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COLLEGE OF BUSINESS

ASSESSMENT AND IMPLICATIONS OF CONSUMER REACTIONS

TO SERVICE MERGERS

By

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I dedicate this dissertation:

To my parents for their constant love and support;

To Tim Dawsey for his guidance and encouragement;

To Angela Pounds for her unfailing enthusiasm.

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ABSTRACT

Service mergers are a common phenomenon in the business world despite statistics showing the high failure rates of mergers. One reason for the extreme failure rates is a lack of focus on the consumer before and after the merger. Managers either do not understand how consumers react to mergers or they do not know how to mitigate negative reactions to mergers. This dissertation seeks to address these important issues by answering two research questions. First, how does pre-merger brand valence influence post-merger brand assessments? Second, how do consumers perceive a service failure of a merged company based on their expectations of the merged firm?

Three independent studies were developed to provide answers to these research questions. Study one included a highly controlled experiment design that showed consumers are most adverse to mergers involving a negative brand. Study two featured a theoretical model that explains the consumer's post-merger brand assessments based on their psychological reactions to mergers involving their own brand. Results suggest consumer's perceived risk following a merger influences subsequent emotional reactions that shape the consumer's final attitude toward the merged brand. Study three considered the consumer's first service failure interaction with the merged firm. Results suggest service failures by a merged firm are more likely to lead the customer to switch to a competitor than the same failure by a firm not involved in a merger.

Overall, these three studies enhance the existing literature by providing a foundation for understanding how consumers react to service mergers. Future studies can build upon the findings in this research. In addition, the results of the three studies offer several managerial implications. Potential future studies, limitations, and managerial implications are discussed in the final chapter.

CHAPTER ONE

INTRODUCTION

Warren Buffett, the world-renowned business leader, is well known for saying “while deals often fail in practice, they never fail in projections” (O’Loughlin 2004, p.106). This introductory quote reflects the nature of mergers and acquisitions in today’s business world. Mergers and acquisitions “M&A” have become increasingly popular as a worldwide strategic business alternative with the number of deals in 2007 (42,364) exceeding the number of deals made in 2006 (38,602) (Karnitschnig 2008). Moreover, global M&A activity in 2007 totaled approximately \$4.5 trillion (Karnitschnig 2008) with the United States contributing \$1.57 trillion in deals (Hall 2007). Merger deals are especially prevalent in the services sector with several major service mergers occurring in the past decade as reported in Table 1. Table 1 includes major mergers deals involving service firms in the United States alone during the years from 2000 to 2007. In addition, the approximate monetary value of each deal is included in the table.

Table 1. Major United States Service Mergers 2000 – 2007

*Merging Companies	Year	Deal Price
TXU Corp. and KKR	2007	\$31 Billion
Alltel and TPG	2007	\$25 Billion
Bank of America and LaSalle	2007	\$21 Billion
Blackstone and Hilton Hotels	2007	\$20 Billion
Google and DoubleClick	2007	\$3.1 Billion
AT&T and Bellsouth	2006	\$67 Billion
Verizon and MCI	2006	\$8.5 Billion
Google and Youtube	2006	\$1.65 Billion
Sprint and Nextel	2005	\$36 Billion
SBC and AT&T	2005	\$16.9 Billion
J.P Morgan Chase and Bank	2004	\$58 Billion
Cingular and AT&T Wireless	2004	\$47 Billion
Bank of America and	2003	\$47 Billion
America Online and Time	2000	\$163 Billion

* Sources (accessed January 29, 2008):

<http://www.manda-institute.org/>; <http://www.att.com/>;

<http://www.news.com/>; <http://www.google.com/>;

<http://money.cnn.com/>; <http://siue.com/>

Managers of service firms continue to pursue the merger strategy despite the overwhelming evidence that many M&A activities are unsuccessful. In fact, less than one quarter of mergers and acquisitions achieve their financial objectives, as measured in ways including shareholder value, ROI, and post-combination profitability (Marks and Mirvis 2001). As such, depending on whether merger success is defined by shareholder value, customer satisfaction, or some other measure, most research places the merger failure rate somewhere between 50 and 70% (Fost 2004). The most commonly cited causes for acquisition failure are people and organizational problems (Mergers and Acquisitions 1987). For example, post-acquisition organizational issues such as management integration and employee training are often overlooked. These particular issues are especially critical for a service firm following a merger because these types of oversights can quickly lead to service failures that adversely affect both the consumer and ultimately the firm (e.g., customer complaints, customer defection, negative word of mouth, etc.).

Despite the historical outcomes of M&A, this particular business strategy continues to grace the headlines of business news. For example, the latest merger news exhibits the potential partnering of two archrival satellite radio services, XM and Sirius (McBride, Berman, and Schatz 2007). Similarly, the public is constantly reminded of the recent merger of AT&T, Bellsouth, and Cingular under the “new” AT&T family name via numerous advertising communications. The aforementioned service mergers illustrate just two of the most recent M&A examples, but there is definitely a current trend in M&A, especially among service oriented firms. Moreover, the past decade exhibits considerable merger activity among well-known companies both nationally and internationally.

In an effort to understand this popular corporate strategy, it is necessary to understand the basic terminology associated with M&A. The phrase “mergers and acquisitions” refers to the aspect of corporate strategy, corporate finance, and management dealing with the buying, selling and merging of different companies. Whether a purchase is considered a merger or an acquisition depends on whether the purchase is friendly or hostile and on how it is announced. However, the terms are often used interchangeably in research. In practice, one firm tends to be more powerful than the other is and gradually assumes control of the consolidated organization (Weston, Chung, and Siu 1998). Given the inconsistencies in the literature, the present research utilizes the term “merger” to eliminate possible confusion.

In broad terms, mergers can be classified as related, unrelated, vertical, or horizontal. First, related mergers are combinations of firms that sell the same or similar products, serve similar markets, or are vertically linked (Blackburn, Lang and Johnson 1990; Chatterjee 1986). An example of a related merger is the 1979 merger of the Pillsbury Company and the Green Giant Company. Alternatively, unrelated mergers such as the 1976 Riviana Foods Incorporated and Colgate Palmolive Company do not exhibit these connections and are often called pure conglomerate mergers (Flanagan 1996). Second, a vertical merger links firms operating in different stages of the production process for some final product (Rappaport 1987). For example, if a soft-drink company merges with a sugar production company, this pairing would be considered a vertical merger. Moreover, the merger between Time Warner Incorporated, a major cable operation, and the Turner Corporation, which produces CNN, TBS, and other programming (<http://www.learnmergers.com/mergers-vertical.shtml>; accessed January 29, 2008) is considered a vertical merger. In contrast, a horizontal merger involves companies operating in the same industry (Krishnan and Park 2002). Oftentimes, horizontal mergers include direct competitors (e.g., Sprint and Nextel). During the past decade, an increasing number of service firms have undertaken a horizontal merger as evidenced in Table 1. Given the prevalence of such occurrences, the context of the present research is limited to horizontal service mergers. Moreover, horizontal mergers between two service firms are likely to have a bigger impact on the consumer than a vertical merger because consumers can directly experience the outcomes of the merger. Thus, understanding consumer reactions is more critical for the success of a horizontal merger than for a vertical merger.

It is important to understand the motivation behind mergers. The continuing popularity of mergers and acquisitions is probably a reflection of the widespread belief among managers that mergers prove to be a quick and seemingly easy route to achieving growth and diversification objectives (Datta 1993). Resource-based theory is often used to explain why mergers occur (e.g., Anand and Singh 1997; Homburg and Bucerius 2005; Karim and Mitchell 2000). This theory implies consolidating the activities of two firms may spur the development and deployment of resources that will enable the firm to develop a sustainable competitive advantage. Walter and Barney (1990) identify several motives for mergers including: 1) economies of scale and scope; 2) interdependence; 3) expansion of product lines or markets; 4) entrance into new businesses; and 5) maximization and utilization of financial capabilities. As

a result, merging firms can reduce unit costs in production, inventory holding, marketing, advertising, and distribution by integrating similar departments and functions (Howell 1970; Rappaport 1987). Additionally, merging is regarded as a means to capture new market resources such as brands and/or sales forces (Capron and Hulland 1999).

Mergers and Consumers

There is growing recognition that “all value creation takes place after the acquisition” (Haspeslagh and Jemison 1991, p. 129). Thus, the topic of post-merger integration has received increasing attention. Often during the merger process, managers become overly focused on elements such as ongoing negotiations, legal and regulatory issues, and financial details and overlook the concerns and perceptions of important stakeholder groups such as consumers (Balmer and Dinnie 1999; Kumar and Blomqvist 2004). As a result of this oversight, consumers may experience uncertainties about their future relationship with the merging firm and eventually switch to a competitor. Therefore, it is vital to understand the effects of mergers on the consumer. However, the marketing literature contains little research focused on the concept of mergers and the consumer. In fact, merger related research is almost totally absent (Homburg and Bucerius 2005) with the exception of a few notable endeavors.

These exceptions include Capron and Hulland’s (1999) study that finds the redeployment of marketing resources can have a significant positive effect on firm performance after the merger. Following the lead of Capron and Hulland (1999), Homburg and Bucerius’ (2005) effort provides support for the notion that post-merger integration related to marketing is highly relevant for merger performance. For example, they find that for market-related aspects of merger performance, speed of marketing integration is beneficial because it can limit customer uncertainty. Despite the significance of these studies, they do not focus exclusively on the consumer. However, Jaju, Joiner, and Reddy’s (2006) recent contribution to the topic area examines how consumers react to different corporate branding alternatives following a merger between two firms. Specifically, their study indicates brand equity related to corporate brands often decreases as a result of merger activities. Interestingly, these results suggest mergers lead to a decrease in brand equity for the merged brands regardless of the redeployment strategy used (Jaju et al. 2006). Moreover, this intriguing finding implies that people react adversely to mergers in general, but does not address “why” mergers cause a decrease in the consumer’s perception of brand equity.

Given that previous research does not attempt to explain why brand equity decreases in the wake of a merger, the present research attempts to fill this striking void. The focus of the current research is on service mergers. To the author's knowledge, this is a first attempt to specifically gauge the consumer's initial reaction to a service merger and ascertain the driving force behind the response. For example, negative consumer reactions could be initially driven by the mere expectation of decreases in service quality and/or delays in service commonly associated with newly merged firms. Furthermore, customers of a merging firm may experience several emotions (e.g., discontent, anger, hope, happiness, etc.) that could influence the consumer's reaction to the merger. If a firm fails to deliver service on par with its prior service performance following a merger, the customer is likely to be dissatisfied. The consumer may attribute his or her dissatisfaction directly to the merger.

Jaju et al. (2006) point out that judgments about a newly merged company may reflect consumers' prior attitudes toward each of the firms (Simonin and Ruth 1998; Washburn, Till, and Priluck 2004), the extent to which they see the corporate brands as fitting (Simonin and Ruth 1998) or similar (Thozhur, Heitmann, and Lehmann 2007), or even idiosyncratic perceptions of the merger itself (e.g., negative images of the "big conglomerate engulfing the helpless independent"). Along these lines, consumers may be aware of problems commonly associated with mergers. Most recently, Thozhur, Heitmann, and Lehmann (2007) find support for the role of customer loyalty in consumer reactions to mergers. Specifically, they find that loyal customers are disenchanted with the idea of their preferred brand being merged with another brand.

Mergers are reshaping the business landscape while affecting numerous employees, changing the fortunes of shareholders, and ultimately, touching the wallets of millions of more consumers in often unforeseen ways (Fost 2004). Firms often attempt to squeeze out cost efficiencies while alienating their customers (Morrall 1996). As previously mentioned, consolidating similar businesses can provide economies of scale. However, integration problems can diminish the scope for realizing such synergies (Jemison and Sitkin 1986; Seth 1990). Integration problems can have an adverse impact on the employees of the merging firms. For example, the period following a merger is typically characterized by employee uncertainty, low levels of morale, lower productivity, and a lack of direction by company management (Clemente and Greenspan 1997). This employee uncertainty and confusion can inadvertently be relayed to

the consumer with negative consequences for the newly merged firm. For example, Morrall (1996) asserts that insufficient emphasis on customers and their perceptions may cause them to switch away from the newly merged company. In fact, higher fees and less attentive service are among customer's chief concerns following an announcement of a planned merger (Noe 1996). Oftentimes, customers either are not informed of the deal promptly, or the information they are given fails to allay their fears over potential service disruptions that may impact operations during the integration period (Clemente and Greenspan 1997).

Given the numerous mergers of service related companies as evidenced in Table 1, the present study concentrates on mergers in the services sector. In general, services are characterized by a high level of uncertainty among customers (Zeithaml 1981) which could be problematic for the firm. Thus, limiting customer uncertainty is particularly relevant in service industries (Murray 1991). Avoiding customer uncertainty is especially critical following a merger of two service firms. As previously mentioned, during the integration phase, managerial energy is often absorbed by internal issues, which can lead managers to neglect customer-related tasks (Hitt, Hoskisson, and Ireland 1990). A decline in service quality often accompanies this strong internal orientation (Urban and Pratt 2000). On the part of the customers, this decline can result in uncertainties about their future relationship with the merging firms (e.g., prices, quality of products and services, contact persons). In fact, Bekier and Shelton (2002) verify that there is considerable risk of losing customers during a merger. Furthermore, uncertainty about the merged firm provides a perfect opportunity for competitors to try to promote customer switching (Clemente and Greenspan 1997). This is unfortunate for the merging firm(s) given the common knowledge that retaining customers is much less cost intensive than is attracting new customers (e.g., Anderson, Fornell, and Rust 1997).

A rich and related area of research that should be mentioned in this regard is the brand alliance literature. A brand alliance includes all circumstances in which two or more brand names are presented jointly to the consumer (Rao, Qu, and Ruekert 1999). Specifically, brand alliances involve the short- or long-term association or combination of two or more individual brands, products, and/or other distinctive proprietary assets (Rao and Ruckert 1994). These brands or products can be represented physically (e.g., bundled package of two or more brands) or symbolically (e.g., an advertisement) by the association of brand names, logos, or other proprietary assets of the brand (Simonin and Ruth 1998). These combined efforts can take a

variety of forms. For example, Gammoh, Voss, and Chakraborty (2006) point out that brand alliances can be represented by using multiple brands on the same product (e.g., IBM and Intel) or by the association of brand names, logos, or other proprietary assets of the brand in promotions, such as that for Frito-Lay chips and KC Masterpiece barbecue sauce (Rao and Ruekert 1994). Based on the above discussion of the brand alliance literature, a typology of brand alliances is developed and presented in Figure 1. The typology incorporates mergers, which also involve the pairing of two brands in an effort to provide value for consumers.

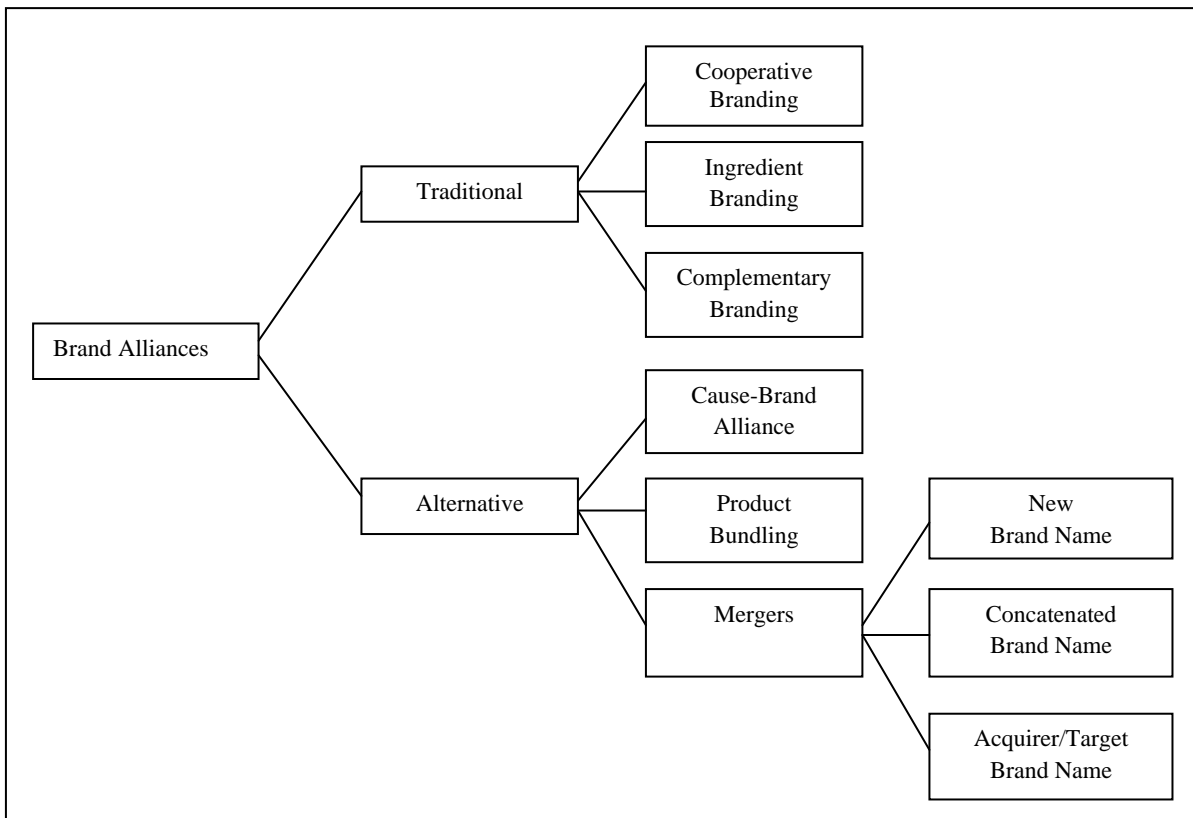


Figure 1. Typology of Brand Alliances

The alliance of brands reflects a strategy to transfer the positive brand equity of two or more partner brands to the newly created joint brand (Washburn, Till, and Priluck 2004). Moreover, brand specific associations from each partner provide “affective information” from

one partner to the other (Broniarczyk and Alba 1994). Thus, brands that bring favorable associations to the partnership should help to build a stronger alliance (Simonin and Ruth 1998). In fact, Washburn et al. (2004) find that the mere act of pairing brands with one another increases consumers' positive perceptions about their brand equity. This is in contrast to findings in a merger context whereby brand equity decreases upon the coupling of two seemingly positive brands (Jaju et al. 2006). The results of their study confirm the proposition that the redeployment of corporate brands differs from product brand redeployments (brand alliances) in the sense that corporate brands lose value in terms of an individual-level brand equity measure, subsequent to merger activities, when compared with the starting point of the acquiring brand (Jaju et al. 2006). Although brand alliances and mergers are similar in nature, consumer responses to the two strategies appear to be different. Overall, consumers generally respond positively to the alliance of two brands whereas mergers do not elicit the same positive response from consumers based on the results of the aforementioned research endeavors.

Statement of the Research Problem

Mergers are common, high-profile, high-stakes corporate strategic actions with widespread effects on a multitude of stakeholders including employees and consumers. Mergers have been extensively researched in fields such as management and economics. However, there is a severe lack of marketing research in the area. The deficient attention given to marketing issues in the context of mergers is in sharp contrast with many statements that highlight the importance of marketing-related issues for merger performance (Becker and Flamer 1997; Clemente and Greenspan 1997).

Anecdotal evidence reflects the negative impact service mergers can have on consumers. Thus, there is a need to understand how and why consumers react to service mergers in order to remedy any possible negativity associated with them. It is important to understand "how" consumers react to mergers (unfavorable brand impressions, complaints, defection, etc.). It is also important to understand "why" consumers have these reactions (risk perceptions, emotions, etc.). Given the practical and theoretical importance of such knowledge, the current study seeks to explore consumer reactions to service mergers in an attempt to fill a striking gap in the literature.

Purpose of the Research

In general, the purpose of this research is to examine consumer reactions to service

mergers via three separate studies. Specifically, the first study seeks to answer the following research question. Does pre-merger brand attitude valence affect post-merger brand attitudes? In other words, does pre-merger brand valence (positive or negative) influence the consumer's perceptions of the merged brand following the merger? To answer this question, a carefully controlled experiment manipulating brand valence is conducted via a survey. In essence, the first goal is to determine how (positively or negatively) consumers react to mergers. In an effort to maintain experimental control in the first study, fictitious brand names are used in the study to control for prior experience.

In order to ascertain what drives consumer reactions to mergers, several measures are included in the study. The dependent variables included in the first study are brand attitude, service quality expectations, risk, regret, and various emotions (e.g., anger, worry, optimism). Each of these dependent variables is hypothesized to affect the consumer's perception of the merged service brand. The results of study one are incorporated into the second study.

Study two seeks to clarify the results of the first study while increasing external validity. The second study strives to understand the psychological links between prior brand attitudes and attitude toward a merged brand. Overall, the goal is to understand why consumers have positive or negative reactions to mergers. In an effort to increase external validity, real service brands are utilized in the study. The overall goal of the second study is to determine consumer expectations for the merged company similar to study one. The dependent variables utilized in the first study are also used in the second study.

The goal of study three is to determine how the aforementioned merger expectations shape perceptions of performance following a merger. Moreover, the third study explores mergers in the context of service failures. Specifically, a scenario-based experimental design is developed based on the consumer's first service failure interaction with the merged firm. The dependent variables measured include switching intent, negative word of mouth, and complaining behavior. The third study also includes potential covariates such as loyalty and merger familiarity.

Contribution of the Research

The current research strives to contribute to the field of marketing both theoretically and managerially.

Theoretical Implications

This research will be an in-depth attempt to understand consumer reactions to service mergers. From a theoretical perspective, the three studies incorporate various theories to explain the consumer's initial response to mergers and the subsequent response to service failures of the newly merged company. By exploring the role of prior brand attitudes and emotional consumer reactions, the research attempts to extend the understanding of consumer reactions to service mergers. In addition, balance theory is utilized to shed further light on consumer reactions to service mergers. Per Figure 1, the merger phenomenon is integrated into the brand alliance literature with a focus on the consistencies and contradictions with the present brand alliance theory. In addition, this effort is the first to focus specifically on mergers in a services context.

Managerial Implications

In today's constantly changing business landscape consumers are likely to experience a service merger at some point in time. However, this merger phenomenon and how it relates to the consumer is not well understood. From a managerial standpoint, this study has numerous implications. The knowledge gained from this study could assist marketing managers in successful post-merger integration. Successful marketing activities could have a positive impact on merger performance, which is vital given the aforementioned merger failure rates. Given the staggering failure rates of mergers and the consumers' role in these failures, it is imperative that marketers understand consumer reactions to service mergers. This knowledge allows the marketing manager to develop strategies to counteract the negative effects of mergers in the mind of the consumer. For example, consumers may perceive their relationship with a service provider as risky if a merger occurs (e.g., billing errors). If risk is indeed a concern, managers can use this as a focal point in developing a marketing campaign that centers on alleviating risk concerns. Given the transition period following a merger may be difficult for even the best planned merger, one alternative is to implement and promote a program that offers a tangible consolation (e.g., price discount) if an error occurs. Efforts such as these could alleviate consumer risk perceptions and decrease defection to the competitor after a merger occurs.

Organization of the Research

Chapter one provides an overview of the current study and emphasizes the need for marketing research in this particular area. Chapter two focuses on the theoretical and conceptual foundations of study one. It includes an extensive review of the relevant literature. Several

theories supporting the phenomenon under investigation are explored including brand equity and balance theory. In addition, a discussion of the key constructs considered in the first study is included in the second chapter along with the hypotheses that are tested. Chapter two outlines the execution of study one including a discussion of the procedures and research methods utilized. In addition, chapter two includes the analysis and discussion of study one. Similarly, chapter three establishes study two with a review of the literature providing the foundation for the hypotheses of the second study. Chapter three also includes the analyses, results, and discussion of study two. Chapter four presents the foundation and development of the third study. In addition, the analyses, results, and discussion for study three are also included in the fourth chapter. Chapter five presents a summary of the findings from the three studies along with the overall conclusions. In addition, chapter five indicates the limitations of the research along with specific managerial and theoretical implications. Moreover, future research avenues based on the results of the current effort are proposed in the final chapter.

CHAPTER TWO

STUDY ONE

Overview

Chapter two begins with an examination of mergers from a marketing perspective. The marketing focus on the merger phenomenon is relatively limited in the academic literature. However, the existing marketing studies do provide a notable baseline from which to develop the present study and to incorporate relevant theories. Thus, the first section focuses on highlighting the foundation of the current study with respect to existing empirical studies of mergers in the marketing literature.

The second section provides an overview of the theory upon which the first study is founded. The theoretical basis of study one is built upon three applicable theories. First, *brand equity* is presented to develop the foundation of the first study. Second, *balance theory* is the dominant theoretical perspective utilized to develop hypotheses concerning consumer reactions to mergers in general. Third, the *elaboration likelihood model (ELM)* is incorporated to further understand consumer reactions to service mergers. Both balance and ELM theories are used to construct the hypotheses for study one, which are tested by a controlled experiment.

The third section explores and conceptualizes several important dependent variables included in study one based on the aforementioned theories. Specifically, this section establishes the hypotheses associated with the first study in which initial consumer reactions to service mergers are assessed. The variables introduced in this section are also viable candidates for use in the subsequent study, which seeks to extend the results of the first study by testing a model of the psychological and emotional reactions consumers have toward mergers.

Empirical Marketing Studies on Mergers

Empirical research investigating mergers in the marketing literature is relatively limited, with a focus on service mergers being totally absent in the literature. However, given the prevalence of the service merger phenomenon in the business world and the relevance of marketing to the success of mergers, there is a need for further examination of service mergers from a consumer perspective. The following section takes a more extensive look at the current marketing literature that specifically focuses on mergers. Moreover, this section centers on a particular empirical study that includes analyses about mergers from the consumers' point of

view. This recent empirical contribution provides a foundation and springboard for the current study.

