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Psychological contract assessment after a major organizational change

The case of mergers and acquisitions

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Abstract

Purpose – This study aims to identify specific changes in the content of the psychological contract during mergers and acquisitions (M&As), looking into both the “previous” and the “current” psychological contract.

Design/methodology/approach – A total of 255 non-managerial employees who had recently gone through a MorA, participated in the study. They were asked to evaluate both their previous psychological contract (prior to the MorA) and their current psychological contract (after the MorA). Paired *t*-tests provided support for the propositions stated.

Findings – Statistical analysis revealed that employee perceptions of both organizational obligations and contributions change after a MorA. Furthermore, employees with limited coping with changes ability are more likely to consider that their contract has changed after a MorA.

Research limitations/implications – The cross-sectional character of this study may have increased common method bias. Still, no other option existed in this organizational setting.

Practical implications – These findings suggest that major organizational changes, such as MorA significantly impact on individuals’ view of their employment relationship. In fact, employees that feel confident in handling organizational changes are more prone to believe that their psychological contract has replaced by a new, subordinate one. Consequently, it is important that organizational agents shield employees against M&As negative impact by fostering coping with changes ability.

Originality/value – The paper offers insights into psychological contracts after a major organizational change.

Keywords Psychological contracts, Acquisitions and mergers, Organizational change, Greece

Paper type Research paper

Introduction

Mergers and acquisitions (M&As) have been a very popular strategic maneuver for global businesses, attaining growth, diversification, or profitability (Fowler and Schmidt, 1988). In fact, the merger mania that started in the 1980s, continued throughout the 1990s and is still vigorous (Houghton *et al.*, 2003).

M&As are nothing but extreme forms of organizational change, and change is often perceived by employees as threatening, due to their feeling of vulnerability and fear of losing security (Saunders and Thronhill, 2003). Under these circumstances, they have become increasingly important in helping to redefine employment relationships (Anderson and Schalk, 1998; Cartwright and Cooper, 1993; Guest, 1998; Herriot and Pemberton, 1995, 1996; Hiltrop, 1995; McLean Parks and Kidder, 1994; Turnley *et al.*, 2003).

Psychological contracts refer to individuals’ beliefs regarding the terms and conditions of a reciprocal exchange agreement between the focal person and another



party. A psychological contract emerges when one party believes that a promise of future returns has been made, a contribution has been given and thus, an obligation to provide future benefits has been created (Rousseau, 1989). Consequently, when evaluating psychological contracts, employees look into both organizational obligations and the degree of their fulfilment (Coyle-Shapiro and Kessler, 2000).

Shield *et al.* (2002) findings have indicated the potential importance of assessing employees' psychological contracts during a merger, in order to reach both the desired organizational outcomes and employee job satisfaction. By the same token, several researchers have stressed the need to examine changing psychological contracts during major organizational changes (e.g. Cartwright and Cooper, 2000; Coyle-Shapiro and Kessler, 2000; Dopson and Neumann, 1998; Edwards *et al.*, 2003; Inskon *et al.*, 2001; Morrison, 1994; Robinson *et al.*, 1994; Rousseau, 1995). Besides, as Morrison (1994, p. 365) stated "change alters the contract". Yet, the empirical knowledge in this field is still limited. Besides, the vast majority of existing research emphasized either psychological contract breach and violation (their antecedents and consequences – i.e. Cavanaugh and Noe, 1999; Coyle-Shapiro and Kessler, 2000) or its changing content over the years (traditional versus current – i.e. Dainty *et al.*, 2004; Herriot *et al.*, 1997).

The same applies to the examination of individual characteristics. Although it is widely accepted that psychological contracts are subjective and researchers have stressed the importance of individual characteristics (Coyle-Shapiro and Neuman, 2004; Herriot *et al.*, 1997; Raja *et al.*, 2004; Rousseau, 1989, 1995; Sparrow and Cooper, 1998), the empirical evidence is almost inexistent.

Having taken all these into consideration, this study aims to identify specific changes in the content of the psychological contract during M&As, looking into both the "previous" and the "current" psychological contract. "Previous" refers to the contract developed between employees and the pre-merger/acquisition organization, whereas "current" to the one that emerged with the post-merger/acquisition organization. It also takes into account an individual characteristic – employees' coping with organizational changes – in order to diagnose potential differences among employees regarding the contract's content. A better understanding of the contract itself may help towards effectively managing human resources in order to gain competitive advantage (Tekleab *et al.*, 2005), by providing organizational agents with one more means to avoid contract breach, and subsequent negative implications.

