


# Organisational change and the psychological contract at a pharmaceutical company



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**Orientation:** Over a period of 6 years, a South African pharmaceutical company had been involved in several mergers and acquisitions. These changes had proved difficult for staff and staff attrition had risen.

**Research purpose:** The objective of the study was to explore the perceptions of senior managers about the impact of change on the psychological contract. The sub-objectives were to determine what organisational factors contribute to changes in the psychological contract during periods of change, and the implications of the breach of the psychological contract for the company and its employees.

**Motivation for the study:** As the company was set to embark on further mergers and acquisitions, the opinions of senior managers about how such changes should be addressed are important for the company.

**Research design, approach and method:** A case study approach was used in this qualitative study. The population comprised 60 senior managers of whom 12 were purposefully selected for inclusion in the study. A semistructured interview schedule was used to capture the views of these managers and themes were extracted by means of content analysis.

**Main findings:** Seven themes emerged which encapsulated the perceptions of senior managers about the impact of change on the psychological contract during periods of mergers and acquisitions – lack of communication, an absence of planning, lack of employee engagement, less than optimal human resources involvement, lack of preparation of the organisational culture and poor change management processes. These factors need to be addressed to strengthen the psychological contract of employees during periods of change.

**Practical/managerial implications:** The study highlighted areas that leaders and managers of the company should consider when embarking on mergers and acquisitions if the psychological contract of employees is not to be negatively impacted.

**Contribution:** While caution must be exercised in the generalisation of the findings, companies in the same industry or those in other industries could use the findings as points of departure for considering the elements that should be addressed in change initiatives.

## Introduction

Growing competition has created opportunities for companies to increase market share through mergers and acquisitions (M&As). However, many M&As fail to create value for the merged companies (Gomes, Angwin & Yedidia Tarba, 2013) because the complex interdependent sub-activities of due diligence, negotiations, financing, people integration and organisational culture have not been synergised (Wei & Clegg, 2014). When implementing changes such as M&As, leaders tend to focus on business outcomes rather than on the impact the changes will have on individuals within the organisation (Aggarwal-Gupta, Kumar & Upadhyahula, 2012).

The pharmaceutical company, the subject of this case study, was established in 1990 as the only South African vaccines importer. At that point, its core business was to provide effective, safe vaccines to the South African Health Department at competitive prices following cold chain principles. The company engaged in a series of M&As between 2009 and 2015.

In South Africa, the introduction of the *Broad Based Black Economic Empowerment Act (BBBEE Act No. 53 of 2003)* saw an increase in M&A transactions within the South African context (Thayser & Dada, 2007). The publication of the *Revised Codes of Good Practice* required companies to review their strategies as the old focus on equity ownership became less important. Because of these

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codes, certain aspects of BBBEE, such as black participation in businesses and procurement from black businesses, became increasingly important (Thayser, 2009; Thayser & Dada, 2007). In accordance with the legislative environment, in 2008, the company sold 40% of its shareholding to a 100% black-owned company. This sale saw the organisation becoming the first black economically empowered healthcare company in South Africa as well as the only wholly owned South African vaccines importer and distributor. The shareholding was subsequently increased from 40% to 51%, thereby transforming the company from an empowered company into a black-owned and controlled company.

Prior to the M&As, which impacted approximately 300 employees, no human resources (HR) due diligence was conducted to prepare and mobilise the workforce for the organisational changes. The negative impact of missing this critical step became evident when the best talent began leaving the company with attendant declining motivation and lost productivity.

## Purpose

The objective of the study was to explore the perceptions of senior managers about the impact of change on the psychological contract. The sub-objectives were to determine what organisational factors contribute to changes in the psychological contract during periods of change, and the implications of the breach of the psychological contract for the company and its employees.

## Literature review

### Change management practices during mergers and acquisitions

A merger is the combination of two-share capital, almost equally sized organisations. The two organisations take the best of each to form a new entity, sharing resources and corporate objectives (Filho, 2014). An acquisition occurs when an organisation takes ownership by purchasing majority shares in another organisation (Gomes, Weber, Brown & Tarba, 2011). Although M&As are different legal transactions, they tend to be treated similarly in the literature (Al-Laham, Schweizer & Amburgey, 2010; Bowman & Ambrosinni, 2007). Various steps must be taken to ensure that the merged entities function optimally (Sun, Peng, Ren & Yang, 2012). Such steps include undertaking a due diligence process, involving HR in the management of the process, communicating to employees, developing culture compatibility and ensuring governance around structures and processes.