As mentioned in the introduction, Jaju, Joiner, and Reddy (2006) were among the first authors to attempt to assess consumer reactions to mergers. Specifically, their research considered consumer evaluations of corporate brand redeployments. The study employed a 2 x 2 x 2 x 2 experimental design that manipulated attitude toward the corporate brands (similar versus dissimilar), perceived fit (high versus low fit between the merging firms), whether both brand names were maintained and concatenated subsequent to the merger (dominant versus synergistic redeployment strategy), and which brand dominated the new name (acquirer-dominant versus target-dominant strategy). The results of the experiment yielded several interesting insights. For example, the authors find that acquirer-dominant and target-dominant strategies consistently outperformed the strategies that maintained both corporate brand names after the merger. In other words, strategies that maintain the brand names of both merging brands (e.g., Sprint-Nextel) are not as effective as those utilizing a single brand name (e.g., AT&T) following a merger. Thus, the chosen brand redeployment strategy is important to consider as some strategies outperform others. However, the most interesting finding of the study is that all mergers considered led to a decrease in brand equity, regardless of the specific redeployment strategy used. This particular finding contradicts the related brand alliance literature whereby partnering brands are often seen more positively following an alliance (Washburn et al. 2004). Although this finding is intriguing, Jaju et al. (2006) stopped short of examining “why” the decrease in brand equity occurred. This particular finding that brand equity tends to decrease following a merger regardless of branding strategy implemented is the impetus for the current study. It is important to understand “why” brand equity declines for two merging brands. Study one examines “why” brand equity declines following a service merger by examining pre-merger brand valence in the context of balance theory. This knowledge gives the marketing manager tools to defend against negative consumer reactions to mergers. Moreover, with this understanding, marketing strategies can be better adapted to counteract any negative fallout associated with a service merger in the mind of the consumer.

Summary

This section provides an additional glimpse of the existing marketing literature on the topic of mergers from the consumer perspective. Several theories are considered in the

following section including brand equity, balance theory, and ELM theory. These particular theories provide a foundation for understanding “how” consumers react (positively or negatively) to mergers and the changes that occur in the firms involved in the merger. In addition, several variables are discussed that could explain “why” consumers exhibit certain reactions (negative or positive) to mergers.

Study One Overview

This section concentrates on developing a theoretical basis for the present study. The theoretical foundations of the current research draw on brand equity, balance theory, and ELM to further understanding of consumer reactions to mergers. Study one relies on brand equity, balance theory, and ELM to justify the proposed hypotheses. In addition, relevant empirical investigations in the realm of the aforementioned theories are integrated in this section to provide further support for the development of the proposed hypotheses.

Brand Equity

This study draws on the consistently growing stream of branding literature. A brand is commonly defined as “a name, term, sign, symbol, or design, or combination of them which is intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors” (Kotler 1991, p. 442). The concept of brand equity has become a major focus in the marketing literature in recent years (Keller 1993; Kumar and Blomqvist 2004; Park and Srinivasan 1994). Brand equity is generally referred to as the value a brand name adds to a product (e.g., Farquhar 1989). More specifically, Keller (1993) defines customer-based brand equity as the differential effect of brand knowledge on consumer response to the marketing of the brand. In simpler terms, Ambler (2000) suggests brand equity is “what we carry around in our heads about the brand.” Positive brand equity is the marketing advantage that accrues to a company from the synergy of brand awareness and brand meaning (Berry 2000). Moreover, Aaker (1991) proposes brand equity creates value for the firm and the customer. For example, brand equity increases the probability of brand choice, marketing communication effectiveness, and willingness to pay price premiums (Faircloth, Capella, and Alford 2001; Keller 1993). EquiTrend’s study of the impact of a company’s brand equity over time on its return on investment (ROI) found that firms experiencing the largest gains in brand equity saw their ROI average 30 percent (Kumar and Blomqvist 2004). In addition, firms with the largest declines in brand equity saw their ROI average a negative 10 percent.

Consumers decide with their purchases, based on whatever factors they deem important, which brands have more equity than other brands (Hoeffler and Lane 2003). Positive brand equity occurs when the consumer is familiar with the brand and holds some favorable, strong, and unique brand associations in memory (Keller 1993). Similarly, it is suggested a brand is thought to have positive equity to the extent that consumers respond more favorably to marketing activities when the brand is identified, compared to when it is not (Hoeffler and Lane 2003).

Building brand equity requires creating a familiar brand name and a positive brand image (Keller 1993). Brand image is defined in the literature as consumers' perception of a brand as reflected by the brand associations held in consumer memory (Keller 1993). Developing and managing a brand image is an important part of a firm's marketing program (Roth 1992). Moreover, the image associated with brands can influence, among other things, perceptions about quality, value, or price.

Brands can signal quality by virtue of their correlation with quality, but brands do not "cause" quality (Van Osselaer and Alba 2000). This notion alludes to the fragility of brands in general. Brand equity is fragile because it is founded in consumers' beliefs and can be prone to large and sudden shifts outside of management's control because of consumers' exposure to new information, among other factors (Dawar and Pillutla 2000). In the wake of a merger, a brand's positive equity is in jeopardy if managers do not diligently focus on preserving and transferring the positive equity to the newly merged brand. Specifically, negative brand attitudes and poor service quality can lead to the detriment of a brand's image and overall brand equity. The news of a merger could affect a consumer in several ways. For example, consumer attitudes toward a brand are likely to change as the original brand merges with another brand. In addition, the consumer's expectations of service quality of a particular firm are likely to change as a result of a merger with another firm.

Balance Theory

Balance theory addresses situations where an individual evaluates the pairing of two separate elements. Balance theory is credited to Heider (1958) and has been the basis for the development of a number of theories that have had a substantial impact on marketing research. For example, the theory of cognitive dissonance (Festinger 1962) and the theory of congruity (Osgood and Tannenbaum 1955; Tannenbaum 1967) are both grounded in balance theory. In

addition, Solomon (1999, pp. 217-218) argues that balance theory is applicable to understanding consumer behavior and designing effective marketing strategies.

According to Heider's balance theory, a system of triadic relationships between two persons and an object or person can be either balanced or unbalanced. Balance may be ascertained by multiplying all of the signs in a triad of relationships (Cartwright and Harary 1956). A positive result indicates balance. By a balanced state Heider refers to a state in which everything fits together "harmoniously" without stress. Moreover, a relationship system is balanced if two people have the same attitude toward the object or person. Figure 2a indicates that person A likes person B and person C, and person C likes person B. Thus, Figure 2a provides an illustration of a balanced relationship because multiplying the three signs (positive x positive x positive) leads to a positive relationship.

On the other hand, a relationship system is unbalanced if two people involved in a relationship with each other differ in their attitudes toward the object or person (e.g., A likes the object, but B dislikes it). A relationship system that is unbalanced will cause systematic tension such that, if the system is to persist, it must move toward a balanced state. In Figure 2b, person A likes person C but does not like person B. However, person C does like person B. Therefore, Figure 2b illustrates an unbalanced relationship because multiplying the three signs (negative x positive x positive) results in a negative. This unbalanced situation results in cognitive tension that ultimately leads to activities to balance the system. For example, either the dynamic characters will change, or the unit relations will be changed through action or through cognitive reorganization. If a change is not possible, the state of imbalance will continue to produce tension (Heider 1946, 107-109).

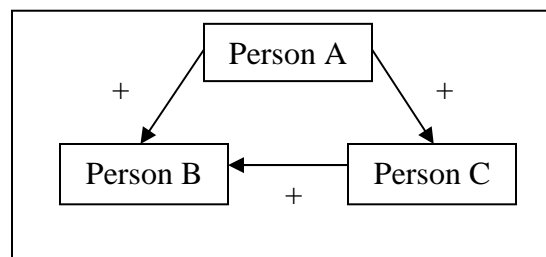


Figure 2a. Balanced Relationship

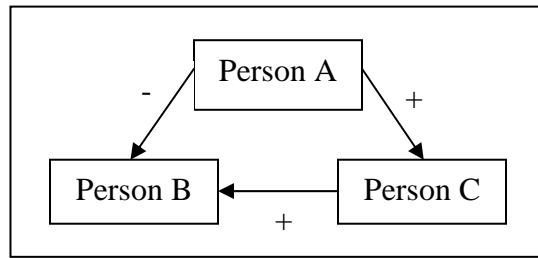


Figure 2b. Unbalanced Relationship

In addition to triads among people, balance triads may contain relations between entities. Relationships between people are referred to as sentiments, whereas relationships between entities are referred to as unit relationships (Heider 1958). A sentiment relation is an attitudinal relation that implies liking, admiring, approving, loving, and so forth. Unit relations result in a perceived unity of the person or persons and events. Thus, the relationship between two merging service firms can be considered a unit relationship that is balanced or unbalanced as pictured in Figures 3a and 3b. These triads involve an individual's brand attitude toward two different service firms and the relationship (merger) between the two firms. In Figure 3a the consumer does not like either of the merging brands. However, these two negative attitudes are similar which makes the attitude toward the merged brand balanced. This balanced relationship may lead to more positive attitudes toward the merged brand despite the fact that the individual's attitudes toward the merging brands are negative.

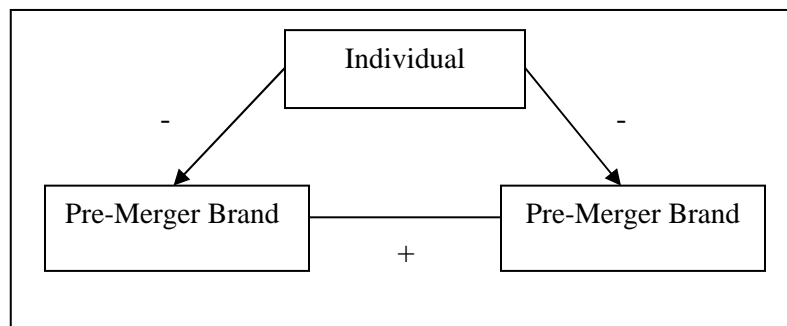


Figure 3a. Balanced Merger Relationship

In Figure 3b, the consumer only likes one of the merging brands making the merger relationship unbalanced.

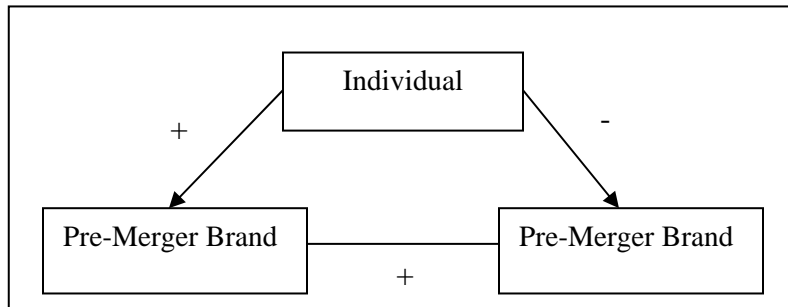


Figure 3b. Unbalanced Merger Relationship

Heider suggests that when people are confronted by multiple pieces (elements) of information, a predilection exists toward processing the items as a cognitively consistent unit rather than as individual cognitive elements. A set of information that possesses balance (i.e., cognitive consistency) is hypothesized to be more pleasant, consistent, stable, expected, and harmonious than a set of information that is not balanced. Thus, two positive attitudes should lead to a balanced state that is pleasant. Likewise, two negative attitudes should also lead to a balanced state. Although two negative attitudes represent balance, the situation may not be deemed pleasant. For example, K-Mart and Sears represent two brands that experienced declines in brand equity before the 2004 merger. Anecdotal evidence suggests that consumers generally had a negative brand attitude towards both brands. This scenario exhibits a so-called “balanced” state for the merged firm, but it does not imply that consumers were thrilled with the pairing of these two negative brands. Thus, the merger of two service firms with negative brand attitudes is considered consistent and balanced, but not necessarily pleasant to the consumer.

The importance of the specific issue at hand can also influence the triad relationships. Rodrigues’s (1965) study incorporates issue importance. Specifically, this study asks subjects which of a number of issues they favored, which they disfavored, which they considered important, and which they considered unimportant. Tension ratings of triads indicated that the

initial likeability of the issues was not nearly as important a factor in subjects' judgments of the triads as was the rated importance of the issues. More tension was reported for unbalanced relative to balanced triads when the issue was important, but not nearly so much when the issue was unimportant. This notion is especially important for the present study because consumers are likely to consider a merger involving their current telecommunications service provider an important issue, especially if they perceive potential problems as a result of the service merger.

As previously noted, balance theory has been applied in several disciplines including marketing. Most recently, Basil and Herr (2006) examine the effects of pre-existing organizational attitudes on consumer response to cause-related marketing (CRM) alliances using a balance theory framework. Consistent with balance theory, their experiments demonstrate that balanced attitudes (both positive attitudes or both negative attitudes) result in perceptions of appropriateness, but did not necessarily lead to positive affect. Moreover, they find that pre-existing firm and charity attitudes interact to determine attitude toward the CRM alliance. Two distinct effects occur. First, positive pre-existing attitudes synergistically enhance attitude toward the alliance. This effect is magnified when both attitudes are positive, suggesting a "balance boost." Attitude toward the CRM alliance becomes multiplicatively more positive when both pre-existing attitudes are positive. A synergy is obtained by "having everything right." A contamination effect also occurs, as a result of "having anything wrong." If either the firm or the charity attitude is negative, attitude toward the alliance deteriorates. In other words, everything must be right to obtain multiplicative attitudinal benefit; if anything is wrong, an attitudinal penalty occurs.

Elaboration Likelihood Model

Although balance theory underlies the first study, the elaboration likelihood model is also relevant. Petty and Cacioppo (1981) formulated the elaboration likelihood model (ELM) to understand how individuals process persuasive appeals. The degree of elaboration likelihood represents the extent to which people carefully evaluate the argument. ELM postulates a continuum of theoretical persuasion processes grounded by its central and peripheral persuasion routes. When elaboration likelihood is high, the central route to persuasion should be particularly effective, but when elaboration likelihood is low, the peripheral route should be better.

Under the central route, an individual thoughtfully evaluates the content of incoming messages. If a message contains strong arguments rather than questionable arguments then an individual's attitudes toward the communicated topic will change favorably (O'Keefe 1990). Positive attitude changes occurring under the central route result from factors called "central cues." For example, a central cue may emphasize the superiority of the product (Petty, Cacioppo, and Schumann 1983) or indicate how the product is better than the competitors' product (Lord, Lee and Sauer 1995). Overall, Petty and Cacioppo (1981) assert the central route views attitude change as resulting from a person's diligent consideration of information that he feels is central to the true merits of a particular attitudinal position. Consequently, attitude changes induced via the central route are postulated to be relatively enduring and predictive of behavior.

Alternatively, the peripheral route suggests a simple background cue in the persuasive context (e.g., music, scenery, source characteristics, the number of message arguments, etc.) induces attitude change without producing much thought about the costs or benefits of adopting the recommended position (Petty and Cacioppo 1981). Individuals limit their cognitive effort under the peripheral route. Therefore, these individuals judge the message claim according to simple heuristic cues in the persuasion context without diligent consideration (Petty and Cacioppo 1981). Since these attitude changes depend on the situation they are not expected to last and may not be as predictive of behavior.

Heuristics may be in the form of actions or strategies selected by the firm, such as offering a particular level of warranty (Boulding and Kirmani 1993). Similarly, an unknown brand might signal high quality by selling through a reputable retailer (Chu and Chu 1994) or expending extreme amounts of advertising dollars (Kirmani 1990, 1997). Brand alliances are yet another heuristic/signaling mechanism. Rao and Ruekert (1994) suggest brand alliances can serve two purposes for a brand that needs a quality-perception boost. When the unobservable quality of a product is suspect (i.e., the product is an experience product), a brand alliance can provide reassurance about the true quality of the product. Alternatively, a brand alliance can convey information about the enhancement of the attributes available in a product, even when product quality is unobservable (i.e., the product is a search product). The alliance of two brands represents an investment by the firms involved. Brand investments are resources that firms spend on brands to (1) assure consumers that brand promises will be kept and (2) demonstrate

long-term commitment to brands (Klein and Leffler 1981). An investment can be thought of as a “bond” that the brand offers; the higher the bond (i.e., the greater the dollar amount spent on building a reputation), the more credible the signal (Ippolito 1990). In fact, the credibility of a brand has been shown to be greater for brands with greater brand investments and greater marketing-mix consistency over time (Erdem and Swait 1998). Similar to the marketing of brand alliances, companies attempt to persuade consumers that mergers are positive occurrences. For example, when a merger occurs, a merger announcement appears in the news media. The announcement of a merger often cites general, yet positive aspects of the merger while communicating to the consumer the deal is ultimately a great thing.

The brand name change is another type of heuristic. Firms have been known to change their names for various reasons including a merger. For example, Cingular recently changed its brand name to the AT&T brand name. One motive for a firm to change its name is to convey information to the market about changes in the firm. In addition, the firm can signal management’s private information about the firm’s future performance via a name change (Karpoff and Rankine 1994). Clearly, in the case of Cingular, the name change communicates new developments and the new direction of the merged company AT&T. In conclusion, a brand name change serves as a heuristic signal to consumers that change is eminent.

In conclusion, Petty and Cacioppo (1986) postulate individual involvement and ability of information processing determine the routes to attitude change under the Elaboration Likelihood Model. Research suggests people who are highly involved in a certain object (such as financial and telecommunications services) tend to actively search and process related information for decision making. Given the suggestions that product information is critical for decision making (Kalakota and Whinston 1996), marketers of the merged service firm must understand how consumers react to mergers in order to present the merger details to the consumer. The marketer needs to know the ideal way to persuade the consumer that the newly merged brand is credible. These persuasion efforts can ultimately influence the behavior of the consumers in regards to a merger.

Summary

The previous section introduced brand equity, balance theory, and ELM. These theories guide the development of the general hypotheses of the first study. The hypotheses presented in the next section are intended to capture the consumer’s general reaction to the merger of two

firms with varying brand attitude valences. In addition, the next section attempts to delve deeper into understanding why the consumer reacts to a merger either positively or negatively. Several variables are explored and included in the first study because it is believed they impact the consumer's reaction to a merger.

The dependent variables included in the first study are brand attitude, service quality expectations, perceived risk, emotions, and regret. Based on balance theory, these particular variables are expected to vary depending on the valence of the brand attitudes involved in a merger. Each dependent variable is defined and supported with discussions of relevant literature. In addition, hypotheses are developed for each dependent variable in accordance with balance theory.

Study One Dependent Variables

Brand Attitude

Brand attitude refers to a consumers' overall evaluation of a brand. Specifically, brand attitude is based on certain attributes such as durability, incidence of defects, serviceability, features, performance, or "fit and finish" (Garvin 1984). Thus, brand attitudes are the overall evaluations of the brand in terms of its quality and the satisfaction it generates (Ambler et al. 2002). When faced with a choice of brands in a product category, consumers choose the brand towards which they hold the most favorable attitude (Keller 1993).

Prior research demonstrates that attitudes are relatively stable psychological constructs (Fishbein and Ajzen 1975). Because of this stability, preexisting attitudes toward the brand should be highly related to post-exposure attitudes toward that brand. In fact, previous research efforts provide empirical results that indicate prior brand attitudes are related to post-exposure attitudes toward a brand alliance between brands (Lafferty, Goldsmith, and Hult 2004; Simonin and Ruth 1998).

The more accessible a brand attitude, the more likely it is that the individual will access that attitude upon observing cues associated with the brand (Fazio 1986, 1989). In addition, the individual will bias information processing in a direction implied by the valence of those attitudes. Thus, pre-existing attitudes about two service companies could influence attitudes toward the merged company. Balance theory can incorporate brand attitudes to understand consumer reactions to mergers. In this instance, balance theory is applied to a relationship system involving three entities: an individual consumer, a pre-existing brand attitude toward

service company A, and a pre-existing brand attitude toward service company B. This triadic relationship is balanced if the consumer’s brand attitude toward company A is similar to company B. Consumers are expected to judge as “appropriate” mergers for which their pre-existing attitudes yield balance. Either a positive-positive or a negative-negative alliance should be judged “appropriate.” The present research examines various merger combinations of positive and negative pre-merger brand attitudes. However, mergers between two positive firms are not specifically considered because the results are not as intriguing as the other combinations including a negative brand. Obviously, the merger of two positive brands would be perceived better than a merger involving a negative brand. Not only does the merger feature two positive brands, but it also enjoys a boost due to the balanced nature of the merging firms. In accords with balance theory, Figure 4 illustrate how the consumer’s pre-merger brand attitudes toward the companies involved in a merger can shape his or her attitude toward the merger. Moreover, it is important to consider the impact of the consumer’s attitude toward their service provider brand when it merges with another service provider. Thus, the consumer’s attitude toward the merged brand should be based on the consumer’s existing attitude toward his or her own brand plus his or her attitude toward the other brand involved in the merger.

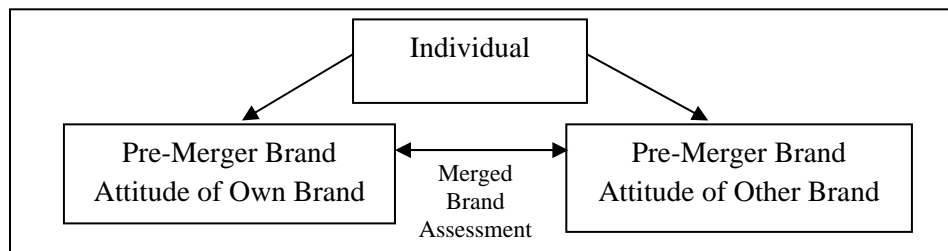


Figure 4. Pre-Merger Brand Valence and Post-Merger Brand Assessment

Balance theory suggests that the combination of two negative brands is viewed as “balanced” because the brands are perceived to be similar, but it does not guarantee the merger is deemed pleasant by the consumer. If two service providers have negative brand images (e.g., Kmart and Sears), management might argue that combining the companies allows for the

maximization of positive attributes. If an individual is a customer of a service firm (own brand) toward which they hold a negative attitude and the firm merges with a similar (other brand) service provider (negative or positive), the consumer may be more willing to believe the marketers' attempts to persuade them a merger is a good idea. Essentially, the consumer who currently has a relationship with a brand they hold a negative attitude toward may feel their service relationship could not be made worse because of a merger with another negative or positive brand. Thus, the consumer's prior brand attitude toward the merging brands influences post-merger brand attitudes. Alternatively, if a consumer is satisfied with their own service provider and currently holds a positive attitude toward the firm, a merger with another service provider might not be welcome. In this case, the customer of the positive service firm may be upset about the merger no matter what the valence of the other firm. However, the firm's merger with a negative company is expected to lead to more negative post-merger brand attitudes than a merger with a more positively viewed company. Specifically,

H1a: Post-merger brand attitude will be more negative when a consumer's own positive brand (own brand) merges with a negative brand (other brand) than when a consumer's own negative brand (own brand) merges with another negative brand (other brand).

H1b: Post-merger brand attitude will be more negative when a consumer's own positive brand (own brand) merges with a negative brand (other brand) than when a consumer's own negative brand (own brand) merges with a positive brand (other brand).

Service Quality Expectations

Service quality has been described as a form of attitude that results from the comparisons of expectations with performance (Cronin and Taylor 1992). Given the three dominant characteristics of services (intangibility, heterogeneity, inseparability), service quality is more difficult to assess than goods quality (Parasuraman, Zeithaml, and Berry 1985). Moreover, service quality perceptions are multilevel and multidimensional as evidenced by Brady and Cronin's (2001) three dimensions of service quality (interaction quality, physical environment quality, and outcome quality) not to mention the nine sub-dimensions (attitude, behavior, expertise, ambient conditions, design, social factors, waiting time, tangibles, and valence). As a result, this complexity requires the manager of a service-oriented firm to deeply understand the firm's customers and their expectations in regards to service quality.

An established service oriented brand should be recognizable and present a predetermined level of quality. However, when a firm undergoes a company-wide change such as a merger, there is bound to be a change in the level of quality provided. This change could be either positive or negative depending on how the merging firms integrate their processes. Given the aforementioned employee uncertainty and lack of consumer focus during post-merger activities, service quality may decline subsequent to a merger. If a consumer is familiar with the merger process and the previously mentioned issues, whether from personal experience or word-of-mouth, consumer expectations of service quality could be diminished when a firm is involved in a merger.

In line with ELM, involvement induces differences in the extent of information-processing efforts by individuals. If the product is a high involvement product such as telecommunications, then consumers process messages via the central route and pay close attention to the company's message. In addition, a company's announcement of a merger with another company functions as a signal to the firm's customers. The extent to which the consumer believes that the signal is predictive of a product's characteristics depends on the specificity of the signal (Cox 1962; Olson 1977). The more specific a heuristic, the more likely it will provide information that is useful in developing expectations of the firm's service quality (Dawar and Parker 1994). Higher product information quality should serve to reduce the uncertainty involved in a merger (Yang et al. 2006). At its core, a merger announcement signals that change is eminent. However, the consumer's expectations of a firm's service quality prior to a merger should shape the consumer's expectations of service quality of the merged firm.

Similar to brand attitudes, service quality expectations can be explained in accordance with balance theory. In this instance, the triadic relationship would involve the following entities: an individual, pre-existing service quality expectations of their own existing service company, and pre-existing service quality expectations of another service company. This triadic relationship is balanced if the consumer's service quality expectations of their own company are similar to the expectations of the other merging firm. Again, a balanced triad would be considered appropriate. Therefore,

H2a: Post-merger service quality expectations will be lower for mergers involving a consumer's own high service quality brand (own brand) and a low service quality brand

(other brand) than a merger involving a consumer's own low service quality brand (own brand) and another low service quality brand (other brand).

H2b: Post-merger service quality expectations will be lower for a merger involving a consumer's own high service quality brand (own brand) with a low service quality brand (other brand) than a merger involving a consumer's own low service quality brand (own brand) with a high service quality brand (other brand).

Perceived Risk

Mergers are a strategy resulting from the best of managerial intentions. However, the introduction clearly indicates that mergers do not provide a guarantee of future success. Perhaps, the unavoidable changes (e.g., personnel changes, brand name changes, service process changes, etc.) that occur as a result of a merger are somewhat detrimental to the merged firm. Brand consistency is critical to maintaining the strength and favorability of brand associations (Keller 1999). When a merger occurs, the brand's consistency in the eyes of the consumer may waver.

Bauer (1960) introduced the concept of perceived risk to the marketing literature. Perceived risk is defined in terms of uncertainty and consequences in the consumer literature (Dowling and Staelin 1994, p. 119). Moreover, risk is a subjective estimation by consumers connected with possible consequences of a wrong decision and the possibility the product will not offer all its expected benefits (Roselius 1971). Jacoby and Kaplan (1972) suggest that perceived risk is a multidimensional concept entailing multiple types of risks, including financial, performing, physical, psychological, and social risk.

Perceived risk increases with higher levels of uncertainty and/or the chance of greater associated negative consequences (Oglethorpe and Monroe 1987). The consequences of perceived risk include wariness or risk aversion, which often lead to a variety of risk-handling activities (Bettman 1973; Dowling 1999). For example, perceived risk has been shown to have an impact on several consumer behaviors including word-of-mouth information, new product adoption, brand loyalty, and reliance on well-known brands (e.g., Erdem 1998).

