

**ORGANIZATIONAL COMMITMENT AMONG BANK
EMPLOYEES DURING MERGER AND ACQUISITIONS**

BY

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DEDICATION

*My beloved parents,
Haji Hasan bin Ariffin
Hajah Zainab binti Haji Othman*

My beloved wife, Zunaidah binti Haji Mohd Said

*My daughters,
Nur Nadirah Ilyana
Nur Nasha Sufiana
Nur Nazreen Diyana
My son,
Muhammad Daniel Hakimi*

My beloved sisters, in-laws and colleagues

Thank you for being the pillars of my strengths and for being there through thick and thin

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ABSTRAK

Kajian ini telah diadakan untuk menyelidik pengaruh perasaan hati yang positif, perasaan hati yang negatif, tanggapan terhadap keupayaan organisasi untuk berjaya dalam penggabungan dan perolehan, dan tanggapan terhadap komunikasi tentang penggabungan dan perolehan terhadap tahap penglibatan pekerja dalam sesebuah organisasi sewaktu penggabungan dan perolehan organisasi. Data telah diperolehi melalui 212 borang kaji selidik yang telah diisi oleh para pekerja dari dua buah bank di Malaysia yang telah mengutarakan hasrat mereka untuk bergabung baru-baru ini. Menerusi kajian yang lepas, satu rangka teori telah disusun dan lima hipotesis telah didirikan. Keputusan yang diperolehi hasil daripada kajian ini mendapati bahawa perasaan hati yang positif, tanggapan terhadap keupayaan organisasi untuk berjaya dalam penggabungan dan perolehan, dan tanggapan terhadap komunikasi tentang penggabungan dan perolehan organisasi mempunyai hubungan yang positif dengan tahap penglibatan pekerja dalam sesebuah organisasi. Walaubagaimanapun, kajian ini tidak dapat membuktikan apa-apa hubungan yang nyata di antara perasaan hati yang negatif dan tahap penglibatan pekerja dalam organisasi. Walaupun banyak kajian yang lepas telah menunjukkan bahawa pekerja dari organisasi yang diperolehi akan menghadapi penurunan dari segi tahap penglibatan mereka dalam organisasi sewaktu penggabungan dan perolehan organisasi, berbanding dengan para pekerja dari organisasi yang memperolehi, keputusan yang diperolehi hasil daripada kajian ini tidak dapat menentukan apa-apa perbezaan yang nyata dari segi tahap penglibatan pekerja di antara pekerja dari bank yang diperolehi dan pekerja dari bank yang memperolehi. Implikasi yang diperolehi melalui kajian ini adalah berfaedah bukan sahaja kepada syarikat yang sedang membuat perancangan untuk penggabungan dan perolehan, tetapi ia juga befaedah kepada syarikat yang sedang membuat perancangan untuk membuat rombakan korporat yang besar dan sebagainya.

ABSTRACT

This study examines the influence of positive affect, negative affect, perceptions of merger and acquisitions success and perceptions of communication regarding merger and acquisitions on organizational commitment during merger and acquisitions. Data was collected through questionnaires from 212 employees working in two banks in Malaysia which had just announced their merger recently. From the literature review, a theoretical foundation for the study was compiled and five hypotheses were established. Results indicated that positive affect, perceptions of merger and acquisitions success and perceptions of communications regarding merger and acquisitions were positively related to organizational commitment during merger and acquisitions. However, the study did not find any significant relationship between negative affect and commitment. Although many previous researches indicated that employees from the acquired firm would be less committed to the organization during merger and acquisitions compared to employees from the acquiring firm, the results of the study did not find any significant difference in the level of organizational commitment between the acquired bank's employees and the acquiring bank's employees. The implications of the study are beneficial to not only companies planning for merger and acquisitions, but also to those planning for major corporate restructurings and so forth.

Chapter 1

INTRODUCTION

1.1 Background of the Present Study

Merger and acquisitions have become a key part of many corporate growth strategies. The magnitude and complexity of today's merger and acquisitions have surpassed those in the earlier days. Previously, some of the merger and acquisitions were mainly between companies in the same industry, providing basically the same products and services. The mergers were merely for achieving operational efficiency and economies of scale. However, as technology advances and better financing mechanisms created, more complex conglomerate merger and acquisitions emerged, integrating even firms that do not seem to be related in their products or service offerings.

Plenty of reasons were given to rationalize the merger and acquisition activities. Some of these reasons include macro environmental forces such as globalization, social, economic, political and technological etc (Auster & Sirower, 2002; Wolgast, 2001). Others attributed the reasons to the merger and acquisition frenzies to competitive forces such as the need to cut cost, grow big, achieve synergy, increase profitability and market share and achieve economies of scale fast in order to create high entry barriers and ward off competitors (Cartwright & Cooper, 1993; Balmer & Dinnie, 1999; King, Dalton, Daily & Covin, 2004; McConnell, 2000). Together, these competitive forces and macro environmental forces interact with one another to reinforce the development of merger and acquisition activities in this new millennium (Auster & Sirower, 2002).

As pleasing as the rationales for the merger and acquisitions may be, most of the merger and acquisitions did not achieve what they were set out to achieve. More often than not, the performance record of merger and acquisitions have been mixed, with most mergers proving to be financially disappointing and fell short in increasing shareholders wealth and value for the corporate acquirers (Schweiger & Weber, 1989; Schweiger, Csiszar & Napier, 1993; Auster & Sirower, 2002; Cartwright & Cooper, 1993; Gadiesh, Ormiston, Rovit & Critchlow, 2001; Marks & Mirvis, 2001; Fairfield-Sonn, Ogvie & DelVecchio, 2002; King *et. al.*, 2004). As mentioned by Wolgast (2001, pg. 3), majority of the mergers fail to add values either in the form of superior

stock price performance or in the form of cost and profit advantages of the combined institution. At best, only half of the merger and acquisitions meet their initial financial expectations (Cartwright & Cooper, 1993).