Due diligence and postmerger integration should be planned simultaneously and managed as ongoing processes during the premerger phase (Weber, 2011). Effective due diligence leads to a purposeful acquisition strategy for the merging companies and thus is an important process (Ceausescu, 2008); inadequate due diligence increases the risk of failure (Sun et al., 2012). The process of due diligence normally involves financial staff and is not extended to other leaders in areas such as HR,

information technology and operations who must work with the new partners (Penava & Šehić, 2014). Similarly, senior executives involved M&As mostly focus on the strategic fit of the merging organisations, not on cultural fit (Bauer & Matzler, 2014), and may not consider the human element in the running of the operations postmerger (Rottig, Reus & Tarba, 2014). However, Nohe and Michaelis (2016) note that, with acquisitions, it is important that the acquiring organisation gains a holistic perspective of the target organisation.

Various factors are important during periods of M&As. Communication is crucial during such processes and the lack of a systematic communication method for liaising with employees can be an impediment to successful postmerger integration (Herold, Fedor, Caldwell & Lui, 2008). Effective communication includes aspects of timing, frequency, honesty and management reliability and approachability (Brakman, Garita, Garresten & Van Marrewijk, 2008). Top executives are critical to the leading of any change process, including setting out the communication agenda (Penava & Šehić, 2014). Senior management must drive the communication strategy with a consistent message, assuring all stakeholders that the process is efficient and effective, and providing reminders about the rationale for the change (Angwin 2004).

The management of HR is a major determinant in the success of the integration postmerger (Alfes, Truss & Gill, 2010). Employees of newly merged companies are likely to be exposed to changes in their psychological contracts that affect their performance and engagement (Coyle-Shapiro & Kessler, 2002; McDermott, Conway, Rousseau & Flood, 2013). The management of HR is important both pre- and postmerger in order to address issues of uncertainty about matters of job security and the future, as talented employees are often lost during periods of change (Creasy & Peck, 2009).

Lack of attention to employees at this time may also result in resistance to change (Penava & Šehić, 2014) which manifests itself through negative attitudes and behaviours towards the acquisition or merger (Choi, 2011). Resistance must be managed because it can influence successful postmerger integration and it affects the inputs and the willingness of employees to participate in the integration process (Kyei-Poku & Miller, 2013).

Organisational culture is 'the deep structure of organisations, entrenched in the values, beliefs and assumptions held by employees' (Stahl & Voight, 2008, p. 163). Organisational cultural misalignment is a major impediment to successful M&As as employees bring to the workplace their own particular ways of operating and their preferences and desires based on the culture of the organisations that have served as a reference point for them. Even in optimal situations, it can take time for employees to assimilate into a single culture (Chatterjee, 2009).

### The psychological contract

The psychological contract refers to the exchange agreement between the employee and employer (Rousseau, 1990) and

involves perceived obligations that centre on seeking agreement on employment terms (Vantilborgh et al., 2014). Psychological contracts are not static and are continuously changing as a result of employee experiences during employment (Aggarwai & Bhargava, 2009; Chaundry, Coyle-Shapiro & Wayne, 2011). The psychological contract involves employee belief of what the organisation should offer and what the employee should give in return (Guest, 2016). The psychological contract invokes certainty by creating, in employees, a sense of predictability, job security and control (Sverdrup, 2012).

Breach of the psychological contract involves a perception that the company has reneged on the obligations that it promised to fulfil (Cassar & Buttigieg, 2015; Piccoli & De Witte, 2015). Perceived fulfilment or psychological contractual obligations influence employee attitudes and behaviours such as job satisfaction and perceived job security (Ahmed, D'Netto, Chelliah & Fein, 2016; Payne, Culbertson, Lopez, Boswell & Barger, 2015), organisational citizenship behaviours, turnover intentions and actual turnover (Bauer & Matzler, 2014) and motivation and performance (Weber & Fried, 2011). Maintaining organisational commitment is a challenge during periods of organisational change (Connelly & Gallagher, 2004) as employees tend to maintain their commitment to the old employer rather than committing to a new employer (Kessler, Coyle-Shapiro & Purcell, 1999).

In order to address the research objective of exploring the perceptions of senior managers about the impact of change on the psychological contract, four propositions emanating from the literature review are posited.

**Proposition 1:** Psychological contract breach can occur during periods of organisational change.

If not handled sensitively, organisational change can break the psychological contract between the employee and employer, resulting in counter-productive behaviours such as the intention to leave, reduced organisational

commitment and less job involvement (Wagner & Victoria Garibaldi de Hilal, 2014).