Consumers' perceptions of risk are considered central to their evaluations, choices, and behaviors (e.g., Dowling 1999). The strength of a brand is related to its ability to reduce perceived risk (Smith and Park 1992). Thus, balance theory can explain the amount of risk a consumer associates with a merged brand based on their perceptions of the merging brands. For example, a strong brand that is merged with another strong brand should not be perceived as

risky as a strong brand that merges with a weaker brand. The merger with a weak brand puts the strong brand at risk. On the other hand, a consumer might view a weak brand that merges with another weak brand as a low risk merger. Basically, the consumer might not feel there is much to lose given the brand is not very strong to begin with. Thus, the following hypotheses are proposed.

H3a: Perceived risk will be higher when a consumer's own positive brand merges (own brand) with a negative brand (other brand) than when a consumer's own negative brand (own brand) merges with another negative brand (other brand).

H3b: Perceived risk will be higher when a consumer's own positive brand merges (own brand) with a negative brand (other brand) than when a consumer's own negative brand (own brand) merges with a positive brand (other brand).

Emotions

Emotion refers to a mental state of readiness that arises from cognitive appraisals of events or thoughts; has a phenomenological tone; is accompanied by physiological processes; is often expressed physically; and may result in specific actions to affirm or cope with the emotion, depending on its nature and meaning for the person having it (Bagozzi, Gopinath, and Nyer 1999). Lazarus (1974) suggests that emotions are the outcomes of the cognitive appraisal of an event in terms of the event's significance of the individual's well being (primary appraisal) and in terms of the available potential to cope with the event (secondary appraisal). According to Lazarus (1991), an individual's appraisal of a situation depends on both internal (e.g., personality, goals, beliefs) and external (e.g., product performance, responses of other people) conditions.

In accordance with balance theory, when a consumer learns a service provider is involved in a merger, he or she is likely to experience some sort of emotion based on an appraisal of the pre-merger brands and the uncertainty that accompanies a merger situation. For example, if a consumer is satisfied with their current service provider, negative emotions may be evoked as a result of a merger. Alternatively, the merger of a service provider may evoke positive emotions in the mind of the individual who is a customer of the firm with the poor reputation. Several emotions from Izard's (1977) Differential Emotions Scale (DES) are considered in this research including anger, worry, and optimism. Thus, the following hypotheses include these particular emotions.

H4a: Anger will be higher when a consumer's own positive brand (own brand) merges with a negative brand (other brand) than when a consumer's own negative brand (own brand) merges with another negative brand (other brand).

H4b: Anger will be higher when a consumer's own positive brand (own brand) merges with a negative brand (other brand) than when a consumer's own negative brand (own brand) merges with a positive brand (other brand).

H4c: Worry will be higher when a consumer's own positive brand (own brand) merges with a negative brand (other brand) than when a consumer's own negative brand (own brand) merges with another negative brand (other brand).

H4d: Worry will be higher when a consumer's own positive brand (own brand) merges with a negative brand (other brand) than when a consumer's own negative brand (own brand) merges with a positive brand (other brand).

H4e: Optimism will be lower when a consumer's own positive brand (own brand) merges with a negative brand (other brand) than when a consumer's own negative brand (own brand) merges with another negative brand (other brand).

H4f: Optimism will be lower when a consumer's own positive brand (own brand) merges with a negative brand (other brand) than when a consumer's own negative brand (own brand) merges with a positive brand (other brand).

Regret

In general, regret is a sense of sorrow, disappointment, or distress over something done or not done (Landman 1987). Specifically, regret is a negative, cognitively based emotion that people experience when realizing or imagining that their present situation would have been better, had they decided differently (Zeelinberg 1999). According to Sugden (1985), regret not only involves the wish that you had chosen differently, it also involves the belief that the original decision was wrong at the time you made it. Shimanoff (1984) recognizes regret as one of the most often named negative emotions in everyday language. Moreover, concepts such as regret have important implications for the study of decision making under uncertainty (Bell 1985).

A consumer who has a relationship with an established service provider may be miffed when the provider merges with another company. Based on balance theory, the valence of the merging brands could affect the level of regret the customer experiences. The consumer may

feel they would have been better off by choosing an alternative provider whose firm did not merge with another company. Thus, the following hypotheses incorporate the concept of regret.

H5a: Regret will be higher when a consumer's own positive brand (own brand) merges with a negative brand (other brand) than when a consumer's own negative brand (own brand) merges with another negative brand (other brand).

H5b: Regret will be higher when a consumer's own positive brand (own brand) merges with a negative brand (other brand) than when a consumer's own negative brand (own brand) merges with a positive brand (other brand).

Study One Method and Discussion

Overview

The current research specifically focuses on the telecommunications industry because mergers are highly prevalent in this particular service industry. In addition, telecommunications services exemplify high involvement products because of the potential expenses and complexity associated with the purchase decision. Mergers exhibiting high involvement products are likely to elicit stronger and more defined consumer reactions than low involvement products.

Based on brand equity, balance theory, and ELM, study one utilized a highly controlled experimental design with a student sample and "fictional" brands to determine if pre-merger brand valence (independent variable) influences post-merger brand attitudes and service quality expectations. In addition to these two variables, several other dependent variables were included in study one to provide further insight to consumer reactions to mergers.

The following sections present the analyses of study one. First, the preliminary tests used to calibrate the measures in study one are introduced. Second, the design and analytical procedures are presented. Moreover, this section includes a discussion of the experiment's design, questionnaire considerations, data collection procedures, subjects, and analyses for study one. Third, the actual analyses and results for study one are reported. Fourth, the results of the first study are discussed.

Preliminary Test

This section outlines the development of the pretest necessary to implement the first study. In order to develop a valid questionnaire, a pilot study was conducted. The purpose of the first pilot test was to gain understanding of consumer perceptions about telecommunications

service providers. This information was essential for the proper development of study one. Next, the first pilot study is discussed in detail.

Pilot Study One

Based on the tenets of balance theory, study one manipulates the brand valence of two merging telecommunications brands to see if the valence of the merging brands influences the consumer's response to several dependent variables measuring reactions to the merged telecommunications brand. Therefore, the main goal in this pilot study was to gather information to guide the development of brand profiles that were presented to the respondents in study one as consumer reviews. The consumer reviews were intended to create either positive or negative attitudes toward fictitious brands. In other words, in the main study the respondent was presented with a consumer review of a bogus telecommunications brand using descriptions gleaned from the pilot study results. The consumer reviews were intended to induce the subjects to respond with the appropriate (negative or positive) pre-merger attitude and service quality expectations toward the brand. For example, a negative-based review should have evoked negative brand attitudes and poor service quality expectations.

In order to capture the appropriate information to develop the consumer reviews used in study one, pilot study one was administered to 38 undergraduate students. The pilot test included several sections. First, the pilot study asked the respondent to list five attributes of a cellular phone service provider toward which they have a positive opinion. Second, the respondents were asked to list five attributes of a cellular phone service toward which they hold a negative opinion. The most often cited negative and positive attributes were identified. Subsequently, the information collected from these two activities was used to create the consumer reviews that manipulate brand valence in study one.

Study one utilized fictitious brand names in an attempt to simplify and remove any branding bias from the study. The goal was to understand consumer reactions to the merger itself without any branding interference. The pilot study incorporated questions to ascertain the ideal bogus brand name for both a positive and negative service firm. Specifically, a list of 13 presumably unknown telecommunication brand names was developed. This list of potential brand names was presented to the respondents in the first pilot study. First, the respondent was asked to select the three brands from the list of "potential" brand names they believe will provide the "best" cellular phone service by placing an "x" beside the brand name. Likewise, the

respondent was asked to select the three brands they think will provide the “worst” cellular phone service. The two most positive fictitious brand names (Apex Communications and Excel Telecommunications) were used in study one to represent the two positive brands. Vice-versa, the two most negative brand names (Majesty Mobile and Succor Wireless) represent the two negative brands in study one.

The aforementioned results of pilot study one were utilized in crafting the consumer reviews presented in study one. All four consumer reviews (two negative and two positive) were developed to be similar in length and ease of readability. In addition, the reviews were created to be similar to consumer reviews available online. The final consumer reviews presented to the respondents in study one are provided in Appendix A.

Study One Design

Balance theory was the predominant theory providing the foundation for the first study. Study one involved a 2x2 between-subjects design in which the valence of brands was manipulated via fictitious consumer reviews. Thus, brand valence, which was based on consumer perceptions of brand equity, functioned as the independent variable in this study. Figure 5 depicts the various cells developed based on the results of pilot study one. The reviews were used to generate negative or positive attitudes toward the fictitious brands. A control group was also created that only presented one positive brand review to the subject. The control group did not involve a merger and the respondents in this group did not answer questions about a merger. The participants were randomly assigned to one of the five between-subjects conditions: control group; positive (own) brand / positive (other) brand; positive (own) brand / negative (other) brand; negative (own) brand / positive (other) brand, or negative (own) brand / negative (other) brand. Furthermore, the participants were randomly exposed to one of the manipulated consumer reviews. The respondents were asked to think of the first brand presented as their own in an attempt to get them more invested in the first brand similar to a real-life situation.

Study One Questionnaire Design

The following section describes how the questionnaire was presented to the respondents involved in the first study. The survey for study one is included in Appendix B. First, each participant was introduced to one brand review (positive or negative) depending on the condition to which he or she was randomly assigned and asked to consider this brand as his or her own cell phone brand. Next, a brief thought-listing exercise was included to assess respondent thoughts

on the brand they were considering as their own. In addition, two confound checks were included to assess the reading ease and helpfulness of the consumer review. Subsequently, the respondents answered survey questions regarding their attitudes toward the first brand (own brand) and their service quality expectations of the service provider.

		First Brand (Own Brand)	
		<i>Positive</i>	<i>Negative</i>
Second Brand (Other Brand)	<i>Positive</i>	Positive Own Brand (Apex) Positive Other Brand (Excel)	Negative Own Brand (Succor) Positive Other Brand (Apex)
	<i>Negative</i>	Positive Own Brand (Apex) Negative Other Brand (Majesty)	Negative Own Brand (Succor) Negative Other Brand (Majesty)

Figure 5. Study One Conditions

Second, each participant was exposed to an alternative brand review (positive or negative) depending on the condition to which he or she was assigned. Similar to the previous situation, the participant was asked to read a second brand review (other brand) and to provide any thoughts about the brand based on the review. The participants were not asked to consider this as their own brand. Again, confounds checks were included to assess readability and helpfulness of the consumer review in assessing the second brand. The respondents were asked to answer the same questions regarding brand attitude and service quality expectations of the second brand similar to the first brand. Manipulation checks were included to ensure the brand valences were manipulated correctly in the various conditions.

Third, after the participants were exposed to both individual brands (own brand and other brand) and their pre-merger attitudes and expectations were assessed, the next step was to introduce the merger of the two brands. A basic merger announcement involving the two brands was developed and presented to the respondents. Appendix C contains an example of a merger announcement used in study one. The announcement was similar to the real merger

announcement made for AT&T Wireless and Cingular a few years ago. First, the respondents were asked to provide their thoughts about the merger of their own brand with the other brand presented. Second, confound checks were utilized to assess the merger announcement's readability and helpfulness in forming an opinion about the newly merged company. Next, several multi-item constructs related to the hypotheses proposed for study one were included in the questionnaire. The items were all semantic differential items adapted from the literature. Each item was measured on a seven-point scale. Please see the study one items, corresponding response points, and scale source in Appendix D. In an effort to guard against common method bias (Podsakoff et al. 2003), several different presentations of the questions were utilized. For example, drop-down boxes, horizontal answer selections, and vertical answer selections were examples of the types of questions presented in the online survey.

First, respondents were asked several questions about the degree of fit between the two brands involved in the merger. It was assumed that respondents believe two merging telecommunications firms "fit" well together because of the similarity in business function. The concept of fit has been researched extensively in previous branding and merger literature (Broniarczyk and Alba 1994; Datta 1993; Simonin and Ruth 1998). Jaju et al. (2006) report that redeployed brands perform significantly better subsequent to mergers of high-fit brands than low-fit brands which was consistent with previous brand alliance literature (Simonin and Ruth 1998). Second, the consumer's level of regret for being a part of the newly merged firm was assessed. Third, the subjects' post-merger brand attitude toward the merged firm and service quality expectations of the merged firm were assessed. Fourth, the remaining dependent variables discussed in chapter two were measured. These variables included perceived risk, anger, worry, and optimism. Finally, demographic information including age and gender was gathered at the end of the survey.

Study One Data Collection Procedure

The participants for study one included students from a large university located in the Southeast United States. The participating students were awarded extra credit in their course for their voluntary participation in the survey. The students were emailed survey instructions and a link to an online survey. Five questionnaires were developed to represent the four conditions and the control group. Thus, the subjects were randomly provided one of five possible links. Each link took the respondent directly to the randomly assigned online survey. The survey

participants were provided with clear instructions to complete the survey and ensured of their anonymity.

Study One Participants

The subjects in the first study included a convenience sample of 255 students (158 females; 96 males; and 1 non-response) from a large university in the Southeast region of the United States. A student sample was appropriate in the first study because it was more theoretical in nature than the other studies (Calder, Phillips, and Tybout 1982). Thus, a homogeneous student sample was sufficient for study one. In addition, the domain of the study, telecommunications services, is extremely appropriate for a student sample as most students have experience with one or more of these services as evidenced by the survey results. For example, all 255 respondents indicated they currently own a cell phone. In addition, five 7-point semantic differential items were included to assess the respondents' familiarity with telecommunications service providers (coefficient alpha = 0.83). The five items were summed to create a single telecommunications familiarity construct item. These scores ranged from 14 to 35. Descriptive analysis indicated that the sample respondents were familiar with telecommunications service providers ($M = 29.31$; $S.D. = 0.812$). Students classified as juniors or seniors were specifically targeted. Older students are likely to have more direct experience with the telecommunications company (e.g., handling service problems, bills, etc.) than younger students. Descriptive analysis revealed study one respondent age ranged from 19 to 28 years old with a mean age of 21 years old.

The goal for the sample was to have relatively large sample sizes in each cell to increase the power of the study. The power goal was at least 0.80 and was assessed via established methods for calculating power (Rosenthal and Rosnow 2008, p. 258). The online survey was managed so that the cell sizes remained approximately equal until the end of the study. The final cell sizes ranged from 48 to 53 individual responses per cell.

Study One Analyses Overview

First, the reliability and validity of the dependent variables measured in the questionnaire were assessed via established methods (Fornell and Larcker 1981). Second, the manipulation checks were analyzed to ensure the independent variable (brand valence) was manipulated successfully. Third, the confound checks were tested to ensure there were no major differences between the consumer reviews in terms of readability and helpfulness in forming an opinion

about the brand. Fourth, a MANOVA (multivariate analysis of variance) was implemented with the metric dependent variables used to test the hypotheses presented in study one. The assumptions associated with MANOVA were assessed at this time as well. Subsequent individual ANOVAs and post hoc tests were conducted to test each hypothesis.

Study One Analyses

Psychometric properties. The psychometric properties of the dependent variable measures were assessed using confirmatory factor analysis (CFA) and are presented in Table 2.

Table 2. Study One Construct Reliabilities (C.R.), Average Variances Extracted (Diagonal), Shared Variances

Constructs	C.R.	BAM	FIT	REG	RSK	OPT	ANG	WOR	SQA	SQB	SQM
Merged Brand Attitude (BAM)	.99	0.95									
Perceived Fit (FIT)	.94	.018	0.85								
Regret (REG)	.94	0.75	0.13	0.83							
Risk (RSK)	.92	0.56	0.15	0.51	0.80						
Optimism (OPT)	.92	0.42	0.04	0.43	0.40	0.79					
Anger (ANG)	.95	0.39	0.05	0.39	0.46	0.41	0.88				
Worry (WOR)	.91	0.22	0.06	0.23	0.38	0.18	0.58	0.77			
Service Quality Brand A (SQA)	.98	0.09	0.01	0.50	0.13	0.03	0.10	0.08	0.96		
Service Quality Brand B (SQB)	.99	0.41	0.04	0.49	0.31	0.29	0.19	0.13	0.00	0.96	
Service Quality Merged Brand (SQM)	.98	0.75	0.14	0.72	0.48	0.43	0.38	0.21	0.12	0.47	0.94

All scales were simultaneously tested, with each item only being allowed to load on its respective factor. The results of the CFA indicated that the measurement model provided good fit to the data ($\chi^2 = 1042.76$; d.f. = 636; CFI = 0.971; TLI = 0.966; SRMR = 0.043). Construct reliability was calculated using Fornell and Larcker's (1981) guidelines which involved an examination of the parameter estimates, their associated t-values, and assessment of the average variance extracted by each construct. The construct reliabilities for the dependent variables all exceeded 0.90 as reported in Table 2. In addition, the dependent variables exhibited discriminant

validity per Fornell and Larcker's (1981) criteria. Specifically, discriminant validity was determined by comparing the shared variances between the constructs to the average variances extracted. Convergent validity was supported because the average variance extracted for each construct exceeded 0.50. As seen above, Table 2 summarizes the results of these validity assessments. The correlation matrix for study one is located in Appendix E.

Manipulations. Study one included five conditions. Four of the conditions involved a merger. A fifth condition, the control group, presented a brand to the reader similar to the other conditions, but no consumer review of an alternative brand or merger announcement was included. Specifically, the control group respondents were only exposed to the positive, APEX brand. Two one-way multivariate analyses of variance (MANOVA) were performed to determine if the manipulations of brand valence were successful. The dependent variables consisted of the four manipulation checks assessed in the questionnaire. Specifically, the first manipulation check asked the consumer if the first brand (own brand) had a positive brand image. Second, the consumer indicated if the first brand (own brand) had poor service quality. Third, the consumer determined if the second brand (other brand) had a negative brand image. Fourth, the consumer was asked to indicate if the second brand (other brand) had great service quality. The group number served as the grouping variable (Group 1 = control; Group 2 = Positive Own Brand & Positive Other Brand; Group 3 = Positive Own Brand and Negative Other Brand; Group 4 = Negative Own Brand & Negative Other Brand; Group 5 = Negative Own Brand & Positive Other Brand).

Overall, brand valence appears to have been manipulated successfully based on the results of two one-way MANOVA analyses. Two analyses were conducted to accommodate the control group. The first MANOVA analysis included the four merger groups and the control group as the independent variable and assessed the manipulation checks (1 & 2) involving the consumer's own brand. The overall MANOVA for these first two manipulation checks was significant (Wilk's Lambda = 0.235, $F_{(8,498)} = 66.095$, $p < 0.001$, $\eta^2 = 0.515$). Table 3 provides the means and standard deviations for the four manipulation checks. Table 4 shows the results for the individual ANOVAs. Figure 6 illustrates the success of the first manipulation check, and Figure 7 illustrates the success of the second manipulation check. The first manipulation check (own brand has a positive image) indicated that the three groups (1, 2, and 3) with a positive own brand had significantly higher means (all p 's < 0.001) than the two groups (4 and 5) with a

negative own brand. The second manipulation check (own brand has poor service quality) showed that the two groups (4 and 5) with a negative own brand had significantly higher means (both p 's < 0.001) than the three groups (1, 2, and 3) with a positive own brand.

The second MANOVA did not include the control group because manipulation checks three and four assessed a second brand, which was not included in the control group. Overall MANOVA results were significant (Wilk's Lambda = 0.116, $F_{(6,394)} = 127.481$, $p < 0.001$, $\eta^2 = 0.660$). Table 5 contains the results for the individual ANOVAs for the third and fourth manipulation checks. The third manipulation check (other brand has a negative image) was successful with the two groups (3 and 4) with a negative other brand having significantly (both p 's < 0.001) higher means than the two groups (2 and 5) with a positive other brand. Figure 8 depicts the success of the third manipulation check. The fourth manipulation check (other brand has great service quality) indicated the two groups (2 and 5) with a positive other brand had significantly (both p 's < 0.001) higher means than the two groups (3 and 4) with a negative other brand. Figure 9 illustrates the success of the fourth manipulation check.

Table 3. Mean Scores and Standard Deviations for Manipulation Checks

Manipulation Checks									
Group	#1 Brand A has a <u>Positive Image</u>		#2 Brand A has Poor <u>Service Quality</u>		#3 Brand B has a <u>Negative Image</u>		#4 Brand B has Great <u>Service Quality</u>		
	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	
1 (C)	5.66 ^a	1.176	2.17 ^b	1.014	<i>Not Applicable</i>		<i>Not Applicable</i>		
2 (PP)	5.61 ^a	1.250	2.02 ^b	0.812	2.04 ^b	0.937	5.90 ^a	0.831	
3 (PN)	6.00 ^a	1.056	2.02 ^b	1.135	6.00 ^a	1.109	1.79 ^b	0.988	
4 (NN)	2.10 ^b	1.474	5.78 ^a	1.645	5.42 ^a	1.785	1.66 ^b	0.658	
5 (NP)	2.00 ^b	1.473	5.96 ^a	1.304	1.77 ^b	1.077	6.23 ^a	0.778	

Note 1. Group Notation: P = positive brand; N = negative brand; C = control. First letter in combination corresponds to own brand and the second letter refers to the other brand.

Note 2. Column means with different superscripts are different at $p < 0.001$.

Table 4. Individual ANOVA Results: Manipulation Checks 1 and 2

Manipulation Check	F-Value	DF	p-value	Partial η^2	Observed Power
Manipulation Check #1	125.155	4, 250	0.000	0.667	1.0
Manipulation Check #2	148.867	4, 250	0.000	0.704	1.0

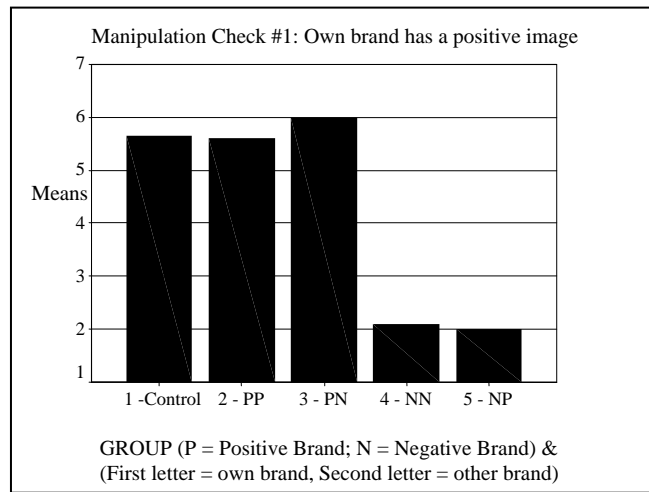


Figure 6. Manipulation Check #1

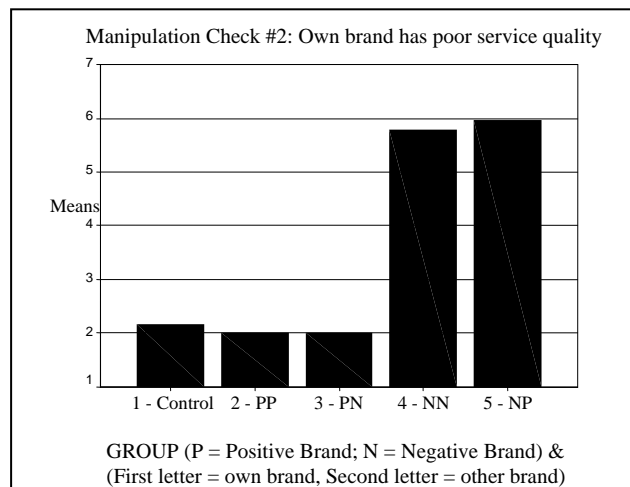


Figure 7. Manipulation Check #2

Table 5. Individual ANOVA Results: Manipulation Checks 3 and 4

Manipulation Check	F-Value	DF	p-value	Partial η^2	Observed Power
Manipulation Check #3	153.919	3, 198	0.000	0.700	1.0
Manipulation Check #4	465.002	3, 198	0.000	0.876	1.0

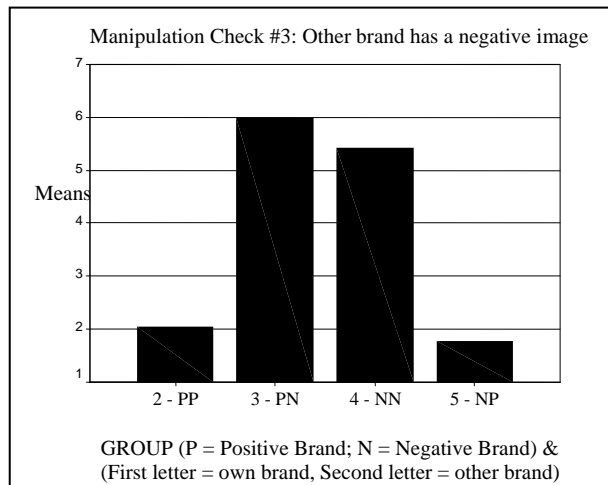


Figure 8. Manipulation Check #3

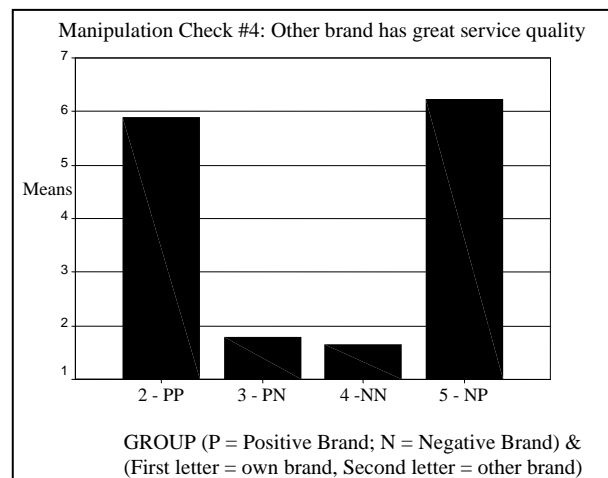


Figure 9. Manipulation Check #4

Confounds. Study one included confound checks to assess possible confounding effects. Six confound checks were developed to assess readability and helpfulness. First, two checks assessed the readability of the consumer reviews and one check assessed the readability of the merger announcement. Moreover, the goal for the readability confound checks was to verify that the brand profiles used in each condition were similar in terms of readability. After the respondent read the consumer reviews for their own brand and the other brand, he or she was asked if they found the review easy or difficult to read. Similarly, the subjects were asked how easy or difficult it was to read the merger announcement after exposure to the merger announcement.