The national setting of the study, which took place is Greece, is regarded to be among its strengths, as – with few exceptions (i.e. Hui *et al.*, 2004; Lemire and Rouillard, 2005; Lo and Aryee, 2003; De Vos *et al.*, 2003) – the vast majority of studies on psychological contracts have been conducted either in the USA or in the UK (i.e. Atkinson *et al.*, 2003; Conway and Briner, 2002; Dainty *et al.*, 2004; Edwards *et al.*, 2003; King, 2000; Millward Purvis, and Copley, 2003; Rousseau, 1990; Roehling *et al.*, 2000; Robinson *et al.*, 1994; Robinson and Rousseau, 1994; Robinson and Morrison, 2000; Searle and Ball, 2004; Shore and Barksdale, 1998; Skinner *et al.*, 2004; Sparrow and Cooper, 1998).

Mergers and acquisitions

Several researchers have suggested that in most cases M&As fail to meet initial financial expectations (i.e. Bruner and Spekman, 1998; Haveman, 1992; Very and Schweiger, 2001; Zollo, 2003). Back in the 1980s, Lubatkin insisted that although M&As had been a very important and popular means for executing organizational strategies, less than 20 percent

actually achieved its expected financial or strategic objectives. Almost a decade later, Cartwright and Cooper (1992) quoted nearly 40 per cent failure rates for change efforts and a few years later, 1996, nearly 50 percent of M&As failure rate to achieve initial objectives. Along the same lines, Weber (1996) found that 35 per cent of those M&As that fail in their first three years of life are a result of poor employee relations. Over the years, several researchers have raised that per cent again, advocating that more than two-thirds of M&As fail to create meaningful shareholder value (Ashkenas *et al.*, 1998; Carr *et al.*, 2004; Marks and Mirvis, 1998).

As for the main reasons for such failure rates, there is a dispute among researchers. Existing literature has identified among the main reasons for not fulfilling initial goals both hard and soft factors. Specifically, there are researchers suggesting that paying the wrong price, buying for the wrong reason, selecting the wrong partner, and buying at the wrong time are some of the most prominent ones (i.e. Armenakis, 1999; Haleblan, 1999). However, others insist that underestimation of the pervasiveness and depth of the problems related to the human factor during a MorA condemns the project's success, and thus, more attention has to be given on employees' needs (i.e. Bijlsma-Frankema, 2001; De Cock and Rickards, 1996; Houghton *et al.*, 2003; Lesowitz and Knauff, 2003; Seibert, 1995; Stahl *et al.*, 2003).

According to Marks and Mirvis (1985), during M&As employees experience the "merger syndrome", which is accompanied by increased self-interest, as employees become preoccupied with what the integration actually means for themselves, their incomes, and their careers. Employees seem to go through the merger as a loss of a loved one, often treated as a personal crisis (Sherer, 1994), which may manifest itself as listlessness, apathy, a preoccupation with the past, lack of commitment to the new culture, fear, and/or active resistance to the new system (Cartwright and Cooper, 1990; Marks and Mirvis, 1992). As a result, several negative attitudes and behaviours are realized, including decreased job satisfaction, organizational commitment, loyalty and productivity and increased defective products, mistakes and withdrawal behaviors (Latack, 1986; McHugh, 1997).

There are, of course, occasions in which the integration process or even the MorA itself creates undesirable conditions for employees. Such examples include the limited or superficial communication related to the necessity and importance of the MorA (Chawla and Kelloway, 2004; Demers *et al.*, 2003; Lesowitz and Knauff, 2003; Schweiger and DeNisi, 1991), the lack of justice and trustworthiness on behalf of organizational agents (Nikandrou *et al.*, 2000; Saunders and Thornhill, 2003; Searle and Ball, 2004; Stahl *et al.*, 2003) and the cultural shock following the incompatibility between the two organizations (Nquyen and Kleiner, 2003; Weber, 1996).

For those giving emphasis on the soft factors of the MorA, organization's ability to understand and control employee attitude and behavior is critical if serious problems in strategy implementation and success are to be avoided (Sparrow and Hendry, 1988). Psychological contract developed between individuals and their organization can be helpful towards this direction, as it is a means for enhancing conception of employee relationships and effective management of employees (Conway and Briner, 2002; Rousseau, 2004).

