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## **Communications effect on employee anxiety and loyalty during a merger**

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COMMUNICATIONS EFFECT ON EMPLOYEE ANXIETY  
AND LOYALTY DURING A MERGER

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A Thesis  
Presented to the  
Faculty of  
California State University,  
San Bernardino

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In Partial Fulfillment  
of the Requirements for the Degree  
Master of Science  
in  
Psychology:  
Industrial Organizational

---

by  
Howard Edward (Ted) La Beur, Jr.

June 2001

COMMUNICATIONS EFFECT ON EMPLOYEE ANXIETY  
AND LOYALTY DURING A MERGER

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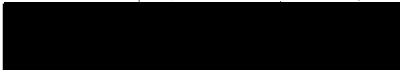
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by  
Howard Edward (Ted) La Beur, Jr.

June 2001

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## ABSTRACT

Only in about 35 percent of mergers do companies meet their pre-merger goals. One cause of these failures is attributed to the unstable work environment created by a pending merger. Previous research has focused on post-merger attitudes of employees. The purpose of the current study was to explore communication processes in announcing a merger. Scenarios were used to simulate merger announcements. An organizational commitment questionnaire and a job threat and anxiety scale were used to measure the effect of how an employee first learns about a merger. A productivity scale was developed to explore an employee's willingness to maintain productivity during a merger. One hundred nineteen working adults completed the survey. The results failed to support the hypotheses. The discussion attempts to explain why the hypotheses were not supported and direction for future research.

## DEDICATION

To my parents, thank you for your support and understanding during my pursuit of completing my education. To the Estes family, for supporting me while my parents were overseas, you filled what would have been an empty part of my life. To Kimberly, for your patience, understanding, and encouragement during my education, for this I am eternally grateful.

## ACKNOWLEDGMENTS

To Dr. Kottke, thank you for making me a better writer. For your patience and guidance, and making this a better project. I know where I can turn to in the future for guidance. To the other members of my thesis committee, Dr. Cramer and Dr. Pfahler, thank you for your input into this thesis. What else can I say to all of you but, Mahalo and Aloha!

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## CHAPTER ONE

### INTRODUCTION

#### Overview of Mergers

Mergers have been on the increase in recent times. In 1992, more than 3,500 mergers, affecting 10 percent of the U.S. workforce, and over \$5 billion in assets, took place (Cornett-DeVito & Friedman, 1995). By 1998, mergers had become a worldwide phenomena; domestically, assets involved with mergers had risen to \$1.6 trillion. In addition, half of CEOs believe in the near future they will be involved in a merger (Tetenbaum, 1999).

Reasons for mergers include improved product quality, more efficient decision-making, increased flexibility, and increased efficiency and productivity (Covin, Sightler, Kolenko, & Tudor, 1996; Shaw & Barrett-Power, 1997). Most studies have been on the success of the resulting company. Success is often measured in dollars (i.e. stock price), how much the merger will ultimately cost, and whether there was increased productivity. Surprisingly, the new company has only a twenty-five to fifty percent chance of achieving its pre-merger goals (Newman & Kryzstofiak, 1993).

It has not been until recently that researchers have started to look at why mergers have such a low rate of success in meeting the expected outcome. Post-merger failure is now being attributed to human factors. For

example, executives tend to rely on common sense rather than research results when planning for a merger (Covin et al., 1996). Stybel (1986) suggest that mergers change the "nature, orientation, and character" of the involved organization so dramatically that it takes five to seven years for employees to become assimilated into the new corporate environment.

Executives trying to overcome the negative effects of a merger often tried using the "quick merger". The intention of a quick merger is to keep the employees busy, thereby reducing losses to productivity. By doing this, employees of the acquired company also would not have time for the rumor mill and would feel welcomed and good about the merger. However, the quick merger process has not helped facilitate meeting pre-merger goals (Covin et al., 1996).

Most research conducted on employees who have gone through a merger has been to understand the effect mergers have on these "survivors". Typically, the merger process includes downsizing, commonly referred to as layoffs or reductions in work force (RIF). The research has shown that downsizing may have a negative impact on the survivors, those employees retained (Newman & Krzystofiak, 1993). Some of the emotions survivors have reported experiencing are depression, uncertainty, and job insecurity. These negative reactions, referred to as "survivor's guilt", may

contribute to employees leaving well after a downsizing has taken place.

The phases of a merger have been divided into three stages: the announcement, the combination process, and the post-merger adjustment (Cornett-DeVito & Friedman, 1995). The announcement period is prior to and just after the public announcement of a merger. During this stage, communication is between top management of the merging companies. The combination stage is up to one year after the public announcement. During this period, communication continues between top managers, and employees of the acquired company are added. Post-merger adjustment is from one to four years after the public announcement. During this period, communication involves managers of the new company and all employees. Cornett-DeVito and Friedman (1995) found that during the combination stage of a merger, employees desired communication that was informative and delivered in a timely manner. The focus of the current study is on the end of the announcement stage of a merger.

