

# Perceptions of justice and organizational commitment in international mergers and acquisitions

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# Perceptions of justice and organizational commitment in international mergers and acquisitions

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## **Abstract**

**Purpose:** Although there is substantial and accumulating evidence on the link between market entry modes and performance, evidence regarding their impact on employee perceptions and thereby their commitment is scarce. This is more so in mergers and acquisitions (M&As) where employee commitment has a significant impact on post entry performance. This study examines the association between perceptions of justice and organizational commitment in cross-border M&As.

**Design/methodology/approach:** We draw on market entry and M&As literatures and studies on the link between perception of justices and commitment to develop our hypotheses. We test the hypotheses with survey data from a merger of two culturally different partners – British and Japanese. A total of 128 responses were received, out of a sample of 151 non-managerial employees within the firm.

**Findings:** Our results show that a strong association between employees perceptions of justice during the merger and commitment to the new organisation. Surprisingly, the results do not support the widely reported interaction effects between different organizational justices and employees' commitment.

**Research limitations/implications:** Obtaining data from a single M&A is a potential limitation of this study.

**Practical implications:** The study underscores the importance of post market entry. Our results suggest that particular attention needs to be paid to the way employees of the acquired firm are treated during their interactions with their counterparts.

**Originality/value:** The link between market entry and performance is well documented. However, little progress has been made in understanding the antecedents/factors that influence commitment in foreign market entry and in particular cross-border M&As. This study helps close this gap.

**Keywords:** Entry mode, mergers and acquisitions, M&A, organizational justice/fairness, commitment, Japan.

## **Introduction**

Though a significant amount of research has been devoted to the study of international entry modes, it was more recently that scholars started paying particular attention to understand the

role and implications of mergers and acquisitions (M&A) as one of the main means for internationalisation (Ahammad & Glaister, 2013; Brouthers & Hennart, 2007; Canabal & White III, 2008). While most studies have devoted their attention to understand performance implications of other entry modes such as export (Cadogan, Sundqvist, Puumalainen, & Salminen, 2012; Calof, 1993; Oliveira, Cadogan, & Souchon, 2012), several studies have provided great insights into the link between the performance of this entry mode, i.e. M&A, and employees' commitment suggesting a significant and positive association between the two (Ahammad, Glaister, Weber, & Tarba, 2012; Chatterjee, Lubatkin, Schweiger, & Weber, 1992; Glaister & Ahammad, 2010; Gomes, Weber, Brown, & Tarba, 2011; Krug & Aguilera, 2005; Mathieu & Zajac, 1990; Weber & Fried, 2011a; Weber & Schweiger, 1992; Weber, Shenkar, & Raveh, 1996; Weber, Tarba, & Reichel, 2009). This line of research underscores the importance of preserving loyalty and commitment after the acquisition. As noted by Monin, Noorderhaven, Vaara, and Kroon (2013, p. 256) "(during post M&As integration process) perceptions of organizational justice help people to accept the planned changes and their implications, whereas perceptions of injustice exacerbate organizational problems". Organisational justice refers to the extent to which employees perceive acquisition implementation procedures as being just and fair (Taylor & Lobel, 1989). Despite the compelling evidence about the importance of post M&A commitment ( Monin et al., 2013), little progress has been made in understanding the antecedents of commitment in cross-border M&As. This missing link is important. By understanding what influences commitment also helps in understanding what affects cross-border M&As outcomes. In this study, we examine the effects of procedural and interactional justice perceptions on employee commitment in a cross-border acquisition.

Our study builds on extant research that explored the link between perceptions of justice and commitment in a single country context (Ellis, Reus, & Lamont, 2009; Klendauer & Deller, 2009; Lowe & Vodanovich, 1995; Zhao, Peng, & Chen, 2013). Whilst there is considerable literature investigating the relationship between organisational justice and management practices and, there is significantly less that studies the topic from an international viewpoint (Greenberg, 1993; Li & Cropanzano, 2009; McFarlin & Sweeney, 1992; Seger-Guttmann & MacCormick, 2014). The cross-border M&A context provides an ideal setting for extending organizational justice and commitment theory, because as argued by Chung, Du, and Choi (2014), the dynamics of cross borders M&As bring new factors such as cultural idiosyncrasies between host and home countries to bear on the association between

organizational justice and commitment, which may result in cultural collusions (Datta & Puia, 1995; Drori, Wrzesniewski, & Ellis, 2011; Shimizu, Hitt, Vaidyanath, & Pisano, 2004; Weber & Fried, 2011b), that subsequently effect commitment. Luo's (2008) study of the impact of national and cultural distance upon judgements of justice within organisations, concluded that "the positive link between procedural justice and cooperation outcomes...may not be constant and stable when this distance varies" (p: 33).