**Proposition 2:** Performing a due diligence exercise is important prior to the merger or acquisition in order to promote the psychological contract between employer and employee.

M&As generally involve extensive organisational change for the acquiring, the acquired or the merged organisation (Gomes et al., 2013). Marks and Mirvis (2001) indicate that in most M&A activities, HR issues are neglected and HR practitioners do not play a central role in the process. If a merger or acquisition is to be successful, HR needs to be involved actively throughout all the stages of the M&A process (Gomes, Angwin, Peter & Mellahi, 2012; Zhang et al., 2015).

**Proposition 3:** During periods of strategic change such as M&As, key talent can be lost because of breaches of the psychological contract.

Many acquiring companies lose key employees soon after the deal closes (Steigenberger, 2016) and, if uncertainties exist, key employees look for other alternatives (Pohl, Bertrand & Ergen, 2016).

**Proposition 4:** The existing organisational cultures of the merging organisations can result in a clash of cultures that impacts the psychological contract between employer and employee.

Culture is critically important to business success (Viegas-Pires, 2013), but changes in organisational culture through M&As can lead to culture clashes and result in employee unhappiness (Marks & Mirvis, 2001).

In summary, Table 1 notes the alignment of the propositions, the literature review and the research objective or sub-objectives.

**TABLE 1:** Alignment propositions, literature and research objective or sub-objectives.

Proposition	Literature	Link to objective or sub-objectives
<b>Proposition 1</b> Psychological contract breach can occur during periods of organisational change	Aggarwai and Bhargava (2009); Chaundry et al. (2011); Conway and Briner (2009); Khalid and Rehman (2011); Rousseau (1990); Sverdrup (2012); Vantilborgh et al. (2014)	To understand how the psychological contract is affected during periods of change
<b>Proposition 2</b> Performing a due diligence exercise is important prior to the merger or acquisition in order to promote the psychological contract between employer and employee	Brakman et al. (2008); Ceausescu (2008); Creasy and Peck (2009); Gomes et al. (2013); Marks and Mirvis (2001); Stahl and Voight (2008); Sun et al. (2012); Weber (2011); Zhang et al. (2015)	To determine what organisational factors contribute to changes in the psychological contract during periods of change
<b>Proposition 3</b> During periods of change such as M&As, organisations can experience loss of key talent	Mergers as instigators of change: Gomes et al. (2011); Sun et al. (2012) Change and change management: Alfes et al. (2010); Angwin (2004); Bauer, Coyle-Shapiro and Kessler (2002); Bauer and Matzler (2014); Brakman et al. (2008); Creasy and Peck (2009); Herold et al. (2008); Khalid and Rehman (2011); McDermott et al. (2013); Rottig et al. (2014) Loss of key talent: Choi (2011); Kyei-Poku and Miller (2013)	To understand the implications of the breach of the psychological contract for the company and its employees
<b>Proposition 4</b> The existing organisational cultures of the merging organisations can result in a clash of cultures that impacts the psychological contract between employer and employee	Marks and Mirvis (2001); Viegas-Pires (2013)	Implications of the breach of the psychological contract for employers and employees

## Method

### Research approach

The choice of a qualitative methodology was motivated by the desire to explore issues surrounding a problem for which greater information is needed (Domegan & Fleming, 2007). Qualitative methodology results in data-rich descriptions that are coherent and can advance understanding of the social phenomenon under investigation (Marshall & Rossman, 2010). Accordingly, the study was positioned within an interpretivist paradigm where reality consists of reported subjective experiences of the external world (Erikson & Kovalainen, 2008).

### Research design

A case study design in a single organisation was used to allow for the exploration of the manner in which individuals construct meaning within the real-life context (Yin, 2009).

### Population and sample

The population comprised all 60 senior managers in the company. Non-probability, purposive sampling was used that afforded focus on the particular characteristics of a population of interest in order to best allow the research question to be answered (Marshall & Rossman, 2010).

The sample consisted of 12 senior managers who actively participated in the daily supervision, planning and administrative processes of the company. All were located in Band D reporting into Band E of the Paterson Grading system (Paterson, 1972). All were employed at the organisation during 2009 and 2015 when the organisation was undergoing the changes. By the use of such selection criteria, an attempt was made to ensure that those providing information could comment sensibly on the issues under investigation.