The overall MANOVA was significant (Wilk's Lambda = .822, $F_{(18,546.372)} = 2.184$, $p < 0.01$, $\eta^2 = .063$). Individual ANOVA results as seen in Table 6 indicate that there were only a couple of minor differences in terms of readability and helpfulness of the consumer reviews and merger announcements across the groups. Table 7 provides the means and standard deviations for all of the confound checks. Specifically, there were no significant differences between the groups for confound check #1, which assessed readability of the review of the consumer's own brand (all p 's > 0.05). Confound check #2, which examined the readability of the other brand review, showed only a significant difference ($p = 0.04$) between groups four and five. Moreover, group four represented the combination of two negative brands, and group five represented the combination of a negative brand and a positive brand. However, the effect size for confound check #2 ($\eta^2 = .04$) was small. Confound check #3 assessed the readability of the merger announcement and indicated no significant differences among the groups (all p 's > 0.05).

The remaining confound checks assessed how helpful the two consumer reviews and merger announcement were in forming opinions about the telecommunications company. Similar to the readability confound checks, the goal for the helpfulness confound checks was to have equally helpful consumer reviews and merger announcements. In confound check #4 the respondents were asked how helpful the consumer review was in forming their opinion about the telecommunications company after they read the consumer review for their own brand. Next, confound check #5 assessed the helpfulness of the consumer review for the other brand. Likewise, confound check #6 asked how helpful the merger announcement was in forming an opinion about the newly merged company. The helpfulness confound checks for both the consumer's own brand (confound check #4) and the other brand (confound check #5) indicated

no significant differences among the groups (all p 's > 0.05). The helpfulness confound check for the merger announcement (confound check #6) indicated only one significant difference ($p = 0.03$) between groups two and three. More specifically, group two represented a merger between a consumer's own positive brand and a negative other brand, and group three represented a merger between a consumer's own negative brand and another negative brand. However, the effect size for this confound was barely moderate ($\eta^2 = .059$).

Table 6. Individual ANOVA Results: Confounds

Confound Check	<i>F-Value</i>	DF	<i>p-value</i>	Partial η^2	Observed Power
Readability of own brand review	1.11	3, 198	0.347	0.017	0.297
Readability of other brand review	2.969	3, 198	0.033	0.043	0.697
Readability of merger announcement	1.77	3, 198	0.912	0.003	0.083
Helpfulness of own brand review	1.23	3, 198	0.300	0.018	0.327
Helpfulness of other brand review	0.66	3, 198	0.575	0.010	0.189
Helpfulness of merger announcement	4.13	3, 198	0.007	0.059	0.845

Table 7. Mean Scores and Standard Deviations for Confound Checks

Group	Confound Checks											
	#1		#2		#3		#4		#5		#6	
	Readability Brand A	Readability Brand B	Readability Merger Announcement	Readability Merger Announcement	Helpfulness Brand A	Helpfulness Brand B	Helpfulness Brand A	Helpfulness Brand B	Helpfulness Brand B	Helpfulness Brand B	Helpfulness Merger Announcement	Helpfulness Merger Announcement
	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>	<u>M</u>	<u>SD</u>
2 (PP)	6.37	0.824	6.20	0.895	5.71	1.101	5.75	0.997	5.78	0.901	5.16 ^a	1.271
3 (PN)	6.04	1.091	6.30	0.799	5.66	1.224	5.53	1.085	5.75	1.223	4.38 ^b	1.390
4 (NN)	6.22	1.016	5.90 ^a	1.055	5.82	1.224	5.82	0.896	5.62	1.086	5.08	1.368
5 (NP)	6.15	0.875	6.40 ^b	0.736	5.73	0.984	5.50	1.052	5.50	1.288	4.52	1.487

Note 1. Group Notation: P = positive brand; N = negative brand. First letter in combination corresponds to own brand and the second letter refers to the other brand.

Note 2. Column means with different superscripts are different at $p < 0.05$.

Study One Results

Preliminary Analyses. A one-way and two-way MANOVA were used to determine the effect of the four merger groups (positive/positive, positive/negative, negative/negative, and negative/positive) on the seven dependent variables examined in study one. MANOVA analysis assumes the observations in each group are independently sampled from a multivariate normal distribution with equal covariance matrices over the groups. None of the study circumstances suggested concern about possible violation of the independence assumption. Visual inspection of histograms did suggest some possible departures from normality, but none was severe. The MANOVA analysis is known to be robust to moderate violations of the multivariate normality assumption when group sizes are relatively large and equal (Hair et al. 1998, p. 349). The test of the assumption of homogeneity of covariance matrices in the four groups resulted in a reject decision (Box's $M = 154.017$, $F_{(84,88137.57)} = 1.718$, $p < 0.001$), indicating a likely violation of the assumption. However, the violation of the equality of variance-covariance matrices is not problematic given the relatively equal group sample sizes (Hair et al. 1998, p.348).

MANOVA One-Way Analysis. The multivariate null hypothesis of equality of the means over all four groups for all variables was rejected at the 0.01 level (Wilk's Lambda = 0.351, $F_{(21,551.87)} = 11.571$, $p < 0.001$, partial eta squared = 0.295, observed power = 1.00). The value of the multivariate strength of association ($\eta^2 = .295$) suggested a relatively strong overall relationship.

To identify the dependent variables that contributed to the rejection of the multivariate null hypothesis, univariate ANOVA's were conducted for each of the dependent variables. The individual ANOVA results are described in Table 8. All of the ANOVA null hypotheses were rejected at the 0.01 level with p values less than 0.001. The computed values of $F_{(3,198)}$ were 55.931, 67.855, 44.187, 18.831, 13.169, 22.607, and 71.707 for Merged Brand Attitude, Merged Service Quality Expectations, Risk, Anger, Worry, Optimism, and Regret respectively. The values of strength of association (η^2) for the same variables were 0.459, 0.507, 0.401, 0.222, 0.166, 0.255, and 0.521 respectively.

The means and standard deviations for the dependent variables in the merger groups are reported in Table 9. Post-hoc tests were performed to assess the hypotheses associated with study one. Specifically, the Tamhane post-hoc statistic was used because of the apparent

violation of equal variances. H1a and H1b examined post-merger brand attitudes across the various merger conditions. H1a was not supported ($p > 0.05$). The valence of a consumer's original brand does not have a strong influence on post-merger brand attitudes when it merges with a negative brand. In fact, the findings indicate that the direction of post-merger brand attitudes is in contrast to what was predicted. When a consumer's own negative brand merges with another negative brand ($M = 11.36$), post-merger brand attitudes are lower than when a consumer's own positive brand merges with a negative brand ($M = 12.70$). H1b was supported ($p < 0.001$). Post-merger brand attitudes were significantly more negative when a consumer's own positive brand merges with a negative brand ($M = 12.70$) than when a consumer's own negative brand merges with a positive brand ($M = 17.52$).

H2a and H2b considered post-merger service quality expectations for the newly merged brand across the various merger groups. To a certain extent, H2a was supported ($p < .05$) in that there was a significant difference between the two groups analyzed, but it was not in the hypothesized direction. Contrary to the proposed predictions, post-merger service quality expectations were significantly higher (not lower) for mergers involving a consumer's own high service quality brand with a brand that had low service quality ($M = 10.30$) than a merger of two low service quality brands (7.90). Consumers appear to strongly dislike the combination of two negative valence firms. H2b was supported ($p < 0.001$). Post-merger service quality expectations were significantly lower for a merger involving a consumer's own high service quality brand with a brand that had low service quality ($M = 10.30$) than a merger involving a consumer's own low service quality brand with a brand that had high service quality ($M = 13.81$).

H3a and H3b assessed post-merger risk perceptions across the merger groups. H3a was not supported ($p > 0.05$). The valence of a consumer's original brand does not significantly influence post-merger risk perceptions when it merges with a negative brand. Specifically, there was no difference in the means when a consumer's positive brand merged with a negative ($M = 14.96$) and when a consumer's negative brand merged with a negative ($M = 15.70$). Also, the hypothesized direction for H3a was incorrect. H3b was supported ($p = 0.05$). Risk was perceived to be higher when a consumer's own positive brand merges with a negative brand ($M = 14.96$) than when a consumer's own negative brand merges with a positive brand ($M = 13.33$).

Table 8. Study One Individual ANOVA Results

Dependent Variables	F-Value	DF	p-value	Partial Eta Squared	Observed Power
Merged Brand Attitude	55.931	3, 198	0.000	0.459	1.000
Service Quality Expectations	67.855	3, 198	0.000	0.507	1.000
Risk	44.187	3, 198	0.000	0.401	1.000
Anger	18.831	3, 198	0.000	0.222	1.000
Worry	13.169	3, 198	0.000	0.166	1.000
Optimism	22.607	3, 198	0.000	0.255	1.000
Regret	71.707	3, 198	0.000	0.521	1.000

Table 9. Study One Mean Scores and Standard Deviations for Dependent Variables

Group	Dependent Variables						
	Post-Merger Brand Attitude (H1a-H1b)	Post-Merger Service Quality Expectations (H2a-H2b)	Risk (H3a-H3b)	Anger (H4a-H4b)	Worry (H4c-H4d)	Optimism (H4e-H4f)	Regret (H5a-H5b)
	M (SD)	M (SD)	M (SD)	M (SD)	M (SD)	M (SD)	M (SD)
2 (PP)	22.51 (4.37)	17.65 (2.81)	9.27 (3.47)	6.31 (3.84)	6.82 (4.04)	14.84 (4.22)	6.16 (2.36)
3 (PN)	12.70 ^a (4.38)	10.30 (3.72)	14.96 ^a (2.42)	10.89 ^{ab} (5.60)	11.58 ^{cd} (4.84)	10.87 ^e (3.99)	13.77 ^a (3.08)
4 (NN)	11.36 ^a (5.90)	7.90 (4.21)	15.70 ^a (3.27)	13.16 ^a (4.93)	12.14 ^c (5.36)	9.28 ^e (4.11)	9.28 ^a (4.11)
5 (NP)	17.52 (4.56)	13.81 (3.84)	13.33 (3.12)	9.67 ^b (4.76)	10.77 ^d (4.58)	14.31 (3.68)	9.60 (4.18)

Note 1. Group Notation: P = positive brand; N = negative brand. First letter in combination corresponds to own brand and the second letter refers to the other brand.

Note 2. Column means with matching superscripts are NOT significantly different at $p > 0.05$. Otherwise, means are significantly different at $p < 0.001$. Superscript letter refers to hypothesis.

H4a-H4f examined consumer emotions following a merger across the merger groups. H4a and H4b were not supported (p 's > 0.05). Specifically, H4a was not supported because there was no statistical difference in anger between a merger involving a consumer's own

positive brand and a negative brand ($M = 10.89$) and a merger involving two negative brands ($M = 13.16$). In addition, the hypothesized direction was not supported for H4a. H4b was not supported ($p > 0.05$). However, the hypothesized direction was correct because anger was higher when a consumer's own positive brand merged with a negative ($M = 10.89$) than when a consumer's own negative brand merged with a positive brand ($M = 9.67$). H4c was not supported ($p > 0.05$) and was not in the predicted direction. H4d was not supported ($p > 0.05$), but was in the hypothesized direction with worry being higher for a merger involving a consumer's own positive brand and a negative brand ($M = 11.58$). H4e was not supported ($p > 0.05$) and results were not in the hypothesized direction. H4f was supported ($p < 0.001$). Optimism was lower for mergers involving a consumer's own positive brand and a negative brand ($M = 10.87$) than mergers involving a consumer's own negative brand and a positive brand ($M = 14.31$).

H5a and H5b considered the effect of regret across the merger groups. H5a was not supported ($p > 0.05$) and was not in the hypothesized direction. H5b was supported ($p < 0.001$). Regret was higher for mergers involving a consumer's own positive brand and a negative brand ($M = 13.77$) than for mergers involving a consumer's own negative brand and a positive brand ($M = 9.60$).

Subsequent Analysis

Several additional analyses were conducted to shed more light on the previously mentioned results. First, possible interactions were assessed in a two-way multivariate analysis of variance. Second, an analysis including the control group was completed. Third, the results of an analysis comparing pre-merger and post-merger brand attitudes are reported. Fourth, perceived fit was included in an additional analysis.

MANOVA two-way analysis. Possible interactions were assessed via a two-way multivariate analysis of variance. The analysis used the consumer's own pre-merger brand attitude (positive or negative) and the consumer's pre-merger brand attitude toward the other brand (positive or negative) as the independent variables and several dependent variables including risk, anger, worry, optimism, regret, merged brand attitude, and merged service quality expectations. A summary of the MANOVA results for the overall main effects and interaction is included in Table 10. The overall results for the interaction effect were significant (Wilk's Lambda = 0.861, $F_{(7,192)} = 4.442$, $p < 0.001$, partial eta squared = 0.139, observed power =

0.992). Significant interactions were found between consumer's attitudes toward their own brand and attitudes toward another brand on the merged brand attitude, risk, and worry variables. Figures 10, 11, and 12 depict the interactions involving the merged brand attitude variable, risk, and worry respectively. Figure 10 suggests that the degree to which the consumer's attitude toward his own brand influences attitude toward the merged brand varies depending upon his attitude toward the other brand. Similarly, Figure 11 suggests that the degree to which the consumer's attitude toward his own brand influences risk changes depending upon his attitude toward the other brand. Moreover, this same pattern is evident for worry as seen in Figure 12. Overall, the merger of two positive brands illustrates the phenomenon of a balance boost. Figures 10-12 clearly show that the pairing of two positive brands lead to more positive post-merger brand attitudes and lower risk perceptions and feelings of worry.

Table 10. Study One Overall Two-Way MANOVA Results

Source	Wilk's Lambda	F-Value	DF	p-value	Partial Eta Squared	Observed Power
Attitude toward own brand (A)	0.781	7.694	7, 192	0.00	0.139	1.000
Attitude toward other brand(B)	0.472	30.643	7, 192	0.00	0.139	1.000
A * B	0.861	4.442	7, 192	0.00	0.139	0.992

Table 11. Study One Individual Two-Way ANOVA Results

Dependent Variables	F-Value	DF	p-value	Partial Eta Squared	Observed Power
Merged Brand Attitude	7.182	1, 198	0.008	0.035	0.760
Service Quality Expectations	1.919	1, 198	0.168	0.010	0.281
Risk	14.622	1, 198	0.000	0.069	0.967
Anger	0.670	1, 198	0.414	0.003	0.129
Worry	6.487	1, 198	0.012	0.032	0.717
Optimism	0.878	1, 198	0.350	0.004	0.154
Regret	3.224	1, 198	0.074	0.016	0.431

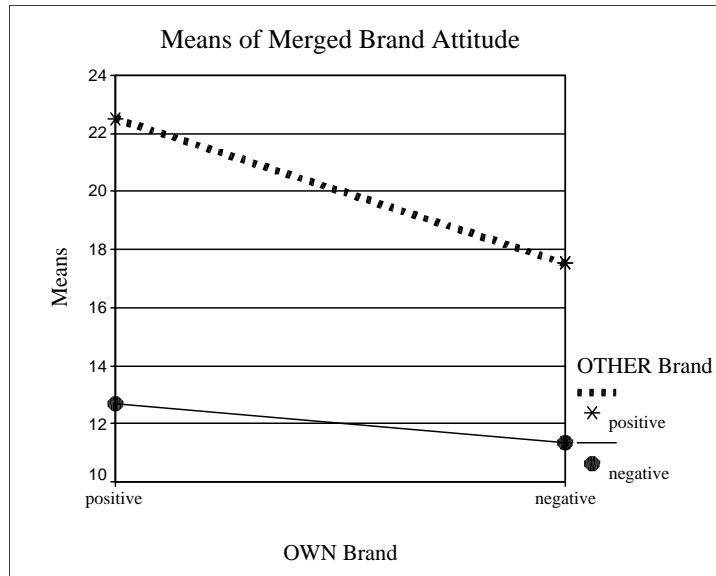


Figure 10. Interaction of OWN Brand Pre-Merger Attitude and OTHER Brand Pre-Merger Attitude on Merged Brand Attitude.

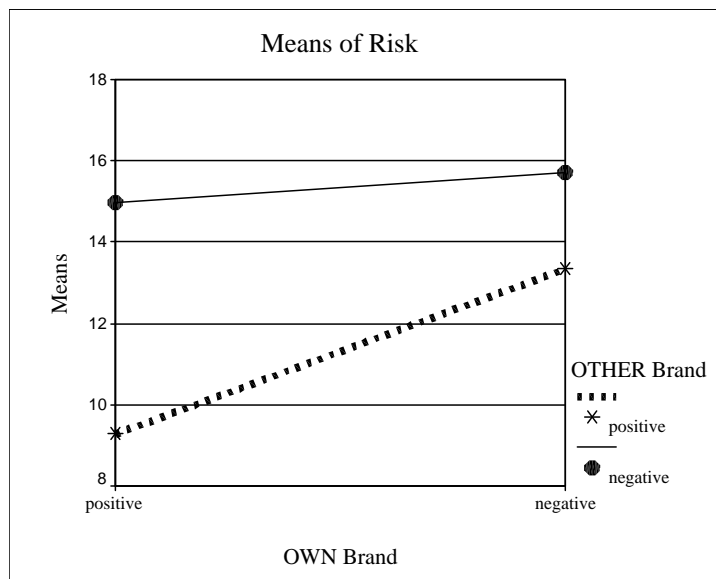


Figure 11. Interaction of OWN Brand Pre-Merger Attitude and OTHER Brand Pre-Merger Attitude on Risk.

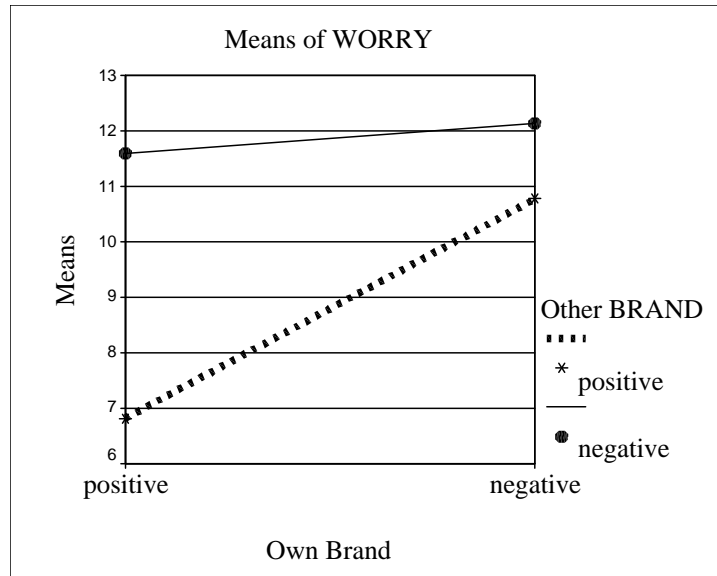


Figure 12. Interaction of OWN Brand Pre-Merger Attitude and OTHER Brand Pre-Merger Attitude on Worry.

Control group. The control group was included in the design to capture a comparison between a merger and non-merger situation. The control group participants were exposed to a single positive brand and subsequently asked to answer the same items as the respondents in the merger groups. Given the company profile used in the control group was manipulated as a positive brand, it was expected that the control group responses would be similar to the merger involving two positive brands.

To test the control group, a MANOVA was conducted with the group number functioning as the independent variable. Risk, anger, worry, optimism, and regret were included as the dependent variables. It should be noted that merged brand attitude and service quality expectations were not included because these measures were not assessed in the non-merger control group. The multivariate null hypothesis of equality of the means over all groups for all variables was rejected at the 0.01 level (Wilk's Lambda = 0.341, $F_{(20,816.84)} = 15.639, p < 0.001$, partial eta squared = 0.236, observed power = 1.00). As reported in Table 12, all of the individual ANOVAs were significant ($p < 0.01$). The means and standard deviations for the dependent variables are reported in Table 13. As expected, the mean for the control group was not significantly different from the merger group with two positive brands for all the dependent

variables.

Table 12. Study One Control Group Individual ANOVA Results

Dependent Variables	F-Value	DF	p-value	Partial Eta Squared	Observed Power
Risk	52.263	4, 250	0.000	0.455	1.00
Anger	26.982	4, 250	0.000	0.302	1.00
Worry	24.669	4, 250	0.000	0.283	1.00
Optimism	21.986	4, 250	0.000	0.260	1.00
Regret	81.565	4, 250	0.000	0.566	1.00

Table 13. Study One Control Group Mean Scores and Standard Deviations for Dependent Variables

Group	Dependent Variables				
	Risk	Anger	Worry	Optimism	Regret
	M (SD)	M (SD)	M (SD)	M (SD)	M (SD)
1 (Control)	8.55* (3.846)	5.40* (3.376)	5.26* (3.211)	15.25* (4.283)	6.19* (2.842)
2 (PP)	9.27* (3.465)	6.31* (3.839)	6.82* (4.038)	14.84* (4.221)	6.16* (2.361)
3 (PN)	14.96 (2.418)	10.89 (5.098)	11.58 (4.837)	10.87 (3.986)	13.77 (3.080)
4 (NN)	15.70 (3.265)	13.16 (4.930)	12.14 (5.364)	9.28 (4.106)	15.44 (4.195)
5 (NP)	13.33 (3.117)	9.67 (4.759)	10.77 (4.581)	14.31* (3.679)	9.60 (4.181)

Note 1. Group Notation: P = positive brand; N = negative brand. First letter in combination corresponds to own brand and the second letter refers to the other brand.

Note 2. Column means with a * are NOT significantly different at $p > 0.05$. Otherwise, means are significantly different at $p < 0.001$.

Pre-merger brand attitude versus post-merger brand attitude. An analysis comparing the respondents pre-merger brand attitudes to their post-merger brand attitude was conducted. Jaju et al. 2006 reported a decline in brand equity following a merger regardless of deployment strategy. Thus, the present research sought to examine the changes in brand attitude as a result

of a merger. In order to compare the pre and post-merger attitudes, an attitude difference score was created that subtracted the pre-merger brand attitude scores of the consumer's own brand from the post-merger brand attitude scores. Thus, a positive difference indicates an improved attitude and a negative difference indicates a decline in attitude. Next, a single sample t-test on the computed attitude difference score was performed for each of the merger groups.

First, the (positive/positive) merger group t-test was not significant ($t = -1.452, p > 0.05$). Unlike the Jaju et al. (2006) study, this result suggests that there is not a significant difference between pre and post merger brand attitudes when the merger involves two positive brands. However, the negative mean difference does suggest a decline in a brand attitude following a merger (mean = -0.8824). Second, the (positive/negative) merger group t-test was significant ($t = -11.734, p < 0.01$). This result suggests for mergers involving a consumer's own positive brand with a negative brand post-merger brand attitudes are significantly lower (mean = -9.34) than pre-merger brand attitudes toward his or her own brand. Third, the (negative/positive) merger group t-test was also significant ($t = 12.743, p < 0.01$). The mean for post-merger attitudes (10.40) for mergers involving a consumer's own negative brand with a positive brand was significantly higher than the pre-merger brand attitudes toward their own brand. Finally, the (negative/negative) merger group t-test was significant ($t = 4.08, p < 0.01$) suggesting consumer's post-merger brand attitudes toward mergers involving two negative brands is higher than the consumer's pre-merger brand attitude toward their own negative brand. In conclusion, these results extend the findings of the Jaju et al. (2006) study by considering the valence of the brands involved in a merger. These analyses support the important role of valence in influencing post-merger brand attitudes. Overall, if a consumer's own positive brand is involved in a merger, the merger is viewed negatively by the consumer. However, if the consumer has a negative brand, a merger can have a positive influence on attitude toward the brand even if it is merged with a negative valence brand.

Perceived fit. The questionnaire included a measure of perceived fit between the merging brands because the existing literature considers this an important variable (e.g., Jaju et al. 2006). Perceived fit was not included in the analysis as a covariate because it was correlated with the independent variable. However, a univariate analysis of variance (ANOVA) was conducted to determine how consumers perceived the manipulated merger groups fit together. Specifically, perceived fit was included as the dependent variable with the merger groups

representing the independent variable. Overall ANOVA results are reported in Table 14. Figure 13 illustrates the mean differences among the groups.

Table 14. Study One ANOVA Results for Perceived Fit

Source	F-Value	DF	p-value	Partial Eta Squared	Observed Power
Perceived Fit	68.977	3, 198	0.000	0.511	1.000

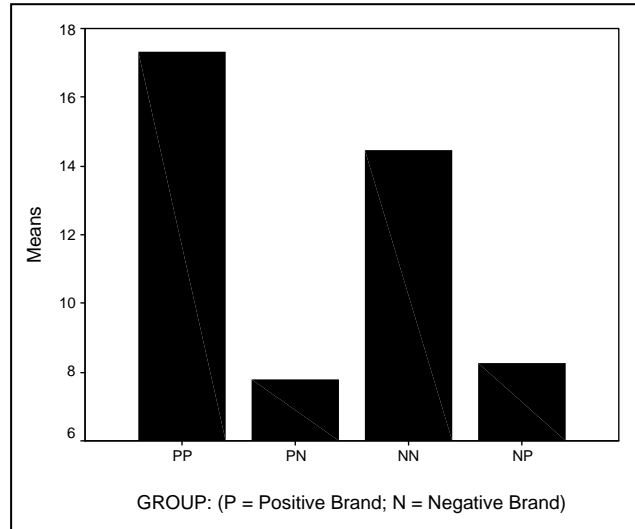


Figure 13. Means for Perceived Fit

The ANOVA assumption of equal error variances appears to be satisfied based on the results of Levene’s test of equality of variances ($F_{(3,198)} = 2.275, p > 0.05$). The overall F-test was significant ($F_{(3,198)} = 68.977, p < 0.001$). The corresponding effect size (η^2) was also strong at 0.511. Post-hoc tests indicate all the merger group means are statistically different ($p < 0.05$) with the exception of the (positive/negative) group and the (negative/positive) group.

Although no hypotheses were proposed with regards to perceived fit, the follow-up analysis indicates support for balance theory. Specifically, consumers believe the brands involved in the mergers involving two positive brands ($M = 17.314$) and two negative brands ($M = 14.460$) fit together better than the mergers with mixed valence brands (M 's = 7.792 and 8.271). Balance theory suggests the two positive brand mergers and the two negative brand mergers would be balanced because of the similar valences. However, the theory also suggests a merger involving two negative brands may not be deemed pleasant despite the balanced state. The ANOVA results support this notion with fit being significantly higher ($p < 0.05$) for mergers with two positive brands ($M = 17.314$) than mergers with two negative brands ($M = 14.460$). Alternatively, the theory argues the mergers involving a negative and positive valence brand would be lower in perceived fit and deemed unbalanced.