Psychological contract change

Existing literature implies that psychological contract content alters due to changes taking place at the organization. For example, Weber and Weber (2001) suggested that

planned organizational changes impact on employees' perceptions of the employment relationship. Rousseau and McLean Parks (1993) insisted that employees tend to periodically reconsider their psychological contract with the organization, in order to keep up with the ongoing changes. Examining major organizational changes, Wiesenfeld and Brockner (1993) found that perceived unfairness – due to layoffs, changes in human resource policies, etc. – is likely to make employees reexamine the content of their psychological contract. Baruch and Hind (1999) proposed that during organizational restructuring the existing psychological contract is being replaced by a new one. According to Coyle-Shapiro and Kessler (2000), in case of major organizational changes the content of promises given by both sides becomes less clear and thus psychological contract transformation is inevitable while Inkson and his colleagues (Inkson *et al.*, 2001) agree that organizational restructuring is followed by psychological contract restructuring. In fact, Dopson and Neumann (1998) found that all middle managers participating in the study reacted negatively to changes in some elements of the psychological contract, due to organizational changes desired by senior managers, such as restructuring, downsizing or change of operating philosophy.

In the event of a merger, the organization involved in the initial contract formation ceases to exist. The replacement of one of the parties involved, the merged or the acquired organization, entails the contract transformation (Cartwright and Cooper, 1992, 1994). Hence, although employees often seem to remain untouched, since they may use the same office, do the same job, and have the same colleagues, or even the same supervisors, subsequent changes in proprietary status and management involve at least minor, if not major, changes for their employment relationship. In fact, even in the best of circumstances, a MorA can alter “the nature, orientation and character of one or both of the merger partners so that five to seven years are typically needed for employees to feel truly assimilated in the merged entity” (Covin *et al.*, 1997, p. 22). In this context, Cartwright and Cooper (2000) asserted that in case of a MorA a new psychological contract needs to be established between employees and the integrated organization. Still, the new expectations are not created through pronouncements of what is to be expected in the future (Morrison, 1994); rather, employees seem to detect changes in the new setting and make comparisons with the previous ones (Louis, 1980).

Furthermore, M&As are very similar to organizational socialization (Schweiger and DeNisi, 1991). In both cases, employees are expected to become familiar with the new setting, accept its principles and values and adjust their attitude and behavior (Chao *et al.*, 1994; Major *et al.*, 1995). Thomas and Anderson (1998) have suggested that organizational socialization is a stressful period for newcomers due to the novel and uncertain environment that they are entering. Under the circumstances, newcomers try to reduce this uncertainty by learning as much as possible about the organizational and how to effectively function within it (Morrison, 1993a, b). Consequently, it is only logical to assume that during M&As, employees act as newcomers, trying to sense the new environment.

In terms of this study, following Coyle-Shapiro and Neuman (2004) who studied exchange and creditor ideologies, change in the contract's content is examined through changes in both organizational obligations and contributions. Besides, obligations stem from direct or indirect promises given by organizational agents (Rousseau, 1995), who are in most occasions being replaced during a MorA. As for organizational

contributions, the integration is inevitably followed by changes in organizational policies, practices, processes and procedures (Carr *et al.*, 2004).

Having taken all these into consideration, the expectation is that:

H1a. Employee perceptions regarding organizational obligations will change during a merger or acquisition.

H1b. Employee perceptions regarding organizational contribution will change during a merger or acquisition.

Coping with changes

Psychological contracts idiosyncratic nature is widely accepted among researchers (i.e. Rousseau, 1989; Robinson and Morrison, 2000; Shore and Tetrick, 1994). Quoting Sparrow and Coopers (1998, p. 360), "contracts are portrayed as an individual level phenomenon". Yet, the interest that individual characteristics have received is limited. Among the few exceptions, Ho *et al.* (2004) and Raja *et al.* (2004) found that personality characteristics contribute to perceptual differences in breach and violation while Coyle-Shapiro and Neuman (2004) suggested that personal dispositions must no longer be neglected when examining psychological contracts while Hallier and James (1997), studying organizational changes, concluded that employees are expected to display variation in what is perceived and understood, due to personal interpretation.

Usually, people have difficulty in accepting new settings and adjusting to them, due to stress, uncertainty, insecurity, even fear that they may experience (Panchal and Cartwright, 2001). During M&As, some individuals then to exaggerate over inherent changes while others take them for challenges or even chances for improvement at both an organizational and an individual (Buono and Bowditch, 1989). The extent to which individuals can cope with stressful events can shape the impact the event will have on that person (Endler and Parker, 1990). Besides, according to Folkman *et al.* (1986) and his colleagues, the overall judgment of a situation is based upon individuals' values and goals.