Although most of the merger and acquisitions fail miserably, earlier success stories in merger and acquisitions coupled with recommendations from investment banks and law firms continue to ignite many of the top executives' spirit to jump into the bandwagon. In the 1990's, even though major acquisition disasters such as Novell/Word Perfect, Consec/Green Tea and Quaker/Snapple made headlines in the United States (Auster & Sirower, 2002), total acquisitions announcements in the country hit USD1.75 trillion in 1999 (Davis, 2000 as cited by Zhu, Steven & Rosenfeld, 2004). In year 2000, Thompson Financial (2001) as cited by Bryson (2003), reported that the combined value of merger and acquisition activity worldwide reached more than USD3.49 trillion. Nowadays, the dollar value involved in one acquisition alone can reach billions of dollars.

1.2 Problem Statement

Most merger and acquisitions have failed to live up to the expectations. This is because, more often than not, acquisitions will bring along a negative impact on employees' behavior such as uncertainty and stress (Halladay, Deane & Nachbin, 2001; Begley, 1998; Marks & Mirvis, 1992; Schweiger & DeNisi, 1991) to the point that it will adversely affect the organization's activities. It appears that disgruntled employees involved in merger and acquisitions will engage in counter productive practices, absenteeism, low morale, low commitment and job dissatisfaction (Schweiger & DeNisi, 1991; Vakola & Nikolaou, 2005; Fairfield-Sonn *et. al.*, 2002). This will eventually lead to a decline in the financial performance and profitability of the newly merged organization. In order to minimize the negative impacts that merger and acquisitions bring, organizations need to get the employees ready to commit to the missions and visions of the newly created entity as fast as possible. They need to identify the critical factors that are necessary for the employees to commit to the newly merged entity so that the success of the merger and acquisitions can be safely assured.

Therefore, the present study will examine the influence of positive affect, negative affect, perceptions of merger and acquisitions success and perceptions of

communication regarding merger and acquisitions on employees' organizational commitment during merger and acquisitions. Understanding of the attributes relating to affectivity and those other factors that are necessary in getting the employees to commit to the organization will help top managers of the organization prepare themselves and the employees for the next round of merger and acquisitions.

1.3 Research Objectives

The present study aims to examine the influence of positive affect, negative affect, perceptions of merger and acquisitions success and perceptions of communication regarding merger and acquisitions on employees' organizational commitment during merger and acquisitions. Specifically, the present study would like to find out whether employees characterized as high in positive affect will be more successful in committing to the organization following merger and acquisitions announcement compared to those who are low in this attribute. Since there are two dimensions to dispositional affectivity, it is also the objective of the present study to find out whether individuals high in Negative Affect will be less capable in committing to the organization following merger and acquisitions announcement compared to those who are low in this attribute. Besides dispositional affectivity, the present study is also aimed at finding out if perceptions of merger and acquisitions success and perceptions of communication regarding merger and acquisitions had a significant impact on employees' organizational commitment following merger and acquisitions announcement. Lastly, as some studies have indicated that employees from the acquired firms were less committed to the organization after merger and acquisitions as most often, they were the ones who were more severely affected by the merger and acquisitions changes compared to employees from the acquiring firms (Hambrick & Cannella, 1993; Buono et al. (1985) as cited by Panchal & Cartwright, 2001), it is the objective of the present study to find out whether there is a difference in the level of employees' organizational commitment between employees from the acquired firm and those from the acquiring firm.

In summary, the objectives of the present study are:

1. To examine the relationship between positive affect and organizational commitment

2. To examine the relationship between negative affect and organizational commitment
3. To examine the relationship between perceptions of merger and acquisitions success and organizational commitment
4. To examine the relationship between perceptions of communication regarding merger and acquisitions and organizational commitment
5. To examine whether there is a difference in the level of organizational commitment between the acquired firm's employees and the acquiring firm's employees

1.4 Research Questions

The present study is designed to address the following questions:

1. Is there any significant relationship between positive affect and organizational commitment?
2. Is there any significant relationship between negative affect and organizational commitment?
3. Is there any significant relationship between perceptions of merger and acquisitions success and organizational commitment?
4. Is there any significant relationship between perceptions of communication regarding merger and acquisitions and organizational commitment?
5. Is there any significant difference in the level of organizational commitment between the acquired firm's employees and the acquiring firm's employees?

1.5 Significance of the Present Study

There are several important reasons why this study needs to be conducted.

First, there have been many researches conducted on merger and acquisitions. Despite the significant interest in this area, our understanding on the antecedents to merger and acquisitions success is still incomplete (Papadakis, 2005). Many previous literatures have shown that employees' organizational commitment plummeted during merger and acquisitions (Schweiger & DeNisi, 1991; Vakola & Nikolaou, 2005; Fairfield-Sonn *et. al.*, 2002), causing the merger and acquisitions to fail. Since employee-organizational commitment is important for organizational success, factors that can have a bearing on commitment during merger and acquisitions need to be

explored in order to gain a better understanding of them. The present study would like to investigate some of the potential predictors of organizational commitment during merger and acquisitions so that employees' commitment level can be at least maintained, thus helping merger and acquisitions to be successful. One of the factors that is thought to predict organizational commitment is affectivity. To the best of the researcher's knowledge, no research has been conducted before to link individual's affectivity to organizational commitment in a merger and acquisitions context. The findings from the present study may increase our theoretical understandings on factors that influence organizational commitment during this chaotic period of merger and acquisitions.