Discussion

Based on the tenets of balance theory, brand equity, and the elaboration likelihood model, study one sought to determine how consumers react to service mergers based on pre-merger brand valence of the firms involved in the merger. Several of the main analysis results validated balance theory. However, the follow-up analysis provided clear validation of balance theory in regards to mergers and perceived fit of merging brands. Overall, the main analyses indicate consumers react more positively toward service mergers involving two positive brands than mergers involving a negative brand. Vice-versa, consumers generally reacted more negatively toward service mergers involving two negative brands than mergers involving a positive brand. Based on balance theory, it was hypothesized that when a consumer had a negative brand, a merger might signal a possible positive change even when the merger was with another negative brand because of the balanced nature of the attitudes toward the merging firms. In addition, the consumer could hypothetically think, "could the service get any worse?" Although the main analyses do not fully support balance theory, the subsequent analyses do appear to support the previously mentioned notions when a consumer's own negative brand is involved in a merger. In contrast, customers react more negatively when their own positive brand is involved in a merger.

Obviously, consumers have varying reactions depending on the valence of the merging brands. A merger involving a negative brand damages the image of the merged brand regardless of how positive the other brand is perceived before the merger. The second study seeks to understand these reactions further by explaining why consumers have these reactions.

Specifically, several psychological links are proposed to occur sequentially, which could explain why consumers respond positively or negatively toward mergers.

Summary

This section provides the development of the hypotheses associated with the experimental design incorporated in study one. Overall, the intent of study one is to determine if pre-merger brand valence affects post-merger brand attitudes and service quality expectations. In addition, several dependent variables are examined to increase understanding of consumer reactions to mergers. The second study included in this research is developed based on the theoretical underpinnings and results of the first study. The next chapter presents the model and hypotheses associated with the second study.

CHAPTER THREE

STUDY TWO

Overview

Study one reveals *how* consumers react (positively or negatively) to a merger involving their service firm via a highly controlled experiment. Specifically, consumer perceptions of the merged firm develop based on the consumer's pre-merger brand attitudes and service quality expectations of the firms involved in the merger. The goal of study two is to understand *why* consumers react positively or negatively to service mergers. Thus, study two seeks to further explain the results of the experiment in study one. Moreover, the goal of study two is to increase external validity. Therefore, real brands and a more representative sample are utilized in study two. In study two, several psychological links derived from study one, which showed that they were influenced by pre-merger brand attitudes, as shown in Figure 14 are examined to understand how post-merger attitudes develop. These relationship links are proposed based on the theories used to develop study one. In addition, academic literature about the interplay of affect and cognition is utilized to provide a basis for the sequence of reactions.

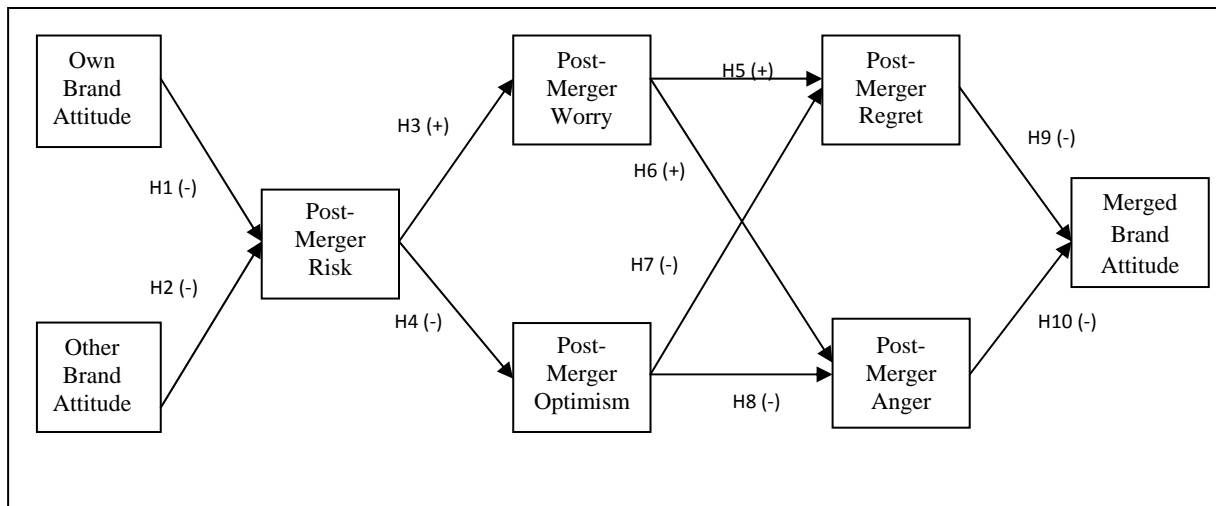


Figure 14. Study Two Theoretical Model

The model presented in Figure 14 shows the sequence of reactions an individual may have when their current service provider is involved in a merger. There is no consensus about the sequence of causality between emotion and cognition (Franzen and Bouwman 2001; Oliver 1997). However, research in branding, consumer behavior, and psychology seem to suggest that affective and emotional reactions usually follow cognitive evaluations (Franzen and Bouwman 2001, p.32; Oliver 1997, p.310). Similarly, studies examining the role and relationship of emotion as a mediator of responses to advertising (Edell and Burke 1987; Holbrook and Batra 1987) and quality perceptions (Compeau, Grewal, and Monroe 1998) have found that cognition can drive affect. This study considers a cognitive response (perceived risk) and several affective responses (anger, worry, optimism, and regret). Cognitive responses refer to knowledge, opinions, beliefs, and thoughts that are produced or recruited from memory, in response to a stimulus (Fishbein and Azjen 1975). When a consumer learns their brand is involved in a merger, their knowledge and/or prior experience about mergers may initially influence their perceptions of risk about their relationship with the merged brand. The model presumes that a person has pre-existing brand attitudes towards their own service provider and an alternative service provider. These pre-existing brand attitudes and cognitions about mergers should shape the individual's perception of risk as a result of a merger between the two service firms. For example, Cingular customers who had a positive attitude toward their own Cingular brand, but did not like the AT&T Wireless brand may have had higher risk perceptions following the merger of these two telecommunication service providers than those Cingular customers who also liked AT&T Wireless. A merger of one's own brand may not be perceived as a risky situation when it merges with a brand with a positive image. Thus,

H1: A consumer's brand attitude toward their service provider is negatively related to post-merger risk.

H2: A consumer's brand attitude toward an alternative service provider is negatively related to post-merger risk.

Given the uncertainty often associated with mergers, consumers are likely to perceive some level of risk when their service provider is involved in a merger. The risk that the newly merged firm will not be able to maintain the desired level of service may lead to several affective responses. An affective response is defined as a feeling state that occurs in response to a specific stimulus (Anand, Holbrook, and Stephens; Cohen and Areni 1991) such as a merger. Feelings

and emotions can range in levels of intensity. Overall, the model proposes the consumer's affective responses would increase from less intense feelings to more intense emotions. Feelings are considered to be less intense than emotions such as anger and regret (Cohen and Areni 1991). Thus, the model examined in study two suggests that feelings of worry and optimism are evoked after risk perceptions are established. The more risk a consumer perceives about the merged brand following the merger the more likely they are to worry about their relationship with the newly merged service provider. Therefore,

H3: Post-merger risk is positively related to post-merger worry.

On the other hand, if perceived risk is minimal following a merger then the consumer may actually be optimistic about his or her future with the firm. For example, if a consumer's own negative brand merges with a positive service brand, the consumer may believe the service provided will be better than before the merger. Consequently,

H4: Post-merger risk is negatively related to post-merger optimism.

Individuals who experience high levels of worry following a merger may eventually regret being a part of the newly merged firm. In addition, these individuals may also become angry because of the worry caused by the merger. Alternatively, consumers who are optimistic about a merger will experience less regret and anger. Thus, the following hypotheses are proposed.

H5: Post-merger worry is positively related to post-merger regret.

H6: Post-merger worry is positively related to post-merger anger.

H7: Post-merger optimism is negatively related to post-merger regret.

H8: Post-merger optimism is negatively related to post-merger anger.

Positive emotions would then lead to a favorable evaluation of the episode, whereas negative feelings would lead to an unfavorable evaluation (Pham 1998). Therefore, an individual that is regretful or angry about a merger may adjust their previous held attitudes toward the brands involved in the merger accordingly. As such,

H9: Post-merger regret is negatively related to attitude toward the merged brand.

H10: Post-merger anger is negatively related to attitude toward the merged brand.

Figure 14 implies the effects of pre-merger brand attitudes on merged brand attitudes are indirect via their effects on several constructs. In other words, the effects of pre-merger brand attitudes on post-merger brand attitudes are mediated by risk, regret, anger, worry, and optimism. The sequence of these cognitions and emotions are predicted to occur sequentially based on the

literature previously discussed. Understanding this sequence of responses could better explain how post-merger brand attitudes develop. Thus,

H11: The effect of one's own brand attitude on post-merger brand attitude is mediated by post-merger perceived risk, worry, optimism, regret, and anger.

H12: The effect of the alternative brand attitude on post-merger brand attitude is mediated by post-merger perceived risk, worry, optimism, regret, and anger.

In conclusion, the model presented in Figure 14 suggests that a sequence of cognitive and affective responses occur after a merger involving a consumer's own service provider occurs. This sequence of responses attempts to explain "why" consumer's attitudes toward a merged service firm change from the original attitude toward the brands involved in the merger.

Summary and Overview

Study one revealed how consumers react to service mergers based on the pre-merger brand valence of the merging firms. In fact, consumers appear to be especially wary of service mergers involving a negative brand. Consumers are prone to be more worried, angry, regretful, and less optimistic when a negative valence brand is involved in a service merger. The findings of study one warrant further investigation in a second study. Study two seeks to further clarify the results of study one by gaining a clearer understanding of how the rational and emotional reactions to mergers considered in study one are related to each other to influence consumer attitudes subsequent to a merger announcement. Thus, the overall goal in the second study is to understand why consumers respond the way they do to mergers involving their service provider. Several psychological links are explored in an effort to garner this knowledge. Figure 14 provides the theoretical model proposed and examined in study two. Another goal of study two is to increase external validity by using real brands and a more representative sample.

The following sections provide details on how study two was conducted along with the results. First, the design and analytical procedures are presented. Moreover, this section includes a discussion of the study design, questionnaire considerations, data collection procedures, subjects, and analyses for study two. Second, the confirmatory factor analysis and structural equation modeling analysis results for study two are reported. Finally, the results of the second study are discussed and study three is introduced.

Preliminary Test

Study two incorporated real brands in a hypothetical merger situation involving the consumer's actual cell phone brand and another real telecommunications brand. Two merger situations were created based on the results of a preliminary test. One of two potential mergers was presented depending on which brand the respondent selected in the main study. Careful consideration was taken to select the most appropriate brands to be involved in the merger. The overarching goal was to select brands that would capture the most variance. In an effort to achieve this goal and understand consumer perceptions of the current cell phone market, a preliminary test was administered to 38 undergraduate students.

First, the subjects were asked to indicate their current cell phone provider. Second, each respondent was asked to rank a list of the seven most well-known cellular phone brands from best (1) to worst (7). The results show that less than a third of the respondents ranked their own brand as the best. This finding indicates that there is potential variance in the way consumers perceive their own brands, with some liking their own cell phone provider and others disliking it. The brands chosen to merge with the respondent's cell phone provider included Sprint and Alltel. These two brands were chosen because they were ranked in the middle of the list according to the results of the pretest. The middle ranking indicates that reactions are mixed toward these two brands with some loving them and some hating them. Thus, these two brands represent the best chance for capturing maximum variance in the main study. In addition, Sprint is an established brand and Alltel currently has a large advertising presence. Thus, respondents should be somewhat familiar with the brand and able to make basic judgments.

Study Two Design

The underlying theories for study one also provide the foundation for study two. In contrast to study one, study two utilizes structural equation modeling to test the proposed links in Figure 5 concerning consumer reactions to service mergers. In an effort to increase external validity, consumers were asked to consider a merger involving their own cell phone brand with another real cell phone brand. Based on the results of the preliminary pretest, all respondents were exposed to a merger with Alltel unless the respondent indicated their own brand to be Alltel. If Alltel was selected as the consumer's own brand, then they were exposed to a merger with Sprint.

Study Two Questionnaire Design

This section describes how the online questionnaire for study two was presented to the respondents. Similar to study one, the survey for study two was presented online. The scales and response points used in study two are also included in Appendix D. The majority of the constructs were measured with 7-point semantic differential items.

First, the respondents were asked to complete a brief thought listing exercise to capture any thoughts they may have about their current cell phone provider. Several questions about their own cell phone provider including items about brand attitude and service quality expectations were then posed. Finally, the respondent reported their current cell phone brand. If the respondent indicated he or she had never owned a cell phone, they were filtered out of the study at this point. Second, based on the cell phone provider selection, the respondent's familiarity and thoughts on either Alltel or Sprint were gathered. Next, brand attitude and service quality expectations of the alternative brand were measured with the same items used on the respondent's brand. Third, a merger announcement involving the respondent's own brand and either Sprint or Alltel was presented. The merger announcement was crafted to be as realistic as possible and was similar to the announcement used in study one. Subsequent items addressed perceived fit, regret, merged brand attitude, post-merger service quality expectations, anger, worry, optimism, and risk. Descriptive items such as merger familiarity, cell phone usage, telecommunications familiarity and involvement, gender, and age were also included to better understand the sample.

Study Two Data Collection Procedure

The data for studies two and three were collected simultaneously. Study three will be discussed in detail in the next chapter. A brief explanation of study three is provided here to justify the data collection procedure for study two. In general, study three was based on an experimental design that included four conditions. Two conditions involved a merger and two conditions did not include a merger. Thus, four online questionnaires were developed to accommodate the various conditions. All four conditions were utilized in study three. However, only the two merger conditions were examined in study two.

The two different methodologies incorporated in studies two and three required large sample sizes in each condition. The structural equation modeling approach used in study two requires a minimum sample size of 200. MANOVA was used in study three. Moreover,

approximately equal sample size across conditions is desirable in MANOVA. Thus, to accommodate the requirements of both methodologies, the goal sample size was approximately 100 respondents per condition. This approach resulted in appropriate sample sizes for both study two and study three.

Well-trained student recruiters were randomly provided one of four links to the online study. The students were awarded extra credit for emailing the survey to up to two participants. The respondents themselves were provided an incentive of a chance at winning a gift certificate to the store of their choice.

Study Two Participants

The subjects in the second study included 202 non-students (99 males, 96 females, 7 not reported) in an effort to enhance external validity. Although students are an appropriate sample for telecommunications based surveys, it was believed non-students would have even more experience with telecommunications and mergers in general. All of the respondents reported either currently owning a cell phone (200 subjects) or having previously owned a cell phone (2 subjects). The same five 7-point semantic differential items used in study one were included to assess the respondents' familiarity with telecommunications service providers (coefficient alpha = 0.86). Appendix D contains the individual scale items. The five items were summated to create a single telecommunications familiarity construct item. Scores ranged from 9 to 35. Overall, descriptive analysis indicated that the sample respondents were familiar with telecommunications service providers ($M = 28.46$; $S.D. = 4.98$). Older respondents were predicted to have more direct experience with the telecommunications company (e.g., handling service problems, bills, etc.) than the younger student sample. The reported respondent ages ranged from 20 to 71 years old with an average age of 40 years old. Descriptive analysis also indicated that nearly 84 percent of the sample had previously experienced a merger with one of their service providers. In conclusion, external validity seemed to be supported based on the descriptive analysis of the sample.

Study Two Analyses Overview

First, the reliability and validity of the independent and dependent variables used in the questionnaire were assessed via established methods (Fornell and Larcker 1981). Second, the assumptions associated with SEM were assessed and discussed. Third, structural equation modeling (SEM) was used to assess the hypotheses proposed in study two.

The data were analyzed utilizing the traditional two-step approach. First, preliminary analyses including a confirmatory factor analysis (CFA) of the scale items was conducted to confirm the factor structure of the established scales used in the second study. Second, structural equation modeling (SEM) was used to test the hypothesized relationships between the constructs of the study as well as the overall fit of the hypothesized model.

Study Two Preliminary Analyses

Psychometric properties. The psychometric properties of the measures considered in study two were assessed using confirmatory factor analysis (CFA). All scales were simultaneously tested, with each item only being allowed to load on its respective factor. The results of the CFA indicated that the measurement model provided good fit to the data ($\chi^2 = 503.752$; d.f. = 296; CFI = 0.98; TLI = 0.97; SRMR = 0.04).

Table 15. Study Two Construct Reliabilities (C.R.), Average Variances Extracted (Diagonal), Shared Variances

CONSTRUCTS	C.R.	OBA	ABA	RGT	RSK	ANG	WOR	OPT	MBA
Own Brand Attitude (OBA)	.99	0.95							
Alternative Brand Attitude (ABA)	.98	0.00	0.93						
Regret (RGT)	.91	0.03	0.12	0.77					
Risk (RSK)	.94	0.05	0.05	0.38	0.85				
Anger (ANG)	.93	0.05	0.02	0.39	0.35	0.82			
Worry (WOR)	.93	0.00	0.02	0.31	0.33	0.59	0.82		
Optimism (OPT)	.93	0.09	0.12	0.25	0.25	0.21	0.12	0.82	
Merged Brand Attitude (MBA)	.99	0.05	0.16	0.41	0.41	0.30	0.28	0.40	0.95

Similar to study one, construct reliability was calculated using Fornell and Larcker's (1981) guidelines which involved an examination of the parameter estimates, their associated t-values, and assessment of the average variance extracted by each construct. The construct reliabilities for the dependent variables all exceeded 0.90 as reported in Table 15. In addition, the variables exhibited discriminant validity per Fornell and Larcker's (1981) criteria. Specifically, discriminant validity was determined by comparing the shared variances between the constructs to the average variances extracted. These comparisons show that none of the shared variances

exceeded the average variance extracted for the constructs. Table 15 summarizes the results of these validity assessments. Convergent validity was supported because the average variance extracted for each construct exceeded 0.50. The correlation matrix for the variables in study two are located in Appendix F.

Multivariate normality. A key assumption of CFA is that the data follow a multivariate normal distribution. Multivariate non-normality can inflate chi-square estimates (Curran et al. 1996) and can lead to low standard errors (Byrne 2001). Several steps were taken to assess normality. First, item distributions were assessed for univariate normality. Table 16 provides the results of the univariate normality assessment. Univariate skewness greater than 2.0 and kurtosis greater than 7.0 can be problematic in non-normal models (Finch, West, and MacKinnon 1997). Table 16 indicates the four items measuring brand attitude toward the alternative brand suffer from kurtosis since all kurtosis values are nearing 7.0. However, the results for these particular items were expected since most respondents would not have direct experience with the alternative brand presented. Moreover, as expected the overall means for the brand attitude items for the alternative brand were mostly neutral (M 's = 3.94, 3.94, 3.90, 3.95) which resulted in the positive kurtotic nature of the data. Second, multivariate normality was assessed by examining Mardia's coefficients of kurtosis. Moreover, the critical ratio of 79.555 is greater than the cut-off of 1.96 thereby indicating the data is multivariate non-normal. The analysis did not indicate any severe outliers. Maximum likelihood estimates are considered reasonably robust to moderate violations of multivariate normality (Bagozzi and Baumgartner 1994). As previously mentioned, the measurement model fit the data well despite the fact that the data appeared to be multivariate non-normal. The normality assessment of the distribution of the indicators showed that the three items measuring attitude toward the other brand were highly kurtotic. This led to a concern that the path from attitude toward the other brand to perceived risk of the merger (-0.172) might not be stable (Byrne 2001). Consequently, the bootstrapping procedure was performed to assess this possibility. The results showed that not only were the individual paths from "attitude toward the other brand" to its indicators were stable (all p 's < 0.01), the path itself was also stable (90% confidence interval = -0.537, -0.091, $p = 0.027$). In conclusion, the violation of the multivariate normality assumption and typical problems associated with the violation did not appear to affect the study two data.

Table 16. Confirmatory Factor Analysis Assessment of Normality

Item	Min.	Max.	Mean	St. Dev.	Skewness	Kurtosis	C.R.
Own Brand Attitude 1	1	7	5.15	1.570	-0.704	-0.091	-0.266
Own Brand Attitude 2	1	7	5.12	1.595	-0.757	0.066	0.193
Own Brand Attitude 3	1	7	5.11	1.606	-0.737	-0.075	-0.220
Own Brand Attitude 4	1	7	5.03	1.494	-0.712	0.148	0.435
Other Brand Attitude 1	1	7	3.94	0.790	-0.981	7.224	21.165
Other Brand Attitude 2	1	7	3.94	0.786	-1.445	6.532	19.136
Other Brand Attitude 3	1	7	3.90	0.804	-1.479	6.237	18.271
Other Brand Attitude 4	1	7	3.95	0.793	-1.373	-6.455	18.910
Merged Brand Attitude 1	1	7	4.23	1.087	0.014	0.940	2.753
Merged Brand Attitude 2	1	7	4.23	1.105	0.070	0.786	2.302
Merged Brand Attitude 3	1	7	4.21	1.069	0.061	0.975	2.857
Merged Brand Attitude 4	1	7	4.21	1.100	-0.053	0.902	2.642
Risk 1	1	7	3.71	1.307	-0.353	-0.124	-0.362
Risk 2	1	7	3.65	1.360	-0.239	-0.351	-1.028
Risk 3	1	7	3.62	1.311	-0.332	-0.279	-0.818
Regret 1	1	7	2.99	1.508	0.564	-0.328	-0.961
Regret 2	1	7	3.05	1.538	0.579	-0.434	-1.270
Regret 3	1	7	3.00	1.521	0.567	-0.262	-0.768
Anger 1	1	7	3.14	1.866	0.256	-1.239	-3.629
Anger 2	1	7	2.56	1.645	0.644	-0.661	-1.937
Anger 3	1	7	2.92	1.871	0.458	-1.047	-3.068
Worry 1	1	7	2.63	1.703	0.522	-0.981	-2.874
Worry 2	1	7	2.81	1.738	0.461	-1.023	-2.996
Worry 3	1	7	2.43	1.545	0.648	-0.707	-2.070
Optimism 1	1	7	4.23	1.523	-0.363	-0.220	-0.645
Optimism 2	1	7	4.00	1.498	-0.372	-0.204	-0.598
Optimism 3	1	7	4.42	1.505	-0.416	-0.104	-0.306
Multivariate (Mardia's)						438.695	79.555

Common method variance. Finally, to eliminate any concern that common method variance accounted for the high correlations, the “marker-variable technique” was used in a post hoc fashion to assess its impact (Lindell and Whitney 2001). The smallest positive correlation in the correlation matrix shown in Appendix F was used to adjust the smallest correlation of interest (.027) for possible attenuation due to common method variance. Even after this adjustment, the correlation between attitude toward the consumer’s own brand and attitude toward another brand (0.264) was significantly different from zero ($t = 3.48, p < .01$).

Study Two Analysis and Results

Similar to the CFA, the normality assessments for the SEM resulted in the same kurtosis issue surrounding the attitude toward the alternative brand. Specifically, the kurtosis values for the four “other” brand attitude items ranged from 7.243 to 8.381 indicating potential issues. Bootstrapping was conducted to determine the severity of the assumption violation. As a result, none of the confidence intervals contained zero. Thus, the violation of the normality assumption is believed to be inconsequential in interpreting the results of the analysis.

The hypothesized relationships among the latent variables are depicted in Figure 14. The structural model includes two exogenous variables, the respondent’s brand attitude toward their own cell phone service provider and the respondent’s brand attitude toward an alternative provider (Sprint or Alltel). The other constructs (merged brand attitude, risk, regret, worry, optimism, and anger) were modeled as endogenous variables. The estimated structural model provided good fit to the data ($\chi^2 = 633.492$; d.f. = 313; CFI = 0.96; TLI = 0.96; RMSEA = 0.07). These estimates exceeded the recommended threshold for a good fit (Hu and Bentler 1999).

Hypothesis testing was accomplished by examining the standardized parameter coefficients and their t-values. Table 17 reports the goodness of fit indices and the parameter estimates for the full structural equation model. All estimates were significant ($p < 0.05$). H1 was supported with attitude toward one’s own cell phone brand having an inverse relationship with post-merger risk perceptions. In support of H2, attitude toward the alternative cell phone brand also had an inverse relationship with post-merger risk perceptions. As stated in H3, post-merger risk is strongly and positively related to post-merger worry. However, in support of H4, post-merger risk is strongly and negatively associated with post-merger worry. H5 and H6 were both supported with post-merger worry being positively and strongly related to post-merger regret and post-merger anger respectively. In support of H7, post-merger optimism was negatively related to post-merger regret. Similarly, post-merger optimism was negatively related to post-merger anger thereby supporting H8. H9 was strongly supported with post-merger regret exerting a strong negative influence over the merged brand attitude. H10 also had support with post-merger anger negatively influencing attitude toward the merged brand.

