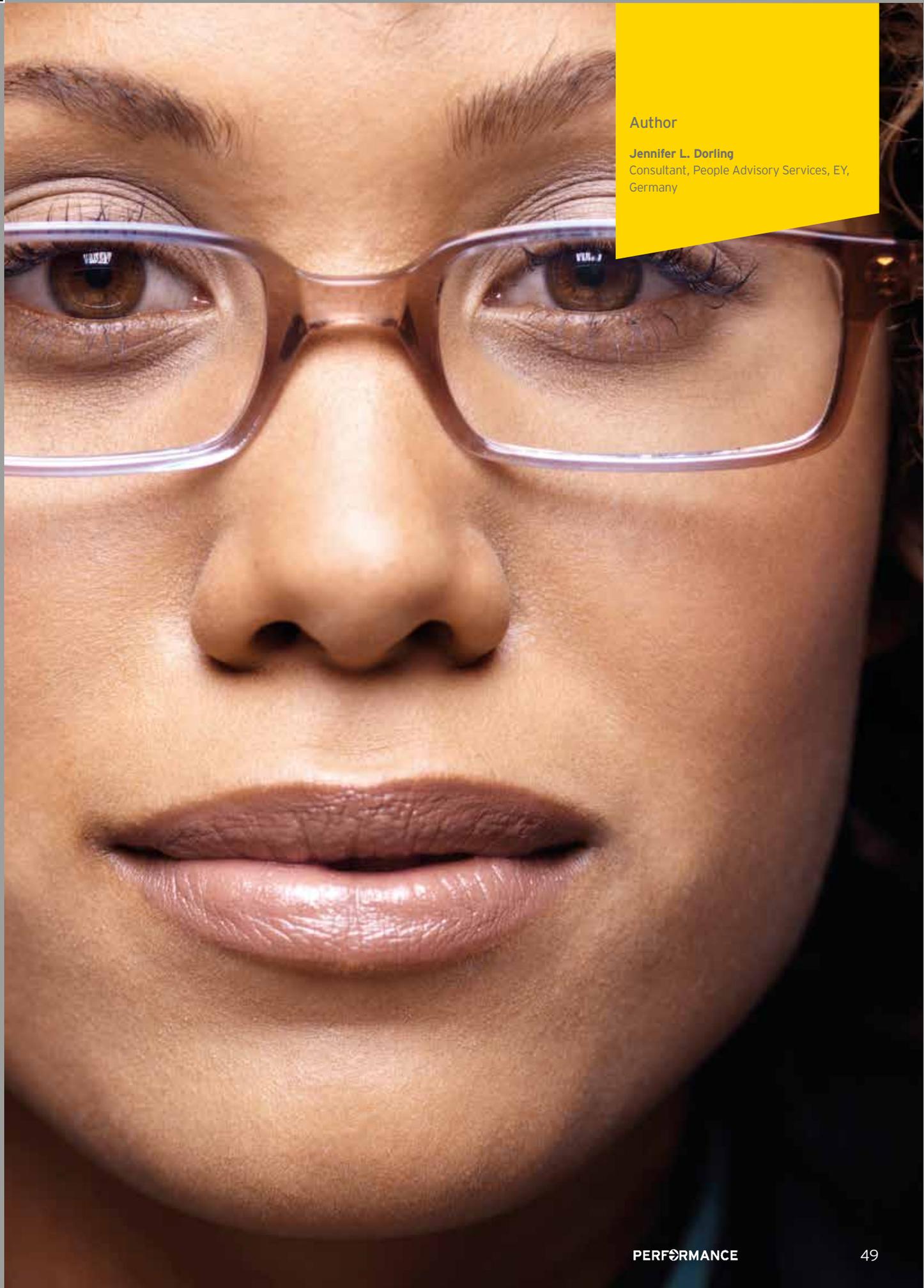




# Harnessing the **people factor** in post-merger integration

M&As are major corporate change events – and one of the most stressful scenarios imaginable for some employees. This stress often results in resistance to change, which in turn creates a high failure rate – as much as 90%<sup>1</sup> for post-merger integration. But it doesn't have to be this way. EY is trialling a "psychological capital" model that identifies employees' feelings about change, and helps them see it as an opportunity to flourish and succeed.