The participants included seven males and five females: three were African, one was mixed race, one was Indian and seven were white people. Tenure with the organisation ranged between 5 and 22 years. All participants had undergraduate degrees with some pursuing postgraduate studies.

### Interview guide

Based on the literature reviewed, an interview guide with semistructured, open-ended questions were constructed to guide the researchers in the probing of issues. The questions focused on the issues of promises made to employees and change management during the periods of M&As. Examples of questions included: 'What changed in your working conditions when there was a merger or an acquisition?' 'Can you provide an example of a time that a promise made to you was broken by the company?' 'Please describe the changes you experienced'.

### Data collection

The semistructured interviews were conducted at the participants' place of work in Gauteng. All interviews were

recorded on a digital voice recorder with the permission of the participants. While an interview guide served to guide the interviews and to provide a broad structure in terms of the areas of investigation, participants were encouraged to embellish on the issues and such embellishments allowed for the probing of the issues under consideration.

### Data analysis and interpretation

Key themes were identified after a content analysis resulted in a grouping of emerging issues from the data (Leedy & Ormrod, 2005). The propositions were used as a framework for the interpretation of the data.

### Validity and reliability of the data

To ensure face validity of the measuring instrument, the questions were piloted with five managers from the finance department under the same conditions as those that prevailed in the main study.

Lincoln and Guba (1985) propose that qualitative studies must be trustworthy by being credible with the research accurately identifying the issues under study. The present study sought to uphold this ideal by three independent researchers separately checking the data emerging from the interviews. Lincoln and Guba (1985) further note that the study must be dependable. This aspect was addressed by the transcription of detailed and accurate content provided by the research participants. Further, the concept of transferability (Lincoln & Guba, 1985) was adhered to in that the study allows for the findings to be applicable in other contexts through the use of 'thick descriptions' (Geertz, 1973) that can be considered in other settings. Finally, the concept of authenticity (Lincoln & Guba, 1985) was addressed by fairly representing the data and by reporting the findings in a manner that allows for a greater understanding of social situations and the perspectives of a variety of people.

## Findings

Seven themes, perceived by senior managers as being important for the psychological contract during periods of change, emerged from the data: communication, planning, leadership, employee engagement, the role of the HR department, organisational culture and change management processes. Qualitative comments provided by participants (noted as Participant 1, Participant 2, etc.) are interspersed with the reporting of the findings.

### Communication

All participants agreed that communication plays a critical role in change processes such as M&As. Two central issues emerged around the theme of communication: communication relating to the merger or acquisition itself and communication relating to people issues.

All participants highlighted the need for timeous communication concerning any change initiative. Eight

participants agreed that the conclusions of the deals were communicated to employees using verbal and written forms of communication although these sessions were perceived as being reactive on the part of management after rumours of pending deals emerged. Email was the most frequently used communication channel and eight participants indicated that they would have preferred face-to-face and direct communication over written communication. Four participants indicated that they became aware of the deals through the 'grapevine':

Well, I read the newspapers. I hear mergers here and there, people are angry, people are being retrenched – not that I know the difference between a merger and an acquisition. (Participant 4, white male, acquiring company)

I think there should have been earlier communication which was honest rather than vague. I mean look at the X deal, no one knew about it. But I think you show respect to people by involving them and I don't think we got that quite right. (Participant 2, African male, acquiring company)

All participants agreed that communication regarding people issues was neglected by management. Eight participants agreed that lack of communication or inadequate communication regarding issues that directly affected people caused apprehension amongst employees and this made further communication efforts difficult. People lost interest in the merger or acquisition and there was a general decline in productivity and staff morale:

Often there wasn't transparency, so one didn't know ... we would hear things in the passage. I think that the biggest problems we had ... the lack of transparency, lack of clear communication and, I think, also often dissent in the management circle. Top management couldn't agree and they fought amongst themselves. (Participant 9, white female, acquired company)

Eleven participants felt that they were not given an opportunity to provide feedback to leadership regarding issues of concern:

A staff survey was made available, which was administered twice but we actually never got feedback. We never got to know what the main issues that emanated from the staff survey were and how they were going to be addressed. So, for me, it didn't work at all. Communication was ineffective because management failed to actually monitor or get the issues resolved. (Participant 5, white male, acquiring company)

I felt management communicated as one of those 'by the way' things and ticked off the box that it's been done. (Participant 1, African female, acquiring company)

