency, Productivity	Costello, Kubis and Schaffer,1963; Blake and Mouton,1985;Buonoetal., 1985;MarksandMirvis,1985;Wishard,1985

As discussed the above listed factors have been found to impact the dependant factors either directly or indirectly. The latter relationship could also be tested using mediation analysis (MacKinnon, Fairchild and Fritz, 2007). The relationship that were highlighted by this study includes factors like stress, anxiety, job insecurity and satisfaction that are found to be impacting the turnover and productivity. Behavioural factors that are impacted by the restructuring process before and after the M&A are stress that according to research indirectly leads to absenteeism and lower turnover of employees, similarly job security also has an indirect impact on the turnover through instigating uncertainty about future outcomes and thus negative response from them. Lack of satisfaction from the employees has a direct effect on the turnover of the organization post M&A. Another dimension that indirectly effects the turnover and productivity of employees is anxiety, as it impacts the employees behavioural response to M&A related change and by lowering their commitment towards the organization and its decisions and ultimately leads to declined productivity and efficiency.

Proposed model:

The proposed model shows the effect that the outlined behavioural and psychological dimensions have on the dependant factors that are turnover, productivity and ultimately performance. The model highlights the effect as observed through literature to be either direct or indirect in either case the intervening dimensions could be tested for a possible mediating role in establishing the factors impact on turnover and productivity.



Discussion and Conclusion-

The social complexities of M&As and the emotional and behavioral reaction of the employees involved have been addressed by a new and growing field of inquiry. This new stream of research has its broad roots in sociology, organizational behavior, and human resource management fields. The study tries to explain M&A underperformance in terms of the cumulative disruptive

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effect of the occurrence itself, its resulting confusion, and the ensuing integration process on specific members of the organization. Interestingly, our study highlights that these factors that are mostly overlooked, have an effect on the important dependent factors namely turnover and productivity. We tried to establish that there is a need for greater recognition of the process and organizational dimensions dimensions of acquisitions, which are increasingly recognized in the literature on behaviour and psychology. There are obviously significant theoretical barriers to cross in order to link the M&A success and performance models embedded in the literature on finance and policy with the individual and organizational responses and perspectives from behavioral studies more closely. The study also brings to notice that there is still more territory to explore and improve the scope of this field of research. We believe it will serve as a catalyst for more interdisciplinary dialogue and M&A research. Our study can be used as bridge to further empirically test the hypothesized relationships. It can be used as a base to incorporate these micro dimensions and consider their relevance while devising the strategic plans and execution of Merger and Acquisition restructuring. This will help to eliminate their negative impact and ensure the success of Mergers and Acquisition to achieve their expected synergies.

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