1. C. M. Christensen, R. Alton, C. Rising and A. Waldeck, "The big idea: the new M&A playbook," *Harvard Business Review*, 89, 2011; M. Apaydi, "The role of time in post-merger integration," *European Scientific Journal*, 2014.



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## Harnessing the people factor in post-merger integration

**A**lmost every major global organization is executing or contemplating a growth strategy that involves mergers, acquisitions, strategic alliances, partnerships or joint ventures. Collectively, these activities are known as mergers and acquisitions (M&As) – and globally, there are tens of thousands of deals done every year.

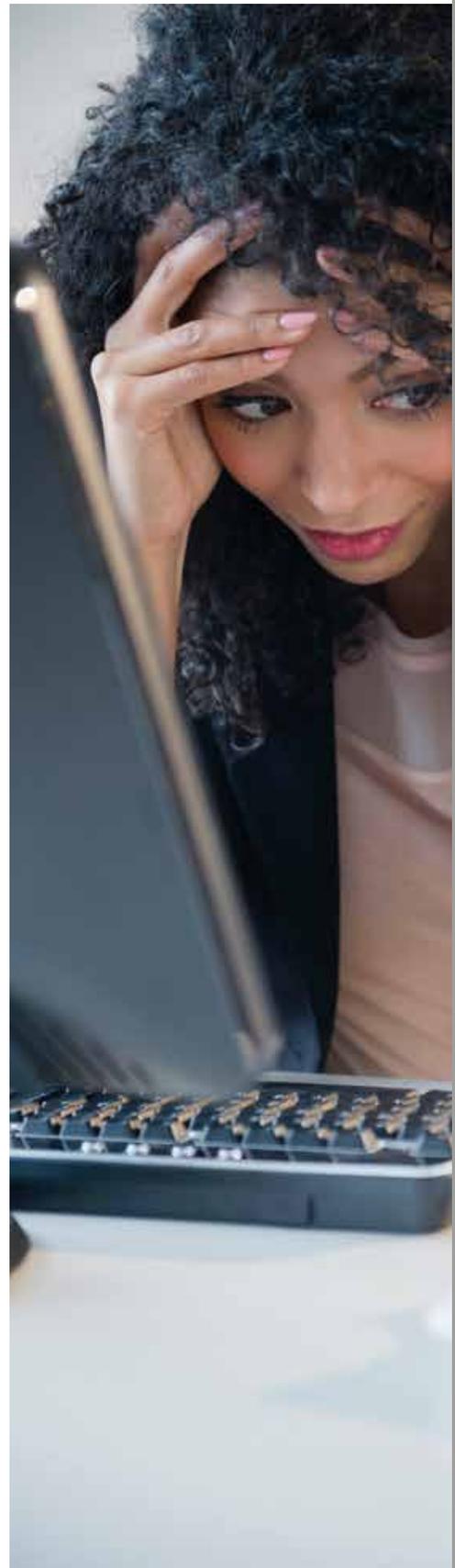
Yet the majority of post-merger integrations (PMIs) don't succeed. This seems to be a highly significant truth that's being ignored by the working world, despite the fact that M&As are one of the most costly activities in business.

### Why do PMIs fail?

The short answer is: because of people. Poor handling of the "people factor" in PMI management is cited in many studies as the main cause of failures.<sup>2</sup>

It's perhaps unsurprising that many employees see M&As and the consequent PMI as challenging, as they carry with them the prospect of change (for example, change to processes, different people, a new role or relocation), and even the threat of redundancy. What might be more surprising is senior managers' feelings about news of M&A deals – such as pain, anger, shame, no power, no sense of

2. S. D. Sidle, "Resisting the Urge to Merge," *Academy of Management Perspectives*, 20, 3, 2006; K. Bauer and F. Matzler, "Antecedents of M&A success: The role of strategic complementarity, cultural fit, and degree and speed of integration," *Strategic Management Journal*, 35, 2, 2014, <http://www.sciencedirect.com/science/article/pii/S2212567114001890>, accessed March 2016.