Table 17. Structural Parameter Estimates and Goodness-of-Fit Indices

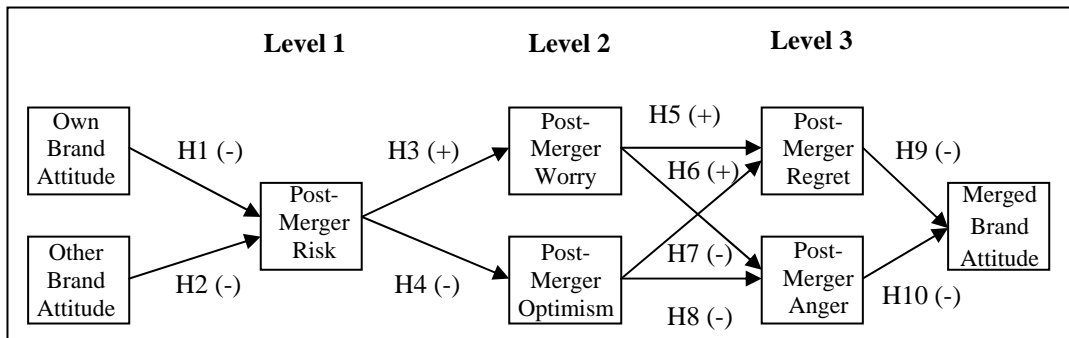
<i>Hypotheses</i>	<i>Paths</i>	<i>Estimate</i>	<i>t-value</i>
H1	Own Brand Attitude \Leftrightarrow Risk	-0.246	-3.572
H2	Other Brand Attitude \Leftrightarrow Risk	-0.172	-2.516
H3	Risk \Leftrightarrow Worry	0.562	8.337
H4	Risk \Leftrightarrow Optimism	-0.521	-7.679
H5	Worry \Leftrightarrow Regret	0.420	5.966
H6	Worry \Leftrightarrow Anger	0.685	10.753
H7	Optimism \Leftrightarrow Regret	-0.394	-5.689
H8	Optimism \Leftrightarrow Anger	-0.246	-4.509
H9	Regret \Leftrightarrow Merged Brand Attitude	-0.645	-8.718
H10	Anger \Leftrightarrow Merged Brand Attitude	-0.174	-2.917

RMSEA = 0.07; TLI = 0.96; CFI = 0.96
 χ^2 (313 d.f.) = 633.492 χ^2 / d.f. = 2.02

Alternative Models: Mediation Analysis

To test the mediating effects proposed in H11 and H12, the models were estimated consistent with Baron and Kenny (1986). Thus, four conditions for mediation were considered for every level of mediation. Three levels of mediation were considered (risk as a mediator, worry and optimism as mediators, and regret and anger as mediators). For the first level, the first condition was satisfied given the independent variables (pre-merger brand attitudes) affect the mediator (perceived risk). The second condition was satisfied because the mediator (perceived risk) affected the dependent variable (post-merger worry and optimism). The first two conditions are depicted in Figure 15 and were tested in the previous analysis. The third condition was satisfied because the independent variables (pre-merger brand attitudes) directly affected the dependent variables (worry and optimism). Specifically, a *Direct* model as seen in Figure 16 was estimated with only direct paths from both pre-merger brand attitude constructs to post-merger worry ($\chi^2 = 126.755$; d.f. = 72; CFI = 0.98; TLI = 0.98; RMSEA = 0.06). Two of the four direct paths were significant ($p < 0.05$) with standardized path coefficients of 0.307 (own brand \rightarrow optimism) and 0.280 (other brand \rightarrow optimism). The fourth mediating condition

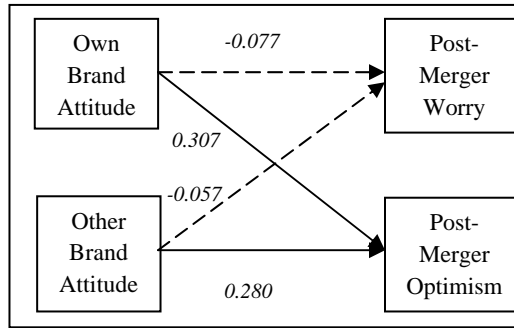
is satisfied if the direct paths from the independent variables to the dependent variables become non-significant (i.e., full mediation) or reduced (partial mediation) when the paths from the independent variables to the mediators are included in the model (i.e., the *Full* model) as seen in Figure 17. The fit of this *Full* model ($\chi^2 = 149.03$; d.f. = 110; TLI = 0.99; CFI = 0.99; RMSEA = 0.04) was slightly better than the fit of the *Hypothesized* model in Figure 14 because of the lower chi-square value. This slight improvement in model fit indicates the proposed mediating constructs do not fully mediate all the effects of pre-merger brand attitudes on post-merger brand attitude. The paths from own and other brand attitude to worry remain insignificant, supporting full mediation. The paths from own and other brand attitude to optimism were diminished, supporting partial mediation. The four steps applied to the first level of mediation were also applied to the second and third level. The results provide support for full and partial mediation for both levels. Based on the mediation analyses of all three mediation levels depicted in Figure 15, H11 and H12 are both supported



Note: all paths significant at ($p < 0.05$)

Figure 15. Mediation Levels: Theoretical Model

In conclusion, one of the goals of study two was to better explain the sequence of consumer responses following a merger. The mediation results indicate that the proposed response order was hypothesized correctly. Overall, these results support the notion that after consumers learn their service provider is involved in a merger a sequence of cognitive and affective reactions occur which lead to the evaluation of the merged brand.



Note: solid paths significant at ($p < 0.05$)

Figure 16. Level One Mediation: Direct Model

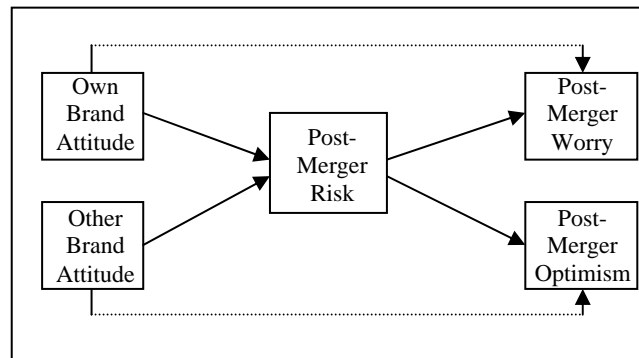


Figure 17. Level One Mediation: Full Model

Alternative Models: Goodness of Fit Comparison

Several alternative models were analyzed as a comparison point for the model previously tested. The most powerful alternative model tested is included in the following discussion. The alternative model depicted in Figure 18 does not include the anger and regret emotion variables. The rationale for excluding these particular variables is that these are more intense emotions than the feelings of worry and optimism. In addition, these particular emotions may not be evoked in all consumers immediately following a merger. This estimated structural model provided good fit to the data ($\chi^2 = 365.346$; d.f. = 182; CFI = 0.97; TLI = 0.97; RMSEA = 0.07). Although the alternative model offered a slightly better fit to the data than the original model presented, there was a decline in the r-square value of merged brand attitude. Moreover, the merged brand

The results of study one indicate how consumers react to service mergers. Study two extended the first study and further explained why consumers have these reactions by examining several psychological links. Consumers who have experienced mergers develop expectations about the service company. Study three seeks to understand how merger expectations influence perceptions of the initial service encounter involving a service failure.

CHAPTER FOUR

STUDY THREE

Overview

The purpose of study three is to determine how expectations of a merger shape perceptions of service performance following a merger. This section provides an overview of the relevant literature applicable in study three. First, the service failure literature is addressed as it provides the foundation for study three. Second, information processing theory is presented to understand how consumers process information and subsequently react to a service failure. Finally, several hypotheses are proposed that involve several important behavioral variables (e.g., switching intent, word-of-mouth, and complaining behavior).

Service Failures

Service companies build strong brands through branding distinctiveness and message consistency, by performing their core services well, from reaching customers emotionally, and by associating their brands with trust (Berry 2000). However, even well established service brands are prone to service failure at some point in time. The ability of the brand to maintain its strength depends on the firm's effort to recover from the failure. For example, an airline service provider may offer a free hotel stay for customers whose flights were cancelled at the last minute.

Consumers evaluate services by comparing the service they perceive they have received (service performance) with their expectations of what they should have received (Bateson 1992; Zeithaml and Bitner 1996). A service failure occurs when the service performance fails to live up to the consumer's expectations. Two types of service encounter failures are recognized in the services marketing literature: outcome and process (Bitner, Booms, and Tetreault 1990; Hoffman, Kelley, and Rotalsky 1995; Keaveney 1995; Mohr and Bitner 1995). The outcome dimension of a service encounter involves what the customer actually receives from the service, whereas the process dimension involves how the service is delivered (Gronroos 1988; Parasuraman, Zeithaml, and Berry 1985). A service failure could be a core-service problem such as unavailability of the service (no service personnel with the appropriate knowledge are available), exceptionally slow service, mistakes in the service (e.g., bank statement errors, online statement errors), etc. (Spreng, Harrell, and Mackoy 1995).

If a service firm fails to provide the service expected by its customers, the customer becomes aware of a weakness in the firm. This new information is processed by the customer and can lead to a negative reaction (e.g., complaints, negative word-of-mouth, and/or switching) depending on the severity of the service failure.

Information Processing Theory

Several theories propose that consumers use information to make informed choices (Bettman 1979; Howard and Sheth 1969). Bettman's (1979) information processing approach explains consumer behavior in terms of cognitive operations. Moreover, this approach supports bounded rationality (Simon 1955), the notion that decision makers have limitations on their capacity for processing information. Similarly, Craik and Lockhart (1972) suggest that individuals have limited processing capacity that can be allocated to processing incoming information. These capacity limitations often lead consumers to develop heuristics that enable them to deal with complex situations without requiring more processing capacity than is available. Thus, consumers often make quick decisions with little or no cognitive elaboration on choice-relevant information (Hawkins and Hock 1992).

Bettman (1979) provides details of information processing theory, but Tybout, Calder, and Sternthal (1981) effectively summarize the process as follows. According to the information processing view, incoming information is represented more or less in active memory. Memory is an active constructive process where information is acquired, stored, and then retrieved for use in decision making (Braun 1999). Incoming information may stimulate the activation of object-relevant thoughts that have been processed earlier and stored in memory. Both incoming information and previously processed information represented in active memory can be stored by a process of rehearsal. Rehearsal involves the active association of attributes with an object. Information about a particular object is stored as associations with that object in one or more memory locations. Findings are generally consistent with the common-sense notion that consumers' attitudes are influenced by the favorableness of information available in memory (Keller 1987).

To illustrate the theory as described above, imagine an individual often reads the popular business press and is familiar with the fact that mergers have high failure rates. Thus, the high failure rate becomes an attribute of mergers that is stored in the individual's memory. If this same individual experiences a service failure following a service merger certain thought

processes will be activated. To process the service merger the individual might retrieve the memory about merger failure rates and connect the current failure to the merger. Thus, due to the attributes stored in memory, the evaluation of the merged service provider might not be favorable. This unfavorable evaluation may lead to negative consequences for the firm.

Memory appears to affect not only the amount of information that enters into the decision process but also the type of information considered and the heuristics used to process it (Alba, Hutchinson, and Lynch 1991). Exposure to some prior event, such as a merger, increases the accessibility of information already existing in memory (Mandel and Johnson 2002). Therefore, consumer reactions toward mergers may depend on their previous exposure to merger events. Some individuals may have experienced a merger with another service provider. If this merger experience was negative, the person may respond emotionally to news of another merger. Other individuals might simply be aware of the consequences of mergers due to the phenomenon of word-of-mouth. Either way, this knowledge could play a role in shaping consumer reactions to service merge failures via information processing.

Summary

The previous section introduces the very relevant service failure literature. In addition, this section provides a glimpse of information processing in regards to service failure. Service failures are very important considerations for a merged company given the problems often associated with mergers as two separate service companies bring their capabilities together to operate as one entity. Drawing on information processing theory and the service failure literature, the next section introduces several dependent variables considered in the third study. In addition, several hypotheses are developed and presented based on these particular variables.

Study Three Dependent Variables

Complaining Behavior

Unsatisfactory service encounters can lead to intentions to complain (Zeithaml, Berry, and Parasuraman 1996). Voorhees and Brady (2005) demonstrate that service provided in a failed encounter influences future complaint intentions. According to Singh (1988), dissatisfaction leads to consumer complaining behavior that is manifested in voice responses such as seeking redress from the seller, private responses (negative word-of-mouth communication), or third-party responses (taking legal action). Overall, consumer complaints to

the seller could be beneficial to the firm. However, only about 5% of customers complain after a service failure (Smith, Bolton, and Wagner 1999; Tax and Brown 1998).

It is important to understand a consumer's intention to complain based on varying degrees of service failures. For example, following a merger a customer might be more inclined to complain to the service firm if the failure is considered major versus a minor failure. It is also important to compare complaint intentions for customers who experience a failure following a service merger to those who simply experience the same failure not following a service merger. Information processing theory suggests that the information about the merger that is stored in memory could lead to more extreme reactions. For example, if a consumer is already angry as a result of the merger, a service failure may exacerbate the situation and lead to a more negative response from the consumer. Therefore, the following hypotheses are suggested.

H1a: Complaint intentions will be higher for a newly merged firm when a major service failure occurs than when a minor service failure occurs.

H1b: Complaint intentions will be higher for a newly merged service firm following a major service failure than for a non-merged service firm following a major service failure.

H1c: Complaint intentions will be higher for a newly merged service firm following a minor service failure than for a non-merged service firm following a minor service failure.

Negative Word-of-Mouth

Word-of-mouth has been widely recognized as an important force in the marketplace. Word-of-mouth is defined as product-related oral, person-to-person communications (Arndt 1967). Moreover, word-of-mouth has been shown to influence attitudes (Bone 1995; Pincus and Waters 1977), preferences and purchase intentions (Charlett, Garland, and Marr 1995; Herr, Kardes, and Kim 1991), and decision-making (Bansal and Voyer 2000; Venkatesan 1966). Word-of-mouth can be either negative or positive. However, prior research suggests negative word-of-mouth is more influential than positive word-of-mouth (Bone 1995; Mizerski 1982).

Mergers can lead to service failures that adversely affect the consumer. Even if the consumer does not leave a firm following a merger or a service failure, they may be inclined to complain to their friends and family. These complaints could prevent those who receive the negative word-of-mouth from becoming customers of the service firm. Therefore, it is important

to understand when consumers will or will not engage in negative word-of-mouth depending on the extent of the service failure. Similarly, it is vital to understand the different negative word-of-mouth intentions of customers based on whether a service failure follows a recent merger or not. Thus,

H2a: Negative word-of-mouth will be higher for a newly merged firm when a major service failure occurs than when a minor service failure occurs.

H2b: Negative word-of-mouth will be higher for a newly merged service firm following a major service failure than for a non-merged service firm following a major service failure.

H2c: Negative word-of-mouth will be higher for a newly merged service firm following a minor service failure than for a non-merged service firm following a minor service failure.

Switching Intent

Keaveney (1995) finds that service failures are a leading cause of customer switching behavior in service organizations. Service provider switching can have a significant impact on a firm. When customers are lost, new ones must be attracted to replace them, and replacement comes at a high cost (Zeithaml, Berry, and Parasuraman 1996). In fact, Fornell and Wernerfelt (1987, 1988) provide empirical support that concludes marketing resources are better spent keeping existing customers than attracting new ones.

Bansal, Taylor, and St. James (2005) argue switching can result from three drivers (push effects, pull effects, and mooring effects). Push effects include low quality, low satisfaction, low trust, low commitment, and high prices. Pull effects refer to attractive alternatives; whereas, mooring effects are personal inhibitors and facilitators (e.g., variety-seeking). In the context of mergers, pull factors include the competition trying to lure customers of merged firms away. In fact, it is common business practice for competitors to try to increase uncertainty among the merging firms' customers to promote customer switching (Clemente and Greenspan 1997). Push effects such as poor service quality and dissatisfaction are probably prevalent when a merger occurs. For example, Morrall (1996) reports that insufficient emphasis on bank customers and their perceptions may cause them to switch away from the newly merged bank. Again, the degree of service failure may influence the consumer's intentions to switch following a merger.

In addition, consumer switching intentions may differ depending on whether or not the service failure occurs following a merger.

H3a: Switching intent will be higher for a newly merged firm when a major service failure occurs than when a minor service failure occurs.

H3b: Switching intent will be higher for a newly merged service firm following a major service failure than for a non-merged service firm following a major service failure.

H3c: Switching intent will be higher for a newly merged service firm following a minor service failure than for a non-merged service firm following a minor service failure.

Study Three Method and Discussion

Overview

Overall, the third study integrates the findings of the first two studies with the goal of determining how consumer expectations shape perceptions of the merged firm's performance in case of a service failure. Information processing theory is the primary theory upon which the third study is based. Service failure severity is hypothesized to influence several dependent variables including complaint intentions, negative word-of-mouth, and switching intentions. The next section presents the methodology utilized for study three. A description of the pilot study, measurement scales, main study, sampling, analyses, and discussion for study three are included.

Based on the service failure literature, study three incorporated a highly controlled experimental design with a representative sample and real brands to determine if merger presence (merger or no merger) and degree of service failure (minor and major) influences post-failure intentions (negative word of mouth, switching, and complaint). Two covariates (familiarity with mergers and loyalty towards the newly merged brand) were included in study three to provide further insight to consumer reactions to service mergers following a service failure.

First, the preliminary tests used to calibrate the measures in study three are discussed. Second, the design and analytical procedures are presented. Moreover, this section includes a discussion of the experimental design, questionnaire considerations, data collection procedures, subjects, and analyses for study three. Third, the actual analyses and results for study three are reported. Fourth, the results of the final study are discussed.

Study Three Preliminary Test

This section outlines the development of a pilot study used to check the manipulations incorporated in the third study. Study three manipulates the extent of service failure following a service merger. The study includes a major service failure and a minor service failure. In order to manipulate service failure, two failure scenarios were crafted based on the results of the pilot study discussed in chapter two. Pilot study one assessed the respondent's concern about several common service quality issues. Specifically, the respondents were asked to rank order a list of service quality issues from (1 – not a big concern) to (6 – a very big concern). The respondents had the option to add a sixth issue not included in the list. The ranking results were then used to develop three service failure scenarios. The most serious concerns were used to craft a major service failure scenario. The less serious concerns were combined into two minor service failure scenarios.

Pilot study two presented the previously mentioned service failure scenarios to 28 undergraduate students. The pilot test included various sections. First, the respondent read “service failure scenario #1.” Subsequently, they were asked to rate the degree of service failure presented in the scenario by circling the corresponding response point ranging from (1) extremely minor failure to (7) extremely major failure. In addition, the respondent was asked to indicate how bothered they would be if this failure occurred with their service provider by circling a response ranging from (1) not bothered at all to (3) extremely bothered. Second, the subject read “service failure scenario #2” and answered the same two questions. Third, the same questions were assessed following the presentation of “service failure scenario #3.”

The pilot study included overall questions regarding the service failure scenarios. Two separate questions asked the respondents to select the worst and least worst service failure scenarios respectively by circling the appropriate scenario number. The final question asked the respondents to identify their emotional intensity stemming from the service failure by placing each scenario number by an intensity response. The responses included: “would not upset me that much,” “would upset me some,” and “would upset me a lot.”

In order to assess the results of the pilot study, descriptive analysis was utilized. The results of the pilot study were clear and consistent. The major service failure scenario was represented by scenario #3. Scenario #3 had the highest mean ($M = 6.14$) among the three scenarios with respondents indicating this scenario would bother them the most ($M = 2.96$). In

addition, it was ranked the worst scenario by 27 of the 28 respondents, and 27 of 28 respondents indicated it would upset them a lot. Thus, the results support the successful manipulation of the major service failure scenario

Service failure scenarios #1 and #2 represented minor service failures. Scenario #2 was deemed the most minor failure because it had a lower mean ($M = 3.36$) than scenario #1 ($M = 3.86$). In addition, scenario #2 seemed to bother respondents less ($M = 1.96$) than scenario #1 ($M = 2.21$). Scenario #2 was rated the least worst service failure by 17 of 28 respondents. In addition, 18 of 28 subjects indicated the failure would not upset them that much. Consequently, scenario #2 was selected to represent the minor service failure scenario. The service failure scenarios are included in Appendix G.

Study Three Design

Study three involved a 2 x 2 between-subjects design in which the extent of service failure and merger presence (merger / no merger) was manipulated via service failure scenarios (major / minor). Thus, the combination of merger presence and degree of service failure functioned as the independent variables in this final study. Figure 19 depicts the various conditions included in the third study. The participants were randomly assigned to one of four between-subject conditions: merger present / major service failure; merger present / minor service failure; no merger present / major service failure, or no merger present / minor service failure.

		Merger Presence	
		<i>Present</i>	<i>Not Present</i>
Service Failure	<i>Major</i>	Merger Present Major Service Failure	No Merger Present Major Service Failure
	<i>Minor</i>	Merger Present Minor Service Failure	No Merger Present Minor Service Failure

Figure 19. Study Three Experimental Conditions

Study Three Questionnaire Design

The following section describes how the questionnaire was presented to the respondents involved in the third study. The questionnaire used to gather the data for the third study was actually used to gather data in the second survey. As a reminder, the questionnaire asked the respondent to indicate their cellular phone service provider. Subsequently, they answered items regarding their brand attitude and service quality expectations of their own brand. Next, the respondents in the merger conditions were exposed to an alternative brand and answered several items about the brand before reading a merger announcement involving this alternative brand and their own brand. Alternatively, the respondents in the non-merger conditions were not exposed to an alternative brand or a merger announcement. Next, data were gathered for the dependent variables examined in study two. These variables were adapted for the participants in the non-merger conditions accordingly. General measures assessing the respondents' familiarity with mergers were included along with items measuring their loyalty to the newly merged brand.

The data used for study three was gathered after the items assessing the dependent variables examined in study two were presented. Immediately following these items, the respondents in all conditions were asked to read a service failure scenario (major or minor). Study participants were asked to answer several items regarding their intentions with the newly merged firm immediately following the service failure scenario. Specifically, 7-point semantic differential scales were adapted from the literature to assess switching intentions, complaint intentions, and negative word of mouth intentions. All items included in the study three analyses are included in Appendix D.

Study Three Data Collection Procedure and Participants

The participants for study three were the same as the participants described in study two. As a reminder, the 431 subjects were randomly provided one of four possible links. Each link took the respondent directly to the randomly assigned online survey.

The goal for the sample was to have relatively large sample sizes in each cell to increase the power of the study. The power goal was at least 0.80 and was assessed via established methods for calculating power (Rosenthal and Rosnow 2008, p. 258). The online survey was managed so that the four cell sizes remained approximately equal until the end of the study. The final cell sizes ranged from 97 to 119 individual responses per cell.

Study Three Dependent Variables

Three dependent variables were examined in study three to address the proposed hypotheses in chapter four. The dependent variables were measured using 7-point semantic differential items adapted from the service failure literature. All items used to capture these three particular constructs are included in Appendix D along with response points and original scale source. The dependent variables included intent to spread negative word-of-mouth, complain to the company, and switch to another service provider following either a major or minor service failure. These particular constructs are often used as dependent variables in the service failure literature (e.g., Bansal, Taylor, and St. James 2005; DeWitt and Brady 2003; Diaz and Ruiz 2002) because of the potential impact they have on the service provider. Customers who spread negative word-of-mouth about a company and those who leave after a service failure occurs can cost the firm money and valuable customers. In theory, customers who experience a failure should be motivated to complain. However, reality suggests most unsatisfied customers do not complain following a service failure (Harari 1992). Thus, the service provider may not be aware of problems that could damage the valuable relationship with the customer and/or other customers.

Study Three Covariates

Study three considered two possible covariates that were measured with 7-point semantic differential items adapted from the literature. The corresponding scales can be found in Appendix D. First, familiarity with service mergers was predicted to be a potential covariate. Specifically, consumers who have experienced a merger were predicted to respond differently to service failures. For example, customers with merger experience may have heightened reactions following a service failure because they attribute the failure to the merger. Customers who have limited merger experience would be less familiar with the problems that arise following mergers. Therefore, these inexperienced customers may not respond as negatively to service failures following mergers as the customers who are familiar with mergers.

The second covariate included was loyalty to the newly merged service firm. Service loyalty is defined as the degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service exists (Gremler and Brown 1996). Consumers who are highly loyal to their current service provider are likely to transfer this loyalty

to the newly merged service firm. In turn, this loyalty is likely to influence the consumer's response to service failures following a merger. Consumers with high service loyalty may be more accepting of service failures and less likely to react rashly after the failure occurs. On the other hand, consumers who do not feel loyal to the newly merged brand may respond more negatively to service failures following a merger.

Study Three Analyses Overview

First, the reliability and validity of the dependent variables gathered in the questionnaire were assessed via established methods (Fornell and Larcker 1981). Second, a MANCOVA (multivariate analysis of covariance) was implemented with the metric dependent variables used to test the hypotheses presented in study three. The assumptions associated with MANCOVA were assessed at this time as well. Subsequent individual ANOVAs and post hoc tests were conducted to test each hypothesis.

Study Three Analyses

Psychometric properties. The psychometric properties of the covariate measures and dependent variable measures were assessed using confirmatory factor analysis (CFA). All scales were simultaneously tested, with each item only being allowed to load on its respective factor. The results of the CFA indicated that the measurement model provided good fit to the data ($\chi^2 = 375.63$; d.f. = 109; CFI = 0.963; TLI = 0.954; SRMR = 0.045). Construct reliability was calculated using Fornell and Larcker's (1981) guidelines which involved an examination of the parameter estimates, their associated t-values, and assessment of the average variance extracted by each construct. The construct reliabilities for the dependent variables all exceeded 0.90 as reported in Table 18. In addition, the dependent variables exhibited discriminant validity per Fornell and Larcker's (1981) criteria. Discriminant validity was determined by comparing the shared variances between the constructs to the average variances extracted. The average variance extracted was higher than the shared variances, thus supporting discriminant validity. Table 18 summarizes the results of these validity assessments. Convergent validity was supported given the AVE's all exceeded 0.50. The correlation matrix for study three is included in Appendix H.

Table 18. Study Three Construct Reliabilities (C.R.), Average Variances Extracted (Diagonal), Shared Variances

Constructs	C.R.	LOY	MGF	CMP	SWT	WOM
Covariate: Loyalty (LOY)	0.90	0.70				
Covariate: Merger Familiarity (MGF)	0.84	0.00	0.73			
Dependent Variable: Complaining Intent (CMP)	0.95	0.00	0.01	0.79		
Dependent Variable: Switching Intent (SWT)	0.98	0.11	0.02	0.29	0.94	
Dependent Variable: Negative Word of Mouth (WOM)	0.90	0.04	0.01	0.40	0.45	0.75

Preliminary analyses. A one-way multivariate analysis of covariance (MANCOVA) was utilized to determine the effect of the four conditions (merger present /major service failure; merger present/minor service failure; no merger present/major service failure, and no merger present/minor service failure) on the three dependent variables examined in study three. MANCOVA analysis assumes observations in each group are independently sampled from a multivariate normal distribution. None of the study circumstances suggested concern about possible violation of the independence assumption. Visual inspection of histograms did suggest some possible departures from normality, but none was severe. The homogeneity of slopes is another assumption of MANCOVA. To test the homogeneity of slopes for the potential covariates, merger familiarity and loyalty, several univariate ANOVA's were conducted. Specifically, if the interaction between the group number and the covariate was not significant ($p > 0.05$) the variable could be considered a potential covariate. Consequently, both covariates satisfied the homogeneity of slopes assumption. The test of the assumption of homogeneity of covariance matrices in the four groups resulted in a reject decision (Box's M = 71.725, $F_{(18,618373.8)} = 71.725, p < 0.001$), indicating a likely violation of the assumption. However, the violation of the equality of variance-covariance matrices is not problematic given the relatively equal group sample sizes (Hair et al. 1998, p.348).