#### Direction of Research

For better or worse, mergers have become a way of life in corporate America. However, there may be ways to increase the success for the corporation, and at the same time make the transition less traumatic for the employee.

The goal of this research is to look at good ways to minimize the negative effects of mergers on employees.

Many things are occurring during a merger for all participants. The organization is concerned with how the two organizations will be combined, what physical facilities will be retained or eliminated, what processes will change, and how many employees will be needed for the combined organization. The employees of both organizations are concerned with whether they will still have jobs, how their jobs will change, whether they will have to relocate, and to whom they will report. The focus of this study will be on the process used to communicate a pending merger to employees. How does the *source* of the information about the merger affect the employee's anxiety and organizational loyalty? Does the *type* of information received by an employee affect the anxiety of the employee? What effect does the *source* and *type* of communication have on *productivity* during the early stages of a merger?

CHAPTER TWO  
LITERATURE REVIEW

Communication

Communication plays an important role in the pre-merger and post-merger environments. Mergers and RIFs have been associated with decreases in morale, productivity, loyalty and job satisfaction, and increases in job insecurity, stress and looking for other jobs (Casy, Miller & Johnson, 1997). According to Bastine (as cited by Cornett-De Vitto & Friedman (1995)), when management does not provide enough accurate information, decreased productivity and a higher turnover rate may result. During a merger, a corporation has many events taking place at the same time, many of which need to be communicated to employees. Research that has been conducted has typically been with employees after a RIF has occurred and may not fully appreciate the communication variables during the merger or RIF. Little empirical research has been conducted on the communication of RIFs (Smeltzer & Zener, 1992; Johnson, Bernhagen, Miller & Allen, 1996). Communication processes used by merging companies were based on practical advice rather than based on research. Research conducted thus far has been after a RIF has occurred, and regarding the information that the survivors seek.

Casy et al. (1997) found that employees have a greater need for information following a RIF. In their study, employees sought information in ways different from what was predicted. Instead of asking straightforward questions, the employees sought information in one of two ways. First, probably because of fear about losing their jobs, employees asked questions to their managers that were not direct to the point of concern. Second, employees sought information from a source other than their immediate supervisor, (i.e., co-worker). If employees received inaccurate information from a third party, the fear of being the next to go was not alleviated. Parker, Chmiel and Wall (1997) found that although the merger process had no long-term negative effects on employees, such effects occurred during the short-term due to lack of information. Organizations planning for a merger need to be aware that the source of information is crucial to the success of a merger. The source of information is responsible for preparing and disseminating the information to the individuals within the organization (Moorhead & Griffin, 1998).

Tetenbaum (1999) suggests that organizations need to manage the flow of information in two ways. First, communications need to be disseminated throughout the entire organization. Organizations have made the mistake that information need only be provided once. Tetenbaum suggests that the same message may need to be repeated several times.

When a merger is announced, employees are expecting change to occur. However, when the information provided in the announcement does not occur, employees begin to wonder about their own personal issues (e.g., job insecurity, job seeking, and survivor's guilt). Tetenbaum (1999) suggests that organizations provide detailed information about the merger process and what the employees' roles will be in the new organization.

Smeltzer and Zener (1992) have developed a model for announcing major layoffs. They suggested several things that management must consider when planning to announce a RIF: the normal method of communication, history of previous layoffs within the organization and the industry, and the level of trust and respect for management that the employees had. Smeltzer and Zener's (1992) research showed the source of the information is important in this model. If the source is trustworthy, then the employees are more likely to be receptive to the information provided. However, if the source is not trustworthy, then the employees will doubt the information provided and question whether or not the whole process is necessary. In addition, the content of the information is just as important as the source of the information. The information needs to pertain to how the pending merger will affect the employee. If the information is the same as what is provided to the public, then the trustworthiness of the source is doubted.



Information that is provided to the public is more of interest to investors than it is for employees. What is of interest for employees is the number of jobs that will be lost, and layoff packages. However, a public announcement usually does not provide detailed information about the job losses that will take place. This lack of detailed information is likely to lead to fear of job loss by employees (Smeltzer & Zener, 1992).

### Anxiety

LaFarge (1994) researched the ambivalence that exiters had. Exiters are individuals who have left an organization for any reason. LaFarge found that the exiter would experience many different emotions, including fear. The fear was of the uncertainty of job loss and whether or not a job could be found after a layoff. An employee may also develop fear over the possibility that friendships would be lost due to a merger (Astrachan, 1990). Anxiety may be a difficult aspect of their employees' reaction for organizations to consider when planning a merger, because of how individuals differ in the way in which they cope with the upcoming merger (Armstrong-Stassen, 1994).