Poor handling of the “people factor” in PMI management is cited in many studies as the main cause of failure.

purpose and fear,<sup>3</sup> as well as threats to social identity, a sense of loss and feelings of helplessness.<sup>4</sup>

But the actions arising from these feelings is where the real damage is done – to the success of M&As, and, perhaps even more importantly, to the organization’s culture and efficiency. The overriding attitude to PMIs may be one of resistance – which leads to cynicism and lack of trust, and has the outcome of reduced commitment, productivity and satisfaction, as well as high staff turnover, absenteeism and disloyalty.<sup>5</sup>

In any context, this is a disaster for an organization. So what can be done to make PMIs a success?

**Thinking positive: harnessing psychological capital**

While many people are resistant to change, plenty of others naturally embrace it. This is the basis of the concept of psychological capital (PsyCap) developed by Fred Luthans.

PsyCap draws on an individual’s positive psychological capacity, which can be measured, developed and effectively harnessed in performance improvement for both the individual and the organization.<sup>6</sup> It involves four key attributes:

▶ **Self-efficacy** – the confidence to succeed. Highly confident individuals are more convinced of their ability to achieve continuing success in the face of major challenges and can quickly bounce back from adversity.<sup>7</sup> People high in self-efficacy can also manage their emotions throughout an event.

- ▶ **Optimism** – this protects individuals from hopelessness or depression, as well as guilt and desperation. Individuals that are high in optimism hold positive expectations toward the change and their role within it.
- ▶ **Hope** – the belief or motivational state that individuals experience when persevering toward goals. Pathway thinking and application are significant constituents of hope<sup>8</sup> – applying motivation to generate effective pathways is significant, particularly during a crisis or unpredictable situations in change efforts.

3. R. Vince, “Being taken over: Managers’ emotions and rationalizations during a company takeover,” *Journal of Management Studies*, 43, 2006.
4. Z. Naz and S. Nasim, “Emotional Balancing by Middle Managers: A Study of Post Merger Integration,” *International Research Journal of Business and Management*, 2014, <http://irjbm.org/irjbm2013/January/Paper6.pdf>, accessed March 2016.
5. D. J. Stanley, J. P. Meyer and L. Topolnytsky, “Employee Cynicism and Resistance to Organizational Change,” *Journal of Business and Psychology*, 19, 4, 2005.
6. F. Luthans, J. B. Avey, B. J. Avolio, S. M. Norman and G. J. Combs, “The need for and meaning of positive organizational behavior,” *Journal of Organizational Behavior*, 23, 2002; F. Luthans, “Positive organizational behavior: developing and managing psychological strengths,” *Academy of Management Executive*, 16, 1, 2002.
7. F. Luthans, “Psychological capital development: toward a micro-intervention,” *Journal of Organizational Behaviour*, 27, 2006.
8. J. B. Avey, T. S. Wernsing and F. Luthans, “Can positive employees help positive organizational change?” *Journal of Applied Behavioural Science*, 44, 2008.

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PsyCap draws on an individual's positive psychological capacity, which can be measured, developed and effectively harnessed in performance improvement for both the individual and the organization.

- ▶ **Resilience** – this reflects an individual's ability to cope with, and bounce back from, adversity, uncertainty and challenges, and enables them to adapt to stressful and changing life pressures.<sup>9</sup> Resilient individuals not only adapt well, they can even improve their performance in changing environments.