In terms of this study, individuals' coping with changes was regarded to be crucial, due to inherent changes of a MorA. According to Judge (1999) and his colleagues, it refers to a set of employees' attempts to effectively manage organizational changes that affect their work and employment relationship. Researchers have increasingly recognized the importance of employees' coping strategies, in understanding how they respond to change and effectively managing their attitude and behavior. Nevertheless, although change is the only stable thing in the current organizational setting, the empirical attention coping with changes has received is limited (Wanberg and Banas, 2000).

Coping with changes has its origins in the self efficacy theory. One can exert considerable effort to execute the behavior required in change events (Noe, 1986) and to cope with potentially threatening situations. According to Cunningham *et al.* (2002) and his colleagues, employees with higher job change efficacy scores reported a higher readiness for change as well, which in turn facilitates adjustment of expectations to the new setting and avoidance of the process of disillusionment and feelings of betrayal (Brockner *et al.*, 1992b). Moreover, self-efficacy for coping with changes was found to be predictive of higher levels of employee openness to organizational changes, which resulted in increased job satisfaction, and decreased work irritation and intentions to

quit (Wanberg and Banas, 2000). On the contrary, resistance to change may make organizational changes difficult or even impossible to implement, with employees' reactions ranging from non-cooperation to industrial sabotage.

In the present study, following the self-efficacy theory, it is expected that employees with greater ability to effectively cope with changes are less likely to be influenced by the MorA in terms of their view of their employment relationship. In accordance, for those who score low on coping with changes, the expectation is that they will be more likely to feel that the MorA violently changed their terms of employment. Hence:

H2a. Employees who feel able to effectively manage organizational changes are more likely to believe that organizational obligations have changed due to a merger or an acquisition.

H2b. Employees who feel able to effectively manage organizational changes are more likely to believe that organizational contributions have changed due to a merger or an acquisition.

Method

Sample and procedure

Over the years, M&As have become the most common practice among organizations operating in Greece for investing stock market funds by far. The vast majority took place between 1997 and 2001, following the Athens Stock Exchange rapid growth and there is still increased activity. Following Greek legislation, M&As led to limited decrease in the number of personnel, not in the form of firing but in the form of early retirements or part-time occupation, mainly in the merged or acquired organization.

Under the circumstances, and given that no database was available to allow random sampling, organizations that fulfilled certain conditions were contacted to authorize study among employees that had recently experienced a MorA. In specific, all organizations that had gone through a merger or acquisition during the last three years in Greece, had between 1,000 and 2,000 employees in Greek subsidiaries, and had offices in Athens, were asked to allow employee participation in the study. After contacting the human resource managers, 15 out of a total of 41 organizations accepted (36.6 percent). A total of 450 questionnaires were personally distributed to non-managerial, full-time employees. The researcher gathered 287 (63.8 percent) questionnaires, 255 (56.7 percent) of which were correctly and fully completed and, thus, included in the analyses. All respondents came from the merged or acquired organization, had worked at the pre-merger/acquisition organization for at least six months, and had thus a thorough view of the MorA process.

In order to give permission for this study's implementation, almost all organizations demanded first that the demographic questions were removed and second that the questionnaire was not completed during working time, in order to avoid turbulence among employees. Both requests were accepted as the questionnaires were handed to employees by the researcher, ensuring a clear view of the sample composition and a full control of the handling procedure. Employees were given one week for completion. After that, the researcher gathered the questionnaires directly from employees.

Furthermore, given the fact that many previous researches on psychological contract have used respondents that have used graduates from prestigious MBA programs (i.e. Conway and Briner, 2002; Edwards *et al.*, 2003; King, 2000; Rousseau,

1990; Roehling *et al.*, 2000; Robinson *et al.*, 1994; Robinson and Rousseau, 1994; Robinson and Morrison, 2000; Shore and Barksdale, 1998), examining non-managerial employees was considered to be very interesting. As aforementioned, their national identity – they were all Greeks – was also regarded to be increased the interest of this study.