This study is important for several reasons. We aim to extend the organisational justice literature, not only by investigating its applicability to the context of an international acquisition, but also by providing evidence for how the two types of organizational justice influence post-acquisition employee affective and calculative commitment. Though some authors have investigated the effects of procedural and distributive justice on employees willingness to cooperate (Melkonian, Monin, & Noorderhaven, 2011) and commitment (Ellis et al., 2009), and the effects of procedural, interactional and distributive justice on managers' commitment (Klendaueer & Deller, 2009), to the best of our knowledge no single study has investigated yet the impact of procedural and interactive justice on employees' calculative and affective commitment after an acquisition. This is unique and important because it enables us to capture the relative importance of different perceptions of justice – to different types of commitments. Furthermore, we aim to expand the existing literature on organisational justice specific to international acquisitions by evaluating the perceptions of non-managerial employees as opposed to solely management personnel (Klendaueer & Deller, 2009). This is important for two reasons. First, research shows that perceptions of non-managerial employees have a strong impact of mergers performance (Glaister & Ahammad, 2010; Melkonian et al., 2011; Teerikangas, 2012; Weber & Fried, 2011a; Weber, Rachman-Moore, & Tarba, 2012). Second, the findings will provide a deeper understanding as to the how the perceptions of procedural and interactional justice change throughout the organisational hierarchy. Thirdly, we intend to determine how well the two dimensions of organisational justice (procedural and interactive) predict two types of commitment (affective and calculative) amongst employees and find out which dimension of organisational justice is the best predictor of commitment. Fourthly, we intend to investigate whether the two types of justice have an interactive and mutually reinforcing effect on employee commitment. To our knowledge, this is the first study in proceeding with such investigation in the context of M&A, alliances and international business in general.

This study investigates the international expansion of a global UK-based company, XYZ corp, which entered the Japanese market by acquiring a small-medium sized Japanese technology firm, ABC corp. It analyses the impact of this entry mode on the perceptions of organisational justice amongst non-managerial employees within the acquired firm. XYZ corp is a leading information services company providing data and analytical tools to customers across the world. Due to their size and access to resources, it frequently uses acquisitions as the main means for internationalisation. The reason for this particular acquisitions was to develop its presence in the Japanese market as well as to develop its product portfolio through a known local brand. Previously marketing scholars (Bahadir, Bharadwaj, & Srivastava, 2008; Homburg & Bucerius, 2005; Mahajan, Rao, & Srivastava, 1994; Warnaby, 1999) have considered similar contexts, where expansion of the product/brand portfolio has been the primary motive for firms to adopt the M&A route. Such acquisitions are mostly intended to improve the resource base of the firm as well as provide the firms with a stronger competitive position. However as Homburg and Bucerius (2005) argues, the key to success in mergers and acquisitions prompted by motives relating to product/brand expansion is the extent of success achieved in the post-merger integration of the firms so as to achieve a stronger competitive position in the market.

The remainder of the paper is structured as follows: firstly the extant literature surrounding organisational justice will be reviewed with subsequent review in relation to international management practice, specifically that of cross-border acquisitions. This will be followed by a methodology which will outline the case companies, research methods used and the data analysis techniques proposed. The findings will then be summarised and finally, conclusions will be drawn and suggestions made for further research.

### **Background literature and hypotheses development<sup>i</sup>**

Mergers and acquisitions has been an important entry mode for firms into international markets (Lee & Lieberman, 2010). Significant number of studies have identified a host of antecedent factors that leads to the choice of mergers and acquisition as an entry mode (for a meta-analysis please see Morschett, Schramm-Klein, and Swoboda (2010)). The focus of this study is however on post-acquisition strategies of firms that have used mergers and acquisitions as a mode of foreign market entry. According to Angwin and Meadows (2014), while post-acquisition strategies are widely acknowledged to be critical in the success of

M&A activities of firms, research on post-acquisition strategies still remains fragmented without a widely recognized framework.

An important M&A research strand focusing on merger integration seems to indicate that human factors are major reasons for failure (Björkman, Stahl, & Vaara, 2007; Calori, Lubatkin, & Very, 1994; Cartwright & Schoenberg, 2006; Dikova & Rao Sahib, 2013; Edwards & Edwards, 2013; Gomes, Angwin, Weber, & Tarba, 2013; Gomes, Cohen, & Mellahi, 2011; Gomes, Weber, et al., 2011; Ranft & Lord, 2002; Sarala, Junni, Cooper, & Tarba, 2014; Schweiger & Denisi, 1991; Stahl et al., 2013; Stahl, Larsson, Kremershof, & Sitkin, 2011; Stahl & Voigt, 2008; Teerikangas & Very, 2006; Weber et al., 2012; Weber et al., 1996; Weber & Tarba, 2011). However, despite the significant amount of research carried out on the human side of M&A, the psychological dimension of the phenomenon has been disregarded. Understanding fairness perceptions is important as they can influence employees attitudes and behaviour and subsequently organisational performance (Baldwin, 2006).

Whilst there is substantial literature exploring the relationship between management practices and organisational justice, there is considerably less that researches the topic from an international perspective (Greenberg, 1993; Li & Cropanzano, 2009; McFarlin & Sweeney, 1992; Seger-Guttman & MacCormick, 2014), particularly with regard to cross-border acquisitions (Luo, 2008; Meyer, 2001). Several studies have made use of the organisational theory in the context of large scale change situations (Brockner, 2002; Johnson, Korsgaard, & Sapienza, 2002; Konovsky, 2000; Korsgaard, Sapienza, & Schweiger, 2002). The strategic alliance literature have made some inroads to explore the impact of organisational justice in the context of inter firm collaboration (see Ariño & Ring, 2010; Gomes, Cohen, et al., 2011; Luo, 2005, 2007, 2008, 2009). However, the existing M&A literature on the topic is still incipient and very few studies have used the organisational justice theory in the context of M&A, and findings seem to be inconsistent and even contradictory. As can be seen on Table 1, previous studies have focused on investigating the role and effect of procedural justice on employees identification (Edwards & Edwards, 2012), responses (Lipponen, Olkkonen, & Moilanen, 2004), sensegiving and sensemaking (Monin et al., 2013), and on organisational power structures (Steensma & Milligen, 2003).