Armstrong-Stassen (1994) conducted research on different coping strategies that individuals use during a merger. The results showed that while individual coping style was not important, supervisor support did have a role

in how an employee dealt with the effects of a merger. If the employee perceived the supervisor as supportive, then job performance was maintained, and thinking of leaving the company was less likely to occur. It is important for organizations to realize the significance of the role supervisors have during the combination process of a merger in reducing some of the fear that an employee may experience. Parker et al. (1997) noted that in the short-term, an organization must take into consideration and manage for feelings of fear, insecurity and guilt by providing detailed information. As a result, increasing loyalty in the pre- and post-merger environment may increase the probability of obtaining the goals of a merger.

#### Loyalty

In today's environment, where few workers expect to work for many years and retire from one company, corporations need to rethink of ways to create loyalty. Some traditional ways of doing so are with financial incentives, good retirement packages, and annual bonuses. These incentives contribute to what is referred to as the psychological contract, which is what employees feel they owe the employer and in turn the employer owes the employee (Robinson, 1996). The environment of corporate mergers requires even the relationship of the psychological contract to be reconsidered. However, due to the instability created

by mergers, the psychological contract becomes less binding for the employees. As a result, employees perceive fewer obligations to the employer, lower job satisfaction, and less commitment to the employer (Robinson, 1996).

The social exchange theory may help to further understand the importance of the psychological contract for organizations during a merger. The social interaction is an exchange of benefits or favors which may have material and psychological benefits for an individual. From an early age, individuals engage in social exchanges and develop expectations about reciprocity and equity in social exchanges (Blau, 1974, Yukl, 1998).

From the social exchange theory perspective, an organization has provided support, both monetary and psychological, to an employee prior to a merger. In turn, the employee contributed to the overall success of the organization. During mergers the potential exists for the exchange between organization and employee to be disrupted (Deluga, 1994).

Most research on loyalty has been conducted post-merger. In the past the assumption was that because the company retained the employee, the employee would automatically have loyalty to the company (i.e., the psychological contract). However, maintaining the psychological contract is not an automatic process. The company needs to take an active role to maintain loyalty

during all stages of the merger process (Dunlap, 1994). Survivors of a merger feel more secure when provided adequate information by a company about changes. Companies need to be aware and address rumors that may occur, and make the expectations of the new company clear. Also, companies should provide personal attention and support to the survivors. One way in which a company can do this is by letting the survivors know that they are valued (Dunlap, 1994).

Communication during the merger process may an effective way to maintain employee loyalty (Dunlap, 1994). Loyalty, as defined by Webster (1988), is being "...faithful to those persons, ideals, etc. that one is under obligation to defend, support, or be true." It may be said that individuals working for a company are obligated to support the company's goals. Therefore, since organizational commitment is similar to loyalty, organizational commitment will be used to measure loyalty in this study. Cook, Hepworth, Wall, & Waff, (1981) explained that commitment is the individuals' willingness to contribute to and remain with an organization. In addition, commitment was more stable and less likely to be affected by changes. If a corporation takes the time to provide detailed information about the reasons and what will happen during the merger, this will help to maintain loyalty from the employee (Dunlap, 1994). During the time of a merger,

communication can affect the amount of turnover of employees (Johnson et al., 1996; Covin et al., 1996). In the absence of detailed information about the merger (post-merger activity), survivors were more likely to think of leaving the new company.

### Productivity

One of the goals of mergers is increased productivity. Research has shown that organizations going through a merger can expect reductions up to 50 percent in productivity (Tetenbaum, 1999; Covin et al., 1996; Cartwright & Cooper, 1992). Research conducted on merger productivity has been during the post-merger phase. Feelings associated with survivor's guilt (depression, job insecurity, loss of co-workers) during the post-merger phase have been associated with the decrease in productivity.

### Hypotheses

During a merger, organizations must realize that in addition to the planning of the merger, the organization must take into consideration the anxiety that employees are likely to experience with the announcement of the pending merger (Parker et al., 1997). Casey et al. (1997) suggested that if the information received by an employee as inaccurate, the anxiety caused by a RIF would not be alleviated.

Hypothesis 1: It is expected that if an employee hears about a merger from an accurate source, then the employee's anxiety will be reduced.

One factor that may contribute to organizations not meeting pre-merger goals is the decrease in loyalty to the organization. One of the easiest ways an organization may be able to increase loyalty during a merger is in the type of information provided to the employees. Several authors suggest that information provided to employees needs to be as detailed as possible. For example, the information may need to be repeated during the merger process (Dunlap, 1994, Covin et al., 1996, Johnson et al., 1996).