Second, the findings from the present study may also benefit companies which are planning for merger and acquisitions in the future. Positive and negative affectivity are two different dispositional dimensions that have different attributes. Upon learning the individual personality attributes that may affect employees' ability to commit to the organization during merger and acquisitions, management can then help foster these attributes into their employees through action learning processes, workshops, training and development programs and so forth. This will help the organization and their employees to not only go through the merger process successfully, but also to be ready for any possible merger and acquisitions in the future. If perceptions of merger and acquisitions success and perceptions of communications are vital to employees' organizational commitment during merger and acquisitions, knowing this, management can then incorporate these factors to in their merger and integration plans.

Third, merger and acquisitions have been known to be a period of drastic organizational change. However, acquisitions are not the only time that an organization changes dramatically. There are also other corporate exercises that bring about significant changes to the organization which senior management needs to be prepared for. Examples of these exercises include corporate restructurings, downsizing, layoffs and so forth. The insights gained from the present study can help management team to prepare for not only merger and acquisitions but also for these other types of major organizational changes.

1.6 Definitions of Key Terms

There are a few key terms used in the present study. The key terms are merger and acquisitions, organizational commitment, affect, perceptions of merger and acquisitions success and perceptions of communication regarding merger and acquisitions.

1.6.1 Organizational Commitment

Mowday, Porter and Steer (1979) defined organizational commitment as the relative strength of an individual's identification with and involvement in a particular organization. According to them, a person who is committed to an organization will display three attitudes or behaviors namely:

- (1) a strong belief in and acceptance of the organization's goals and values
- (2) a willingness to exert considerable effort on behalf of the organization, and
- (3) a strong desire to maintain membership in the organization

1.6.2 Affect

Affect can be referred to as mood. The Compact Oxford English Dictionary (2002) defines mood as the temporary state of mind. According to Kraiger, Billings and Isen (1989, pg. 1) affective states, or moods are emotion-like states that lack an obvious referent and tend not to disrupt ongoing activity.

Personality research has shown that there are two general dimensions of affect, which are positive affect (PA) and negative affect (NA). Watson, Clark and Tellegen (1988) defined the two affect dimensions as follows:

- (1) Positive Affect refers to the extent to which an individual feel positive and engaged in their environment. It reflects an individual's level of pleasurable engagement with the environment (Watson, Clark and Carey, 1988) and the extent to which the individual tend to experience favorable emotions.
- (2) Negative Affect refers to the extent to which an individual is sad, disengaged, or feeling distressed by the environment, exposing his or her inclination to experience destructive emotions

1.6.3 Perceptions of merger and acquisitions success

For the purpose of the present study, perception of merger and acquisitions success is defined as the employees' believe that the organization will continue to be successful after the merger and acquisitions so that it can continue to provide for the needs and expectations of the employees.

1.6.4 Perceptions of communication regarding merger and acquisitions

As cited by Appelbaum, Gandell, Shapiro, Belisle, and Hoeven (2000), Vecchio and Appelbaum (1995) defined communication as the process of using verbal and nonverbal signs and symbols to create understanding. For the purpose of the present study, perceptions of communication regarding merger and acquisitions refers to employees' perceptions of whether information regarding the merger and acquisitions has been adequately conveyed to them so that they are aware of what is going on in the organization.

1.7 Organization of Chapters

Chapter 1 presents an overview of the present study. It also explains why it is important to conduct the study. Chapter 2 provides a review of previous literatures on merger and acquisitions, and the variables in the present study which are organizational commitment, positive affect, negative affect, perceptions of merger and acquisitions success and perceptions of communication regarding merger and acquisitions, leading to theoretical framework and hypotheses. Chapter 3 illustrates the research methodology used in the present study which includes research design, measurement instruments used and statistical analyses employed to test the hypotheses. Chapter 4 presents the results of the statistical analyses. Finally, Chapter 5 provides discussions and implications of the findings in the present study, as well as limitations of the present study, suggestions for future research and conclusions.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

The present study explores the relationship between four independent variables (positive affect, negative affect, perceptions of merger and acquisitions success and perceptions of communication regarding merger and acquisitions) and a dependent variable (organizational commitment) during merger and acquisitions. Therefore, this chapter will provide a review of the literatures on merger and acquisitions, organizational commitment and the relevant predictors of organizational commitment used in the present study (i.e. positive affect, negative affect, perceptions of merger and acquisitions success and perceptions of communication regarding merger and acquisitions). The chapter begins with a background of merger and acquisitions. Impact of merger and acquisitions on employees will also be presented in this section. The following section then looks at some of the literatures on the main variable under study, organizational commitment. Thereafter, the four independent variables used in the present study (positive affect, negative affect, perceptions of merger and acquisitions success and perceptions of communication regarding merger and acquisitions) will be explained in greater depths, followed by an in-depths discussion on the interrelationship between the dependent and independent variables. The gaps in previous literature will then be explained followed by the theoretical framework for the present study. Based on the framework, hypotheses for the present study will then be offered before a summary is presented at the end of the chapter.

2.2 Merger and acquisitions

Merger and acquisitions are among the most traumatic types of organizational change that could have impacted the employees (Cartwright & Cooper, 1993). The integration phases of merger and acquisitions are often associated with a period of stress, anxieties, tension, uncertainty and negative reactions among the employees involved (Nikandrou, Papalexandris & Bourantas, 2000). Chaos is the norm during the early days of merger and acquisitions as employees are uncertain of what the outcomes of the merger and acquisitions are going to be. Without appropriate actions from the management, employees can easily be lost in the merger and acquisition

process especially if they are kept in the dark on what is happening in the organization.

