

# Psychological Contract in the Process of Enterprises' Merger, Acquisition and Integration

## CONTRAT PSYCHOLOGIQUE DANS LE PROCESSUS DE LA FUSION, L'ACQUISITION ET L'INTÉGRATION DES ENTREPRISES

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**Abstract:** The Psychological Contract theory is a hot research topic in the field of domestic and foreign human resources. With the change of economic pattern in enterprises and the development of economic globalization, the psychological contract between employees and organizations has taken place a great change. This article analyses and expatiates psychological contract in the process of enterprises' merger, acquisition and integration from the angle of employees' expectation.

**Key words:** Psychological Contract, Merger and acquisition, Integration

**Résumé:** La théorie du contrat psychologique est un sujet très étudié dans le domaine des ressources humaines chinois et étranger. Avec le changement du modèle économique dans les entreprises et le développement de la globalisation économique, le contrat psychologique entre les employés et les organisations a connu de grands changements. Le présent article analyse et expose le contrat psychologique dans le processus de la fusion, l'acquisition et l'intégration des entreprises sous l'angle de l'espérance des employés.

**Mots-Clés:** contrat psychologique, fusion et acquisition, intégration

In 1980s, with the development of global economic integration and transformation of economic pattern, enterprises have to materially adjust their management tactic and operation pattern. After a series of innovations such as merger and acquisition, reshuffle, reduction of staff and expenditure, as well as new management methods, etc, the relation between employees and organizations has changed greatly. The employees' former mental balance is broken. In the past, if the employees could work hard and be loyal to their organization, with no doubt, they could permanently work for the organization and develop their career stably there. But now the job guarantee and career stabilization do not exist any more. Caused by the innovation in enterprises, it appeared some issues among employees, such as the playing-down employees' loyalty and satisfaction, the descending work performance, the increasing dissatisfactory and hostile behavior, the rising brain drain rate, and so on. All these problems restrict the development of enterprises. The weight of economic contract in

enterprise is descending here, but the weight of psychological contract is going up. The study on psychological contract is widely paid attention to by scholars and enterprises, meanwhile it also has become a hot topic in management field domestically and overseas at present. This paper emphasizes briefly commenting on the attributes, development of psychological contract and the psychological contract in the process of enterprises' merger, acquisition and integration.

### 1. HISTORY ROOT AND DEVELOPMENT OF PSYCHOLOGICAL CONTRACT

Argyris was the first person who used the term of psychological contract to depict the interactive relation between the employees and their foremen in 1960s. In 1962, Levinson deemed the psychological contract as

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an unwritten contract and a summation of expectations from organization and employees. Psychological contract here emphasized on the inherent, recessive, never expressive expectations, which existed before forming the relation of employers and employees. Of the expectations, some were specific, and some were inexplicit. In 1965, Schein defined Psychological Contract as “.....in organizations, there exists a set of inexplicit expectations among each member, different supervisor as well as the others”. And he also pointed out that psychological contract had two administrative levels. They were individual psychological contract and organization psychological contract. In 1973, Kotter considered that psychological contract was an inner agreement between individuals and organizations. It concretized the cost paid out by one side and redound received by the other side. In the late 1980s, the understanding about the concept deepened more. American scholar Rousseau believed that psychological contract was an understanding or a faith on employees’ and employers’ compulsoriness. On the basis of promises, trust and perception, psychological contract formed with the background of employment relationship. In 1994, Robinson, Kraatz and Rousseau pointed out again that psychological contract substantially was parties’ subjective faith and a process constructed in practice, that is, “employees’ promises, understanding and apperceive on exchange relation of external & internal contribution (effort, loyalty, etc) as well as organization inducement (reward, promotion, etc)”. In 1997, Herriot and Pemberton thought psychological contract was a perception about various responsibilities that employers and employees should provide for one another in employment relation. This perception came from apperceive towards the formal agreement or kept in different expectations.

As has been said above, there is not a monolithic definition of psychological contract yet. But there is one point of common understanding, that is, psychological contract is a recessive contract for coordinating the relation between employees and organizations. It is the basis of harmonious employment relation. Based on the promises, the essential characteristic of this concept is the subjective apperceive for the obligation and compulsory of one another.

## **2. CHARACTERISTICS OF PSYCHOLOGICAL CONTRACT**

### **2.1 Subjectivity**

The contents of psychological contract is employees’ cognizance or subjective perceive in terms of their own obligation and organization’s obligation, but not the obligation itself. Due to the employees’ unique experiences and opinions on the relation between themselves and organization, psychological contract

maybe differ from the economic contract as well as the understanding and explanation of the others or the third side (organization agent). Different employees identify and breach psychological contract in different ways. It presents subjectivity.

### **2.2 Dynamics**

The formal economic contract is stable. With the variance of work notion, the growth of the organization, and the development of employees’ needs, psychological contract is in a changing and emendatory state. Any changes on organization operation mode could influence the production of psychological contract. No matter the change is physical or social. The longer employees work in the organizations, the wider their psychological contract contains, the more latent content on expectations and responsibilities in the relation of employees and their organization has. (Baud-Machin, 2000)

### **2.3 Informality and Implicitness**

In economic life, apart from the formal, open and dominant economic contract with obvious legal and regulative effects, there is another kind of important contract. It does not form by letters and written expression, but by various tacit and complicated agreements between employees and their organizations. Psychological contract has no definite promises as economic contract, but it influences people’s economic behavior deeply.