Taking all these factors into account, people who possess high levels of PsyCap are defined as:

- ▶ Having the confidence to take on and put in the necessary effort to succeed at challenging tasks
- ▶ Making a positive attribution about succeeding now and in the future
- ▶ Persevering toward goals and, when necessary, redirecting paths to goals in order to succeed
- ▶ Sustaining and bouncing back to attain success when beset by problems and adversity<sup>10</sup>

**How PsyCap is measured and could be implemented**

So, how can an organization assess its employees for PsyCap?

The basis is the PsyCap questionnaire (PCQ), which covers 24 items and asks respondents to rank their response to each statement using a scale from 1 (strongly disagree) to 5 (strongly agree), such as:

- ▶ "I feel confident analyzing a long-term problem to find a solution."
- ▶ "If I should find myself in a jam at work, I could think of many ways to get out of it."
- ▶ "When I have a setback at work, I have trouble recovering from it and moving on."<sup>11</sup>

Previous studies have used the PCQ and a 17-item resistance to change (RTC) scale,<sup>12</sup> which defined employees with low PsyCap who were also showing high levels of resistance. Correspondingly, high PsyCap levels were positively related to low employee resistance.



By combining both the PCQ and RTC in regular assessments during PMI, it should be possible to measure employees' resistance tendency as well as their level of PsyCap – this will reveal critical groups of people showing the most resistance, who are a key factor in widespread PMI failures.

**The benefits of PsyCap**

PsyCap is a relatively new concept, but seems highly promising for organizations wanting to make the most of PMIs.

One exploratory study<sup>13</sup> found that the outcome of all four PsyCap components combined was greater than their individual

9. M. M. Tugade and B. L. Fredrickson, "Resilient individuals use positive emotions to bounce back from negative emotional experiences," *Journal of Personality and Social Psychology*, 86, 2004.  
 10. F. Luthans, J. B. Avey, B. J. Avolio and S. J. Peterson, "The Development and Resulting Performance Impact of Positive Psychological Capital," *Human Resource Development Quarterly*, 21, 1, 2010.  
 11. Luthans' PsyCap Questionnaire, <http://www.mindgarden.com/136-psychological-capital-questionnaire>, accessed March 2016.  
 12. S. Oreg, "Resistance to change: Developing an individual differences measure," *Journal of Applied Psychology*, 88, 4, 2003.  
 13. F. Luthans, B. J. Avolio, J. B. Avey and S. M. Norman, *Personnel Psychology*, 2007.



performance. And in another,<sup>14</sup> it was found that positive employees influenced positive change – this suggests that, the stronger the PsyCap qualities evidenced, the greater the overall benefit.

In a pilot study conducted by Luthans, a web-based training intervention was put into practice, including two hour-long sessions designed to successfully enhance PsyCap among individuals.<sup>15</sup> An expanded study utilized short-term micro-interventions, or psychological capital interventions (PCI), to develop PsyCap in an organizational setting. This included a series of exercises and group discussions, such as influencing goals and pathways in addition to obstacle planning, goal accomplishment and awareness building of personal assets, directly impacting the individual PsyCap states.<sup>16</sup>

Using the PCQ, the researchers analyzed levels of PsyCap three days before and three days after the intervention at the individual level. The overall PsyCap of the participating employees enhanced and enabled performance improvement. The development of PsyCap revealed extraordinary (270%) returns on

PsyCap investment and a high return on development, implying a potential competitive advantage.<sup>17</sup>

It is probable that PsyCap development can have an effect on reducing resistance to PMI. For example, Luthans and associates' study found that PsyCap generates greater awareness of employee's sensitivity to their own strengths and capacities, which may increase commitment and engagement toward organizational change in PMI.

Another recent study<sup>18</sup> revealed further benefits at an organizational level for a financial institution that applied the cumulative group effect of PsyCap and generated "collective PsyCap."

In their study, the authors rated the collective PsyCap on an eight-item scale, evaluating concordance of reliability and agreement. They measured a collective PsyCap perception of the team, and stated that it creates desired behaviors and team-level outcomes.

