

The Importance of Emotions during Business Mergers

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Abstract

This paper examined the susceptibility of emotional contagion in the business setting during a company merger and explored emotional contagion using qualitative and quantitative analyses. Analyses were conducted using interviews and a survey that investigated attitudes, job satisfaction, and culture of the organization. The results revealed a strong relationship between participants' perceptions of emotional contagion and anxiety, as well as between emotion contagion and negative perceptions regarding organizational culture. Information gathered from the study will help organizations realize the importance of the human aspect of a merger. Employees go through a difficult time during a merger, and often feel negative emotions, which are highly contagious. These emotions could be detrimental to the company, knowing this can help companies prevent this negativity spread.

Introduction

Businesses are competitively using mergers and acquisitions, hoping the combined organization produces a stronger, more powerful business-gaining the best of both companies. Yet successful mergers are infrequent: some estimates suggest 60-80% of mergers are failures. Failures are due to multiple reasons, but one largely neglected reason is gaining recognition: human resources (Salame, 2006). The employees are one of the biggest assets of a corporation, yet their emotions are largely neglected during such events.

Mergers and acquisitions are dramatic experiences employees encounter at work which threaten the very culture previously providing stability; stress, anxiety, and uncertainty are common. Severe stress has many negative consequences and is of primary concern during mergers. Feeling connected helps with stress, and if employees do not feel connected during this time, negative behaviors such as spreading rumors or taking long breaks may result (Marks, 1997). Further, emotions are contagious during stressful events. Hatfield, Cacioppo, and Rapson (1994) define emotional contagion as the tendency to mimic a person's verbal, physiological, and/or behavioral aspect and resultantly display the same emotions oneself. Hsee, Hatfield, Carlson, and Chemtob (1990) found powerful individuals (managers) were especially susceptible to emotional contagion from subordinates.

Because emotional contagion in the workplace has been researched minimally, and of its potential powerful impact during mergers, the present study's purpose was to gauge employees' emotions during a merger, specifically susceptibility to emotional contagion.

Discussion and Hypotheses

Mergers and Acquisitions

Mergers and acquisitions have become an increasingly popular business strategy for companies, hopefully resulting in an increase in market sales, new technology, and global expansion (Salame, 2006). Many companies have been utilizing mergers/acquisitions around the world. In the United States alone, 9,700 mergers and acquisitions took place in 2000 (Salame, 2006). Although the end prize of mergers/acquisitions appears appealing to companies, it is difficult to obtain. The failure statistics for mergers and acquisitions are rather disappointing. Several studies have shown that 50% - 60% of all mergers and acquisitions are failures due to the company's inability to reach objectives like profit goals following the merger (Cartwright & Cooper, 1992; Kearny as cited in Freedman, 2002; Pritchett, 1985).

Many factors can contribute to the failure of mergers like financial issues, but one factor that is crucial to the success of a merger/acquisition and often overlooked is the impact of the merger/acquisition on the employees. Business executives are so primarily focused on the financial and legal aspects of the merger/acquisition that they do not realize that when the deal is sealed and the dust has settled, it is the employees who determine the success or failure of the newly formed company. Ultimately, this humanistic perspective is crucial for business executives to understand and plan for when preparing for a merger/acquisition.

Culture

The culture of an organization defines its business policy, position in the market, and preferred ways of dealing with the community. Furthermore, the culture of an organization sets the guidelines (norms, values, and expected behaviors) and atmosphere for the employees. Organizational culture gives employees a sense of identity, belonging, and purpose (Dutton, Dukerich, & Harquail, 1994). Dick, Wagner, and Lemmer (2004) found that employees who identify with organizational culture tend to have more job satisfaction and positive attitudes. Conversely, employees who weakly identify or did not identify with the culture experienced more negative emotions such as fear, anger, and had higher turnover intentions.

As mentioned above, cultural identity impacts individual identity so logically, if the cultural identity is threatened, so is an individual's identity (Dick, Wagner, & Lemmer, 2004). An employee can interpret a merger/acquisition as having an impact on the way he/she works, making the culture of the organization change into something different. However, cultural differences are inevitable during merger/acquisitions. Therefore, organizations need to assist employees to identify and cope with the newly formed culture. A successful merger/acquisition is due to the integration of both cultures' values, norms, and expected behaviors (Dutton, Dukerich & Harquail, 1994). Thus, it is imperative for organizations to examine and plan for culture differences during a merger/acquisition.