This section defines merger and acquisitions and provides the reasons for the ongoing merger and acquisitions activities. Then the section touches on merger and acquisitions outcomes and the reasons for merger and acquisitions failure. The section then outlines the impact of merger and acquisitions on employees, before closing with a suggestion to focus on human related issues during merger and acquisitions process in order to ensure merger and acquisitions success.

2.2.1 Defining Merger and Acquisitions

The Compact Oxford English Dictionary (2002) defined merger as a combination or blending of two things, especially companies, into one. As for acquisition, the dictionary defined it as the act of possessing or acquiring an object. Although merger suggests a friendly combination whereas acquisition suggests a takeover, Noer (1993) as cited by McConnell (2000) stated that merger carries essentially the same effect as acquisition and the result of a merger or acquisition is that two or more corporations become one. The only difference between them is one of perception; the organization that maintains control calls it an acquisition while the organization that does not have the control calls it a merger.

2.2.2 Reasons behind Merger and Acquisitions

Merger and acquisitions have been and will continue to be a major form of corporate growth in business landscapes (Schweiger *et. al.*, 1993). The main reason for the continued interest in merging or acquiring new firms is to increase the overall performance of the newly merged entity through the achievement of synergy (Schweiger & Weber, 1989; Marks & Mirvis, 1992; Balmer & Dinnie, 1999), or the more commonly described as the “2 + 2 = 5” effect (Cartwright & Cooper, 1993). Apart from that, there are many other reasons why firms get involved in merger and acquisitions. Gadiesh *et. al.* (2001) summarized the rationale for pursuing merger and acquisitions into six categories:

1. Active investing

This is usually undertaken by leveraged buyout companies or private equity firms, where the firms will acquire a target company and then run it more

efficiently and profitable as a stand-alone entity. These transactions normally add value to the companies involved through financial engineering, incentive compensation, management changes and stripping out costs. However, these kinds of acquisitions are normally limited to leveraged buyout companies or private equity firms only. Other companies normally merge for more strategic reasons.

2. Growing scale

This does not necessarily mean growing big. Rather, the aim here is to gain scale in specific business elements and to use these elements as a competitive advantage in business.

3. Building adjacencies

This is done by expanding into businesses that are highly related to the company's present business. The expansion can be to new locations, new products, higher growth markets, new customers and so forth.

4. Broadening scope

This is usually executed when in-house development or growth is too expensive, slow or would dilute focus on the company's existing businesses. Broadening scope involves systematic purchases of specific expertise to either accelerate business development or substitute for traditional new business development or research and development.

5. Redefining business

This is normally performed when the company's existing capabilities and resources have grown stale but the company is not able to refresh its technology or knowledge quickly through internal investment or incremental adjustment.

6. Redefining industry

This strategy is executed to change the boundaries of competition and force rivals to re-evaluate their business models (Gadiesh *et. al.*, 2001)

Unfortunately, despite the financial and strategic considerations and careful planning involved, merger and acquisitions outcomes have not been very encouraging.

2.2.3 Merger and acquisitions Outcomes

Many researches have shown that most merger and acquisitions fail to increase the shareholders' value of the firms involved. Osman (2005) examined the merger of ten local anchor banks in Malaysia in terms of their ability to increase operating profit by reducing cost and enhancing revenues. From the study, the author found that while there were some improvements for the merged banks in terms of Return on Asset, there was no improvement in operating efficiency after the merger. The regression results revealed that there was no significant continuance of performance from pre-merger to post-merger period and that the pre-merger and post-merger performances were independent (Osman, 2005).

In investigating the post-merger performance of acquiring banks in the United States, Peristiani (1997) found that the acquiring banks failed to improve managerial efficiency after the merger. The study also found no evidence to the theory that mergers lead to significant improvements in efficiency. More disturbingly, most large-scale merger and acquisitions in the banking industry have even destroyed the shareholder value, as defined in terms of market capitalization (Wolgast, 2001). In a meta-analysis by King *et. al.* (2004) involving 93 empirical researches, the authors concluded that there was no evidence that acquisitions improve the financial performance of the acquiring firm. Instead, the authors found that the acquisitions actually carried either no significant effect or a modest negative effect on the acquiring firm's financial performance after the merger announcement. According to Gadiesh *et. al.* (2001), several well-structured studies have indicated that around 50% - 70% of acquisitions actually destroyed shareholder values rather than achieving cost and / or revenue benefits.

2.2.4 Reasons for merger and acquisitions failure

Many reasons have been attributed to the failure of merger and acquisitions. Some of the earlier ones had blamed technological limitations, financial, market or other economic issues (Schraeder, 2001; Grant & Cherkis, 2002; Salama, Holland & Vinten, 2003). Previous researches that dealt with organizational change had also focused mainly on organizational factors (Tsousis & Nikolaou, 2004). Not much attention had been given at first to human resource issues (Schweiger & Weber, 1989) although merger and acquisitions can be among the most traumatic types of

organizational change that could have impacted the employees (Cartwright & Cooper, 1993; McConnell, 2000; Nikandrou et. al., 2000). Management very often overlooked people issues during merger and acquisitions because they felt that taking on these issues might only complicate the situations further since these were “soft issues” with no hard data to analyze on (McConnell, 2000; Marks & Mirvis, 2001).