## Planning

All participants strongly agreed that planning is critical during periods of change, such as those introduced by M&As, but stated that planning for the M&As was insufficient. Two broad issues emerged in relation to the theme of planning: the absence of a sound due diligence exercise and the absence of setting vision, mission and strategic objectives:

A proper due diligence should have been conducted by outside consultants to eliminate any biased thinking or overconfidence

in the organisation's own abilities. Furthermore, potential liabilities should have been identified and investigated further and not been taken at face value. (Participant 12, Indian male, acquired company)

I think the biggest thing within all these acquisitions was a lack of a clear strategic direction and leadership. I know for a fact that there has been a downturn in profits and profitability ... if you look at the figures, we're going in the wrong direction. (Participant 2, African male, acquiring company)

The involvement of people is a critical component in the due diligence process, as it is those people who will make the due diligence process work. (Participant 12, Indian male, acquired company)

Seven participants felt that the formation of the new company, with its merged and acquired components, provided the company with an opportunity to formulate a vision, mission and new strategic objectives. However, this did not happen because business units continued to trade as separate entities with one business unit refusing to be part of the integration. Four participants emphasised the importance of setting up a strategic direction for the newly merged entity:

Well ... as you know ... I'm on my way out. I'm tired of the politics at play. There's no direction, no clear strategy. (Participant 3, mixed race female, acquired company)

I think there were too many changes and even at this point, I still don't know where we're going. I don't have a clear understanding of what the strategy is. Because one day we are retrenching people in finance, the next minute we are not; the next minute we are retrenching procurement staff, the next we are not. The next minute business development is here, the next it's in Ireland. So everything's all over the show. Nothing's clear at the moment, so I guess that makes me a little bit nervous. (Participant 7, white female, acquired company)

Almost all participants had changed positions once or twice within the organisation and felt that no senior cohesive team had been developed after the M&As:

The critical element for success of an M&A is not the potential amount of synergy to be realised by combining companies, but rather the existence of people who can play a critical role in ensuring a successful integration process. (Participant 12, Indian male, acquired company)

Literally, I've had seven job descriptions over a period of two years. Within the first year of my employment, I had four different bosses. It was quite disruptive. (Participant 7, white female, acquired company)

Three participants indicated that more in-depth technical due diligence should have been conducted because all the business units used different systems and processes. The delays associated with trying to implement a uniform system and implement new policies and processes caused further consternation amongst employees and clients. The biggest problem facing the business units involved incompatibility between the various systems and this resulted in the introduction of a new reporting system:

Some of the business units did not have formal systems and when the new reporting process system was introduced, chaos

erupted. There were different versions, different interpretations, everyone having different minds about how the system had to be implemented. It was a mess. (Participant 6, African male, acquiring company)

## Leadership

All participants felt that leaders have a responsibility to orchestrate the success of organisational change efforts:

Post-integration - I feel that there hasn't been strong leadership. I don't think it is my perspective alone, but the general perspective of employees ... they don't feel that the organisation lived up to its words and there was no action ... so there's a very definite change in culture. (Participant 5, white male, acquiring company)

And I think it's not just an HR department that must do it or should do it... but it must be driven by leadership with the support of HR. (Participant 9, white female, acquired company)

## Employee engagement

The findings relating to employee engagement involved two dimensions, namely affective or emotional engagement and behavioural engagement. Nine participants mentioned that they were not engaged in their work and that, although they attended and participated at work, they were merely serving time, putting no passion or energy into their work.

Six participants indicated that the M&A changes were threatening for employees and produced anxiety and stress. Five participants highlighted the common stressors as being: level of uncertainty, fears concerning job loss, job changes and changes in compensation and status. Participants believed that these stressors led to a high turnover rate, decreased productivity, low staff morale, low job satisfaction and a lack of identification with the newly constituted organisation:

After the mergers and acquisitions, the anxiety grew especially as the processes unfolded and the organisation started getting big. The realities of the mergers were realised when the organisation started retrenching staff ... People became disengaged, morale was affected. However ... they always pulled themselves back. But just as they were about to stabilise, another acquisition happened, then the whole process of disengagement, low morale, psychological distance would happen again to a point where it became cyclical. At the present moment, based on the conversations I've had with some of my colleagues ... people's security is threatened, people fear that they'll become obsolete as they fear that their skills and expertise will lose value in the new organisation. Generally ... people are not in a good space. You can just see; they do what is required. That sense of going an extra mile is gone ... (Participant 3, mixed race female, acquired company)

Participants reported an absence of support structures to assist employees with stress coping strategies:

I was told to call our employee assistance programme ... that we have it as an option should we need counselling etc. But I don't know ... empathy would have been ... well ... better received. (Participant 5, white male, acquiring company)

All participants felt that promises of support, participation in a long-term incentive scheme, salary adjustments, higher prestigious positions and opportunities for training and development were not kept. This affected the commitment of employees and their general outlook regarding the organisation:

I mean forget about position and income and bonus and other things. Those were there or here. Decisions were reversed. (Participant 2, African male, acquiring company)

## The role of the human resources department

Ten participants noted that the role played by the HR department during the M&A integration processes could have been more strategic in assisting management to develop a people management strategy. In fact, it was noted that HR was not included in the due diligence process:

Issues like remuneration ... nothing was done about remuneration. The different remuneration structures were an issue as people started comparing themselves to their peers because the salaries and benefits were different. The general feeling was that we're not being taken care of. (Participant 8, white male, acquired company)

To be honest ... HR tried to implement standard policies and practices but there was so much resistance from certain senior managers who did not want changes. There were some battles won but I think the process would have been much better if HR had support from management. And when I say support, I mean support, not half hearted support. (Participant 1, African female, acquiring company)

## Organisational culture

All participants agreed that the organisation had not established the type of culture they desired following the M&As. They also indicated that no proper cultural assessment had been conducted prior to these changes being implemented:

My perception is that we haven't really developed a proper culture. And the danger now with the latest acquisition is that we're back to square one. We're now being forced to be part of a bigger group. The whole feel needs to change. So whatever we have built with the company until now will again be sucked up into somebody else's culture which is difficult because now you have an overseas multinational mother company that you have to look at. It's a rough road. I don't know why I'm still here! (Participant 8, white male, acquired company)

All participants felt that culture should be an important consideration during periods of growth created by M&As. In addition, they felt that if the cultures of the acquiring and acquired companies were vastly different, it would prove difficult to integrate the organisation:

The cultures differ immensely. I mean we are trying to combine 13 different cultures. It was bound to be difficult to establish synergy, more especially if the leaders themselves don't know what kind of culture they would like to see define the company brand. (Participant 11, white male, acquired company)

## Change management processes

Participants did not understand the different change processes, and were particularly confused about whether the change process was a merger or an acquisition; they used the terms interchangeably:

Well it was a strange thing because it was a reverse acquisition, remember? X actually bought Y ... but then Y, being the bigger company, took over the acquisition, so we were part of the acquiring company in a way ... it was a very strange deal. (Participant 6, African male, acquiring company)

Ten participants felt that the M&As were discussed between top management of the acquiring and acquired companies and that other stakeholders were not involved:

But it was mostly X and Y and the Board and whoever did all of that. They ran with everything from start to finish. (Participant 6, African male, acquiring company)

The stakeholders were always only the senior management of the acquiring company, and the acquired company. (Participant 3, mixed race female, acquired company)

All participants agreed that managing change is important when promoting integration of different organisational cultures:

Change management is important. It's critical. I think if you don't have buy in from your staff and they don't feel part of the process, you're lost. You're already dead; you're doomed to fail. Aren't your people your resource? (Participant 7, white female, acquired company)

Change management is critical. For me, employees are what make the organisation. If they are disengaged, unhappy, fearful, constantly questioning their security, they tend to lose focus of what the organisation is trying to achieve. Therefore, engage with them, talk to them, invite them to give feedback and suggestions. (Participant 5, white male, acquiring company)

All participants believed that a detailed change management plan should have addressed communication to create awareness about the changes and how they affect employees to avoid information being acquired through the corporate grapevine:

As management, have a plan and decide on the culture that defines the company. The culture should be something that will drive the business and its processes. Implementation should be immediate with milestones of what needs to be achieved and when. Also, get constant feedback from employees and allow employees to give inputs. Address their concerns. (Participant 5, white male, acquiring company)

## Ethical considerations

In seeking informed consent for the study, the selection process was explained to the participants and the potential benefits of participation were described. This information was included in the written consent agreement which was signed by all participants.

To maintain confidentiality, participants' names were not recorded (Domegan & Fleming, 2007), and all identifying

information was excluded in the reporting of the findings (Leedy & Ormrod, 2005).

## Discussion

### Outline of the findings

The objective of the study was to explore the perceptions of senior managers about the impact on the psychological contract during periods of change. The sub-objectives were to determine what organisational factors contribute to changes in the psychological contract during periods of change, and the implications of the breach of the psychological contract for the company and its employees. Four propositions were posited and form the framework within which the seven main clusters of findings that address these objectives are discussed.

