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Capturing Psychological Well-being: The Human Side of Mergers and Acquisitions

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Abstract - Organizations must change in order to survive, whether in response to growth, global market shifts, technological change, customer pressure or competition. Every organizational change affects employees' psychological well-being, and mergers and acquisitions (M&A) are among the most disruptive forms of change. This paper examines the relationship between M&A and employees' psychological well-being using a structured questionnaire administered to 113 employees, aged 25–40, of an acquired company in Bengaluru, Karnataka. Well-being was measured with the Warwick-Edinburgh Mental Well-being Scale (WEMWBS). A Pearson correlation of r = 0.80 (n = 113, p < 0.001) indicated a strong, statistically significant positive association between the M&A variable and employee psychological well-being, so the null hypothesis of no relationship was rejected. Because the design is cross-sectional and based on a convenience sample from a single firm, the finding shows association rather than causation. The paper concludes with practical suggestions for managing the human side of M&A integration.

Keywords: ***mergers and acquisitions; psychological well-being; employee well-being; organizational change; acquired-company employees***

1. INTRODUCTION

To grow and increase profits, companies continually search for sources of profitable growth, whether through new products, greater efficiency, hiring and training competent sales staff, or mergers and acquisitions (M&A). A merger is a mutually agreed joint ownership of two or more companies, whereas an acquisition occurs when one company takes ownership of another (Bratianu & Anagnoste, 2011). The goals of M&A include stimulating growth, improving the bottom line through synergies and lower overheads, enlarging markets and ultimately increasing profits (Bratianu & Anagnoste, 2011).

In practice, these expectations are frequently unmet: the reported failure rate of M&A is high, estimated at more than 70% (Galpin & Herndon, 2007; Etschmaier, 2010). Many reasons are offered for failure, and most of them lie not in finance but in culture and people issues (Galpin & Herndon, 2007; Etschmaier, 2010; Bodam, 2000).

M&A is a complex form of organizational change that, like other change processes, creates insecurity, uncertainty, stress and even traumatic experiences for employees. Nikandrou et al. (2000) stressed the negative impact of M&A on employee behaviour, including counter-productive practices, absenteeism, low morale and job dissatisfaction. Organizations therefore need to understand the psychological effects of M&A on employees and to learn how to make the changes necessary to compete while managing the human dynamics involved. These dynamics may be one of the keys to the synergy that organizations seek and to the success of M&A.

This paper investigates the relationship between M&A and employees' psychological well-being, drawing on a survey of employees of an acquired company in Bengaluru, and offers practical suggestions for managers.

2. LITERATURE REVIEW

This section reviews the literature on mergers and acquisitions and on employee workplace well-being.

2.1 Mergers and Acquisitions

The terms merger and acquisition are sometimes used interchangeably. The distinction may matter little in practice, because the result is often two or more companies with formerly separate ownership operating under the same management to achieve shared strategic and financial objectives (Steynberg & Veldsman, 2011). A merger is a mutually agreed joint ownership between two or more free-standing entities of equal standing, which become a new entity while the original entities disappear (Bratianu & Anagnoste, 2011; Steynberg & Veldsman, 2011). An acquisition is the purchase of one or more free-standing organizations by another, the buyer, which retains its identity (Bratianu & Anagnoste, 2011; Steynberg & Veldsman, 2011).

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2.2 Reasons Organizations Undertake M&A

Organizations choose M&A as a strategic growth option for many reasons, including: (a) globalization (Galpin & Herndon, 2007); (b) access to new technology and resources (Schuler & Jackson, 2001); (c) economies of scale and efficiency (Galpin & Herndon, 2007; Schuler & Jackson, 2001); (d) a wider product or service offering (Veldsman, 2002); (e) mitigation of capital investment risk (Sherman, cited in Steynberg & Veldsman, 2011); (f) rapid entry into new markets and industry consolidation (Galpin & Herndon, 2007; Schuler & Jackson, 2001); (g) acquisition of intellectual capital (Galpin & Herndon, 2007; Schuler & Jackson, 2001); and (h) dealing with the economic consequences of political or regulatory change (Schuler & Jackson, 2001). These motives are largely strategic and financial, which helps explain why the human consequences of M&A are often overlooked.