However, increasingly, researchers found that people-oriented issues were indeed an integral part of merger and acquisition process that needed close attention during the process and failure to pay close attention to these issues might seriously jeopardize the success of the merger and acquisitions. As argued by Nikandrou *et al.* (2000), people related problems could be a huge stumbling block that needs to be overcome during merger and acquisitions process and the reason for most acquisition failures had been employee problems. Many merger and acquisitions had failed due to these people issues (Salama, Holland & Vinten, 2003; Nguyen & Kleiner, 2003) and as pointed out by Krell (2001, pg. 1), as many as two third of newly merged companies fail because what looks promising on paper often fails in practice because of one reason; people. The impact of merger and acquisitions on the employees could be so far reaching to the point that it reduced their level of commitment to the organization and ultimately caused the merger and acquisitions to fail (Vakola & Nikolaou, 2005; Schweiger & DeNisi, 1991).

2.2.5 Impact of Merger and Acquisitions on Employees

Acquisitions are synonymous to change (Nikandrou *et. al.*, 2000). Merger and acquisitions cannot happen without being accompanied by the necessary corporate restructurings or changes. In fact, organizational change is probably the most significant and pervasive issue for any given merger and acquisitions exercise. However, according to Vakola and Nikolaou (2005), change had been found to be difficult for many individuals and might create stress upon them. Not everyone could adapt well to changes in the organization. While some employees might receive change with excitement and happiness, there would be others who confronted organizational change with anger and fear, and response to it with negative intentions to oppose it (Vakola and Nikolaou, 2005). In his book, *Beyond the Wall of Resistance*, Maurer (1986) as cited in Elrod and Tippett (2002) identified eight different ways in which individuals, knowingly or unknowingly, resisted change:

1. Confusion
Inability to comprehend that change was forthcoming
2. Immediate criticism
Rejecting change even before hearing the details
3. Denial
Refusing to accept that things have changed
4. Malicious compliance
Acting as if change had been accepted and practiced, only to demonstrate lack of compliance later on
5. Sabotage
Actions taken to inhibit or kill change
6. Easy agreement
Agreeing to change with little resistance but without knowing what was being agreed to
7. Deflection
The act of changing the subject with the hope that it will go away
8. Silence
A complete absence of input. This might be the most difficult resistance to deal with (Maurer, 1986 as cited in Elrod and Tippett, 2002)

Employees resisted change because of many reasons, such as fear of losing something important, misunderstandings, mistrust, bad experience during the previous change program or simply because they had low tolerance to change (Eriksson, 2004). More importantly, most of the employees might oppose change during merger and acquisitions because as human beings, most of us would appreciate certainty and stability in our jobs rather than uncertainty and insecurity (Halladay, Deane & Nachbin, 2001). Merger and acquisitions adversely affect this certainty and stability expectations. Whether a hostile acquisition or a friendly merger, the employees' involved in the process might feel that they had lost their identity (Millward & Kyriakidou, 2004) and control over the situation (Nguyen & Kleiner, 2003), and their present and future well beings in the organization might become unclear due to the merger and acquisitions (Zhu, Steven & Rosenfeld, 2004). That is why merger and acquisitions had been widely regarded as highly stressful events (Begley, 1998; Marks & Mirvis, 1992; Schweiger & DeNisi, 1991; Nikandrou et al., 2000) and the stress

created by merger and acquisitions had far reaching effects that affected the employees in many ways.

According to Appelbaum *et. al.*, (2000), the process that employees went through in coping with stress during merger and acquisitions was very much like the grieving process when a relative passed away, as provided for in the Kubler-Ross model of personal bereavement. The Kubler-Ross model (1969), as restated by Appelbaum *et. al.*, (2000), postured that the acquired employees would pass through four stages before committing to the new organization created by the merger and acquisitions:

1. The first stage is denial.

The employees could not accept that the merger would actually happen or belief that the offer would somehow be withdrawn.

2. The second stage is anger.

The employees might feel angry with the acquiring firm or even their existing management team for allowing the merger and acquisitions to happen

3. The third stage is bargaining.

The employees might develop unrealistic propositions that would allow them to keep their power and autonomy

4. The fourth stage is acceptance.

Finally at this stage, the employees would realize that the merger and acquisitions would still take place and that they might as well start making the necessary preparations for it.

Many previous researches indicated that the stress that accompanied merger and acquisitions caused a decline in employees' organizational commitment (Vakola & Nikolaou, 2005; Schweiger & DeNisi, 1991). Apart from that, other positive work attitudes also seemed to be eroded during merger and acquisitions exercise. On the other hand, negative work attitudes seemed to be on the rise during merger and acquisitions and these negative effects seemed to stay on during the whole merger and acquisition process until the dust settled. For example, Schweiger and DeNisi (1991) provided empirical evidence that mergers affect employees' attitudes throughout the entire merger process. In a longitudinal study involving two manufacturing plants in the United States, the authors found that mergers brought about significant increase in dysfunctional outcomes of the employees such as uncertainty and stress. On the other

hand, employees' job satisfaction, organizational commitment, intention to remain and perceptions about the organization's trustworthiness, honesty and caring were found to have experienced a significant decline. In a study involving 155 nurses and clinicians in the Psychiatric Division of a 225-bed comprehensive hospital in the Midwestern United States, Begley (1998) found that the stress created by merger and acquisitions had even caused employees to revert to drugs and alcohol abuse.

In a study involving 292 employees of various Greek organizations, Vakola and Nikolaou (2005) found that the stress created by organizational changes decreased employees' commitment and increased their reluctance to accept the changes being made. As reported by Fairfield-Sonn *et. al.*, (2002, pg. 3), organizational commitment reflects an employee's identification with the organization as a whole and feelings about it. Merger and acquisitions may challenge this personal identification as well as lead to questions for the employees regarding the organization's future, thus eroding the employees' commitment to the firm.