Hypothesis 2: It is expected that if an employee is provided detailed information about a merger, the employee's loyalty to the company can be maintained. If an employee is not provided detailed information then loyalty to the company will decrease.

Productivity during a merger suffers. While one of the intentions of a merger may be increased productivity, organizations can expect reductions in productivity. Organizations need to be aware of the effects that anxiety and decreases in loyalty may have on productivity and actively manage for this (Tetenbaum, 1999; Covin et al., 1996; Cartwright & Cooper, 1992). Prior post-merger research suggests employees have a need for information after a merger or RIF has occurred. Based on the knowledge

gained from post-merger research, the following hypothesis was developed.

Hypothesis 3: It is expected that employees who know their future job status will maintain current levels of productivity.

## CHAPTER THREE

### METHODS

#### Participants

Participants were 119 students from an Introduction to Psychology course and an upper division course at a state university in southern California. Ages of the participants ranged from 18-49, with 83.8 percent of the participants between the ages of 18-25. The mean for age for all participants was 23.28. The participants were comprised of 91 women and 28 men. A majority of the participants were employed at the time of the study (84.3%). Of the participants that were employed, 73.9 percent had been with their current employer one year or more.

#### Design

A mixed design was used for the current study. The design of the study was a 3x3x(2x2). The first two variables were between-subjects: accuracy of the source (accurate, inaccurate, or no accuracy), and job status (laid-off, remaining, or no statement). These variables were between-subject due to the fact that during mergers individuals would typically receive only one of these types of information. How individuals receive information about a merger from a source and the detail of the information provided will vary. Therefore the second two variables were



within-subjects: source of information (supervisor or client), and detail of information (detail or no detail).

The first variable explored the accuracy of the source of information and how that affected the individual's anxiety and commitment to the organization. Each group received one of three statements of accuracy. One group received a statement of accuracy of the source. Another group received a statement of inaccuracy of the source. The final group did not receive any statement of accuracy.

The second variable explored the future job-status of the individual and how that status affected anxiety and commitment to the organization. Each group had one of three statements of job status. One group received a statement that the individual would be laid-off. Another group received a statement that the individual's job would not be affected. The final group did not receive any statement of future job-status.

The source of communication and detail of information were each presented as within-subject factors. Participants received four scenarios in which the source of communication, supervisor and client, was varied between detailed and no detail of information.

#### Materials

A survey was used for the current study. Scenarios were presented in the survey that simulated possible merger

situations (Appendix A). All scenarios described the same company:

The company that you work for has been in business for one hundred years and is a leader in its industry.

The scenarios varied in the source of the information between the supervisor, an internal source of information and a client, the external source of information:

*Supervisor:* Arriving at work one day you are notified a meeting has been called for all employees. The supervisor of your department announces the company is being bought out by one of its competitors.

*Client:* Shortly after arriving at work one day, your first client asks to talk to you. The client tells you your company has been bought out by its competitor.

The scenarios also varied in the detail of information provided by both sources:

*Supervisor:*

*Detail Condition:* During the meeting, detailed information is provided about what is going to happen to you as an employee, including the number of jobs that will be lost, the departments that will be affected, and what will be provided for those who are laid off.

*No Detail:* During the meeting, the only information made available is that the merger will result in a loss

of jobs. The meeting is then quickly ended and you are instructed to return to your normal job activities.

*Client:*

*Detail Condition:* The client tells you your company has been bought out by one of its competitors. The client informs you what departments will be affected, and how many jobs will be lost. You work in one of the departments that will be eliminated due to the merger.

*No Detail:* The client tells you your company has been bought out by one of its competitors. All the client knows is that jobs will be lost from your company.

The final two pieces of information that were presented in the scenarios was a statement of accuracy and lay-off status. This statement was at the end of all four scenarios. The accuracy statement was, "In the past, the source (supervisor or client) has usually provided accurate information to you." The statement of inaccuracy was, "In the past, the source (supervisor or client) has usually provided inaccurate information to you." The final group did not receive an accuracy statement. The participant received four scenarios, either with the accuracy statement, the inaccuracy statement, or no statement. The final piece of information provided to the participants was on future job status. Each condition received one of three statements. "You will not be laid off due to the merger,"

"The merger will result in you being laid off," or there was no statement of future job status.

## Measures

### Organizational Commitment Questionnaire

Each scenario was followed by a short questionnaire. The first part of the questionnaire was a six-item scale adapted from Porter and Smith's 15-item Organizational Commitment Questionnaire (OCQ). According to Porter and Smith, organizational commitment is more stable than job satisfaction. Organizational commitment is the individual's identification and involvement with an organization. Porter and Smith have identified three factors: "...strong belief in, and acceptance of, the organization's goals and values; readiness to exert considerable effort on behalf of the organization; and a strong desire to remain a member of the organization" (Cook, Hepworth, Wall, & Waff, 1981 p.84). Porter and Smith's scale has been reported to have a median coefficient alpha of .90 (Cook, Hepworth, Wall, & Waff, 1981). Prior research was conducted using the OCQ for pre-merger communication; the coefficient alphas were reported with a range of .64 to .78 (La Beur & Kottke, 2001). The coefficient alphas for the current study had a range of .88 to .89. Responses were on made a 7-point Likert scale (Appendix B).