PLEASE INSERT TABLE 1 HERE

Whilst most studies provide evidence supporting the argument that organisational justice is a key success factor in acquisition management, Meyer and Altenborg (2007) argue that the principle of equality embedded in the concept of organisational justice has a negative influence in M&A social integration. Independently of the positive or negative effect of organisational justice, evidence suggests that the reasons behind corporate failure in cross-border acquisitions are increasingly directed towards the 'human factor' (Cartwright & Cooper, 1992; Stahl et al., 2013; Teerikangas & Véry, 2006; Teerikangas, Véry, & Pisano, 2011; Weber & Fried, 2011b). The literature surrounding M&A activity is increasingly attempting to link this human dimension to perceptions of organisational justice and organisational commitment. Recent studies, have started focusing their attention to the importance of organisational justice on an international scale, particularly that concerning the role that cultural differences may play in these perceptions of fairness (Drori et al., 2011; Gomes, Cohen, et al., 2011; Luo, 2008; Marks & Mirvis, 2011b).

Although justice is universally considered an important antecedent for commitment, there is compelling evidence showing that the way justice affects commitment differs between different cultures. This is because what is considered "just and legitimate" differs across cultures (Lakshman, 2011; Morris & Leung, 2000). Also, the antecedents of justice and perception of fairness vary across cultures (Drori et al., 2011; Hundley & Kim, 1997). Earlier research by Weber and Camerer (2003) illustrate this view showing that in an international partnership between an American and a German firm, there was no successful integration between operations or management because of the immense differences in values and procedures held by each firm. These differences stem from the different belief structures which give different meaning and salience to the same managerial actions and governance structures (Hundley & Kim, 1997; Marks & Mirvis, 2011a; Marmenout, 2011; Morris, Leung, Ames, & Lickel, 1999). This said, while the *relative* influence may differ, there is little reason to expect that perceptions of justice to have anything but a positive impact on commitment (for an extensive body of research on the link between perceptions of justice and commitment see Allen & Meyer, 1990; Brockner, 2002; Folger & Konovsky, 1989; Kim & Mauborgne, 1993; Konovsky & Pugh, 1994).

For procedural justice - defined as the perception that governance structures used to manage the acquisition and the procedures and processes in decision-making are fair (Brebels, De Cremer, & Van Dijke, 2011; Colquitt, 2001; Colquitt et al., 2013; Ellis et al., 2009;

Greenberg, 1987, 1990; Heslin & VandeWalle, 2011; Lind & Tyler, 1988; Thibaut & Walker, 1975) – regardless of cultural norms and values, the feeling that procedures governing the running of organisation are just is likely to have a positive impact on commitment (Edwards & Edwards, 2012; Ellis et al., 2009; Lind & Tyler, 1988). It concerns decision making processes and encompasses the reactions of employees to the decision outcomes and criteria used by management for the perceived fairness in these eventualities (Ellis et al., 2009). The underlying assumption behind procedural justice is that commitment to the decision is likely to be strengthened when procedures promoting fairness perceptions are followed (Lind & Tyler, 1988; Melkonian et al., 2011). This is the case because employees are not only concerned with comparing their outcome with their inputs but they are also concerned with the way outcomes are allocated, and believe that a fair distribution of rewards is a result of fair procedures (Thibaut & Walker, 1975). Similarly, for interactional justice – defined as the perception of being treated with respect and dignity during interactions with management and colleagues from the acquiring company (Bies, 1986; Mikula, Petri, & Tanzer, 1990) - the feeling that one is treated with respect and dignity is likely to have a positive impact on commitment (Ellis et al., 2009). This type of justice is important because by being fair managers are able to promote positive interactional norms that encourage employees to reciprocate with positive work behaviours (Collins & Mossholder, 2014; Colquitt et al., 2013). Therefore, it helps to create good relationships and enhance the interaction and integration of employees and managers from both merging entities (Ellis et al., 2009). By fostering interaction and through demonstrating respect, studies generally conclude that employees will perceive a high level of organisational fairness, and become more loyal towards the organisation (Otto & Mamatoglu, 2014). Similarly to what other scholars have done (Klendaue & Deller, 2009; Luo, 2007), we combine interpersonal and informational justices, referring to it as interactional justice. This seems to be adequate because interactional justice refers to the feeling of being treated with respect and dignity during interactions with managers from the other company (Bies, 1986; Luo, 2005; Mikula et al., 1990), thus requiring good communication between the parties (Aguilera & Dencker, 2004; Allatta & Singh, 2011; Risberg, 1997). Ellis et al. (2009), highlight the need for communication throughout the organisational hierarchy in order to sustain corporate success. One common example of this is seen in the acquisition or merger of companies for the purpose of exploiting economies of scale. In order to realise the desired benefit from the merger, firms undertake substantial cost-cutting activities that often have a detrimental effect upon perceptions of justice. Whilst these processes may be necessary to achieve the desired

result, a lack of communication between firms and employees can result in feelings of unfairness, stress and mistrust from individuals, and is likely to create negativity towards the firm (Ellis et al., 2009). On the contrary, perceptions of fairness may be amplified when there is ‘engagement, explanation and clarity of expectations’ (Luo, 2005: 31). Engagement refers to the involvement individuals of an organisation are given towards the decision making process and involves communication and interaction, before, during and after corporate transactions are made (Gomes, Angwin, Peter, & Mellahi, 2012). Explanation is the ability to get everyone involved in engagement in order to minimise resentment and perceptions of unjust processes. This involves justification as to why decisions are made. This aids employee understanding of why their inputs may not have been realised in the final outcomes of the process (Nikandrou & Papalexandris, 2007). Finally, clarity is achieved by outlining exactly what is expected from employees and managers and how they will be rewarded (Aguilera & Dencker, 2004; Antila, 2006).