In short, merger and acquisitions brought changes to the organization and the employees. These changes might in turn create uncertainty and stress among the employees the point that their positive work attitudes such as commitment to their organization would be seriously eroded. As human capital resources is a crucial determinant of an organization's success, it would be wise that management takes a good care of its human capital assets during merger and acquisitions and renders a good support to their employees during these difficult times or risk being a part of the merger and acquisitions failures.

2.2.6 People Management as the Key Success Factor of Merger and Acquisitions

Organizations cannot exist in a vacuum. At the most basic level, organizations need to employ workers to perform specific duties in order for the organizations to function. It has been widely acknowledged that capable and committed workforce is crucial for organizations to remain viable and profitable. As such, Grant and Cherkis (2002) proposed that besides the physical assets, real estate, product portfolios and other issues, management should also focus on human resource issues during merger and acquisitions in order to prevent the loss of intellectual property during the process. In order to prevent talented employees from leaving the organization during merger and

acquisitions, management should monitor closely the impact of merger and acquisitions on their employees. One of the ways to do this is by keeping an open channel of communication so that people issues that crops up during the merger and acquisition process can be ironed out swiftly (Gadiesh et. al., 2001). Organizations can implement a formal tracking program which could provide management with valuable feedbacks on how the employees and business were being affected, so that corrective actions can be undertaken as and when necessary (Marks & Mirvis, 1992). Failure to do this can cause employees to leave the organization for fear of losing their jobs or being lost in the newly merged entity especially for those who do not have a high aptitude for change. Also, management needs to be aware that employee resistance is normal in any change process and as such, understanding the motivations for employees' resistance and differences in employee-management perceptions are also some of the key determinants of merger and acquisitions success (Grambell & Stevens, 1992). It is of utmost importance that management maintains good executive leadership and ensures that employees continue to have positive perceptions with regard to the whole merger and acquisitions exercise so that they remain confident with the organization. The main aim for all of these activities is to prevent employees' commitment to the organization from declining during merger and acquisitions. Only when the employees remained as strong supporters and committed to the newly merged organization can merger and acquisitions stand a better chance in churning out the desired results that the whole exercise was hoped for.

In conclusion, merger and acquisition success rate has not been very encouraging despite great emphasis being accorded to quantifiable hard issues such as physical assets, real estate, product portfolios and so forth. Since most merger and acquisitions continue to fail to achieve their original objectives, conclusions have been made that the poor results must have been due to poor human resource planning (Appelbaum *et. al.*, 2000) which was not able to tackle the decline in employees' organizational commitment during merger and acquisitions. As such, researchers are turning to people issues (i.e. 'soft issues') as the critical success factors in merger and acquisitions and numerous articles have been written by academics, practitioners and consultants to plead top management to give greater attention to managing these issues during merger and acquisitions (Schweiger & Weber, 1989) so that the

commitment level of the employees can be maintained and the merger and acquisitions can then stand a better chance at being a success.

Having outlined the background of merger and acquisitions, the next section will begin to look at the dependent and independent variables in the present study.

2.3 Conceptualizing Organizational Commitment

The dependent variable in the present study is organizational commitment. More specifically, it is the employees' organizational commitment during merger and acquisitions.

Human capital is an important asset in any organization (Millward & Kyriakidou, 2004) as without capable workforce, organizations will be like a ship without its rudder. However, merely having people working for a particular organization is not enough. Organizations need employees who are committed to the vision and mission of the company before the company can prosper. As such, the concept of organizational commitment has become a variable of interest in many studies. Organizational commitment was believed to be one of the keys to organizational success (Iverson, 1996), and increasing organizational commitment was believed to lead to increased organizational effectiveness, and is therefore something worth developing in employees. (Scholl, 1981, pg. 1)

Although there have been many previous studies on commitment, a comprehensive definition of the term "commitment" and a conclusive model of the term does not exist (Scholl, 1981). In general, organizational commitment refers to one's emotional and functional attachment to one's organization (Elizur and Koslowsky, 2001). It represents the employees' psychological attachment to their workplaces (Pillai and Williams, 2004).

Typically, organizational commitment has been defined as the relative strength of an individual's identification with and involvement in a particular organization (Mowday et al., 1979). Following this definition of commitment, a person is said to be committed to the organization when he or she has:

1. a strong belief in and acceptance of the organization's goals and values
2. a willingness to exert considerable effort on behalf of the organization, and
3. a strong desire to maintain membership in the organization

This definition views commitment largely as an employee's attitude, or more specifically as a set of behavioral intentions towards the organization (Scholl, 1981). The attitudes and intentions reflect the nature and quality of the linkage between the employees and their employing organization. These attitudes and intentions represent a state where the employees identify themselves with a particular organization and its goals, and they wish to maintain their membership with the organization in order to facilitate the attainment of those goals (Mowday, Porter & Steers, 1982). As a result of this definition, the antecedents to commitment then comprises of a range of organizational and individual factors which includes personal characteristics, structural characteristics, work experience, job characteristics and role related features (Scholl, 1981; Vakola & Bouradas, 2005).

Another model of organizational commitment was provided by Allen and Meyer (1990). According to the authors, there are three distinct components of organizational commitment which are affective, normative and continuance commitment.

1. Affective commitment is an emotional attachment to the organization and its mission. It is employees' emotional attachment to, identification with, and involvement in the organization.
2. Normative commitment is based on the belief that commitment is the right thing to do. It is based on employees' moral and personal value systems and their belief that it is their obligation to continue to support the organization.
3. Continuance commitment is based on the costs that the employees associate with leaving the organization. It is calculative and rational, and reflects an employees' judgments that the costs of leaving the organization are too high; thus they will continue to maintain their affiliation with the organization (Pierce and Gardner, 2002. pg. 201).