### Job Threat and Anxiety Scale

The second part of the questionnaire was adapted from Tosi's (1971) four-item Job Threat and Anxiety scale (JTA). Using his prior work as a base, Tosi developed the JTA to measure managers' concerns about job loss in which the individual would have little control. No coefficient alpha was reported for this scale. Prior research was conducted using the JTA for pre-merger communication; the coefficient alphas from the prior research ranged from .70 to .84 (La Beur & Kottke, 2001). The coefficient alphas for the current study ranged from .67 to .76. Responses were on a 7-point Likert scale (Appendix B).

### Productivity Scale

Productivity declines during a merger (Tetenbaum, 1999; Covin et al., 1996; Cartwright & Cooper, 1992). The third part of the questionnaire was intended to measure the employee's willingness to maintain productivity after gaining knowledge of the merger. After conducting a thorough search for an appropriate productivity scale, and due to the lack of pre-merger research in the literature, eight items were developed to measure productivity and all eight items were used in the instrument. Principal Components Analysis (PCA) was conducted on the eight developed items to determine unidimensionality and factor structure. A four-item scale was used for the final

analysis after conducting the PCA (Appendix B). The developed scale measured the participant's willingness to put effort toward the company after hearing about a merger. The coefficient alphas for the current study ranged from .63 to .76.

## CHAPTER FOUR

### RESULTS

ANOVAs were performed separately for the measures of anxiety (JTA), loyalty (OCQ), and productivity. Table 1 shows the design of the study. Accuracy and Job status were a between subject factor and the source and detail of information was within subjects factor. To control for possible effect of order of presentation of the scenarios, six different orders were used. There were twenty-four possible orders of the scenarios. A random numbers table was used to select the six orders of scenarios for this study. Table 2 shows the different order of the scenarios. An ANOVA was conducted to determine if there was an order effect. The results indicated that there was no order effect,  $F(5,99)=1.926$ ,  $p=.097$ .

Table 1: Design of Study

		<b>Accuracy</b>		
		<b>Accurate</b>	<b>Not Accurate</b>	<b>No Statement</b>
<b>Job Status</b>	<b>Between Subjects</b>			
	<b>Laid off</b>	Source and Detail	Source and Detail	Source and Detail
	<b>Not Laid off</b>	Source and Detail	Source and Detail	Source and Detail
	<b>No info.</b>	Source and Detail	Source and Detail	Source and Detail
		Within Subject		

Table 2: Six Different Orders of Scenarios

Order	Supervisor		Client	
	Detail	No Detail	Detail	No Detail
1	1	4	2	3
2	1	3	4	2
3	2	4	3	1
4	3	1	2	4
5	4	2	1	3
6	3	1	4	2

Two manipulation check items were included in the surveys to ensure that participants understood that the information provided addressed only what would happen to them as employees and not the reasons for the merger occurring. The first item was, "based on the information provided, I understand why the merger is happening." Response to this item was on a 7-point Likert scale. A response of one (strongly disagree) was the correct response. No information was provided in the scenarios about why the merger was happening. For the purposes of this manipulation check item it was decided that a response of 1 or 2 would be acceptable and indicate that the manipulation was successful (Table 3 for responses).

The second manipulation check item was used to determine if the participants were reading and understanding the scenarios. This item asked if jobs would be lost as a result of the merger. All scenarios indicated that jobs would be lost as a result of the merger. Therefore, the



correct response to this item was true on a true, false, or don't know scale (Table 3 for responses).

The first manipulation check was not used for screening participants. After checking participants for consistency across all conditions only twenty-two participants could have been used for the final analysis. As a result the second manipulation check was used for screening data. After screening the data using the second manipulation check a total N of 119 was used for the final data analysis.

Table 3: Manipulation Check Results

	Manipulation Check One		Manipulation Check Two	
	Correct Response	Incorrect Response	Correct Response	Incorrect Response
Client				
No Detail	82	147	143	86
Detail	70	159	161	68
Supervisor				
No Detail	81	148	180	49
Detail	53	176	179	50
Total Usable Participants across conditions		22		119

Table 4 shows analysis of between-subjects on anxiety. Accuracy of source was found not to be significant,  $F(2,113)=1.32$ ,  $p=.271$ . The means for anxiety ranged from 10.81 to 12.47 (Table 5). This result did not support Hypothesis 1.