Measures

Previous and current psychological contract. As far as psychological contract content is concerned, there are several approaches (i.e. Herriot *et al.*, 1997; Lester and Kickul, 2001; Roehling *et al.*, 2000; Rousseau, 1990). The most prominent one belongs to Rousseau (1990) and includes seven items: opportunity to promote, high pay, pay according to performance, continuous education, long-term employment, personal development, and support for personal problems. This study incorporated another three questions from the organizational obligations list developed by Roehling *et al.* (2000) that were considered to be significant in the Greek setting. Those questions were “Employee involvement in decision making”, “Interesting work”, and “Recognition (non-monetary)”. These ten questions were used to assess the content of both the previous and the current psychological contract. Participants were asked to first answer the questions on the previous psychological contract and then move on to the current one. Consistent with Rousseau’s definition, as most prior research in this area, the focus was employees’ perception of psychological contract (e.g. Flood *et al.*, 2001; Robinson, 1996; Robinson *et al.*, 1994; Robinson and Morrison, 2000).

Participants were asked to indicate the extent to which their employer was obligated to provide them with certain items and the extent to which the latter actually provided them. Responses were given on a five-point Likert scale, ranging from “not at all obligated” to “very obligated” and “not at all fulfilled” to “absolutely fulfilled”. Although this approach has also been adopted for breach measurement by several researchers (i.e. Robinson and Morrison, 1995; Robinson and Rousseau, 1994), contract breach did not fall within the scope of this research.

Coping with changes. Employees’ ability to cope with changes was measured with the instrument developed by Judge *et al.* (1999). Since all participants in the study were non-managerial, two out of the 12 questions that referred specifically to managerial staff were withdrawn. Responses were given on a five-point scale, ranging from “totally disagree” to “totally agree”. After dropping an item that was not highly correlated with the others, Cronbach’s α was 0.71. Finally, the instrument for measuring coping with changes comprised of nine questions.

Results

First of all, factor analyses confirmed that all items comprise a single factor in the case of both the previous and the current psychological contract. Cronbach’s α for the previous contract content was for organizational obligations 0.91 and for organizational contributions 0.89. Likewise, for the current contract, it was 0.93 for both organizational obligations and contributions.

Means, standard deviations, and *t*-tests for organizational obligations and contributions prior and after the MorA appear on Table I. As shown, employees believe that the organizational obligations they were given by both the pre- and the post-M&A organization are moderate, with mean scores ranging between 2.73 (high

	Pre-M&A organization		Obligations Post-M&A organization		<i>t</i>	<i>p</i>	Pre-M&A organization		Contributions Post-M&A organization		<i>t</i>	<i>p</i>
	Mean	SD	Mean	SD			Mean	SD	Mean	SD		
Opportunity to promote	2.76	1.27	2.71	1.31	0.61	n.s.	2.40	1.23	2.07	1.16	3.64	0.000
High pay	2.73	1.27	2.68	1.30	0.56	n.s.	2.46	1.19	2.04	1.12	5.21	0.000
Pay according to performance	2.87	1.36	2.71	1.35	2.01	0.045	2.52	1.26	2.05	1.20	4.92	0.000
Continuous education	2.83	1.30	3.17	1.29	-3.30	0.001	2.61	1.27	2.65	1.37	-0.35	n.s.
Long-term employment	3.28	1.31	3.11	1.31	2.29	0.023	3.04	1.36	2.57	1.34	4.42	0.000
Personal development	2.80	1.28	2.83	1.26	-0.35	n.s.	2.70	1.28	2.30	1.24	4.17	0.000
Support for personal problems	3.13	1.26	2.95	1.26	2.26	0.024	2.94	1.24	2.48	1.28	4.87	0.000
Interesting work	3.20	1.10	3.14	1.24	0.86	n.s.	3.02	1.17	2.74	1.34	3.15	0.002
Involvement in decision making	3.19	1.19	3.00	1.25	2.47	0.014	3.04	1.27	2.54	1.32	5.32	0.000
Recognition	3.11	1.27	2.90	1.31	2.66	0.008	2.85	1.26	2.35	1.30	5.41	0.000

Psychological
contract
assessment

Table I.
Mean scores, standard deviation and paired *t*-tests results for pre-M&A and post-M&A organizational obligations and contributions

pay) and 3.28 (long-term employment) for the former and between 2.68 (high pay) and 3.17 (continuous education) for the latter on a five-point scale. As for organizational contribution the mean scores are generally lower in both cases. In specific, they range between 2.40 (opportunity to promote) and 3.04 (involvement in decision-making and long-term employment) for the pre-merger/acquisition organization and between 2.04 (high pay) and 2.74 (interesting work) for the organization that arose.

The points that are worth looking more into them at this point are two. First, it seems that employees believed that the pre-merger organization promised job security above all and actually managed to provide it more than everything else. Second, with regards to the post-merger/acquisition organization, increased obligation and contribution of continuous education and the interesting work can be attributed to the unavoidable changes that follow a MorA on a job level. Given the fact that, according to employee perceptions, contributions are lower than obligations, it is obvious that their psychological contract has been breached.