MANCOVA analysis. The multivariate null hypothesis of equality of the means over all groups for all variables was rejected at the 0.01 level (Wilk's Lambda = 0.547, $F_{(9,1029.621)} = 32.173, p < 0.001$, partial eta squared = 0.182, observed power = 1.00). The value of the

multivariate strength of association ($\eta^2 = 0.182$) suggested a relatively strong relationship between the group and the dependent variables, controlling for loyalty and merger familiarity. The means and standard deviations for the various groups are reported in Table 19. The covariates were included in the analysis to control for differences on these variables and are not the focus of the analysis. However, the merger familiarity covariate was significant ($F_{(3,423)} = 3.067, p < 0.05$, partial eta squared = 0.021, observed power = 0.717). In addition, the loyalty covariate was also significant ($F_{(3,423)} = 27.027, p < 0.001$, partial eta squared = 0.161, observed power = 1.00). These results indicate the merger familiarity and loyalty covariates account for approximately 2% and 16% of the variance of the dependent variables across the various groups.

To identify the dependent variables that contributed to the rejection of the multivariate null hypothesis, univariate ANOVA's were conducted for each of the dependent variables. The individual ANOVA results are described in Table 20.

Table 19. Study Three Mean Scores and Standard Deviations for Dependent Variables

Group	Dependent Variables		
	Complaint Intentions (H1a-H1c)	Negative Word-of- Mouth Intentions (H2a-H2c)	Switching Intentions (H3a-H3c)
	M (SD)	M (SD)	M (SD)
#1: Merger with Major Failure	28.82 (6.83) _{ab}	17.46 (3.99) _a	15.50 (4.97) _{ab}
#2: Merger with Minor Failure	21.33 (7.83) _a	11.96 (3.96) _a	10.13 (4.41) _{ac}
#3: No Merger with Major Failure	30.67 (4.14) _b	16.93 (3.60)	13.36 (4.78) _b
#4: No Merger with Minor Failure	21.34 (7.03)	12.11 (3.82)	8.50 (4.43) _c

Note. Column means with matching subscripts are significantly different at $p > 0.05$. The subscript letter corresponds to the hypothesis being tested.

Table 20. Study Three Individual ANOVA Results

Dependent Variables	F-Value	df	p-value	Partial Eta Squared	Observed Power
Negative Word of Mouth	69.694	3, 425	0.000	0.330	1.000
Complaint Intentions	62.460	3, 425	0.000	0.306	1.000
Switching Intentions	55.932	3, 425	0.000	0.283	1.000

Pairwise comparisons were performed to assess the hypotheses associated with study three. H1a – H1c examined complaint intentions across the various conditions. H1a was supported ($p < 0.001$). Complaint intentions were significantly higher for a newly merged firm when a major service failure ($M = 28.82$) occurs than when a minor service failure occurs ($M = 21.33$). H1b was also supported ($p < 0.05$) to a certain extent. The relationship was significant, but the direction was not predicted correctly. In fact complaint intentions were significantly lower, as opposed to higher, for a post-merger firm involving a major service failure ($M = 28.82$) than a non-merging firm involving a major service failure ($M = 30.67$). H1c was not supported ($p > 0.05$). Thus, there is no difference in complaint intentions for merging and non-merging firms when a minor service failure is involved.

H2a – H2c considered intentions to spread negative word of mouth. H2a was supported ($p < 0.001$). Negative word of mouth intentions were significantly higher for a newly merged firm when a major service failure ($M = 17.46$) occurs than when a minor service failure occurs ($M = 11.96$). H2b and H2c were not supported ($p > 0.05$). Thus, there are no differences in means for negative word of mouth for merging and non-merging firms when a major service failure is involved and when a minor service failure is involved.

H3a – H3c examined switching intentions following a service failure. H3a was supported ($p < 0.001$). Switching intentions were significantly higher for a newly merged firm when a major service failure ($M = 15.50$) occurs than when a minor service failure occurs ($M = 10.13$). H3b was also supported ($p < 0.001$). Switching intent was higher for a newly merged service firm following a major service failure ($M = 15.50$) than for a non-merged service firm following a major service failure ($M = 13.36$). H3c was supported ($p < 0.01$). Switching intent was higher for a newly merged service firm following a minor service failure ($M = 10.13$) than for a non-

merged service firm following a minor service failure ($M = 8.50$).

Discussion

Using information processing theory as a foundation, study three sought to determine how consumers react to service failures following a merger. The most interesting finding is that consumers are more likely to switch service providers when a newly merged service firm experiences a service failure, major or minor, than they are to complain or spread negative word of mouth. This finding implies that newly merged service firms have to be extra careful in providing service because there may not be a second chance to get it right. In addition, when failures occur following mergers, customers are less likely to complain to the firm, which means the firm may never realize they have problems, which could negatively affect other customers. Two of the three hypotheses about negative word of mouth intentions were not significant. These findings merely suggest consumers do not have a plan to spread negative word-of-mouth. However, this does not imply customers who switched will never complain about the merged firm and service failure to others. Overall, the findings of study three provide clear managerial implications that are discussed in the following chapter. In addition, the limitations of the three studies are discussed along with ideas for future studies.

CHAPTER FIVE

CONCLUSIONS, LIMITATIONS, AND IMPLICATIONS

Overview

The previous chapters provided the theoretical foundations and rationale for the current research. In addition, three separate studies were presented along with the methodological considerations and findings. The final chapter includes several sections. First, a summary of the findings from the three studies is included. Second, the theoretical and managerial implications of the results are presented. Third, the limitations and strengths of the research are considered. Finally, future research topics are proposed to extend further the findings of the present effort.

Summary of Findings

Study One

The overall goal for study one was to understand how consumers react to mergers. In order to gain this understanding, a carefully controlled experiment was developed to understand the influence of pre-merger brand valence (independent variable) on post-merger brand attitudes and service quality expectations (dependent variables). Several other dependent measures such as risk, regret, worry, optimism, and anger were incorporated to determine potential reactions to mergers.

The results of study one indicate that mergers involving two positive valence brands outperform mergers involving a negative brand. Moreover, when two positive brands merge it leads to higher levels of post-merger brand attitudes, service quality expectations, and optimism; and lower levels of risk, regret, anger, and worry than mergers involving a negative brand. Thus, mergers of two positive service firms do not suffer as much as mergers involving a negative firm, which supports Basil and Herr's (2006) notion of a "balance boost." In addition, the results for the mergers involving the negative valence brands also support their idea of a "contamination effect." Apparently, "contamination" occurs when a negative brand is involved in a merger. Contrary to balance theory, the "contamination" is even more extreme in the mergers involving two negative brands with the respondents having the lowest levels of post-merger brand attitude, service quality expectations, and optimism; and the highest levels of perceived risk, regret, anger, and worry. Although respondents perceive two negatively valenced service firms as fitting together, which indicates balance, the merging firms were definitely not deemed a pleasant pair.

Service mergers involving a negative and positive valence brand may be more common in the real world because the successful firm is in a position to take over the flailing firm. Thus, it is critical to understand the influence of a merger on the current customers of either a negative or a positive firm with a firm of opposite valence. The results of the mergers involving the opposite valence brands provide clear and vital information for managers. Customers fond of their service provider, have adverse reactions to a merger with a negative brand with lower levels of post-merger brand attitudes, service quality expectations, and optimism. In contrast, these customers perceive higher levels of risk and experience more regret following a merger with a negative brand. Thus, the pre-merger positive brand suffers as a consequence of the merger. On the other hand, the pre-merger negative brand fares better when merged with a positive brand. These customers have more positive post-merger brand attitudes, service quality expectations, and optimism. These opposite valence mergers invoke lower risk perceptions and regret following the merger. These findings reveal how consumers react to service mergers involving their firm. Consequently, important managerial implications emerge and are discussed shortly.

Study Two

Study one revealed how consumers generally react when their service provider is involved in a service merger. Study two sought to understand the sequence of these reactions to understand better why consumers' brand attitudes change following a merger. The dependent variables included in study one were organized and modeled in a specific pattern in study two. The model analysis supported the proposed sequence of post-merger reactions and emotional responses leading to the development of post-merger brand attitudes.

When a consumer is informed of a merger involving their service provider via a merger announcement in the popular press, they perceive risk in their relationship with the newly merged firm based on their attitudes toward their own brand and the other brand involved in the merger. These risk perceptions can lead the customer to worry or become more optimistic about their relationship with the newly merged firm. In turn, depending on how worried or optimistic the customer feels, he or she may become more or less angry and regretful about being a part of the newly merged firm. This sequence of responses leads to the post-merger brand attitude perceptions.

The information gleaned from study two explains why the consumer has negative or positive reactions to a service merger involving their own brand. The results of study two also offer many managerial insights.

Study Three

The first two studies reveal how consumer expectations are formed following a service merger. Based on information processing theory, the consumer expectations of the merged company should influence consumer perceptions of the first service failure. Study three focused on determining how these perceptions affected the consumer's response to a service failure. Customers overwhelmingly had a more severe response to service failures following a merger than when no merger had occurred. Moreover, the results indicate customers are more likely to simply switch to a competitor if a failure of any magnitude occurs after a service merger. The customers experiencing a merger do not bother complaining to the firm or simply spreading negative word-of-mouth more than customers in the non-merger service failure situations. Interestingly, customers are more likely to complain if the same service failure occurs for a company not involved in a service merger as opposed to a recently merged firm. Perhaps the customer does not believe complaining to the merged firm after a service failure will have positive results which could prompt them to leave without complaining.

Implications

Theoretical

First, studies one and two incorporated the well-established balance theory. For the most part, the relationship of two merging firms is supported by balance theory. The balanced situation of two positive firms merging leads to more positive post-merger assessments than unbalanced situations involving a positive and negative firm. On the other hand, the so-called balanced state of two negative firms merging does not result in more positive post-merger assessments compared to the unbalanced unions. However, balance theory does imply that two negatives may not be deemed pleasant, which is clear from the results of the first study. In addition, the follow-up analysis did show that customers perceive the merger involving the two negative firms as fitting together more than the mixed valence mergers thereby supporting balance theory. Thus, balance theory provides an adequate foundation to understand how pre-merger brand valence influences post-merger brand assessments of a merged firm.

Second, the results of the present studies involving mergers provide an interesting contrast to the highly related brand alliance literature. As previously mentioned, mergers are similar to brand alliances because they both involve the pairing of two separate brands. In contrast to findings in brand alliance related studies (Washburn et al. 2004), the merger of two brands does not positively affect the consumers' perceptions of brand equity. Although mergers of two positive brands are deemed better than mergers involving a negative brand, mean scores show that the attitude toward the merged brand is lower than the attitudes toward the pre-merger brands. Similarly, mergers involving a positive pre-merger brand and a negative pre-merger brand resulted in lower brand attitudes for the merged brand. These results are consistent with the findings of Jaju et al. (2006) which suggested brand equity declines following a merger of positive brands. However, Jaju et al. (2006) did not explicitly consider a merger of two negative valence firms in their research. The current study indicates that mergers involving two negative brands are preferred less than the other merger combinations, but in contrast to the other combinations, the mean score for post-merger brand attitude was higher than the pre-merger brand attitude of the negative valence brands, which indicates an increase in brand equity. Thus, the current study extends the findings of one of the initial studies that considered mergers from a consumer perspective. In addition, the results from this research explain how and why attitudes towards brands change following a service merger. This detailed information provides a clearer picture and specific managerial implications.

Managerial

The current research is rich in relevant managerial implications. Study one shows that mergers of two positive brands fair better than mergers involving a negative brand. This finding indicates that companies involved in a merger where at least one of the firms is perceived negatively have to take extra precaution when it comes to their relationship with the customer. Preserving customers who were original customers of a positive brand that merged with a negative brand is even more vital. Moreover, special consideration should be given to these customers of the original positive brand because disconfirming their negative perceptions of the newly merged firm could lead to positive reactions such as increased loyalty or positive word-of-mouth. Vice-versa, confirming their expectations is likely to have extreme negative consequences such as defection. Currently, the business press indicates the possibility of a merger with Yahoo and Microsoft (Greene 2008; Ricadela 2007). The internet service provider,

Yahoo, has a generally positive reputation among its users. On the other hand, anecdotal evidence suggests Microsoft is not as popular. If this merger happens in the future, then managers would benefit by carefully focusing on the previous Yahoo customers and easing the transition. Otherwise, the formerly satisfied Yahoo customers may defect which ultimately could hurt the merged firm.

Study two provided even more clear implications. Specifically, consumer risk perceptions develop following the merger of their service provider with another firm. These risk perceptions lead to several emotional reactions depending on the amount of risk perceived. Mergers with negative brands are deemed more risky than mergers with two positive firms. Given the fact, that many mergers often involve at least one negatively perceived brand, this is an important finding. Moreover, this finding suggests managers should attempt to alleviate risk concerns as soon as possible. Marketing communications before and after the merger should be crafted with this purpose. Perhaps managers could lower risk perceptions by offering feasible and acceptable solutions to potential problems before they occur. This effort could also make the customer more optimistic about their relationship with the newly merged firm. These promises could also serve to lower the consumers regret for being in a relationship with the newly merged firm.

Study three considered three managerially relevant variables. Given the finding that consumers are likely to switch to another service provider after a service failure occurs indicates that firms may not get a chance to correct the service failure. Given the high rate of customer problems following a merger, as mentioned in chapter one, this could prove detrimental to the newly merged firm which is likely one of the reasons that mergers often fail in practice altogether. In fact, New York-based researcher Millionaire Insight Programs estimate that about one-quarter of people with \$1 million or more in investable assets get so upset that they take money out of their accounts soon after their bank merges (Thornton, Arndt, and Weber 2004). Therefore, efforts should be made to prepare the consumer for potential failures while offering more than adequate solutions. The managerial key for a merged firm is to provide the customer with clear paths to complain if a service failure occurs. Customers need to believe that the newly merged firm has the capability and willingness to solve a problem. In support of this issue, some of the thoughts in the thought listing exercises indicate that some customers are not likely to complain because of the perception that the merged firm cannot solve the problem. For example,

one respondent said, “Here we go again, companies buying out companies...the American way. I hope my service doesn't get affected by this. I'm sure the customer service will be very slow while they merge. I will definitely try to avoid calling them for any reason.”

Maritz Research estimates that the more than half of the nation's 109 million households have gone through a bank merger since 1999 (Thornton, Arndt, and Weber 2004). In fact, the thought listing exercise featured several comments from customers whose expectations of the merged firm were influenced by their previous merger experience. For example, one respondent said the following in response to reading the merger announcement involving her service provider, “Since I just went through a merger with Nextel/Sprint, I am hesitant to believe that the above is true. I experienced a lot of confusion and avoidance during the merger of Nextel/Sprint and have not yet reaped the benefits of additional towers, service, etc.”

Customers who have previously experienced a merger may be even more sensitive to service failures. Moreover, they may be more likely to attribute the failure to the merger. Given the knowledge that employees of a merged firm are often not prepared to handle customer issues following a merger, these experienced merger consumers are likely to have heightened responses to service failures. Considering the high number of respondents indicating they have been involved in a service merger in the present study, this is an important issue for managers. Based on these findings, managers should be especially considerate when training employees to handle customer issues following a merger. Communicating that service employees are willing and able to solve any problems that may arise following a merger is likely to have a positive impact on the customer. At the very least, it may afford the firm at least a better chance to solve a post-merger problem.

Maintaining loyal customers is very important for a merging firm. Long-term customers buy more, take less of a company's time, are less sensitive to price, and bring in new customers (Reichheld 1996). Furthermore, Reichheld (1996) acknowledges that value drives loyalty. Managerial focus during mergers often centers on making the deal as opposed to creating value for the customers. This common managerial mentality can lead loyal customers to defect following the merger although the results of the third study imply that a customer with high loyalty toward their own service provider before a merger are likely to carry this loyalty to the merged brand. Thus, marketers should specifically focus efforts on maintaining relationships with long-term customers of a firm involved in a merger.

Limitations and Strengths

The current study features limitations and strengths. One limitation is the current study only considers mergers involving telecommunications companies. Other domains such as airlines and bank mergers should be considered in future studies to ensure the findings are generalizable to all service mergers. Similarly, the present research is limited to service mergers, but understanding consumer reactions to mergers involving physical goods companies would also be beneficial. Another limitation is that only hypothetical mergers were considered in the present research. A study involving actual mergers could provide insight that is more specific. Finally, the study is limited to the variables and measures included in the three studies.

Although the study has limitations, it does feature several strengths. First, the highly controlled experiment provided internal validity while the second study afforded more external validity. The structural model in study two provided a more complete picture of the results of the experiment conducted in study one. Second, various models were tested in the second study.

Future Research

The current research provides an adequate foundation for understanding how and why consumers react to service mergers. Future studies can build on the present findings to understand different marketing strategies for merging companies. For example, research could focus on creating the most effective marketing communication strategies following a merger. The variables used in the current studies would be interesting constructs to consider in this type of study as well. However, other models with additional variables should be developed to understand more fully the relationships between pre-merger brand valence and post-merger brand assessments and consumer reactions.

The confound checks in study one revealed a correlation between post-merger customer assessments and the helpfulness of the merger announcement in forming an opinion about the firm. Thus, the development of the merger announcement should be carefully considered given its influence on post-merger perceptions. Future studies should attempt to provide further clarification on the relationship between loyal customers of a merging firm and the merged firm itself. Other brand equity concepts such as brand awareness should also be considered in future studies.

Research involving the front-line employee of merging firms would also be extremely valuable. Understanding how the service employee reacts to service mergers and subsequently

the customers of the merging firm is important considering the issues that arise following mergers. The current study focused on service mergers. It would be interesting to compare consumer reactions to service-oriented mergers and product-oriented mergers. Equity theory could also be incorporated to understand if consumer's perceptions of fairness influence customer responses to mergers.

Future studies should focus more on the expectation confirmation/disconfirmation aspect following a merger. Marketers need to know how to shape consumer expectations following a merger. For example, most marketing communications promise better service and superior products because of the merging capabilities of two firms. However, this approach could backfire on the firm given the likelihood of a service failure. Based on the common merger experience of today's consumer, firms that take a more realistic approach while acknowledging potential problems would fair better than firms that make unrealistic promises to the consumer.

At any rate, marketers could greatly benefit from future studies about service mergers and the consumer. Perhaps if Sprint Nextel had focused on the consumer they would not have recently experienced a \$29.5 billion loss (Sharma and Cheng 2008). Similarly, the merger between US Airways and America West has yet to reap benefits with the merged company capturing the most customer complaints among the 20 largest carriers (Palmeri 2008). Clearly, a focus on the customer is an important aspect of the merger process. This focus is even more pertinent in service mergers.

Conclusion

This dissertation examined consumer reactions to service mergers. Three studies were conducted to clarify and understand the mental processes that lead to post-merger firm assessments and consumer reactions. First, the results reveal consumer responses vary depending on the valence of the brands involved in a merger. Consumers tend to respond more adversely if a negative brand is part of the merger. Second, the consumer's initial reaction to news of a merger is the assessment of potential risk. Post-merger risk perceptions influence the emotional responses that lead to the final perceptions and expectations of the merged brand. Third, consumer responses to post-merger service failures compared to non-merger service failures are more severe with increased consumer switching intentions. In conclusion, the present findings offer several managerial implications and provide a foundation for many future

studies to help marketers and managers understand the complexities of the merged firm's relationship with its customers.

APPENDIX A

STUDY ONE BRAND PROFILES

Customer Review of APEX Communications (positive brand):

“I signed up with APEX Communications because a good friend recommended the services. APEX customer service is like no other. They talk to me like I am a person and not just another phone call. APEX offers a variety of services, extra features, and plans that actually fit my needs. The cell service is great. APEX offers state of the art technology and communication networks. My calls are rarely ever dropped and the network is never “too busy.” I cannot say enough nice things about APEX.” – Abby Jamison, San Marcos, TX

Customer Review of Excel Telecommunications (positive brand):

“I have been with Excel Telecommunications for years. Excel has always gone the extra mile. They know how competitive the industry is and they want to keep their customers happy. Stay with them and you always get loyalty treatment. They have grown tremendously and their coverage has far surpassed the competitors. I live in a rural area and travel rurally, and I can't remember the last time I had a dropped call. Excel has great plans, cool features, low prices, no hidden fees, and superior coverage.” — Jim Lowery, Ames, LA

Customer Review of Majesty Mobile (negative brand):

“Majesty Mobile is the worst of all cell phone services. First, calls drop while you are having a conversation. Second, Majesty has inferior call reception and coverage. Third, the customer representatives are completely unprofessional. They keep you on hold for a long time. I never received the help I needed when I called with questions. Also, Majesty has a horrible warranty program. Don't make the mistake of signing up with Majesty Mobile. My contract will FINALLY end soon. I am counting the days until then!” – Haley Granger, Franklin, OH

Customer Review of Succor Wireless (negative brand):

“I switched from T-Mobile to Succor Wireless because of a terrific promotion. However, this is the worst experience I have had with a telecommunications provider. The service is horrible with too many dropped calls and a lack of coverage near surrounding towns. The customer service is terrible. The employees do not seem to have a clue about the billing system. I have been overcharged more than once. Hidden charges seem to pop up all the time. Succor is the worst when it comes to hidden charges!” – Hank Helmsley, Corrine, NM

APPENDIX B

STUDY ONE SURVEY

Consumer Research Survey

I am a Ph.D. student in the Department of Marketing at Florida State University. I am conducting a research project as part of my dissertation and am inviting your participation in this short survey. Specifically, the purpose of this survey is to understand how you feel about telecommunications (cell phone, television, Internet, telephone, etc.) providers.

It will take you about twenty minutes to complete this questionnaire. The survey poses no risks to your well-being. You will be eligible to win a \$50 gift certificate to the store of your choice (WalMart, Target, or Home Depot) if you complete the survey. However, there are no negative consequences for not completing the survey. Your responses are extremely valuable to furthering my research. You must be at least 18 years old to participate, but your participation is purely voluntary. You may choose not to participate or to withdraw from the study at any time without penalty. Your responses will remain confidential and only aggregated results of the research will be published with individual participants unidentified. Your answers will be kept strictly confidential by being combined with others, and used only for research purposes. The information obtained during the course of the study will remain confidential to the extent allowed by law.

If you have any questions concerning this research, please feel free to contact me or Dr. Ronald Goldsmith. I can be reached at (850) 644-4417 or via e-mail at mla04c@fsu.edu. Dr. Goldsmith may be reached at (850) 644-4401. You can also call Florida State University's Human Subjects Committee Hotline at 850-644-8836.

Return of the questionnaire will be considered your consent to participate.

Thank you for your participation.

Melinda Andrews
Marketing Department
FSU College of Business
(850)644-4417

INSTRUCTIONS: Please read the following questions and provide your answer by clicking the appropriate response.

Do you currently own a cell phone?

No

I used to own a cell phone but don't currently.

Yes

If yes, how many do you own? _____

INSTRUCTIONS: Please take a very brief moment (no more than one minute) and write down any thoughts or feelings you may have about your cell phone provider.

INSTRUCTIONS: Consider your cell phone provider as you answer the following questions. Please select the most appropriate response for each question about your cell phone company by marking the blank that is closest to your opinion.

What are your feelings toward your current cell phone provider?

- | | | | | | | |
|----------------|---|---|---------|---|---|-----------|
| 1. Bad | 2 | 3 | Neutral | 5 | 6 | Good |
| 2. Unfavorable | 2 | 3 | Neutral | 5 | 6 | Favorable |
| 3. Negative | 2 | 3 | Neutral | 5 | 6 | Positive |
| 4. Unappealing | 2 | 3 | Neutral | 5 | 6 | Appealing |

What is your evaluation of the service provided by your current cell phone provider?

- | | | | | | | |
|------------------|---|---|---------|---|---|----------------|
| 5. Poor | 2 | 3 | Neutral | 5 | 6 | Excellent |
| 6. Inferior | 2 | 3 | Neutral | 5 | 6 | Superior |
| 7. Low Standards | 2 | 3 | Neutral | 5 | 6 | High Standards |

What is your current cell phone provider?

- Alltel
 AT&T
 Sprint
 T-Mobile
 Verizon
 Virgin
 Other (please specify) _____

SECTION 2

INSTRUCTIONS: This section asks similar questions about another cell phone provider, Alltel. Please think about Alltel as you answer the following questions.

Are you familiar with the Alltel brand?

- Yes
 No

INSTRUCTIONS: Please take a very brief moment (no more than one minute) and write down any thoughts or feelings you may have about Alltel.

INSTRUCTIONS: Consider Alltel as you answer the following questions. Please select the most appropriate response for each question about Alltel by marking the blank that is closest to your opinion about Alltel.

What are your feelings toward Alltel?

- | | | | | | | |
|----------------|---|---|---------|---|---|-----------|
| 1. Bad | 2 | 3 | Neutral | 5 | 6 | Good |
| 2. Unfavorable | 2 | 3 | Neutral | 5 | 6 | Favorable |
| 3. Negative | 2 | 3 | Neutral | 5 | 6 | Positive |
| 4. Unappealing | 2 | 3 | Neutral | 5 | 6 | Appealing |

What is your evaluation of the service provided by Alltel?

- | | | | | | | |
|------------------|---|---|---------|---|---|----------------|
| 5. Poor | 2 | 3 | Neutral | 5 | 6 | Excellent |
| 6. Inferior | 2 | 3 | Neutral | 5 | 6 | Superior |
| 7. Low Standards | 2 | 3 | Neutral | 5 | 6 | High Standards |

SECTION 3

INSTRUCTIONS: This section presents a short news announcement about a merger between your cellular provider and Alltel. Please read the news brief before answering the questions that follow.

OFFICIAL NEWS BRIEF: January 21, 2008

Two major telecommunications brands have agreed to merge to better compete for voice and data customers. The new company will serve more than 40 million wireless subscribers. Shareholders from both companies will each have a 50 percent stake in the combined company.

The merger of the two telecommunications companies will create a more effective and efficient provider in the wireless, broadband, video, voice and data markets. The combined company will have greater financial, technical, research and development, network and marketing resources to better serve consumers and large-business customers, and will accelerate the introduction of new and improved product and service sets for those customers. The merger is expected to close within approximately 12 months.

INSTRUCTIONS: Please take a very brief moment (no more than one minute) and write down any thoughts you may have had about the MERGER of your cell phone provider based on the news announcement you just read.

Did you find the merger announcement easy or difficult to read?

Very Difficult Difficult Sort of Difficult Neutral Sort of Easy Easy Very Easy

Generally, when it comes to mergers I am:

Not Favorable 2 3 Neutral 5 6 Favorable

Generally, when it comes to mergers I am:

Positive 2 3 Neutral 5 6 Negative

I believe mergers are:

Good 2 3 Neutral 5 6 Bad

I prefer to avoid companies involved in a merger.

Strongly Disagree 2 3 Neutral 5 6 Strongly Agree

Considering only the favorable qualities of mergers and ignoring the unfavorable characteristics, how favorable is your evaluation of mergers?