Table 4: Analysis of Variance for Anxiety

Source	df	SS	MS	F
Accuracy	2	200.92	100.50	1.32
Residual	113	8599.47	76.10	

Table 5: Reported Means for Accuracy of Source

Accuracy of Source	Reported Means
Accurate	12.47
Not Accurate	10.81
No Statement	11.58

Table 6 shows that the detail of information about a merger did not affect loyalty to the company. For the detailed condition  $F(1,117)=3.545$ ,  $p=.062$  and for the no detailed condition  $F(1,117)=3.611$ ,  $p=.060$ .

Table 6: Analysis of Variance for Loyalty

Source	df	SS	MS	F
Detail	1	104.445	104.445	3.545
No Detail	1	70.513	70.513	3.611
Residual				
Detail	117	3447.055	29.462	
No Detail	117	2284.987	19.530	

The reported mean for the detailed condition was 24.51 and for the no detail condition the mean was 24.41 (Table 7). These results failed to support Hypothesis 2, that based on

the detail of information (detail or no detail) an employee's loyalty to the company would be effected.

Table 7: Reported Means for Detail of Source

Detail of Source	Reported Means
Detail	24.51
No Detail	24.41

It was expected that the reported means for detail of source would not be identical. Because the results for Hypothesis 2 were nearly significant and the reported means for the detail of source were almost identical, further analysis was conducted. Simple main effects analysis was conducted for the detail of information by source. The analysis revealed that the detail by source was significant,  $F(1,117)=8.220$ ,  $p=.005$ . Table 8 shows the reported means of the detail by source. When the participant received no detail of information from the supervisor, a lower level of loyalty was reported than when the supervisor provided detailed information. This relationship was the opposite for information provided by the client.

Table 8: Reported Means for Detail by Source

	Supervisor	Client
Detail	25.18	23.88
No Detail	23.86	24.96

Table 9 shows that knowledge of job status did not maintain current levels of productivity of employees  $F(2,106)=.752, p=.474$ . The means for knowledge of job status ranged from 13.28 to 14.42 (Table 10). This result did not support Hypothesis 3.

Table 9: Analysis of Variance for Productivity

Source	df	SS	MS	F
Job Status	2	108.30	54.15	.752
Residual	106	7633.34	72.01	

Table 10: Reported Means for Productivity

Job Status	Reported Means
Laid off	14.30
Not laid off	14.42
No information	13.28

## CHAPTER FIVE

### SUMMARY

The intention of the current study was to explore what role communication has on employees when learning about a merger. During a merger all parties are concerned with many issues. The organization is concerned about what facilities are needed, who will remain to operate the new organization, and will the merger meet budgetary goals. The employee is ultimately concerned with whether or not they will have a job and how that job may change.

The intention of this study was to explore differences in the accuracy of the source and how the knowledge of job status would affect an employee. The study also attempted to explore role the source of information (supervisor and client) and the detail of information provided by the source would have on employee's anxiety, loyalty to the organization, and productivity during a merger.

While none of the hypotheses for the current study were supported, this discussion will address possible reasons contributing to not obtaining support for the hypotheses.

#### Anxiety

A merger can be an anxiety producing event for employees of an organization. The employees will experience the fear of potential job loss, lost friendships, and how their jobs may change (Astrachan, 1990). Smeltzer and

Zener's (1992) research suggested that trustworthiness of the source was important when communicating to employees. If the source was not trustworthy or accurate then the information that was provided to the employee was doubted. In addition to the doubt of the information, the process related to the information was questioned.

Hypothesis 1 attempted to discover what role the accuracy of the source had in reducing employee's anxiety when first learning of a merger. The results for the current study showed that the accuracy of the source regardless of the source, supervisor or client, was not able to reduce anxiety. Armstrong-Stassen's (1994) research may provide insight as to why Hypothesis 1 was not supported. Because individuals employ different coping strategies, it may be difficult, but not impossible for organizations to manage anxiety during a merger without having more information about the types of anxiety employees are experiencing.

The current study used a one-shot announcement of a merger. As suggested by Tetenbaum (1999) organizations need to carefully plan for the communication of a merger. Organizations must realize that the same message may need to be repeated several times throughout the merger process. For organizations to effectively manage anxiety, it is important that organizations repeat and provide accurate information. As a result of repeating and providing

accurate information, the organization may be able to reduce the anxiety level experienced for employees during a merger.

### Loyalty

Hypothesis 2 explored what role the detail of information provided to the employee had on maintaining loyalty to the organization. The results for the current study failed to support a difference between the detailed condition and the no detailed condition. While the results did not meet the  $p$  of .05, it is important to note that for detailed information maintaining an employee's loyalty had a  $p$  value of .062. For the no detail of information decreasing an employee's loyalty the results were  $p$  value of .060.