H1a proposed that employee perceptions concerning organizational obligations that comprise the psychological contract change due to M&As. This hypothesis was tested through paired *t*-tests of pre-merger/acquisition and post-merger/acquisition perceived obligations. According to Table I, employees' perceptions have been significantly modified for six out of ten obligations examined (Table I). In specific, after the MorA, employees' overall perception of organizational obligations has lowered for pay according to performance, long-term employment, support for personal problems, involvement in decision making and recognition, has increased only for continuous education and has remained stable for opportunity to promote, high pay, personal development and interesting work. Consequently, support was found for this hypothesis.

H1b, suggesting that employee perceptions concerning organizational contribution that comprise the psychological contract change due to M&As, was also tested through paired *t*-tests. In this case, significant changes were realized for for nine of ten contributions examined, confirming *H1b*, as well. The only contribution that has not altered is continuous education, despite employees increased expectations. It is also interesting that employees consider that the pre-merger/acquisition organization fulfilled all its obligations to a greater extent than the post-merger/acquisition one did.

Paired *t*-tests were also used to test *H2a* and *H2b*. *H2a* proposed that employees with limited coping with organizational changes ability are more likely to consider that organizational obligations have changed due to a MorA. As can be seen in Table II, employees who do not trust themselves in managing changes believe that there have been significant modifications in six out of ten organization obligations, compared to only one for those who feel more competent to cope with changes. Specifically, it seems that after a MorA, these employees tend to believe that the post-merger/acquisition organization is less obliged than the pre-merger/acquisition one to provide high pay, pay according to performance, long-term employment, involvement in decision-making, and recognition. On the contrary, employees who feel confident in coping with changes following a MorA believe that the only significant difference is that the post-merger/acquisition organization is more obliged to provide them with continuous education, probably due to the fact that it is essential for their smooth adjustment in the work and organizational setting of the integrated unit. As a result, *H2a* was supported.

	Limited coping with changes				Increased coping with changes				<i>p</i>	
	Pre-M&A organization Mean	Pre-M&A organization SD	Post-M&A organization Mean	Post-M&A organization SD	Pre-M&A organization Mean	Pre-M&A organization SD	Post-M&A organization Mean	Post-M&A organization SD		
Opportunity to promote	2.77	1.26	2.62	1.26	2.73	1.31	2.92	1.39	-1.18	n.s.
High pay	2.83	1.28	2.66	1.26	2.51	1.22	2.73	1.39	-1.57	n.s.
Pay according to performance	2.95	1.34	2.73	1.34	2.71	1.39	2.67	1.36	0.22	n.s.
Continuous education	2.82	1.27	3.05	1.27	2.85	1.36	3.40	1.32	-2.83	0.006
Long-term employment	3.23	1.27	2.99	1.28	3.39	1.39	3.34	1.36	0.34	n.s.
Personal development	2.78	1.26	2.77	1.25	2.84	1.34	2.95	1.30	-0.69	n.s.
Support for personal problems	3.02	1.27	2.87	1.30	3.37	1.23	3.11	1.16	1.60	n.s.
Interesting work	3.18	1.11	3.01	1.24	3.27	1.12	3.40	1.20	-1.02	n.s.
Involvement in decision making	3.22	1.13	2.99	1.20	3.13	1.31	3.02	1.34	0.70	n.s.
Recognition	3.10	1.24	2.84	1.28	3.12	1.33	3.01	1.36	0.73	n.s.

Table II.
Mean scores, standard deviation and paired *t*-tests results for pre-M&A and post-M&A organizational obligations, based on coping with changes

According to *H2b*, the expectation was that employees who scored low in coping with changes are more likely to believe that the organizational contributions have changed due to the MorA than those who scored high. In particular, as can be seen in Table III, employees do not trust themselves in handling changes identify significant changes in almost all organizational contributions examined. The exception applies to continuous education. On the contrary, employees with increased coping with changes ability spot only one statistically significant difference, in providing support for personal problems, which seems to have lowered. Such a belief may be attributed to the fact that their relative increased tenure in the pre-M&A organization probably increased acquaintance with managers and, in turn, enhanced understanding and support employees received in case of problems outside their work. As a result, *H2b* was also confirmed.