Some important distinctions have also been identified among the above three components of commitment. For example, employees who commit primarily for affective reasons stay with the organization because they want to and will continue to commit to the organization as long as the organization continues to treat them well. In contrast, employees who are committed because of normative reasons stay with the company because they feel that they ought to and will continue to do so for some period of time even if they are poorly treated. Lastly, employees who are committed

mostly for continuance reasons stay with the organization because they need to and will continue to be committed as long as they do not come across any better opportunity in other organizations. (Meyer, Allen & Gellatly, 1990)

As a result of this definition, as cited by Muthuveloo and Che Rose (2005), the antecedents for affective commitment are said to be items like perceived job characteristics, organizational dependability and perceived participatory management. Examples of perceived job characteristics include task autonomy, task significance, and task identity and skill variety. Organizational dependability refers to the extent to which the employees feel that they can depend on the organization to look after their interests. As for participatory management, it is the extent to which the employees feel that they can influence the decision making process in the organization. The antecedents to normative commitment are said to include coworker commitment (which encompasses affective and normative dimensions as well as commitment behaviors), and also the above organizational dependability and participatory management. As for continuance commitment, its antecedents include age, tenure, career satisfaction and intention to leave.

Scholl (1981) provided yet another model of organizational commitment. According to Scholl (1981, pg 5), organizational commitment is the stabilizing force that acts to maintain behavioral direction when expectancy or equity conditions are not met and do not function. Using this definition of commitment, an employee's commitment to the organization is said to be affected through four commitment mechanisms which are:

1. Investments.

The higher the amount of investments in the organization (such as age, education and tenure), the more committed the employee will be.

2. Reciprocity.

For example, an employee who receives a benefit such as training or an opportunity beyond his or her current ability would be expected to repay in the form of future performance in the company

3. Lack of alternatives.

As employees progress with the organization, their experience and skills become so specific to the organization that their ability to leave the organization decreases.

4. Identification.

Identification is a mechanism that links an employee to the existing organization and decreases the propensity to leave the organization

This model of continuance of organizational membership (i.e. organizational commitment) was built on two fundamental propositions (Scholl, 1981, pg. 9):

1. Expectancy proposition, which states that the propensity to remain in a particular organization increases as the individual's perceived probability of continued equitable rewards associated with continued membership increase.
2. Commitment proposition, which states that the propensity to remain in a particular organization increases as an individual's investment to that organization increases, the amount of debt to that organization increases, alternative opportunities become blocked through the acquisition of skills specific to that organization, and the individual's social identity becomes tied to that organization.

In short, there have been various definitions of organizational commitment in previous literatures. Although there have not been any conclusive definition or model on the term, most of the literatures portrayed organizational commitment as that force which keeps individuals attached to their employing organizations. A great deal of these literatures defined organizational commitment as employees' commitment targeted specifically towards their employing organizations as an administrative entity (Foote, Seipel, Johnson, & Duffy, 2005), which was in line with Mowday et al.'s (1979) concept of organizational commitment.

2.3.1 Previous Researches on Organizational Commitment

As mentioned earlier on, organizational commitment has attracted plenty of studies on the matter. Many of these studies have identified organizational commitment as both an antecedent and a consequence of a number of work-related variables. For example, there have been a variety of studies that presented organizational commitment as a consequence of personal variables, role states and work environment variables (Scholl, 1981; Vakola and Bouradas, 2005; Mathieu & Zajac, 1990 as cited by Foote *et. al.*, 2005), while other researches have shown that organizational commitment is related to a number of organizational outcomes such as turnover (Porter, Steers, Mowday & Bouilan, 1974), absenteeism (Farrell and Peterson, 1984; Mowday, Porter

ans Steers, 1982), motivation (Mowday et. al., 1979) and work performance (Meyer, Paunonen, Gellatly, Goffin & Jackson, 1989). The present study looks at some potential antecedents to employees' organizational commitment during merger and acquisitions. Given the possibility that employees who are more committed to an organization are more likely to support, rather than resist a proposed merger, extending the research on organizational commitment to a merger and acquisitions settings may allow us to identify factors that may affect the level of employee commitment during this critical initial period. The findings can also provide useful information regarding sources of employee resistance to the upcoming merger and acquisitions (Schraeder, 2001).

Having discussed the concept of organizational commitment, the following section will then touch on the predictors of organizational commitment during merger and acquisitions. In the present study, the predictors of organizational commitment are PA, NA, perceptions of merger and acquisitions success and perceptions of communication regarding merger and acquisitions.

2.4 Predictors of Organizational Commitment during Merger and Acquisitions

This section examines the literatures from past studies that relate the independent variables to the dependent variable in the present study. Specifically, this section covers previous literatures on the impact of positive affect, negative affect, perceptions of merger and acquisitions success and perceptions of communication regarding merger and acquisitions on organizational commitment.

2.4.1 Affect

Affect can be referred to as mood and it constitutes of a like-dislike reactions (Varma, DeNisi and Peters, 1996) in an individual's interactions in the environment. The Compact Oxford English Dictionary (2002) defined mood as a temporary state of mind. According to Kraiger, Billings and Isen (1989, pg. 1) affective states, or moods are emotion-like states that lack an obvious referent and tend not to disrupt ongoing activity. As we know, some people always seem to be in a "good" mood while others may feel "down" or depressed most of the times. Still, there are others whose mood swings up and down sometimes even for no apparent reason.