Further analysis of Hypothesis 2 showed the importance that the source of information has on maintaining loyalty to the organization. Moorhead and Griffin (1998) remind us that the source of information is responsible for preparing and disseminating the information to the individuals within the organization. The results further support this premise. The supervisor providing detailed information was most effective in maintaining loyalty to the organization.

Tetenbaum (1999) suggests that organizations need to provide detailed information to employees during the merger process. Dunlap's (1994) research suggests that if a organization provides detailed information as to why the

merger is happening and what will happen during the merger process then employee's loyalty can be maintained during a merger. Additionally, the psychological contract may have a role in maintaining loyalty as suggested by Robinson (1996). In today's environment, organizations can no longer assume that just because the employee was retained through the merger process that the employees loyalty is automatically maintained (Dunlap, 1994).

The design of the scenarios in the current study may not have provided enough detailed information to differentiate between the two conditions tested. Recent research conducted by Gilbert, Villado, La Beur, Mueller, and Hinkley (2001) suggests that employees prefer a moderate amount of detail in announcements of organizational change. The scenarios that provided detailed information in the current study may not have gone far enough in providing detailed information. For example, when the supervisor provided detailed information about what would be provided for employees that were laid off the statement was only, "...what would be provided for those that were laid off." Instead of this general statement, results may have been different if specific benefits had been listed (i.e. amount of severance package, job retraining, etc.). In comparison, it was believed that there would be enough of a difference between the detail and no detail of information.



The detail of information (detail, no detail) was a within subject factor; therefore all participants received both types of detail from both sources (client and supervisor). A significant difference between the two levels of detail may have been obtained had the detail of information been greater and was a between subjects factor.

### Productivity

Productivity is one area that suffers during a merger; however, increased productivity is one of the major pre-merger goals (Tetenbaum, 1999; Covin et al., 1996; Cartwright & Cooper, 1992). Hypothesis 3 explored what role the knowledge of future job status would have on maintaining productivity during a merger. It was expected that employees who knew their future job status (laid off, or not laid off, versus no information) would maintain pre-announcement levels of productivity. The results from the current study failed to support Hypothesis 3.

Organizations may need to address other issues to prevent decreases in productivity during a merger. The results from the current study suggest that the knowledge of whether or not the employee will have a job after the merger is complete will not maintain pre-merger levels of productivity. A possible explanation for this result is that employees may be more concerned with how their jobs may change, not whether they will still have a job after the

merger is completed. Instead what may be of more importance for organization is how they communicate the events of the merger with the employees.

Cornett-De Vitto and Friedman (1995) suggest that when management does not provide accurate information, decreased productivity results. Therefore, organizations planning a merger need to provide as accurate as possible information and update the progress of the merger frequently (Tetenbaum, 1999).

As suggested by Robinson (1996) in today's economy the psychological contract needs to be reconsidered.

Organizations can no longer assume that because an employee was retained through the merger productivity can be maintained. During a merger the potential exists for the exchange between organization and employee to be disrupted (Deluga, 1994). Prior to the merger the organization provided monetary and psychological support to an employee and the employee contributed to the success of the organization.

Cornett-De Vitto and Friedman (1995), Dunlap, (1994) and Tetenbaum (1999) suggest that in order to maintain productivity, organizations need to provide accurate and frequent updates on the progress of the merger. Following this suggestion an organization may be able to maintain productivity during a merger.

## Limitations

The major limitation to the current study was that the participants were asked to "imagine" how they would respond if they were in this situation. While the majority of participants were working at the time of the study, there was no potential for any loss to occur (e.g. loss of income as a result of being laid off). In addition, as suggested by Gilbert et. al. (2001) the amount of information may not have been sufficient to differentiate between the detail and no detail condition.

Two manipulation checks were used in the current study. The first item asked if based on the information provided, the participant understood why the merger was happening. None of the scenarios provided any information on why the merger was happening. Participants should have disagreed with this manipulation check. However, depending on the scenario only 23.2 to 36.0 percent disagreed with the manipulation check. The second manipulation check asked if jobs would be lost as a result of the merger. All scenarios stated that jobs would be lost as a result of the merger. Depending on the scenario participants correctly answered the second manipulation check from 64.1 to 79.9 percent.

The problem with the first manipulation check may be attributed to the fact that participants were asked to imagine as if they were in that situation. Additionally, mergers have become common occurrences that participants may

have a general understanding of why mergers occur in today's economy.

#### Implications and Future Research

While the current study failed to support any hypotheses, prior research suggests that organizations should not rely on common sense when planning a merger (Covin et al., 1996). Additionally, one cannot forget the legal regulations that must be adhered to when planning the announcement of a merger. The Securities and Exchange Commission (Securities and Exchange Commission, 2000) has specific guidelines to prevent individuals from profiting from a merger. It was not the intention of the study to suggest that employees learn about the merger prior to the public announcement. This would be illegal and put the organization at risk. However, the intention of the current study was to explore how the different types of information would affect an employee in first learning about a merger.