#### Proposition 1: Psychological contract breach can occur during periods of organisational change

This proposition is supported by the themes that were identified by senior managers – organisational culture, employee engagement and communication.

The findings indicate that organisational change contributed to the breakdown of the exchange relationship between the employer and employees, the heart of the psychological contract (Aggarwal-Gupta et al., 2012). From comments relating to the seven themes that emerged, employees appeared to have withdrawn from the organisation. During periods of change, employees may find it difficult to identify with the newly constituted organisation which can lead to lower job satisfaction and turnover intentions (Payne et al., 2015).

Communication, a critical component of any change process (Khalid & Rehman, 2011), was lacking, as indicated by the numerous suggestions for increased levels of communication. In the absence of such communication, participants expressed feelings of apprehension, and noted the loss of productivity, the high employee turnover and poor morale in the company, factors which were also found by Conway and Coyle-Shapiro (2012) to be consequences of changes in the psychological contract. Similarly, Bauer and Matzler (2014) report that during periods of change, lack of communication, involvement and support have a negative impact on the psychological contract. The need for clarity about plans, structure and personnel issues, together with honesty and openness, are key ingredients of any effective communication system (Brakman et al., 2008).

Further, the negative impact of change on the psychological contract can be extrapolated from the expressions of potential loss of organisational citizenship behaviours such as loyalty and trust in the organisation, perceptions of organisational unjust practices such as unfairness of the downsizing or retrenchment processes and confusion over roles and expectations. In line with the breach in psychological contract, it appears that participants felt that there were few prospects for growth because of the broken promises they experienced.

These findings echo the argument of Chaundry et al. (2011) who suggest that organisational change results in a revision in the relational psychological contract.

**Proposition 2: Performing a due diligence exercise is important prior to the merger or acquisition in order to promote the psychological contract between employer and employee**

The findings support this proposition. The themes identified by senior managers in this regard include those of the involvement of the HR department and the change management processes.

M&As are becoming increasingly complex and it is thus important that an appropriate due diligence exercise is performed to mitigate the difficulty and risk associated with these deals (Ceausescu, 2008). Despite due diligence being an important aspect of M&As (Gomes et al., 2012), very little implementation planning was conducted at the company, and HR appeared to have been excluded from the process. Participants perceived that the due diligence process, including the people aspects of due diligence, had been overlooked. Linked to due diligence, it appears that leaders of the company did not strategise for employee engagement and that the change management process was unclear and excluded the involvement of staff. For M&As to be successful, and for the psychological contract to be preserved during such change processes, HR practitioners need to play an integral role in the process (Zhang et al., 2015).

**Proposition 3: During periods of strategic change such as mergers and acquisitions, key talent can be lost because of breaches of the psychological contract**

The findings support this proposition. The themes that emerged from senior managers to support this proposition included employee engagement, communication and change management processes.

Several participants alluded to the unhappiness of staff in the organisation with references to departure intentions. The frequency of the changes also led to increased levels of job insecurity, and an absence of strategic planning and inadequate communication led participants to feel uneasy about their futures and career paths. Participants noted that the HR department did not play a critical role in the integration process which resulted in people-related activities being neglected. They felt that the HR staff should have formulated a transitional plan during the due diligence process so that all people-related issues could be addressed (Zhang et al., 2015) such as the retention of staff (Steigenberger, 2016).

**Proposition 4: Existing organisational cultures of the merging organisations can result in a clash of cultures that impacts the psychological contract between employee and employer**

The findings support this proposition. The themes emerged from senior managers related to organisational culture, leadership, planning and the involvement of the HR department.

Participants perceived that culture was ignored during the M&As and noted that the resultant organisational culture was undesirable with a lack of integration of the different cultures of the acquired companies. According to Simpson (2000), the continuous identification and capturing of value happens during the integration period, and success in the area requires the involvement of senior management. An effective top management team has the ability to defuse postacquisition conflict, as well as better coordinate business unit integration during periods of change (Bouckenooghe, 2012).

Participants perceived that the leadership of the company had not established the kind of culture that would drive the business and that there were cultural mismatches that made it difficult to establish synergies. This demonstrated poor integration planning because cultural alignment should begin during the M&A processes (Rottig et al., 2014) and be instilled throughout the change process (Bauer & Matzler, 2014; Viegas-Pires, 2013). In addition, participants noted that, as HR was not involved in the integration planning, culture integration was overlooked. The most important contribution by HR during M&As is to determine if the cultures of the merging companies are compatible (Zhang et al., 2015).