- ___ Not at all Favorable
- ___ Slightly Favorable
- ___ Quite Favorable
- ___ Extremely Favorable

Considering only your feelings of satisfaction toward mergers and ignoring your feelings of dissatisfaction, how satisfied do you feel about mergers?

- ___ Not at all Satisfied
- ___ Slightly Satisfied
- ___ Quite Satisfied
- ___ Extremely Satisfied

Considering only the beneficial qualities of mergers and ignoring the harmful characteristics, how beneficial do you believe mergers to be?

- Not at all Beneficial
- Slightly Beneficial
- Quite Beneficial
- Extremely Beneficial

Overall, how helpful did you find the merger announcement you just read in forming your opinion about the quality and performance of the newly merged company?

Not helpful at all 2 3 Neutral 5 6 Extremely helpful

Considering only the unfavorable qualities of mergers and ignoring the favorable characteristics, how unfavorable is your evaluation of mergers?

- Not at all Unfavorable
- Slightly Unfavorable
- Quite Unfavorable
- Extremely Unfavorable

Considering only your feelings of dissatisfaction toward mergers and ignoring your feelings of satisfaction, how dissatisfied do you feel about mergers?

- Not at all Dissatisfied
- Slightly Dissatisfied
- Quite Dissatisfied
- Extremely Dissatisfied

Considering only the harmful qualities of mergers and ignoring the beneficial characteristics, how harmful do you believe mergers to be?

- Not at all Harmful
- Slightly Harmful
- Quite Harmful
- Extremely Harmful

Please indicate what you experienced when you read the merger announcement involving your cell phone provider and Alltel.

No Conflict 2 3 Neutral 5 6 Maximum Conflict

Please indicate what you experienced when you read the merger announcement involving your cell phone provider and Alltel.

No decision 2 3 Neutral 5 6 Maximum Indecision

Please indicate what you experienced when you read the merger announcement involving your cell phone provider and Alltel.

One-sided 2 3 Neutral 5 6 Completely Mixed

INSTRUCTIONS: Please select the most appropriate response for each question about the merger by marking the blank that is closest to your opinion.

1. Please indicate how you think your cell phone provider and Alltel fit together.

Are Not Consistent 2 3 Neutral 5 6 Are Consistent

2. Please indicate how you think your cell phone provider and Alltel fit together.

Are Not 2 3 Neutral 5 6 Are Complementary
Complementary

3. Please indicate how you think your cell phone provider and Alltel fit together.

They fit poorly 2 3 Neutral 5 6 They fit well

INSTRUCTIONS: Please indicate how you feel about your service provider now that it has merged with Alltel. Select the answer for each question that most closely corresponds to your feelings.

4. I feel sorry for myself for being a part of this newly merged company.

Strongly Disagree
Disagree
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree

5. I regret being a part of this newly merged company.

Strongly Disagree
Disagree
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree

6. I should be with a different telecommunications provider.

Strongly Disagree
Disagree
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree

INSTRUCTIONS: Please imagine you will be a customer of the newly merged company. The following questions ask you to indicate your intentions about your relationship with the newly merged company.

7. I will remain loyal to the newly merged company.

Strongly Disagree
Disagree
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree

8. I am very committed to the newly merged company.

Strongly Disagree
Disagree
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree

9. I don't consider myself a loyal customer of the newly merged company.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

10. I don't plan to continue my relationship with the newly merged company.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

11. I will continue my relationship with the newly merged company.

- Very Unlikely
- Unlikely
- Sort of Unlikely
- Neutral
- Sort of Likely
- Likely
- Very Likely

12. The probability that I will continue to use this newly merged telecommunications company is:

- Very Unlikely
- Unlikely
- Sort of Unlikely
- Neutral
- Sort of Likely
- Likely
- Very Likely

13. The likelihood that I would recommend this newly merged telecommunications company to a friend is:

- Very Unlikely
- Unlikely
- Sort of Unlikely
- Neutral
- Sort of Likely
- Likely
- Very Likely

14. I will buy my telecommunication services (cell phone, home phone, Internet, etc.) from this newly merged company the next time I need to sign up for telecommunication services.

- Very Unlikely
- Unlikely
- Sort of Unlikely
- Neutral
- Sort of Likely
- Likely
- Very Likely

What are your feelings toward the newly merged company?

15. Bad		2	3	Neutral	5	6	Good
16. Unfavorable	2	3	Neutral	5	6	Favorable	
17. Negative	2	3	Neutral	5	6	Positive	
18. Unappealing	2	3	Neutral	5	6	Appealing	

What is your expectation of the service provided by the newly merged company?

19. Poor		2	3	Neutral	5	6	Excellent
20. Inferior	2	3	Neutral	5	6	Superior	
21. Low Standards	2	3	Neutral	5	6	High Standards	

INSTRUCTIONS: Please indicate your beliefs about your relationship with the newly merged company.

22. I trust the newly merged company.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

23. The newly merged company will make truthful claims.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

24. The newly merged company is honest.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

25. I DO NOT believe what the newly merged company tells me

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

26. The newly merged company has a great amount of experience.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

27. The newly merged company is skilled in what they do.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

28. The newly merged company has great expertise.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

29. The newly merged company does NOT have much experience.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

30. Please indicate your beliefs about your relationship with the newly merged company.

Not at all risky	2	3	Neutral	5	6	Extremely risky
---------------------	---	---	---------	---	---	--------------------

31. Please indicate your beliefs about your relationship with the newly merged company.

Not at all concerned	2	3	Neutral	5	6	Highly concerned
-------------------------	---	---	---------	---	---	---------------------

32. Please indicate your beliefs about your relationship with the newly merged company.

Not at all worried	2	3	Neutral	5	6	Extremely worried
-----------------------	---	---	---------	---	---	----------------------

33. I have tried to answer each question honestly and accurately

Strongly Disagree	2	3	Neutral	5	6	Strongly Agree
----------------------	---	---	---------	---	---	-------------------

INSTRUCTIONS: Please indicate your feelings about the newly merged company by selecting the blank that most closely matches your feelings.

Are you frustrated?

Not at all	2	3	Neutral	5	6	Very
------------	---	---	---------	---	---	------

Are you angry?

Not at all	2	3	Neutral	5	6	Very
------------	---	---	---------	---	---	------

Are you irritated?

Not at all	2	3	Neutral	5	6	Very
------------	---	---	---------	---	---	------

Are you nervous?

Not at all	2	3	Neutral	5	6	Very
------------	---	---	---------	---	---	------

Are you worried?

Not at all	2	3	Neutral	5	6	Very
------------	---	---	---------	---	---	------

Are you tense?

Not at all	2	3	Neutral	5	6	Very
------------	---	---	---------	---	---	------

Are you optimistic?

Not at all	2	3	Neutral	5	6	Very
------------	---	---	---------	---	---	------

Are you encouraged?

Not at all	2	3	Neutral	5	6	Very
------------	---	---	---------	---	---	------

Are you hopeful?

Not at all	2	3	Neutral	5	6	Very
------------	---	---	---------	---	---	------

SECTION 4

INSTRUCTIONS: Imagine you remain a customer of the newly merged cell phone company. Please read the scenario provided and answer the questions that follow

SCENARIO: Shortly after the merger occurs you decide you need a new cell phone plan. Specifically, you are interested in upgrading your cell phone plan to include unlimited text messaging and picture capabilities. You visit your cell phone provider's website to see what plans are available. You quickly make a decision to purchase a particular plan that has all of the desired features for an additional \$10.00 per month. The provider's website indicates you can upgrade your plan online without any problems.

You start the process of changing your plan online. After about 5 minutes of entering all of the required information, you are told you will have to call a representative to finish the process. You call the company. After a 5 minute wait, the representative offers to help change your plan. She asks for all of the same information you just entered online. After another 5 minutes, you have successfully upgraded your cell phone plan.

If this had really happened to me, I would make sure to tell my friends not to use this newly merged company.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

If this had really happened to me, I would make sure to tell my relatives not to patronize this newly merged company.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

If this had really happened to me, I would complain to my friends and relatives about this newly merged firm.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

Given the circumstances, I would complain to a service representative.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

Taking everything into consideration, I would complain to the newly merged firm by telephone.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

Given the circumstances, I would ask to speak with the manager, so that I could voice my dissatisfaction with the poor service.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

Given the circumstances, I would inform the company of my problem.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

Overall, if this happened to me, I would be very likely to complain to the newly merged company.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

Rate the probability that you would switch from your newly merged cell phone company to another cell phone company as soon as possible.

- Extremely Unlikely
- Unlikely
- Sort of Unlikely
- Neutral
- Sort of Likely
- Likely
- Extremely Likely

Rate the probability that you would switch from your newly merged cell phone company to another cell phone company as soon as possible.

Very Improbable 2 3 Neutral 5 6 Very Probable

Rate the probability that you would switch from your newly merged cell phone company to another cell phone company as soon as possible.

No Chance 2 3 Neutral 5 6 Certain

15. I know when a marketer is pressuring me to buy.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

16. I can see through sales gimmicks used to get consumers to buy.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

17. I can separate fact from fantasy in advertising.

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

18. I know when an offer is "too good to be true".

- Strongly Disagree
- Disagree
- Slightly Disagree
- Neutral
- Slightly Agree
- Agree
- Strongly Agree

SECTION 6

Please indicate your gender.

- Male
- Female

Please indicate your age.

I am: _____

Approximately, how many times a day do you use your cell phone?

Times a day: _____

How would you describe your cell phone usage?

- I use it much more than average
- I use it more than average
- I am an average user
- I use it less than average
- I use it much less than average

Which of the following telecommunications services do you currently have? Please check all that apply.

- Wireless/Cell Phone
- Internet
- Television
- Landline Phone
- Other

Do you handle the bill(s) for your telecommunications service?

Yes

No

No Answer

Thank you for your participation in this study!!!!

You must submit the survey in order to be eligible for the \$50 gift certificate drawing.

Please provide a phone number or email address so you can be contacted if you win the drawing. The information provided will be kept private and will not be connected to your responses in any way.

You must click "Done" in order to submit the survey. By clicking "Done", you are consenting to participate in this survey. Thank you.

If you have any concerns about this research please contact:

**Florida State University
Human Subjects Committee
Tallahassee, FL 32306-2742**

**TELEPHONE NUMBER: 850-644-8673
FAX NUMBER: 850-644-4392**

APPENDIX C

EXAMPLE OF MERGER ANNOUNCEMENT

OFFICIAL NEWS BRIEF:

Succor Wireless and Majesty Mobile have agreed to merge to better compete with AT&T and Verizon Wireless for voice and data customers. The new company will serve more than 40 million wireless subscribers. Shareholders from Succor and Majesty will each have a 50 percent stake in the combined company.

The merger of the two telecommunications companies will create a more effective and efficient provider in the wireless, broadband, video, voice and data markets. The combined company will have greater financial, technical, research and development, network and marketing resources to better serve consumers and large-business customers, and will accelerate the introduction of new and improved product and service sets for those customers. The merger is expected to close within approximately 12 months.

APPENDIX D

SCALE ITEMS, RESPONSE POINTS, AND SCALE SOURCES FOR QUESTIONNAIRE ITEMS

Attitude toward Brand Items (adapted from Osgood, Suci, and Tannenbaum 1957)

1. What are your feelings toward the brand?
 - Bad / Good
2. What are your feelings toward the brand?
 - Unfavorable / Favorable
3. What are your feelings toward the brand?
 - Negative / Positive
4. What are your feelings toward the brand?
 - Unappealing / Appealing

Service Quality Expectation Items (adapted from Cronin, Brady, and Hult 2000)

1. What is your evaluation of the service provided by the firm?
 - Poor / Excellent
2. What is your evaluation of the service provided by the firm?
 - Inferior / Superior
3. What is your evaluation of the service provided by the firm?
 - Low Standards / High Standards

Perceived Fit Items (adapted from Aaker and Keller 1990)

1. Please indicate how you think the two service firms fit together.
 - Are Not Consistent / Are Consistent
2. Please indicate how you think the two service firms fit together.
 - Are Not Complementary / Are Complementary
3. Please indicate how you think the two service firms fit together.
 - They Fit Poorly / They Fit Well

Regret Items (adapted from Tsiros and Mittal 2000)

1. I feel sorry for myself for being a part of this newly merged company.
 - Strongly Disagree / Strongly Agree
2. I regret being a part of this newly merged company.
 - Strongly Disagree / Strongly Agree
3. I should be with a different telecommunications provider.
 - Strongly Disagree / Strongly Agree

Loyalty Items (adapted from Beatty et al. 1996)

1. I will remain loyal to the newly merged company.
 - Strongly Disagree / Strongly Agree
2. I am very committed to the newly merged company.
 - Strongly Disagree / Strongly Agree
3. I don't consider myself a loyal customer of the newly merged company.
 - Strongly Disagree / Strongly Agree
4. I don't plan to continue my relationship with the newly merged company.
 - Strongly Disagree / Strongly Agree

Merger Familiarity Items (adapted from Simonin and Ruth 1998)

1. How familiar are you with mergers in general?
 - Not At All / Extremely
2. How much experience do you have with service companies that have been involved in a merger?
 - None / A Lot

Perceived Risk Items (adapted from Campbell and Goodstein 2001)

1. Please indicate your beliefs about your relationship with the newly merged company.
 - Not At All Risky / Extremely Risky
2. Please indicate your beliefs about your relationship with the newly merged company.
 - Not At All Concerned / Highly Concerned
3. Please indicate your beliefs about your relationship with the newly merged company.
 - Not At All Worried / Extremely Worried

Anger Items (adapted from Richins 1997)

1. Are you frustrated?
 - Not At All / Very
2. Are you angry?
 - Not At All / Very
3. Are you irritated?
 - Not At All / Very

Worry Items (adapted from Richins 1997)

1. Are you nervous?
 - Not At All / Very
2. Are you worried?
 - Not At All / Very
3. Are you tense?
 - Not At All / Very

Optimism Items (adapted from Richins 1997)

1. Are you optimistic?
 - Not At All / Very
2. Are you encouraged?
 - Not At All / Very
3. Are you hopeful?
 - Not At All / Very

Telecommunications Familiarity Items (adapted from Roehm and Sternthal 2001)

1. Telecommunications companies provide services such as cellular phone, home phone, digital cable, Internet, etc. How often do you use telecommunications services?
 - Never / Constantly
2. How familiar do you consider yourself to be with telecommunication services?
 - Unfamiliar / Familiar
3. How much of a telecommunications service expert would you call yourself?
 - Not At All Expert / Extremely Expert
4. How well acquainted with telecommunications services are you?
 - Not At All Acquainted / Very Well Acquainted
5. How regularly do you use a telecommunications service?
 - Not Very Regularly / Very Regularly

Negative Word-of-Mouth Intention Items (adapted from Blodgett, Hill and Tax 1997)

1. If this had really happened to me, I would make sure to tell my friends not to use this newly merged company.
 - Strongly Disagree / Strongly Agree
2. If this had really happened to me, I would make sure to tell my relatives not to patronize this newly merged company.
 - Strongly Disagree / Strongly Agree
3. If this had really happened to me, I would complain to my friends and relatives about this newly merged firm.
 - Strongly Disagree / Strongly Agree

Complaint Intention Items (adapted from DeWitt and Brady 2003)

1. Given the circumstances, I would complain to a service representative.
 - Strongly Disagree / Strongly Agree
2. Taking everything into consideration, I would complain to the newly merged firm by telephone.
 - Strongly Disagree / Strongly Agree
3. Given the circumstances, I would ask to speak with the manager, so that I could voice my dissatisfaction with the poor service.
 - Strongly Disagree / Strongly Agree
4. Given the circumstances, I would inform the company of my problem.
 - Strongly Disagree / Strongly Agree
5. Overall, if this happened to me, I would be very likely to complain to the newly merged company.
 - Strongly Disagree / Strongly Agree

Switching Intention Items (adapted from Oliver and Swan 1989)

1. Rate the probability that you would switch from your newly merged cell phone company to another cell phone company as soon as possible.
 - Extremely Unlikely / Extremely Likely
2. Rate the probability that you would switch from your newly merged cell phone company to another cell phone company as soon as possible.
 - Very Improbable / Very Probable
3. Rate the probability that you would switch from your newly merged cell phone company to another cell phone company as soon as possible.
 - No Chance / Certain

APPENDIX E

CORRELATION MATRIX STUDY ONE

	MBA	RGT	RSK	ANG	WOR	OPT	FIT
Merged Brand Attitude (MBA)	1						
Regret (RGT)	-.848**	1					
Risk (RSK)	-.723**	.732**	1				
Anger (ANG)	-.611**	.666**	.669**	1			
Worry (WOR)	-.451**	.554**	.609**	.776**	1		
Optimism (OPT)	.624**	-.615**	-.589**	-.593**	-.424**	1	
Perceived Fit (FIT)	.397**	-.321**	-.346**	-.204**	-.218**	.187**	1

Notes. ** Correlation is significant at the 0.01 level.

* Correlation is significant at the 0.05 level.

APPENDIX F

CORRELATION MATRIX STUDY TWO

	MBA	ABA	ABB	RGT	RSK	ANG	WOR	OPT
Merged Brand Attitude (MBA)	1							
Attitude toward Brand A (ABA)	.264**	1						
Attitude toward Brand B (ABB)	.368**	.027	1					
Regret (RGT)	-.715**	-.300**	-.266**	1				
Risk (RSK)	-.607**	-.233**	-.172*	.574**	1			
Anger (ANG)	.505**	-.246**	-.069	.533**	.529**	1		
Worry (WOR)	.487**	-.103	-.056	.481**	.495**	.725**	1	
Optimism (OPT)	.631**	.304**	.287**	-.474**	-.474**	-.416**	.307**	1

Notes. ** Correlation is significant at the 0.01 level.

* Correlation is significant at the 0.05 level.

APPENDIX G

SERVICE FAILURE SCENARIOS

Minor Service Failure Scenario:

Shortly after the merger occurs you decide you need a new cell phone plan. Specifically, you are interested in upgrading your cell phone plan to include unlimited text messaging and picture capabilities. You visit your cell phone provider's website to see what plans are available. You quickly make a decision to purchase a particular plan that has all of the desired features for an additional \$10.00 per month. The provider's website indicates you can upgrade your plan online without any problems.

You start the process of changing your plan online. After about 5 minutes of entering all of the required information, you are told you will have to call a representative to finish the process. You call the company. After a 5 minute wait, the representative offers to help change your plan. She asks for all of the same information you just entered online. After another 5 minutes, you have successfully upgraded your cell phone plan.

Major Service Failure Scenario:

Shortly after the merger occurred you experienced several dropped calls with the newly merged cell phone provider. You called your cell phone provider to determine the problem. You waited to speak with a representative for over five minutes. The representative, James, finally answered your call. You calmly explained your problem to James. However, James rudely claimed that you probably dropped your phone in water and would have to get another one at the local store.

You politely informed James that your phone is only a few months old and has never been damaged. James muttered something under his breath and put you on hold for another couple of minutes. You were transferred to another representative named Monica. Monica apologized for James' rudeness and offered to help. However, Monica was new on the job and was not sure how to address your problem. After putting you on hold several times, Monica finally concluded that you should try an upgraded phone. She urged you to visit your local cell phone store to see the latest and greatest models.

APPENDIX H

CORRELATION MATRIX STUDY THREE

	NWOM	CMP	SWI	MFAM	LOY	FIT
NWOM Intent (NWOM)	1					
Complaint Intent (CMP)	.619**	1				
Switching Intent (SWI)	.640**	.520**	1			
Merger Familiarity (MFAM)	.103**	-.080	.114*	1		
Loyalty Intent (LOY)	-.201**	-.022	-.342**	-.042	1	
Perceived Fit (FIT)	-.203**	-.095	-.244**	.061	.469**	1

Notes. ** Correlation is significant at the 0.01 level.

 * Correlation is significant at the 0.05 level.

APPENDIX I

INFORMED CONSENT LETTER STUDY ONE

I am a Ph.D. student in the Department of Marketing at Florida State University. I am conducting a research project as part of my dissertation and am inviting your participation in this short survey. Specifically, the purpose of this survey is to understand how you feel about telecommunications (cell phone, television, Internet, telephone, etc.) providers. It will take you about twenty minutes to complete this questionnaire which poses no risk to your well-being. You must be at least 18 years old to participate, but your participation is purely voluntary. You may choose not to participate or to withdraw from the study at any time without any penalty. Your responses will remain confidential and only aggregated results of the research will be published with individual participants unidentified. Your answers will be kept strictly confidential by being combined with others, and used only for research purposes. The information obtained during the course of the study will remain confidential to the extent allowed by law.

If you have any questions concerning this research, I can be reached at (850) 644-4417 or via e-mail mla04c@fsu.edu

Thank you for your participation.

Melinda Andrews

APPENDIX J

INFORMED CONSENT LETTER STUDY TWO AND STUDY THREE

I am a Ph.D. student in the Department of Marketing at Florida State University. I am conducting a research project as part of my dissertation and am inviting your participation in this short survey. Specifically, the purpose of this survey is to understand how you feel about telecommunications (cell phone, television, Internet, telephone, etc.) providers.

It will take you about twenty minutes to complete this questionnaire. The survey poses no risks to your well-being. You will be eligible to win a \$50 gift certificate to the store of your choice (Wal-Mart, Target, or Home Depot) if you complete the survey. However, there are no negative consequences for not completing the survey. Your responses are extremely valuable to furthering my research. You must be at least 18 years old to participate, but your participation is purely voluntary. You may choose not to participate or to withdraw from the study at any time without penalty. Your responses will remain confidential and only aggregated results of the research will be published with individual participants unidentified. Your answers will be kept strictly confidential by being combined with others, and used only for research purposes. The information obtained during the course of the study will remain confidential to the extent allowed by law.

If you have any questions concerning this research, please feel free to contact me or Dr. Ronald Goldsmith. I can be reached at (850) 644-4417 or via e-mail at mla04c@fsu.edu. Dr. Goldsmith may be reached at (850) 644-4401. You can also call Florida State University's Human Subjects Committee Hotline at 850-644-8836.

Return of the questionnaire will be considered your consent to participate.

Thank you for your participation.

Melinda Andrews
Marketing Department
FSU College of Business
(850)644-4417

APPENDIX K

STUDY ONE HUMAN SUBJECTS APPROVAL

Office of the Vice President For Research
Human Subjects Committee
Tallahassee, Florida 32306-2742
(850) 644-8673 . FAX (850) 644-4392

APPROVAL MEMORANDUM

Date: 12/6/2007

To: Melinda Andrews

Address: 1639 Eagles Landing Blvd #24 Tallahassee, FL 32308

Dept.: MARKETING

From: Thomas L. Jacobson, Chair

Re: Use of Human Subjects in Research

Assessment and Implications of Consumer Reactions to Services Mergers

The application that you submitted to this office in regard to the use of human subjects in the proposal referenced above have been reviewed by the Secretary, the Chair, and two members of the Human Subjects Committee. Your project is determined to be Expedited per 45 CFR § 46.110(7) and has been approved by an expedited review process.

The Human Subjects Committee has not evaluated your proposal for scientific merit, except to weigh the risk to the human participants and the aspects of the proposal related to potential risk and benefit. This approval does not replace any departmental or other approvals, which may be required.

If you submitted a proposed consent form with your application, the approved stamped consent form is attached to this approval notice. Only the stamped version of the consent form may be used in recruiting research subjects.

If the project has not been completed by 12/2/2008 you must request a renewal of approval for continuation of the project. As a courtesy, a renewal notice will be sent to you prior to your expiration date; however, it is your responsibility as the Principal Investigator to timely request renewal of your approval from the Committee.

You are advised that any change in protocol for this project must be reviewed and approved by the Committee prior to implementation of the proposed change in the protocol. A protocol change/amendment form is required to be submitted for approval by the Committee. In addition, federal regulations require that the Principal Investigator promptly report, in writing any unanticipated problems or adverse events involving risks to research subjects or others.

By copy of this memorandum, the Chair of your department and/or your major professor is reminded that he/she is responsible for being informed concerning research projects involving human subjects in the department, and should review protocols as often as needed to insure that the project is being conducted in compliance with our institution and with DHHS regulations.

This institution has an Assurance on file with the Office for Human Research Protection. The Assurance Number is IRB00000446.

Cc: Ronald Goldsmith, Advisor

HSC No. 2007.705

APPENDIX L

STUDY TWO AND STUDY THREE HUMAN SUBJECTS APPROVAL

Office of the Vice President For Research
Human Subjects Committee
Tallahassee, Florida 32306-2742
(850) 644-8673 · FAX (850) 644-4392

APPROVAL MEMORANDUM

Date: 3/11/2008

To: Melinda Andrews

Address: 1639 Eagles Landing Blvd #24 Tallahassee, FL 32308

Dept.: MARKETING

From: Thomas L. Jacobson, Chair

Re: Use of Human Subjects in Research

Assessment and Implications of Consumer Reactions to Services Mergers Study 2

The application that you submitted to this office in regard to the use of human subjects in the proposal referenced above have been reviewed by the Secretary, the Chair, and two members of the Human Subjects Committee. Your project is determined to be Expedited per 45 CFR § 46.110(7) and has been approved by an expedited review process.

The Human Subjects Committee has not evaluated your proposal for scientific merit, except to weigh the risk to the human participants and the aspects of the proposal related to potential risk and benefit. This approval does not replace any departmental or other approvals, which may be required.

If you submitted a proposed consent form with your application, the approved stamped consent form is attached to this approval notice. Only the stamped version of the consent form may be used in recruiting research subjects.

If the project has not been completed by 3/9/2009 you must request a renewal of approval for continuation of the project. As a courtesy, a renewal notice will be sent to you prior to your expiration date; however, it is your responsibility as the Principal Investigator to timely request renewal of your approval from the Committee.

You are advised that any change in protocol for this project must be reviewed and approved by the Committee prior to implementation of the proposed change in the protocol. A protocol change/amendment form is required to be submitted for approval by the Committee. In addition, federal regulations require that the Principal Investigator promptly report, in writing any unanticipated problems or adverse events involving risks to research subjects or others.

By copy of this memorandum, the Chair of your department and/or your major professor is reminded that he/she is responsible for being informed concerning research projects involving human subjects in the department, and should review protocols as often as needed to insure that the project is being conducted in compliance with our institution and with DHHS regulations.

This institution has an Assurance on file with the Office for Human Research Protection. The Assurance Number is IRB00000446.

Cc: Ronald Goldsmith, Advisor
HSC No. 2008.1023

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BIOGRAPHICAL SKETCH

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