We advocate that the positive associations between perceptions of procedural and interactional justices hold for both affective and calculative commitments. Affective commitment broadly refers to the emotional attachment an employee feels towards an organisation (Meyer, Stanley, & Parfyonova, 2012). More specifically this ‘reflects the desire to achieve goals in favour of the organisation’ (Breitsohl & Ruhle, 2012). Meyer and Herscovitch (2001) state that desire is dependent on three characteristics; shared values, personal involvement and identity-relevance. Huy (2002) investigated the importance of managing the emotional states of employees in a radical change situation. His research findings show that managerial emotional commitment to change situations, as well as the capacity of attending to employees’ emotions can facilitate successful organisational adaptation. Emotions are intrinsic to change situations and are aroused by actual or expected positive or negative changes in these conditions (Huy, 2011, 2012). The emotion theory suggests that individuals evaluate the implications of a new situation in relation to their own concerns and objectives, and that positive or negative emotions are aroused in cases where they understand that the potential consequences will be beneficial or detrimental to them (Lazarus, 1993). M&As can be considered as radical change situations that can elicit intense emotions (Huy, 2002; Kiefer, 2002, 2005; Kusstatscher & Cooper, 2005; Reus, 2012; Sinkovics, Zagelmeyer, & Kusstatscher, 2011), especially fears of employees of acquired firms (Empson, 2001). Decision making procedures and power structures as well as emotional affective interactional experiences between members of the merged organisations

can have a strong impact on the emotional side of commitment (affective) (Weiss & Cropanzano, 1996), and therefore influence employees affect-driven perceptions, attitudes and behaviours (Huy, 2012; Kusstatscher & Cooper, 2005; Reus, 2012; Sinkovics et al., 2011). Therefore, adequate HR management (Edgar & Geare, 2005; Nikandrou & Papalexandris, 2007; Weber & Tarba, 2009) and appropriate communication policies (Napier, Simmons, & Stratton, 1992; Schweiger & Weber, 1989), can help establish a certain degree of continuity by making changes more predictable to those who are affected by it (Huy, 2002). Calculative commitment is more specifically defined as “a cognitive evaluation of the instrumental worth of a continued relationship with the organisation” (Wetzels, De Ruyter, & Van Birgelen, 1998, p. 409). At the individual employee level, it represents the move to a new employer (Gilliland & Bello, 2002; Lee & Miller, 1999). In this sense, calculative commitment is quite simply a calculation of the ‘costs’ associated with remaining with the same employer, be they physical or psychological (Meyer, Stanley, & Parfyonova, 2012).

In Japan, the context of this study, the link between commitment and justice perceptions may be stronger for foreign owned firms than Japanese owned firms for several reasons. Although foreign affiliates contribute to less than ten percent of Japan’s output and employ approximately only 2 percent of the labour force (Ono & Odaki, 2011), their employment practices have had a strong influence on employee relations in the country. Generally, Japanese workers prefer local firms over foreign owned firms because of uncertainties associated with job security and unfamiliar management practices (Ono & Odaki, 2011). Empirical research shows that, overall, local firms have the lowest turnover in the world because of the traditional lifetime employment model (Ono, 2013). Also, in contrast to domestic firms that tend to have high commitment- low turnover, foreign owned firms tend to operate under the low commitment – high turnover model (Ono, 2013). This, however, has not stopped a large number of Japanese employees to work for foreign owned firms because of the relatively high salaries and promotion opportunities for younger talent, as summarized by Ono (2013, p. 3) “some workers in the more traditional Japanese settings envy the greater independence and higher pay, and yet others feel disdain for what they perceive as money-motivated and short-sighted values”.

While the challenge for foreign firms entering through greenfield investments is to recruit and retain talent that buy into the flexibility offered by Western management practices, the challenge for foreign firms acquiring Japanese affiliates is to maintain the high commitment

of existing employees who may have a strong identification with the “traditional” Japanese management model.

The extensive research on perception of organizational justice and employees outcomes in Japan suggests that low organizational justice is associated with low willingness to work, and psychological distress (Hayashi, Odagiri, Ohya, Tanaka, & Shimomitsu, 2011; Inoue, Kawakami, Tsuno, Tomioka, & Nakanishi, 2013). However, the antecedents of organizational justice are a product of what is considered fair and just in Japan (Kidder & Muller, 1991; Takenishi & Takenishi, 1990). As noted by Ohbuchi, Suzuki, and Hayashi (2001, p. 94) in Japan, to be perceived as just and fair, firms need to achieve both “individual rights and group goals”. Thus, firms need to balance “kouhei”, that is protection of individual rights, and “seigi”, that is “the collective perspective by which a social decision is justified”. (Ohbuchi et al., 2001, p. 94). Thus, given the reported individualist compensation and promotion practices employed by foreign affiliates (Ono, 2013), one expects organizational justice to be highly associated with commitment in foreign affiliated firms. This is because Japanese employees are often concerned about the extent to which the foreign affiliate preserves/abandons deeply embedded practices such as principle of life long employment and the system of seniority. Herbes and Vaubel’s (2007) study of post M&A integration success in Japan, reported that Western managers often underestimate the peculiarities of the Japanese management system and as a result “they misjudged the importance that Japanese employees attach to their country's HR customs and practices” (Herbes & Vaubel, 2007, p. 20). Kidder and Muller (1991) reported that what is considered important for US employees such as participation in the decision making may not appeal to Japanese participants who believe that top management should decide for the company. Overall, the preceding analysis suggests that perceptions of justice are expected to have a strong impact of employee commitment in cross-border M&As in Japan. Thus, we propose that:

*Hypothesis 1.a: Positive perceptions of procedural justice in a Japanese M&A context, will increase employee’s affective commitment.*

*Hypothesis 1.b: Positive perceptions of procedural justice in a Japanese M&A context, will increase employee’s calculative commitment.*

*Hypothesis 2.a: High levels of perceived interactional justice in a Japanese M&A context, will lead to high levels of employee calculative commitment.*

*Hypothesis 2.b: High levels of perceived interactional justice in a Japanese M&A context, will lead to high levels of employee affective commitment.*

### ***The Relative Influence of Perceptions of Justice on Commitment***

Previous studies attempting to derive which dimension has the greatest impact upon outcomes such as commitment, trust and co-operation are inconclusive. Several authors assert interactive justice, has a stronger effect upon commitment than procedural justice (Folger & Konovsky, 1989; Klendauer & Deller, 2009). According to Klendauer and Deller (2009), this is the case because employee' perceptions start being shaped from their initial interactions with their new managers. As a result, their perceptions of subsequent actions and procedures will be influenced by their initial interactions. Lind and Tyler (1988) reinforce this argument suggesting that interactional justice exerts a stronger influence on employees than the outcomes they receive. This might be particularly the case in international M&A, as employees' of the acquired firm might not be familiar with the management style and organisational culture of the acquiring firm. In these cases, senior management might be sensitive to cultural values and norms and treat acquired employees in a more polite and respectful manner in order to minimise the potential for cultural clashes.

However, Gomes et al.'s (2011) research findings show that perceptions of procedural injustice, in terms of organisational governance and decision-making structures of the newly formed organisation, tend to create negative feelings and attitudes in employees of the merged organisations. Consequently, this undermines the interactions and relationships between employees and managers from both firms. This is in line with previous research findings showing that procedural justice is essential to enhance the social connection between groups and group authorities (Tyler, DeGoe, & Smith, 1996). Edwards and Edwards's (2011) research findings, provide evidence that in fact perceived procedural justice has a strong impact on acquired firm employee's identification with the acquired firm. Ellis et al. (2009) support this view by suggesting that procedural justice is more critical than informational (interactional) justice during the post-integration phase of the acquisition. According to these authors, this is the case because during the integration phase, informational (interactional) justice becomes less important because more information is likely to be made public, and employees become more able to assess the merger rationale and the reasons why some integration activities will have taken place. As the merger evolves during its integration phase, the established procedures will become more critical in

determining the required levels of interaction and engagement between members from the merging organisations. Melkonian et al.'s (2011) research findings strengthen this view suggesting that justice perceptions vary over time and that in fact, the procedural dimension of organisational justice becomes the most critical after the merger implementation phase. Since this study is evaluating justice perceptions one year after the acquisition took place we propose that:

*Hypothesis 3.a: In a Japanese M&A context, procedural justice has a stronger relationship with organisational commitment than interactional justice.*

Fairness in terms of decision making procedures and power structures will have a stronger impact on the emotional side of commitment (affective). The affective events theory (AET) provides a theoretical explanation of how emotional affective experiences (Weiss & Cropanzano, 1996) can influence employees affect-driven perceptions, attitudes and behaviours in the context of M&A (Huy, 2012; Kusstatscher & Cooper, 2005; Reus, 2012; Sinkovics et al., 2011). Individual perceptions of procedural justice are highly influenced by the perceived threats to social identity caused by organisational changes such as group-level processes, restructuring, centralisation of decision making, formalisation of procedures, and power structures (Sinkovics & Ghauri, 2008; Ullrich, Wieseke, & Dick, 2005). According to Risberg (2001), individual perceptions are influenced by individual experiences and ambiguous interpretations about the way the acquisition process is managed. In this sense, Reus (2012) asserts that the cultural differences involved in cross-border M&As have a particular influence on the emotional experiences of employees. In order to be able to enact fair procedures with the objective of enhancing the levels of perceived affective fairness, organisations need to be able to understand the situation and deal with the emotions of employees from the acquired organisation (Ellis et al., 2009; Vaara, Sarala, Stahl, & Björkman, 2012). It is for this reason that the emotional side of affective commitment can be highly influenced by cultural traits.