Employee Emotions

Mergers and acquisitions are unsettling times for employees. Many factors such as change, confusion, and most of all, whether they get to keep their job, take heavy psychological and physiological tolls on employees. Concentrating on the job becomes extremely difficult, and

this leads to an increase of accidents on the job. Furthermore, an increase in anxiety and stress are the most common emotions during this uncertain period and one of the biggest challenges for the organization (Braksick, 2000; Panchal & Cartwright, 2001). Employees are often anxious due to perceived job insecurity and seek control in such a tumultuous time...thus, things that give them more of a sense of control over their environment (e.g., voice, flexibility, autonomy) are likely to mitigate some of the anxiety (Cameron, Freeman, & Mishra, 1991; Greenhalgh & Rosenblatt, 1984; Reichers, Wanous & Austin, 1997). Health-related problems include (but are not limited to) an increase in reports of heart attacks, migraines, and high blood pressure (Gall, 1986; Marks, 1997).

Emotional Contagion

Emotional contagion is the “catching” of another person’s emotions and exhibiting the same emotions oneself (Hatfield, Cacioppo, and Rapson, 1994). According to Hatfield, Cacioppo, and Rapson (1994), this phenomenon can range from positive emotions (e.g., happy, excited) to negative emotions (sad, scared). Yet, researchers have wondered if negative emotions are easier to catch than positive ones. According to Taylor (1991) negative events (i.e., emotions) evoke stronger and faster responses than neutral and positive events. Therefore, it is a lot easier for an individual to acknowledge and facilitate negative emotions than positive ones. As mentioned during the merger process, employees often feel negative emotions and find it difficult to concentrate on their job (Gall, 1986). This likely has the potential for strong negative emotional contagion among employees.

Some people are more susceptible to emotional contagion because they are attuned to other peoples’ emotions, naturally. Furthermore, some people are more likely to catch others’ emotions due to the situation, like a child who is dependent on his/her parents (Hsee, Hatfield, & Carlson, 1990). Moreover, individual differences such as personality, gender, genetics, and personal history are factors that can impact the susceptibility to emotional contagion (Doherty, 1997). In stressful situations, are certain individuals more susceptible to emotional contagion? Hsee, Hatfield, and Carlson (1990) conducted a laboratory experiment that investigated whether powerless people would be more susceptible to emotional contagion. Contrary to their hypothesis, they found that people in power, managers, were *more* likely to display emotions of subordinates than subordinates were to mimic managers’ emotions.

The purpose of the present study was to explore whether managers (power) or non-managers (less powerful) were more inclined to experience emotional contagion during a merger. Developing an understanding of employees’ emotions is imperative during mergers/acquisitions so organizations can provide tools to managers and non-managers on how to deal with this stressful situation.

Method

Information was gathered from a large, multinational Midwestern brokerage firm undergoing a merger during the summer of 2007. The study was conducted in two phases. In Phase I, 30 semi-structured interviews were conducted with both managers and non-managers. In Phase II, 45 employees participated in a survey developed for this study (23 managers from a Management Certificate Program, 22 non-managers from the Human Resources and Training Departments). All participants volunteered for this study and were properly debriefed.

Phase I

Each participant was interviewed by the lead researcher using a semi-structured approach. They were asked a multitude of questions about their job and company regarding the culture and job satisfaction (See Appendix A). These questions consisted of differences in job satisfaction, job attitude, perceived culture, and work experience. (e.g., “Why do you enjoy working for this company,” “Can you describe the work environment at this company”).

The open-ended responses were content analyzed where answers were clustered by theme (or “other” category). Inter-rater agreement was relatively high: 54% of categorical responses had > 80% agreement; 11% were between 70% - 80%; 36% were < 70%.

Phase II

Participants completed an 11-item survey developed for this study (See Appendix B). The survey included questions that acknowledged the participants’ perception of employee satisfaction (their own and others) as well as attitude and anxiety after the merger. The participants were presented with a stem (e.g., “After the announcement of the merger, I sense other people’s attitudes are _____;” “After the announcement of the merger, my own attitude has _____”), and were asked to choose whether it: “drastically lowered (1) to drastically raised (5). High scores indicated positive emotions due to the merger (i.e., people’s job satisfaction had raised after the announcement of the merger, etc.). The scale has a Cronbach’s alpha internal consistency of .72.