Discussion

Despite M&As widespread around the world over the last decades, their success rates remain unsatisfactory. In an attempt to improve these rates, an increasing number of researchers have stressed the importance of understanding and managing the human factor. M&As force employees to examine and often change their understanding of the organization (Searle and Ball, 2004), adjusting in turn their attitude and behavior. Acknowledging that psychological contracts are critical for understanding employee reactions to change (Bligh and Carsten, 2005; Shield *et al.*, 2002), this study tried to identify changes in employee perceptions of the psychological contract content.

As hypothesized, both organizational obligations and contributions change during M&A in the eyes of employees. The main reasons for such variations are considered to be first, the fact that one party of the employment relationship – the employer – changes, without the other party's – the employees' – agreement and second, the fact that a MorA is followed by major organizational changes in several areas, such as management style, procedures, and human resource policies (Appelbaum *et al.*, 2000; Marks and , 1992). Consequently, M&As, usually cause great uncertainty to employees about the future of their employment relationship, whether it will survive and under which conditions. Inevitably, the previous psychological contract, formed between employees and their pre-merger/acquired organization, ceases to exist and a new one is developed with the organization that arises from the integration. Such findings tap previous researchers' theoretical suggestions. For example, Rousseau (1995) proposed that there are occasions in which the existing psychological contract is replaced by a new one, either through breach or by completion. Likewise, Baruch and Hind (1999) emphasized the need to create a new psychological contract during M&As, in order to minimize negative employee reactions.

Examining organizational obligations in specific revealed that employees credit the post-M&A organization mostly with less relational obligations (i.e. long-term employment, support for personal problems, involvement in decision making, and recognition), probably due to their relatively limited tenure – in comparison with the pre-M&A organization, or the disappointment that may follow a MorA. On the other hand, employees tend to believe that what they get from the integrated organization falls short of what they used to get from the pre-M&A one, which could be attributed to employees' inherent resistance to change and their difficulty to conceive the new status, its organization and operation (Iverson and Pullman, 2000).

	Limited coping with changes				Increased coping with changes				<i>p</i>			
	Pre-M&A organization Mean	SD	Post-M&A organization Mean	SD	<i>t</i>	<i>p</i>	Pre-M&A organization Mean	SD		Post-M&A organization Mean	SD	<i>t</i>
Opportunity to promote	2.34	1.18	1.92	1.09	3.65	0.000	2.51	1.34	2.30	1.28	1.22	n.s.
High pay	2.48	1.19	1.95	1.02	5.50	0.000	2.42	1.19	2.27	1.28	1.16	n.s.
Pay according to performance	2.66	1.25	1.99	1.19	5.61	0.000	2.23	1.23	2.17	1.21	0.40	n.s.
Continuous education	2.55	1.23	2.44	1.31	0.85	n.s.	2.73	1.35	3.10	1.39	-1.83	n.s.
Long-term employment	2.96	1.30	2.38	1.26	4.59	0.000	3.19	1.47	2.96	1.40	1.21	n.s.
Personal development	2.70	1.26	2.16	1.17	4.89	0.000	2.72	1.35	2.59	1.34	0.70	n.s.
Support for personal problems	2.83	1.22	2.33	1.27	4.32	0.000	3.18	1.27	2.80	1.27	2.27	0.026
Interesting work	2.95	1.16	2.53	1.28	4.19	0.000	3.14	1.18	3.17	1.36	-0.15	n.s.
Involvement in decision making	3.08	1.18	2.44	1.26	5.83	0.000	2.96	1.44	2.75	1.41	1.29	n.s.
Recognition	2.86	1.24	2.22	1.25	5.53	0.000	2.83	1.30	2.61	1.37	1.44	n.s.

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Table III.
Mean scores, standard deviation and paired t-tests results for pre-M&A and post-M&A organizational contributions, based on coping with changes

The subjective character of psychological contracts necessitated the examination of an individual characteristic. After controlling for individual's ability to cope with changes, interesting findings came up. Although it is clear that psychological contract content basically changes for employees who believe that are not able to effectively manage organizational changes, it remains almost the same for those who trust themselves in terms of this ability.

In terms of organizational obligations, high coping with changes related to significantly greater continuous education provision whereas limited coping also to significantly lower obligation for high pay, pay according to performance, long-term employment, involvement in decision making and recognition. As for contributions, again individuals who do not trust themselves in managing changes believe that they are receiving less in the new organizational setting whereas those who are confident feel that they are only getting less support for personal problems and that they are in control of all job-related issues, despite the MorA. It seems, thus, that effective employee management presupposes taking their viewpoint into consideration. This finding is in line with Baruch and Hind's (1999) suggestion that survivor syndrome may be avoided when organizations are operating within a "perpetual change" mode.