Another study also discovered a clear link between PsyCap at an organizational level and the organization's subsequent financial output.<sup>19</sup>

14. J. Avey, T. S. Wernsing and F. Luthans, *The Journal of Applied Behavioral Science*, 2008.
15. F. Luthans, J. B. Avey and J. L. Patera, "Experimental analysis of a web-based training intervention to develop positive psychological capital," *Academy of Management Learning & Education*, 7, 2, 2008.
16. F. Luthans, J. B. Avey, B. J. Avolio and S. J. Peterson, "The Development and Resulting Performance Impact of Positive Psychological Capital," *Human Resource Development Quarterly*, 21, 1, 2010.
17. F. Luthans, J. B. Avey, B. J. Avolio, S. M. Norman and G. M. Combs, *Journal of Organizational Behavior*, 2006. F. Luthans, C. M. Youssef-Morgan and B. J. Avolio, *Psychological Capital and Beyond*, Oxford University Press, p.263, 2015.
18. F. O. Walumbwa, S. J. Peterson and B. J. Avolio, "An investigation of the relationship between leader and follower psychological capital, service climate and job performance," *Personnel Psychology*, 63, 2010.
19. A. F. McKenny, J. C., Short and G. T. Payne, "Using computer aided text analysis to elevate constructs: An illustration using psychological capital," *Organizational Research Methods*, 16, 2013.

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**EY's trial model of PsyCap**

In the past, there have been many other organizational studies and experiments based on a recognition that failure rates of change efforts stem from employee resistance; but in these, the focus has extensively been on strategies and process implementation to reduce resistance.

As yet, there has been insufficient focus on the psychological aspects of individuals and their impact on the wider organization.

This is why EY is looking for collaborators to explore the potential of PsyCap during PMI.

It is often reported that resistance in PMI is driven by actions that typically occur as

merging organizations synchronize their operations – such as task consolidation, process assimilation, department or plan restructure and deploying transition teams.<sup>20</sup> These undertakings have been found to produce high levels of perceived threats by employees, for example, fear of job security.

The magnitude of an employee's resistance is determined by their individual perception of threat severity and the inability to counteract the change. Accordingly, positive PMI largely depends on employees' responses to the implicated organizational change in terms of their attitudes and behaviors.

With this in mind, the aim of the trial will be to test a set of hypotheses:

- ▶ By using various PsyCap interventions, employees' PsyCap is developed, effecting high PsyCap levels; thus, resistance to change in PMI will be decreased.
- ▶ Employees whose PsyCap is increased by aforementioned interventions will be less resistant to change and are better prepared for the emotional disturbance, which will have the effect of an ameliorated condition.
- ▶ Via PsyCap interventions, employees will increase their mindfulness, which possibly enhances commitment and engagement to change in PMI.

The initial PsyCap PCQ and RTC scale will identify two groups:

- ▶ **High PsyCap** – these will be the least resistant to change, and interventions will be geared to developing even higher PsyCap scores and, hence, becoming even more supportive of the success of PMI.

20. H. Schroeder, "Post-merger integration the art and science way," *Strategic HR Review*, 11, 5, 2012.



► **Low PsyCap** – this group will show a high level of resistance, and each individual will need to be worked with closely via as yet undefined interventions to increase their PsyCap.

The interventions may be web based or face to face, but both will be focused on training and understanding the needs and psyche of each individual. In line with the principles of PsyCap, interventions will concentrate on the interactivity between the four components (self-efficacy, optimism, hope and resilience), their respective commonalities and their association with wide ranges of desirable work-related outcomes.

As these facets are malleable, open to development and training, and discriminant from personality traits (e.g., stable and change-resistant), there is huge potential for organizations to advance PsyCap research and yield the competitive advantages, cost savings and human resource benefits arising from it. ■

Studies have discovered a clear link between PsyCap on an organizational level and the organization's subsequent financial output.

Figure 1: How to measure and foster PsyCap