Based on Hofstede's framework, Meyer, Stanley, Jackson, et al. (2012) analysed the effect of cultural differences in terms of individualist/collectivist and power distance traits of American and Japanese firms on employee commitment. The literature in this area largely suggests that employees in Japan may experience commitment differently to employees of western cultures (Near, 1989). Typically, Japanese cultures are regarded to instinctively hold strong affective commitment to the company due to the collectivist nature of corporate

cultures (Meyer, Stanley, Jackson, et al., 2012). With this in mind it is considered that affective commitment should be greater in collectivist countries due to the emphasis placed on retaining social ties and reaching in group goals (Randall, 1993). Referring this back to both procedural and interactional justice, employees in Japanese firms are considered to hold positive perceptions of fairness. Relating this to cross-border acquisition, it is assumed that the takeover of a Japanese company by typically western firm will have a negative impact on the employee perceptions of fairness and consequently commitment (Meyer & Allen, 1991). This being said, it is argued that the nature of typical employment relationships is ever evolving (Breitsohl & Ruhle, 2012) and for this reason, the ability to anticipate M&A relationships is increasingly difficult. One such example of this is seen in traditional Japanese life-long employment. Corporate changes have impact the frequency of this accepted employment condition and therefore it is considered that a Western takeover will not have such a negative impact on both perceived fairness and commitment to the firm (Breitsohl & Ruhle, 2012). However, it must be acknowledged that changing global trends challenge previous research in the field and dislodge previous assumptions. Based on the above discussion, we propose that:

*Hypothesis 3.b: In a Japanese M&A context, procedural justice has a stronger relationship with affective commitment than with calculative commitment.*

The above hypotheses suggest that there is an individual effect of each type of justice, procedural and interactional, on employee commitment, both affective and calculative, which will tend to augment as employees' perceptions of each type of justice increases. Though we are going to measure the individual effect of each of the two types of justice on employee commitment, we also aim to analyse their interactive effect. This is important because several scholars suggest that not only individual mechanisms of organisational justice matter, but when both justice dimensions are in place they are likely to be mutually reinforcing and to exert a stronger influence on commitment (e.g., (Kim & Mauborgne, 1993; Luo, 2007; McFarlin & Sweeney, 1992). Luo (2007) investigated the individual and the combined effect of the various types of justice on alliance outcome. His findings confirmed that though each type of justice has a unique effect on alliance performance, the combined and interactive effect of procedural and interactional justices was greater. Cropanzano and Folger (1989) corroborate this view and suggest that the different types of justice have an interactive effect on employees' perceptions of organisational justice. Ellis et al.'s research findings (2009) provide supporting evidence to the view that procedural and informational (part of

interactional) justices are particularly important to large-scale restructuring and change situations like M&A, in which employee self-interest and inclusion become of paramount importance. This seems to be the case because the information provided about the merger rationale, objectives and implementation plans should be consistent with the explanations provided on why certain decisions and procedures have been or are likely to be introduced as a result of the merger. Ellis et al. (2009) suggest that when procedural justice is not accompanied by informational (interactional) justice, employees from the merging firms are likely to become resentful towards decision makers as they will feel that they have not been given voice. Based on their analysis of procedural and interactional justice in an international joint venture between two African firms, Gomes et al. (2011) also suggest that both elements of justice are strongly interconnected and that no single element can be managed in isolation. This leads to the following hypotheses:

*Hypothesis 4.a: In a Japanese M&A context, the interactive effect between procedural justice and interactional justice positively affects calculative commitment.*

*Hypothesis 4.b: In a Japanese M&A context, the interactive effect between procedural justice and interactional justice positively affects affective commitment.*

## **Methods**

The empirical study was carried out in a Japanese organisation that was taken over by a global firm. The acquired organisation (ABC corp) as well as the acquirer (XYZ corp) are in the business of providing information services and offer data and analytical tools to customers. The rationale behind the acquisition was largely to extend geographic reach, a strategic move that would not only create presence in Japan but a decision that would also expand XYZ corp's principle activity of marketing services. The acquisition offered the opportunity for XYZ corp to capitalise on the innovative digital marketing activities that ABC corp had already established as well as the client base that they had built. The acquisition of successful innovative firms such as ABC corp, has been acknowledged in previous studies as a key success factor in M&As (Sorescu, Chandy, & Prabhu, 2007). The firm was already accomplished in the market a strong client base that would enable XYZ corp's profile to be raised amongst the existing clients throughout Japan. The company's decisions to undertake acquisitions in unexplored markets are largely driven by a strategy to expand international presence worldwide.

A survey was distributed amongst non-managerial employees within the acquired firm. The data was collected almost two years after the acquisition was completed. There were about 400 employees working in ABC corp during the time of the study. The questionnaire was administered online through a popular survey software. The employees were invited to the survey through an e-mail sent out by the CEO of ABC corp. The invitation e-mail explained the purpose of the study and the consent given by the senior management for the study. The invitation e-mail also had a link to the online survey. The questionnaire was administered in Japanese. A total of 128 responses were received, out of a sample of 151 non-managerial employees within the firm. This produced a response rate of 85%, a rate considered very good for a self-completion questionnaire distribution (Mangione, 1995). Within the responses, there were only ten responses deemed to be unusable due to incomplete responses. In the sample of respondents, 74% were male and more than 80% having at least an undergraduate degree. The average age of the respondents was 34.3 years. No incentives were offered for participation in the study other than an understanding the results of the study may be used to help the company with future acquisition processes.

The complete data collection took place over a five week period from July to August 2012. With consideration of delays in company approval of the study and the time constraints of the study it was initially anticipated those two weeks would be sufficient to collect the necessary results. This was based upon the support and distribution process via the company CEO. Despite achieving a good response rate it was decided that this would be extended to further increase participant numbers.

### **Analysis and results**

To test the hypotheses shown in fig.1, the data was analysed through the partial least squares methodology implemented through smartpls (Ringle, Wende, & Will, 2005). The PLS methodology has been extensively applied across the different research streams in management and strategy in the recent past (Henseler, Ringle, & Sinkovics, 2009). The PLS methodology uses a component based approach to analyse path coefficients between constructs. Further, PLS methodology places minimal restrictions on measurement scales, sample size and residual distributions (Pavlou & Fygenson, 2006). Responses from a total of 118 employees were analysed.