### **2.4 Bi-directionality and Non-equivalence**

Psychological contract is bidirectional. But the expectations and promises between employees and organizations in psychological contract do not correspond one by one. The confidence and loyalty that the employees have toward their enterprises can not be weighed. Organizations’ promises and employees’ expectations and contributions are also incapable to be corresponded.

### **2.5 Incentive Function**

Schein (1980) has ever pointed out, “Psychological contract is powerful determinant of behavior in organizations, though it is with no clear written statement”. If psychological contract was breached, employees would reappraise and reconstruct more contracts in organizations.

### **2.6 Adaptability**

Psychological contract has no fixed pattern and uniform standard. Just as the fact that effective incentive methods and countermeasures could not take effect in

any circumstances in organizations, content of psychological contract is adjusting and changing along with organizations' development in different periods and employees' extending apperceive on psychological contract. There is no unchangeable psychological contract.

### **3. PSYCHOLOGICAL CONTRACT IN MERGER, ACQUISITION AND INTEGRATION**

Since 1990s, Merger and acquisition in enterprises have been accepted and become a common phenomenon. Enterprises wish to merge and acquire for business reengineering so that they could improve the scale efficiency, expand their capital, and boost up the enterprises' competition power. But according to the research, which is done by American MCKINSEY Consulting Corporation, on worldwide merger and acquisition cases, only about one third of the merger and acquisition cases are successful. Most of the cases are failed or with defects, mainly because the enterprises could not cope with integration after merger and acquisition, especially employees' integration. After enterprises determine to merge and acquire the other enterprises, they only care about financial affairs management instead of human resources management. The merger and acquisition is inescapable to bring great psychological impact and pressure to employees, especially those from the merged enterprises. This leads the employees to work without any enthusiasm, enterprises to operate with low efficiency, and even the brain and tactic employees to leave their positions. Thus whether enterprises could succeed in merger and acquisition depends on whether they could integrate human resources rapidly and effectively. And the key point is how to rightly construct psychological contract between employees and enterprises in accordance with different situations.

#### **3.1 To attach importance to communication and to construct harmonious atmosphere**

The merger and acquisition is important for an enterprise. Before decision-making, any employees should not be informed about prospective merger and acquisition, except enterprise senior team. If not, some tales will press employees psychologically to a large extent. It will necessarily influence employees' psychological contract and impact the stable structure of the former psychological contract. Here, enterprises should construct formal communication channel for communicating with the brain and tactic employees in target enterprises as early as possible in order to form a dynamic communication. If employees and

organizations expect to be in a harmonious state, they must get to know and understand with each other and behave to satisfy with each other. The Hawthorne Study, conducted by Pro. Elton Mayo, has fully proved that the improvement of work efficiency lies on harmonious human relation, but not work condition. Enterprises should attach importance to communication, build a good communication atmosphere and try to make employees identify with new guidelines, policies, and management models in the recomposed enterprises. Meanwhile the recomposed enterprises should timely eliminate conflicts, relieve pressure, foster employees' sense of organization belonging, and promote their loyalty.

#### **3.2 To retain brain and tactic employees in target enterprises by incentive mechanism**

After merger and acquisition, enterprises should attach more importance to human resources management so that to provide more development opportunities for the employees in target enterprises. Meanwhile, purchasers in M&A should adopt material incentive measures, such as economic compensation for retaining the talents in target enterprises. They should also heighten the morale of the other employees. According to Equity Theory conducted by J·S· Adams, employees' satisfaction on the rewards is relative. That is to say, equity perception and sensibility experiment are produced by comparison. They compare themselves with the others, and the present status with the past. Rationality and fairness of employees' rewards are in the direct ratio to their satisfaction on their pay. Employees' cognition on remuneration distribution straightly affects their performance level. In enterprises, performance evaluation and salary system influence the rate of retaining and flowing employees. Enterprises should satisfy the fairness demand from the retained employees by various incentive methods for reconstructing the new psychological contract.

#### **3.3 To integrate the culture of the two sides involved in merger and acquisition**

Every enterprise has its unique culture. Enterprise culture is employees' common psychological feature, spiritual attitude and management mode. After merger and acquisition, the purchasers and the target enterprises will face conflicts caused by cultural differences. If the new enterprises could not cope with the conflicts very well, there will be full of contrary faction, which will lead to internal friction. Then the employees will reconsider the exchange relation in the enterprises. That will lead the former stable psychological contract to the instable one. Enterprises must correctly evaluate the culture of the two sides involved in merger & acquisition. They should find out cultural differences of the two sides and then integrate the culture modes in the new merged enterprises so that they could build up

centripetal force and cohesion. Enterprise culture has the function of obligation, direction and encouragement

towards the employees. It implies expectations as well as promises for the employees in organizations.

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