Overall culture was assessed by an adjusted version of Fiedler’s (1978) Least Preferred Co-worker Scale where participants rated the culture/atmosphere since the announcement of the merger, using the same bi-polar adjective as the scale for leaders (e.g., pleasant/unpleasant; cold/warm), for a person (their least preferred co-worker), but rating the company, instead ($\alpha = .89$).

Procedure

In Phase I, semi-structured interviews (10 min. - 1.5 hr.) were conducted with both managers and non-managers (N = 30). Interviews took place between June 19 and July 13. In Phase II, employees (managers and non-managers) participated in a survey (developed for this study). As a follow-up from Phase I, managers and non-managers who were interviewed were asked to complete the survey and return it in a confidential return envelope by inter-office mail. Furthermore, 23 managers from a certification program were asked to complete the survey before the end of class.

Results

Descriptive Statistics

Phase I. Content analyses revealed dominant themes of a positive culture, people, and the respected reputation of the company. Furthermore, these themes were why people were attracted to work there, and why they enjoyed working there. When asked to describe the work environment, positive themes emerged of people (professional, friendly, fun), company values (professional, high integrity, client-focused), and culture (friendly, fast-paced, respected). Culture also had a dominant negative theme (conservative, formal, traditional). When asked what things were weaknesses or were not satisfying, themes emerged of being too parochial and too “corporate” (and not “people” enough), as well as too bureaucratic and micro-managing.

Furthermore, 22% of participants gave culture as the reason it attracted them to the organization, 47.5% reported culture to be the main reason why they enjoy working for the organization, and 44.76% said the organization's culture was positive.

Correlations

From Phase II, correlational analyses were examined for the full sample, and for the manager and non-manager group separately, since the goal was to examine differences in perceptions and emotional contagion of the two groups. Regarding the full sample, respondents' reports of their own emotional contagion was significantly positively associated with: their perceptions of their job security ($r(44) = .59, p < .01$); their perceptions of others' anxiety ($r(44) = .26, p < .05$); and overall culture ($r(44) = .47, p < .01$), confirming/reinforcing content analysis results from Phase I. Also, manager status (manager vs. non-manager) was significantly associated with perceptions of others' attitudes ($r(44) = .41, p < .01$) suggesting the need to examine the relationship further.

Independent correlation analysis of the surveys revealed a positive relationship between the **non-managers'** (See Table 1) own emotional contagion and anxiety ($r(21) = .74, p < .01$) and others' anxiety ($r(21) = .67, p < .01$); and a *negative* relationship with culture ($r = -.42, p < .05$). A general increasing positive attitude was positively correlated with perceptions of own job security ($r(21) = .51, p < .01$), job satisfaction ($r(21) = .63, p < .01$), and culture ($r(21) = .54, p < .01$). Job security was positively correlated with job satisfaction ($r = .59, p < .01$) and culture ($r(21) = .53, p < .01$). Job satisfaction was also positively related to culture ($r(21) = .50, p < .01$).

Table 1

Intercorrelations between own emotions and culture for employee non-managers (N = 22)

	Emotional Contagion	Attitude	Job Security	Job Satisfaction	Anxiety	Overall Culture
Emotional Contagion	-----					
Attitude	-.23	-----				
Job Security	.00	.51**	-----			
Job Sat.	.05	.63**	.59**	-----		
Anxiety	.74**	-.02	-.12	.05	-----	
Overall Culture	-.42*	.54**	.53**	.50**	-.24	-----

Note. The values represent the person's own emotional contagion, attitude, job security, job satisfaction, and anxiety. Overall culture is based on an adapted form of Fiedler's Least Preferred Co-Worker Scale (1978) to have organizational culture as the rating focus.

** $p < .01$; * $p < .05$

For **managers** (see Table 2), the only significant association with emotional contagion was perceptions of others' emotional contagion ($r(22) = .63, p < .01$). In addition, results showed positive relationships between managers' perceptions of others' general increasing attitude and job security ($r(22) = .68, p < .01$), job satisfaction ($r(22) = .53, p < .01$), and culture ($r(22) = .36, p < .05$). Job security was also positively related to job satisfaction ($r(22) = .42, p < .05$) and anxiety was positively related to job satisfaction ($r(22) = .49, p < .05$).