2.3 Change Dynamics and Psychological State during M&A

M&A are instruments of major change, often triggered by external forces, and they cause significant environmental shifts and disruption (Galpin & Herndon, 2007, p. 59). For employees this disruption is experienced as insecurity, uncertainty and stress (Nikandrou et al., 2000), which makes the psychological state of employees an important determinant of integration success.

2.4 Employee Workplace Well-being

The concept of well-being is vague. This study adopts the organizational perspective of Danna and Griffin (1999), widely regarded as appropriate for organizational research (see Macik-Frey, Quick & Nelson, 2007). Danna and Griffin suggest that health is narrower than well-being and applies when specific physiological or psychological indicators are of interest, whereas well-being is broader and considers the "whole person" (1999, p. 364). Occupational health concerns physical health, meaning the absence of negative physical effects, and psychological health, meaning the absence of distress caused by organizational settings (Farrell & Geist-Martin, 2005, p. 548). Well-being, by contrast, is a subjective concept, defined broadly as one's overall experience in life, reflecting self-described happiness (Diener et al., 1999, p. 277).

Employee well-being is thus constructed from physical, psychological, spiritual and social aspects. Spiritual health refers to individual growth and the search for purpose and meaning in daily tasks, and social health to the quality of one's professional and personal relationships (Farrell & Geist-Martin, 2005, p. 549). Well-being is therefore about the quality of life judged by a person's own criteria, and stress and illness result from a lack of fit between individual needs and demands and those of the environment. It is affected by job factors (work overload, long hours, travel), role factors (ambiguity, conflict, degree of responsibility), relationships at work, career development, and organizational structure and climate (Cooper & Cartwright, 1994). In short, employee well-being is an all-encompassing physical, psychological, spiritual and social state that depends on how work and free time are integrated (Kivistö, Kallio & Turunen, 2008).

Well-being includes both physical and psychological components (Warr, 2002). The effect of the work environment on physical health is relatively visible and direct, whereas its effect on psychological health is less noticeable and less direct. Over the past three decades, theory and research have concentrated on the negative effects of work on well-being, especially on how work stress influences health. This paper focuses on psychological well-being as an important influence on employee performance (Briner, 2002).

Psychological well-being can be considered context-free, covering feelings about life in general, or job-related, covering people's feelings about themselves in relation to their job (Warr, 2002). Positive well-being produces psychologically healthy individuals who show better interpersonal behaviour, build warm and trusting relationships, perform better, are more punctual and take fewer sick days. Reduced well-being lowers the capacity to cope with stressors. Attention to psychological well-being is important because it influences behaviour, interaction with colleagues and decision making, and it extends to family and social life (Rasulzada, 2007).

3. NEED FOR THE STUDY

Studies of M&A have addressed several themes. Gaughan (1999) examined the effect of M&A on job satisfaction in selected manufacturing companies; Datta (1991) and Schweiger and Walsh (1990) examined strategic and financial aspects; and Hogan and Overmyer-Day (1994) studied the psychological and behavioural effects of M&A on employees. However, few studies have focused on how M&A relates to employees' psychological well-being as a distinct outcome, and existing work covers only some of the relevant theories of well-being. The present study addresses this gap.

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4. OBJECTIVES AND HYPOTHESES

The objectives of the study are:

- to understand the relationship between the practice of M&A and employee psychological well-being; and
- to offer practical suggestions based on the findings.

The practice of M&A is treated as the independent variable (X) and employees' psychological well-being as the dependent variable (Y). The hypotheses are:

- **H0:** There is no relationship between the practice of M&A and employee psychological well-being.
- **H1:** There is a relationship between the practice of M&A and employee psychological well-being.

5. SCOPE AND LIMITATIONS

The study examines the relationship between M&A and employee psychological well-being through a survey of employees of one acquired company in Bengaluru, Karnataka. Its scope is limited in several ways. It considers only M&A as a factor in well-being and no other factors that may affect it. The sample is restricted to supervisory and non-supervisory employees of the acquired company aged 25–40, and was selected by convenience sampling, which limits generalization. The design is cross-sectional and correlational, so causal direction cannot be established, and the data are self-reported.