Procedural justice and interactional justice was measured through four items, while calculative commitment was measured using two items and affective commitment was measured through three items. All the items were adapted from extant studies and were tested for their psychometric properties by previous studies. The items used for the analysis and their source are shown in table.1.

PLEASE INSERT TABLE 2 HERE

The items were translated in Japanese before they were administered. Table.2 provides details of the means, standard deviation, average variance extracted and composite reliability of the measurement scales.

To establish the convergent validity, the AVE of the five constructs were calculated. AVE for all the constructs except calculative commitment were above the prescribed value of 0.5, in the case of calculative commitment it is marginally below 0.5. AVE values of above 0.5 establish the convergent validity of the measurement scale. In order to assess the discriminant validity, the square root of each construct's (AVE) was compared to the inter construct correlations. In all the cases, the square root of the AVE was found to be larger than any of the inter-construct correlation values, thereby establishing discriminant validity (Chin, 1998). Table.3 gives the values of inter-construct correlations and the square root of the AVE. Similarly, all the composite reliability values were above the prescribed value except in the case of calculative commitment. Since the scale items of calculative commitment were adopted from a well-tested psychometric measurement scale, and also since the AVE value is only marginally lower than the prescribed value, we decided to retain the scale for calculative commitment.

As the independent and dependent constructs were measured from the same source, there is a potential for the results being distorted by common method bias (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). In order to assess the extent to which common method bias could have affected the results, the Harman's single factor test was used in which all the fit indices for a single factor confirmatory factor analysis measurement model was compared to the actual measurement model. The actual measurement model with the observed variables loaded to their respective latent factors produced a Chi-square value of 229.7 with 60 degrees of

freedom (Chi-square/d.f = 3.83). While the single factor model was found to be far too poor compared to the actual measurement model in terms of the fit indices (Chi-square value of 370 for 65 degrees of freedom, ie. Chi-square/df = 5.7) thereby showing lack of common method bias.

PLEASE INSERT TABLE 3 HERE

PLEASE INSERT TABLE 4 HERE

To test the empirical validity of the hypotheses, a path analysis procedure was conducted through PLS. The path analysis results provide support for a majority of the hypothesis. The  $R^2$  values for the two endogenous constructs – affective commitment and calculative commitment were 0.225 and 0.248 respectively. Since these values were significant, the overall validity of the model is established. To assess the significance of the path analysis coefficients a bootstrapping methodology as envisaged by Chin (1998) was adopted. The bootstrapping procedure involved 250 cases and 1000 resamples. The bootstrapping procedures produce t-values for each of the paths, which give an indication of the statistical significance of the paths. It was found that four of the six path analysis coefficients were found to have significant t-values and were positive. The path analysis results are shown in table. 4. It is seen that the main paths from Interactional Justice to Calculative commitment and Affective commitment are both positive and significant. Similarly the paths from procedural justice to calculative commitment and affective commitment are also seen to be positive and significant. The paths proposed for the interaction items are both not significant either in the case of calculative commitment or affective commitment. The results thus support hypotheses that imply direct relationships between the organisational justice variables and affective and calculative commitment. However the results do not find any support for the interactive effect of the organisational justice variables to organisational commitment.

PLEASE INSERT TABLE 5 HERE

Based on the path analysis results from table.4, it is clear that both procedural justice and interactional justice have a positive significant relationship with affective commitment and calculative commitment. Hence hypotheses H1.a, H1.b, H2.a and H2.b are supported. As far as H3.a is concerned, the standardised path coefficients from Procedural justice to affective and calculative commitment (0.338 and 0.27) have higher values than the path coefficients from interactional justice to affective and calculative commitment (0.159 and 0.257). Hence hypothesis H3.a is supported. Further, the standardised path coefficient from procedural justice to affective commitment (0.338) has a higher value than the standardised path coefficient from procedural justice to calculative commitment (0.27). Thus, procedural justice has a stronger positive relationship with affective commitment than calculative commitment. Hypothesis H3.b is also therefore supported. However, the interaction variable between procedural justice and interactional justice was not found to have a significant path coefficient to either affective commitment or calculative commitment. Hence, hypotheses H4.a and H4.b are not found to have a significant t-value. Hence while there is a direct effect from procedural justice and interactional justice to the organisational commitment variables, there is no evidence to support an interactive effect.

## **Discussion**

This study examined the link between perceptions of justice and commitment in a cross-border acquisition. Specifically, the study investigated the association between procedural and distributive justices and calculative and affective commitments. The study contributes to the growing body of literature on the antecedents of commitment in cross-border mergers. To our knowledge, this is one of the few studies examining the link between perceptions of justice and commitment in this type of international entry mode, as this small research strand has mostly focused on a single country context (Ellis et al., 2009; Klendauer & Deller, 2009; Lowe & Vodanovich, 1995; Monin et al., 2013).

The analysis of perceptions of justice of Japanese employees of the way the acquirer – a British firm- handled the process highlights a number of interesting results. Our results show high level of employees' commitment in employees of the local Japanese acquired firm, and

in line with previous studies, show that organisational justice, both procedural and interactional, have a strong relationship with commitment (affective and calculative). Though may sound quite intuitive, however, Meyer and Allen's (1991) study suggests that the takeover of a Japanese company by a typically western firm should have a negative impact on the employee perceptions of fairness and consequently on commitment. Our findings lend credence to the extant research on justice in Japanese organizations. Our results suggest that organizational justice is a sine qua non for employee commitment in foreign owned organizations operating in Japan. Given the highlighted differences between Japanese and non-Japanese organizations, in terms of both HR practices and employee profiles, it would be interesting to compare the relative impact of perception of justice and employee commitment.