Table 2

Intercorrelations between own emotions and culture for managers (N = 23)

	Emotional Contagion	Attitude	Job Security	Job Satisfaction	Anxiety	Overall Culture
Emotional Contagion	-----					
Attitude	.12	-----				
Job Security	-.14	.68**	-----			
Job Satisfaction	-.11	.53**	.42*	-----		
Anxiety	.01	.21	.15	.49*	-----	
Overall Culture	.28	.36*	.24	.31	.13	-----

Note. The values represent the person's own emotional contagion, attitude, job security, job satisfaction, and anxiety. Overall culture is based on an adapted form of Fiedler's Least Preferred Co-Worker Scale (1978) to have organizational culture as the rating focus.

** $p < .01$; * $p < .05$

T-Tests

Also, t-tests were run to examine differences between managers and non-managers' responses with one significant difference on reports of others' attitudes: Managers perceived them as higher, $M = 2.0$, vs. non-managers, $M = 1.59$; $t(43) = -2.95, p < .01$.

Conclusions

From the content analysis, culture and people merged as critical to decisions for employees regarding their employment with the company. This portion of the research provided fodder for development for Phase II, which examined aspects of culture, people, and job satisfaction in impacting emotions and emotional contagion during a merger. Emotional contagion was significantly positively correlated with anxiety for non-managers, but not for managers. Related, was the fact that emotional contagion was negatively related to perceptions of overall culture, again for non-managers. Thus, it appears that employees who feel emotions are spreading to others, also see the company culture in a very negative terms (e.g., cold, unpleasant). These findings support a body of research that substantiates that negative events and moods are stronger and more contagious than positive ones (See Sparks & Baumeister, 2008; Taylor, 1991 for reviews).

Results also show that general attitude and job satisfaction are positively related to perceptions of the company's culture for both groups. This is a core finding linking the research in the introductory part of this paper that states culture is an integral part of the merger process. Employees are self-reporting that their general attitudes and job satisfaction are increasingly positive, post-merger ('due to the merger') as long as they perceive the culture positively. Results from Phase I underscored the importance of culture and subsequent correlational data support, that positive culture perceptions are related to reduce employee anxiety.

Regarding the differences between managers and non-managers, results from t-tests illustrated that managers perceive general attitudes of others higher than non-managers perceived them. This finding, combined with the lack of significant relationship between emotional contagion and anxiety and overall culture, (like existed for non-managers), could possibly be explained by managers' overall optimism about the merger. Reichers, Wanous and Austin (1997) discuss case study evidence which illustrates that managers often perceive change efforts more optimistically than employees; *and* perceive that employees are more generally positive than what the data from such employees show (i.e., they attribute negative comments/perceptions only to a small minority, rather than as being more representative of employees, generally). These authors also illustrated that managers were generally less cynical than employees about organizational change efforts. Indeed, managers are usually more involved and informed than non-managers, in decisions and communication about impending mergers and organizational change. Not only may managers *actually be* more optimistic, but they may also be displaying this optimism as a form of coping, dealing with a strong emotional stressor by combating it with a type of personality trait that is positively emotion focused...perhaps wanting to model what they consider to be a positive attitude to employees. In this way, culture can be shaped and impacted positively.

Managerial Implications

Employee perceptions do play a role in influencing emotions as well as emotional contagion for other employees. These implications lead to the need for companies in the midst of mergers, acquisitions, or even large changes, to take a more active role in providing the necessary foundation for their employees to trust in uncertain situations. These situations can vary from mergers and acquisition to departmental or company changes. Research has shown

definitively that employee trust and loyalty is compromised in the midst of a downsizing or other major organizational change environment (Brockner, Grover, Reed, DeWitt & O'Malley, 1987; Niehoff, Moorman, Blakely, & Fuller, 2001; Reichers, et. al 1997) *and* that there are certain things managers can do can help to mitigate negative outcomes.

