# CAUSES AND OUTCOMES OF AFFECTIVE, BEHAVIORAL AND COGNITIVE REACTIONS TO MERGERS & ACQUISITIONS: A STUDY OF TWO BANK MERGERS

*by*

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**Dedicated to my parents**

*Mrs.A. Jagadamba & Mr.A. Rama Krishna Rao*

## CERTIFICATE

The thesis entitled "Causes and Outcomes of Affective, Behavioral and Cognitive Reactions to Mergers & Acquisitions: A Study of Two Bank Mergers", being submitted by A. Uday Bhaskar to the Indian Institute of Technology, Delhi, for the award of the degree of Doctor of Philosophy; is a record of bona fide research carried out by him.

He has worked under our supervision and has fulfilled the requirements for the submission of this thesis, which has reached the requisite standard for Ph.D. degree of the Institute. The results contained in this thesis have not been submitted, in part or in full, to any other University or Institute for the award of any degree or diploma.


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## ABSTRACT

The present study tries to explore the nature, of employees' reactions to mergers & acquisitions (M&A). The aim is also to identify the causes and outcomes of these reactions and their impact on the success/effectiveness of the merger or acquisition. The study was conducted in the banking sector and two merger cases were studied in depth. Case 1 merger involved a public sector and a private sector bank and Case 2 involved the merger of two banks in the private sector. Employees' reactions to M&A can be varied depending on the perceptions people hold about the merger process. An attempt has been made to compare the two merger cases in terms of success or failure indicated by the achievement of synergy targets and expectations.

The methodology involved both a questionnaire method as well as a qualitative study by way of interviews. The sample size for the questionnaire survey was 225 which included executives at different hierarchical levels and from different functional areas. The measuring instruments used in the study were standard tools. Factor analysis and reliability tests were conducted. Qualitative data was obtained through in-depth interviews conducted on 34 respondents belonging to all the merger partners. The basic objective of these in-depth interviews was to explore the way employees conceptualized the various reactions to M&A and to identify the causes of these reactions and their likely impact on outcome variables like organizational commitment and organizational citizenship behavior.

The reactions to M&A were conceptualized in terms of Affective, Behavioral & Cognitive. Supportive Climate, Leader member exchange (LMX), Communication effectiveness and Stress were taken as predictors for the three types of reactions to M&A. The reactions to M&A were expected to lead to outcomes like organizational commitment and organizational citizenship behavior. Given its significance, communication effectiveness was treated as a mediator in between the relationship, leader member exchange and reactions to M&A. Since, reactions to M&A is an important variable in the study, the mediation effect of this variable on the relationship between stress (role erosion, role overload and role ambiguity) and organizational commitment relationship and organizational citizenship behaviors was studied. The conceptual model was tested both statistically and through qualitative data.

Results indicate that cognitive reactions to M&A are predicted by some predictors and they also predict certain outcome variables like organizational commitment and organizational citizenship behavior. Stress due to role ambiguity only predicts affective reactions to M&A. Climate support also predicts affective reactions to M&A and not the other reactions to M&A. Cognitive reactions to M&A are predicted by communication effectiveness. Perceived contribution dimension of LMX also predicts cognitive reactions to M&A.

Reactions to M&A predict outcomes such as organizational commitment and organizational citizenship behavior. Organizational commitment is predicted only by cognitive reactions to M&A and not other reactions to M&A. Sportsmanship is predicted by affective and cognitive reactions to M&A. Altruism and Conscientiousness are not predicted by any of the reactions to M&A.

Reactions to M&A were treated as a mediator variable between stress (role overload, role ambiguity and role erosion) and organizational commitment. Results from the mediation tests reveal that cognitive reactions to M&A act as a mediator between role erosion and organizational commitment. Thus, cognitive reactions to M&A predict organizational commitment and the results prove partial mediation between stress and organizational commitment.

The findings of the study throw light on issues of critical importance in a merger situation. Cognitive reactions emerge as important in M&A situations. Researchers have identified 'merger syndrome' which is characterized by intensive emotions like fear, insecurity, anxiety and the like (Appelbaum et al., 2000b; Dickman, 2000; Marks & Mirvis, 1986., However, these emotions are rooted in cognitive appraisals of the situation and hence the root to dealing with employee reactions is cognitive which needs to employ the mechanisms of informative communication.

The results have implications for LMX enhancement interventions. In general enhancing work related interaction through guiding, sharing and communicating (Bauer & Green, 1996) can result in positive employee reactions to M&A's. Leaders also need to be trained to develop skills for providing informative communication to all the employees.

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