### Practical implications

Seven themes emerged which encapsulated the perceptions of senior managers about the impact of change on the psychological contract during periods of M&As – lack of communication, the absence of planning, lack of employee engagement, less than optimal HR involvement, lack of preparation of the organisational culture and poor change management processes. These factors need to be addressed to strengthen the psychological contract of employees during periods of change. As a result of these factors not being addressed, the psychological contract between employees and the company was negatively impacted, with dissatisfaction being manifested along with signs of intention to leave the company.

The study provides practical pointers for the company to consider in relation to the importance of the psychological contract during M&As. Conway and Briner (2009) note that useful guidance for managers is often overlooked in studies that focus on psychological contract breach. The present study provides awareness of the need to manage the psychological contract as an integral component of the change process during M&As.

The psychological contract is a crucial element in understanding employee work behaviours and a variety of work outcomes (Coyle-Shapiro & Kessler, 2002). The success or failure of integration depends on how organisations manage the psychological contract during periods of change. Understanding employee expectations relating to the employer–employee contract will enhance the understanding of the factors that employees regard as crucial and shape the psychological contract (Aggarwai & Bhargava, 2009). Leaders



should understand that change is dynamic, and thus, also affects the psychological contract. Therefore, initiatives supporting change management should not focus exclusively on tangible issues, but should also address people issues.

It is recommended that the leaders of the company develop a clear integration plan should any further restructuring occur. In this regard, managers need to be in continuous dialogue with employees in order to inform them about the organisational goals and plans. This enables managers to obtain feedback from employees about their personal needs and preferences. Better communication between parties encourages the development of clearer expectations by all about the psychological contract.

HR practitioners should play a role at every stage of the merger or acquisition process. It is important for the company to equip its HR department with better knowledge and skills to cope with the new realities. This implies that HR practitioners should have business acumen relating to issues such as industry trends, governmental policies, finance, legal systems, social and development changes that have a direct bearing on the company's objectives, performance and its people.

After the integration process, company leaders should ensure that employees have clear guidance on their roles within the new organisation, as well as growth plans that assist them in adjusting to ensuing changes. Cognisance should be taken of the differences that exist between individuals and where possible, their remuneration structures, career aspirations and development plans should be structured equitably.

A culture audit, during the pre-integration stage, should be conducted to determine what kinds of norms are important to the functioning of an organisation. Cultural audits are not watertight, but such audits may assist leaders in understanding pressure points at which culture might be influenced.

A process of continuous communication should be adopted to ensure that employees understand the rationale for the change and its overall contribution to the business objectives. The communication needs to begin during the premerger stages to set the scene to promote the commitment of staff to the organisation (Herold et al., 2008).

### Limitations and recommendations

The tacit nature of the psychological contract is subjective. Accordingly, the change experienced and its impact on the psychological contract of participants cannot be generalised to represent the experience of all employees in the company. However, in keeping with this methodology, rich insights were gained and can be used to further the research agenda in this field.

While participants were assured of confidentiality of responses, they, nevertheless, may have provided 'socially

acceptable' responses. However, from the tone of the qualitative narrative, it appears that participants felt free to express their views. Again, inherent in the analysis of qualitative data is the possibility of bias in the interpretation of data.

Future research could focus how leaders can protect and strengthen the psychological contract during periods of mergers or acquisitions. Based on the key issues that emerged in this study, a model process could be devised with key action steps at all points in the change process. It is suggested that this model is then validated within the company.

### Conclusion

The objective of the study was to explore the perceptions of senior managers about the impact of change on the psychological contract. From the factors identified, it is indicated that leaders of organisations need to pay particular attention, during the change process involving M&As, to communication, planning, employee engagement, the involvement of HR in the process, the preparation of the organisational culture, change management processes and leadership.

The organisational environment is continuously changing and organisational leaders need to be aware of the employment relationships in various situational circumstances. Safeguarding the psychological contract is paramount if good staff are to be retained and a positive organisational culture established within which staff can flourish during periods of change and thereafter.

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#### Competing interests

The authors declare that they have no financial or personal relationships that may have inappropriately influenced them in writing this article.

#### Authors' contributions

The study was based on the research dissertation of the first author, K.D.M., completed at the University of Johannesburg for the MPhil degree in Human Resources Management. A.T. was the supervisor of the study. A.T. converted the dissertation into the present manuscript.

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