The present research is consistent with prior research (Cameron, Freeman, & Mishra, 1991; Greenhalgh & Rosenblatt, 1984) and showed employees were very anxious about their job security...a natural consequence of such massive cultural change. Brockner's research (Brockner, DeWitt, Grover & Reed, 1990; Brockner, et. al, 1987;) has identified several things management can do to help survivors of layoffs feel more trusting – which would be of relevance to employees in a merged organization who may feel anxious regarding their own job security (as was the case in the present study). Of the most consistently identified procedural aspects relevant to employees in merged companies, is the importance of open, honest, direct, and empathic communication regarding the entire change process (Brockner, et. al, 1987; Brockner, et. al, 1990; Reichers, et. al, 1997; Schweiger & DeNisi, 1991). In fact, Schweiger and DeNisi's field experiment underscored the importance of *preventative* communication before the merger even took place, a very effective tool they aptly termed, *a realistic merger preview*.

Thus, it is critical during such organizational change, that those in positions who are able, develop and enact programs that will help smooth the emotional tide of a company's transition. Acknowledging employees' likely anxiety, helping ensure feelings of job security (if possible) and any programs which could help to ease employees' negative feelings during these mergers/acquisitions, such as voluntary counseling or hotlines (see, e.g., Schweiger & DeNisi, 1991), would assist employees to manage emotions effectively, and help to ensure a more stable and less threatening culture. Such things could also help with other changes within the company such as technology and job design changes, and culture shifts that will likely cause emotional contagion, especially when the emotions that arise are negative. An organization's cultural temperature is a critical component in determining the success of a merger from a humanistic viewpoint.

Future Research Directions

Future research should be expanded to include more than one company. As mentioned, there were over 9,000 mergers and acquisitions in 2000 (Salame, 2006). Thus, future researchers should delve into the aspects of several or more companies so that the results may be more fairly representative. The sample size should be increased in future research to rule out sample bias. Furthermore, future research could explore gender differences as well as look what personalities are more susceptible to emotional contagion. Another interesting direction for the future would be to take this research international. This would be beneficial in not only obtaining a better understanding of emotional contagion but as well as discerning what cross-cultural boundaries exist on the topic.

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- 5. The amount I sense other people are affected by others' emotions....._____
- 6. The amount I am affected by others' emotions....._____
- 7. I feel my job security has....._____
- 8. I sense other people's perceptions of their job security has....._____
- 9. My anxiety level has....._____
- 10. Others' anxiety levels have:_____

For Item 11, please place an X above the number that best represents your feeling for that item.

11. Since the announcement of the merger, the culture around here has been:

	— — — — — — — —	
Pleasant	8 7 6 5 4 3 2 1	Unpleasant
	— — — — — — — —	
Friendly	8 7 6 5 4 3 2 1	Unfriendly
	— — — — — — — —	
Rejecting	8 7 6 5 4 3 2 1	Accepting
	— — — — — — — —	
Tense	8 7 6 5 4 3 2 1	Relaxed
	— — — — — — — —	
Distant	8 7 6 5 4 3 2 1	Close
	— — — — — — — —	
Cold	8 7 6 5 4 3 2 1	Warm
	— — — — — — — —	
Supportive	8 7 6 5 4 3 2 1	Hostile
	— — — — — — — —	
Boring	8 7 6 5 4 3 2 1	Interesting
	— — — — — — — —	
Quarrelsome	8 7 6 5 4 3 2 1	Harmonious
	— — — — — — — —	

Gloomy	8	7	6	5	4	3	2	1	Cheerful
	—	—	—	—	—	—	—	—	
Open	8	7	6	5	4	3	2	1	Closed
	—	—	—	—	—	—	—	—	
Backbiting	8	7	6	5	4	3	2	1	Loyal
	—	—	—	—	—	—	—	—	
Untrustworthy	8	7	6	5	4	3	2	1	Trustworthy
	—	—	—	—	—	—	—	—	
Considerate	8	7	6	5	4	3	2	1	Inconsiderate
	—	—	—	—	—	—	—	—	
Nasty	8	7	6	5	4	3	2	1	Nice
	—	—	—	—	—	—	—	—	
Agreeable	8	7	6	5	4	3	2	1	Disagreeable
	—	—	—	—	—	—	—	—	
Insincere	8	7	6	5	4	3	2	1	Sincere
	—	—	—	—	—	—	—	—	
Kind	8	7	6	5	4	3	2	1	Unkind