As suggested by Armstrong-Stassen (1994) anxiety would be difficult to control during a merger. However, it may be possible for organizations to control anxiety through detailed and frequent updates on the progress of the merger (Tetenbaum, 1999; Smeltzer and Zener, 1992). In addition to controlling for anxiety an organization may be able to maintain loyalty through the same process of providing detailed and frequent communication during the merger. The

final issue explored by the current study was for the organization to be able to maintain productivity during a merger. The results clearly indicate that knowledge of future job status will not maintain pre-merger productivity. However, if organizations manage for anxiety and maintaining loyalty to the organization then productivity may be maintained.

Future research should be conducted to explore what source within the organization is better for communicating the merger to the employees of the organization. Prior research conducted by La Beur and Kottke (2001) suggest that the president of the organization may be more appropriate for an announcement of this magnitude than a supervisor. To strengthen the manipulation of the scenarios the factors should be switched. Instead of source and detail as within subjects make them between subjects and accuracy and job status within subject without the no statement condition resulting in a 2x2(2x2).

Finally, while organizations may be reluctant to change from their "common sense" approach to mergers, it may be beneficial to the organization to apply post-merger research to the announcement phase of a merger. Ideally, a longitudinal study should be conducted to see what effect applying the post-merger research has to the pre-merger activities and if the success rate of mergers can be increased.

APPENDIX A:  
SCENARIOS

Warm up

The service company that you work for has been in business for one hundred years and is a leader in its industry. The company has always treated you well and is one of the best rated companies to work for. Part of your job involves regular contact with clients. Overall you enjoy your job and like working for the company.

Scenario #1 Detailed Condition - Supervisor

The service company that you work for has been in business for one hundred years and is a leader in its industry. Arriving at work one day you are notified that a meeting has been called for all employees. Your supervisor is at the meeting and announces that the company is being bought out by one of its competitors. *During the meeting detailed information is provided about what is going to happen to you as an employee, including the number of jobs that will be lost, what departments will be affected, and what will be provided for those that are laid off.*

Scenario #2 No Detail Condition - Supervisor

The service company that you work for has been in business for one hundred years and is a leader in its industry. Arriving at work one day you are notified that a meeting has been called for all employees. Your supervisor is at the meeting and announces that the company is being bought out by one of its competitors. *During the meeting, the only information made available is that the merger will result in a loss of jobs. The meeting is quickly ended and you are instructed to return to your normal activities.*

Scenario #3 No Detail Condition- Client

The service company that you work for has been in business for one hundred years and is a leader in its industry. Shortly after arriving at work one day, your first client asks to talk to you. *The client tells you that your company has been bought out by its competitor. All the client knows is that jobs will be lost from your company.*

Scenario #4 Detailed Condition Supervisor

The service company that you work for has been in business for one hundred years and is a leader in its industry. Shortly after arriving at work one day, one of your clients

asks to talk to you. The client tells you that your company has been bought out by one of its competitors. The client informs you what departments will be effected, and how many jobs will be lost. You work in one of the departments that will be eliminated due to the merger.

Accuracy-same scenarios with this statement at end of each:

In the past your supervisor has always provided accurate information to you.

In the past the client has always provided accurate information to you.

Job Status-same scenarios with one of these statements included:

You will be laid off as a result of the merger. Or, You will not be laid off as a result of the merger.



APPENDIX B:  
MEASURES

### Organizational Commitment Questionnaire

I feel very little loyalty to this organization.

I am willing to put in a great deal of effort beyond that normally expected in order to help this company be successful.

I would accept almost any type of job assignment in order to keep working for this organization.

I am proud to tell others that I am part of this organization.

I really care about the fate of this company.

I would start looking for a job immediately.

### Job Threat and Anxiety Scale

How likely is it that this announcement will affect your job in the next year or so?

How likely is it that your boss will evaluate your performance significantly lower than you think it should be rated?

If your performance dropped significantly in the next several months, how likely is it that you would be laid off?

To what extent do you think the boss holds the "possibility of being laid off" over head as a reason for working hard and improving performance?

### Effort Scale

I would change my performance at my job.

If the company asked me to do more, I would be willing to meet these requirements.

Because of the merger I would expect my workload to increase.

I would work just as hard as I did before the merger.

Remaining Items that were developed for  
productivity but not used in final analysis

I would not change my work habits.

Because of the information provided by supervisor/client I would not work as hard as I have in the past.

I have worked very hard for this company in the past.

Working hard will guarantee that I'll have a job at this company when the merger is done.

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