6. RESEARCH METHODOLOGY

This is a descriptive study using primary and secondary sources. Primary data were collected from employees of an acquired company in Bengaluru, Karnataka. The study population comprised supervisory and non-supervisory employees aged 25–40, and a convenience sample of 113 employees was surveyed with a structured questionnaire. The questionnaire used the Warwick-Edinburgh Mental Well-being Scale (WEMWBS; Tennant et al., 2007) and the General Job Satisfaction Scale (GJSS). Data were analysed in SPSS using descriptive statistics (means, standard deviations and frequencies) and Pearson correlation. The significance level was set at 0.05.

7. RESULTS AND DISCUSSION

The first objective was to understand the relationship between the practice of M&A and employee psychological well-being. Table 1 summarizes the descriptive statistics for both variables and Table 2 reports the correlation test.

Table 1: Descriptive statistics for M&A and employee psychological well-being (n = 113)

Statistic	Mergers and Acquisitions	Employee Psychological Well-Being
Mean	1.53	0.40
Standard error	0.09	0.04
Median	1.50	0.00
Standard deviation	0.99	0.49
Sample variance	0.99	0.24
Range	2.85	1.00
Minimum	0.15	0.00
Maximum	3.00	1.00
Sum	184.35	49.00
Count	113	113

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Table 2: Pearson correlation between employee psychological well-being and M&A

Statistic	Employee Psychological Well-Being	Mergers and Acquisitions
Mean	0.40	1.53
Variance	0.24	0.99
Observations	113	113
Pearson correlation (r)	0.80	
p-value	< 0.001	

Table 1 shows that the M&A variable had a mean of 1.53 (SD = 0.99) and ranged from 0.15 to 3.00, while employee psychological well-being, coded between 0 and 1, had a mean of 0.40 (SD = 0.49). As Table 2 shows, the two variables were strongly and positively correlated ($r = 0.80$, $n = 113$, $p < 0.001$). The p-value is below the 0.05 significance level, so the null hypothesis (H0) of no relationship is rejected and the alternative hypothesis (H1) is accepted.

This result should be interpreted with care. A correlation does not show that M&A causes a change in well-being, and the positive direction contrasts with literature that emphasizes the adverse psychological effects of M&A (Nikandrou et al., 2000; Hogan & Overmyer-Day, 1994). It is plausible that the result reflects how the M&A variable was measured and the characteristics of this particular acquired company, which a single-firm convenience sample cannot resolve.

8. PRACTICAL SUGGESTIONS

The second objective was to offer practical suggestions. The following recommendations draw on the M&A integration literature (for example, Galpin & Herndon, 2007) and on the human-side concerns discussed above. They are not derived statistically from the survey data.

- **Communicate early, often and in both directions.** Leaders who wait until every integration detail is settled leave a vacuum that rumours fill, and rumours are usually worse than reality. Provide frequent, consistent updates throughout integration, and give employees a chance to voice concerns and contribute ideas.
- **Explain the new structure and the reasons behind it.** Make clear how the new organization will work, why it was designed that way and how roles will be staffed.
- **Involve people and leaders.** Seek input from stakeholders at every level and function on both sides of the deal, and involve key leaders in shaping the integration and post-merger operating strategy so that they feel ownership.
- **Take stock of talent and act quickly to retain it.** Assess the skills, competencies and performance of employees, identify top talent, and make sure these employees know they are valued. Work with Human Resources on retention strategies that preserve knowledge and focus.
- **Build commitment and a shared vision.** Align personal goals and working styles with organizational goals, help employees see where the organization is going and how they fit in, and use a structured approach, including a leadership alignment meeting, to agree shared objectives.
- **Mark Day One.** Treat the first day of the combined organization as an achievement to celebrate and as an opportunity to restate the vision, aspirations and strategy.

9. CONCLUSION

This study examined the relationship between M&A and the psychological well-being of employees in an acquired company in Bengaluru. Survey data from 113 employees aged 25–40 showed a strong positive correlation between the M&A variable and employee psychological well-being ($r = 0.80$, $p < 0.001$), leading to rejection of the null hypothesis. The findings suggest that employees' psychological well-being is closely tied to the M&A experience and therefore deserves explicit attention in integration planning.

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The study is limited by its cross-sectional design, convenience sampling and single-firm setting. Future research should use longitudinal designs and multiple organizations, and should add validated measures of related constructs such as satisfaction with the merger, organizational commitment (for example, the three-component model of Allen and Meyer) and turnover intention, to explain how and why M&A is linked to employee well-being.

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