The variation that came up based on employees' coping with changes, may be ascribed to the fact that employees who are confident in themselves are more likely to perceive a M&A and its subsequent changes as a challenge to exploit rather than as a problem to overcome or avoid. On the contrary, those who are afraid of changes may be inclined to believe that a MorA is a constraint that causes serious problems and negatively affects their employment relationship. This finding is along the line of Sparrow's (1998) proposition that during major organizational change, the diverse nature of a workforce imposes personalized management of psychological contracts.

In the current turbulent organizational setting, changes in the employment relationship are inevitable. For organizations to change, employees need to change, (Morrison, 1994). Cease of the existing contract in the eyes of the beholders practically means that organizational agents need to re-establish the employment relationship, in such a way that suits the new conditions and can create commitment among involved employees and employing organizations (Rousseau, 1995).

It is, thus, necessary that organizational agents handle employees from the merged or acquired organization as newcomers, if they are to shape psychological contracts in a desirable way, such that can minimize breach. Besides, several researchers have already identified the increased possibility of contract breach during major organizational changes, including M&As. For example, Turnley and Feldman (1999) found that employees that had recently gone through a MorA were more prone to believe that their contract had been breached compared to others. Likewise, both Robinson and Morrison (2000) and Lo and Aryee (2003) examined the degree of organizational changes to conclude that it positively affects contract breach. Finally, Lester *et al.* (2002), studying MBA students who had experienced major organizational changes within the past 12 months, found that perceived justice has implications on contract breach perceptions.

Although contract breach was not examined in this study, it is evident that breach of the current psychological contract is greater than the breach of the previous one, reinforcing the violent character of M&As (Buchanan *et al.*, 2000; Iverson and Pullman, 2000). Considering the negative employee attitudes and behaviors following contract

breach, it is essential for organizations to continually manage, renegotiate, and alter the terms of the employment agreement, in order to fit the new setting.

Other than that, given that individual's coping with changes ability significantly influences their view of changes in the contract's content, it is important that organizational agents actively try to make employees be and feel more able, in order not only to support the MorA, but also to become less vulnerable in changes to come. Since coping with changes ability shields employees against M&As negative consequences, provision of education towards enhancing coping ability is an imperative. Moreover, clear, consistent, factual, sympathetic, and up-to-date information can enhance employees' coping abilities, which will in turn increase their productivity (Appelbaum *et al.*, 2000), limit turnover intentions (Chawla and Kelloway, 2004) and increase their will to contribute to organizational redesign (Cunningham *et al.*, 2002), avoiding hence disappointing post-merger organization performance (Thach and Nyman, 2001).

To conclude, given that psychological contracts reflect employees' view of their employment relationship (Freese and Schalk, 1996), looking into them provides organizational agents with a means for limiting its breach and subsequent negative outcomes for both individuals and organizations. Furthermore, in today's organizational setting where the only certainty is change (Sherer, 1994), employees' ability to cope with it is a prerequisite for enhancing its chances to succeed.

Limitations

As in any study, there are some important limitations that should be taken into account in the interpretation of our results. First of all, measuring previous and current psychological contract at the same time may have increased common method bias. The best approach would have been to ask employees to assess psychological contract prior to the MorA, before they even heard any rumors about it and after the integration. It is clear, however, that such information is almost, if not absolutely, impossible to gather. In spite of this limitation, this study could not be conducted otherwise for one basic reason. Keeping in mind upheaval, uncertainty, fear, and stress following M&A, all organization representatives asked for absolute anonymity, not only for the organization but for their employees as well, in order to allow this study. Researcher's commitment to abide by it meant that no names or codes could be used and so questionnaire matching was impossible.

Another limitation relates to the fact that no demographics were gathered for the employees that comprised the sample. However, researcher's personal contact with employees ensured a representative sample regarding gender and age. Besides, as already mentioned, there are many studies in psychological contract literature that have not managed to support a relationship between demographic characteristics and psychological contract breach (Coyle-Shapiro and Kessler, 2002; Coyle-Shapiro, 2002; Flood *et al.*, 2001; Smithson and Lewis, 2000; Turnley *et al.*, 2003; Turnley and Feldman, 1999) or content (Herriot *et al.*, 1997; Rousseau, 1990).

Importance employees place on each of the obligations examined would provide better and more precise understanding of their perceptions and could therefore give greater insight into employees' view of the contract. Yet, adding of a third list of the obligations to be assessed for significance would probably confuse and tire participants.

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