In general, there are two dimensions of affect which are positive affect (PA) and negative affect (NA). Watson, Clark and Tellegen (1988) defined the two affect dimensions as follows:

1. Positive Affect refers to the extent to which an individual feel positive and engaged in their environment. It reflects an individual's level of pleasurable engagement with the environment (Watson, Clark and Carey, 1988) and the extent to which the individual tend to experience favorable emotions.
2. Negative Affect refers to the extent to which an individual is sad, disengaged, or feeling distressed by the environment, exposing his or her inclination to experience destructive emotions.

According to Emmons (1985), as cited by Cropanzano, Keith and Konovsky (1993), these two general dimensions of affective responding operate in two different dimensions and can co-exist in individuals. That means a person who is high on PA may not necessarily be low on NA. Rather, it is possible for an individual to be high on both, or low on both, or high on one and low on the other.

Individuals who are high on PA are characterized as excited, joyful, enthusiastic and exhilarated (Cropanzano *et. al.*,1993) and they are filled with high levels of enthusiasm, energy, mental alertness, interest, joy and determination (Watson, Clark, and Carey, 1988). They are the kind on people who are energetic and enjoy life. On the other hand, those who are low on PA are often reported to be listless, apathic (Cropanzano *et. al.*,1993) and filled with lethargy and fatigue (Watson, Clark, and Carey, 1988). They are not necessarily experiencing something negative, but they simply are less likely to report positive feelings (Cropanzano *et. al.*,1993).

As for NA, individuals who are high on NA are likely to be anxious, afraid and angry. They often seem tense and nervous whereas those who are low in NA are characterized as feeling placid, calm and contented. (Cropanzano *et. al.*,1993)

For individuals who are high on both PA and NA simultaneously, Cropanzano *et. al.*,1993), described these individuals as emotional beings. According to Emmons (1985), as cited by Cropanzano *et. al.*, (1993), these individuals would experience fluctuating moods in response to environmental events. Conversely, an individual who is low on both PA and NA would be relatively unemotional and unresponsive.

2.4.1.1 Previous Researches on Affect

Affect has been shown to influence various work behaviors, performance and career success. For example, affect has been found to be associated with performance (Wright & Staw, 1999); organizational citizenship behaviors (Steve, 1999, as cited by Foo (2003); Wayne, Shore, Bommer & Tetrick, 2002); motivation (Erez & Isen, 2002); interpersonal skills (Staw & Barsade, 1993); tasks satisfaction (Kraiger, Kurt, Billings & Isen, 1989); risk taking behaviors (Isen and Geva, 1987; Herren and Isen, 1988); negotiation skills (Carnevale & Isen, 1986); job satisfaction (Heller, Judge & Watson, 2002); and career success (Cheng, 2004).

As pointed out by the various literatures, merger and acquisitions brings about stress and change to the employees of both the acquiring and the acquired firms. Although change may impact all relevant employees in much the same way, not all individuals will perceive and response to change in the same manner. Some individuals may feel anxious, afraid, and angry and so forth (Cropanzano *et. al.*, 1993). These employees are often distracted by the whole merger and acquisitions process. On the other hand, there are those employees who feel excited, active, and enthusiastic, and view change as a challenge for them (Nikandrou *et. al.*, 2000)

To be successful in committing to the organization during merger and acquisitions, employees may be required to be positive in disposition (i.e. PA) towards the acquisition process and in dealing with the stress of changing. Employees who are feeling anxious, afraid, and angry and so forth may find themselves more difficult to commit to the organization as their feelings may hinder them from focusing on the situations at hand. On the other hand, employees who are excited, active, and enthusiastic may be in a better position to start on their journey towards committing to that new organization created by merger and acquisitions because their positive dispositions may enable them to handle stress and change better. As such, PA and NA may just be two of the most important determinants of employees' organizational commitment during merger and acquisitions.

The section that follows elaborates further the relationship between affectivity and organizational commitment.

2.4.1.2 Affectivity and Organizational Commitment

To the best of the researcher's knowledge, there has been only a scant of researches that linked PA and NA directly to commitment (for example, Cropanzano et al., 1993). In terms of our individual personal life, there has been a research that the researcher came across in marriage and family therapy which suggested a direct link between PA and NA to commitment. In a study on the long term effects of parental divorce on parent-child relationships, Orbuch, Thornton and Cancio (2000) found that children who have developed a positive emotional state during their parents' marriage would be more able to cope with the effects of their parents' divorce and more committed to the parent-child relationship after the divorce than children who were negative in emotions. Children who demonstrated a positive emotional state were also believed to be more able to commit to the formation of a new step family upon their parents' remarriage compared to those children who have entered the step family formation process with a negative emotional state.

In terms of work life, Cropanzano et al. (1993) proposed that besides job satisfaction, affectivity may also impact numerous other job attitudes and work outcomes such as organizational commitment and turnover intentions. In the case of organizational commitment, Cropanzano et al. (1993) argued that since one of the components of organizational commitment is affective commitment, which is an individual's emotional attachment to the organization, PA and NA should also have an impact on commitment since PA and NA also relate to the frequency and intensity of an individual's emotions. As a person's emotion is affected by the degree of PA and NA in him or her, Cropanzano et al. (1993) argued that individuals who are high on positive emotions should have higher organizational commitment while those who are high on negative emotion should show lower organizational commitment.

In a study on managerial responses to organizational change, Judge, Thoresen, Pucik, and Welbourne (1999) found that among others, individual difference variables such as positive affectivity were indeed important in influencing employees' work attitudes such as organizational commitment and satisfaction. This is further supported by Cropanzano et al. (1993) who conducted a study involving one hundred female nurses in a medium sized (225-beds) hospital located in South Eastern United States. From the study, the authors found that both PA and NA were significantly associated with organizational commitment, and as predicted, nurses