Interestingly, in contrast to previous studies (Folger & Konovsky, 1989; Klendauer & Deller, 2009; Lind & Tyler, 1988), our results show that procedural justice has a stronger influence over employees commitment to the firm than interactional justice. This might be explained, to a certain extent, by the fact that during the post-merger integration phase the established procedures do become critical in determining the required levels of interaction and engagement between members from the merging organisations. This is in line with Ellis et al (2009) and Melkonian's (2011) findings showing that the procedural dimension of organisational justice becomes the most critical after the merger implementation phase. The results suggest that if employees have the ability to influence decision-making procedures, there is a good chance that employee's relative commitment to the acquired firm will be high. This supports the broader literature that contend that if employees are given the chance to become actively involved in the outcomes of processes and procedures, they are likely to feel a sense of process control (Daly & Geyer, 1994; Ellis et al., 2009; Kim & Mauborgne, 1993; Korsgaard, Schweiger, & Sapienza, 1995).

Our results also show that procedural justice has a stronger relationship with affective commitment than with calculative commitment. This may be partly explained by the fact that justice in terms of decision making procedures and power structures (procedural justice) have a stronger impact on the emotional side of commitment (affective) (Weiss & Cropanzano, 1996). Since the emotional side of affective commitment can be highly influenced by cultural traits, cultural differences involved in international entry modes like M&As can then exert particular influence on the emotional experiences of employees (Reus, 2012). The affective commitment to the company may also be explained by the Japanese culture, which due to its

collectivistic nature, and emphasis on retaining social ties and reaching groups goals (Meyer, Stanley, Jackson, et al., 2012; Randall, 1993).

In terms of the interactive effects between procedural and interactional justice, surprisingly, our results do not provide evidence to support the established view that their interaction will exert a stronger influence over employees' commitment as suggested by previous studies (Cropanzano & Folger, 1989; Kim & Mauborgne, 1993; Luo, 2007; McFarlin & Sweeney, 1992). The design of our study does not allow us to provide speculations to why the two justices do not reinforce each-others as expected. This could be due to the institutional context of Japan and or the nature of post mergers integration. In depth qualitative studies seeking to unpack this puzzle are highly warranted.

### *Practical implications*

If we look at the practical implications of the international acquisition process, it is evident that obtaining optimum perceptions of organisational fairness is not so straight forward. This is particularly the case involving international entry modes such as M&A, in which management have to consider potential cultural and language barriers that may prevent the efficient implementation of the governance structures used to manage the acquisition and the procedures and processes in decision-making. In fact as Chun and Davies (2010) found, time, space and role of the employees could influence the satisfaction and emotional attachment to the firm in a post-merger scenario. Particular attention therefore needs to be paid to the way employees of the acquired firm are treated during their interactions with their counterparts. This will strongly influence their willingness to stay or leave the firm, which may facilitate or become a barrier for the post-acquisition integration implementation, and ultimately influence the success in entering into new international markets. Results from the study broadly charts out the process of building employee commitment through achieving organisational justice. The study entreats practitioners to strongly consider issues attached to organisational justice on board during the post-merger strategic planning process.

In a recent study, Öberg (2014) reports how international acquisitions can end up eroding customer relationships due to the customers reacting negatively to acquisitions. Thorbjørnsen and Dahlén (2011) have also reported similar results. To avoid such problems, these authors suggest an active involvement of the customer in the post-merger activities. Implementing such a strategy that requires a close interaction with customers is not possible without a strong support from existing employees. Thus, in such situations, strong commitment from

existing employees could at least stem the tide of customer defections and customer dissatisfaction. By underlying the role of organisational justice in fostering employee commitment in the context of a multi-country acquisition, insights from this study should therefore guide practitioners in developing strategies for retaining customers.

#### *Limitations and avenues for further research*

Although the questionnaire used in the study had the support of its success in previous studies, it would appear from the results and discussions with translators that the questions themselves were considered to be too imposing and insensitive for the Japanese audience, as the topic of organisational justice is regarded to be quite personal. This we accept as an important limitation. We recommend that future studies should perhaps develop questionnaire items that take into consideration Japanese sensitivities. Further, though we had followed basic protocols for conducting the survey like assurance of confidentiality and reverse wording of some questions, due to the small population size (ie. just 151 non managerial employees), the impact of social desirability bias in the results cannot be ruled out, this is another limitation of the study.

In addition the study considered responses from the employees of just one firm and therefore contextual considerations would have impacted the responses. Although the Japanese context represents an interesting context for cross border M&As studies because of the uniqueness of the local institutional setting (Witt, 2014), the findings are relevant to other Asian collectivists contexts (Rowley, Benson, & Warner, 2004; Varma & Budhwar, 2013). The generalizability of the findings, however, may warrants caution.

Further research could either repeat the same study in different countries, or perhaps repeat the same study in the same country but within different acquired companies and investigate the effect of language barriers on perceptions of justice. To this end a qualitative methodology would be more appropriate.

Another suggestion for further research would be in identifying whether the size and international experience of the acquiring firm has much influence of the perceived organisational fairness and commitment within the acquired firm, as larger firms may have more capacity to employ personnel specific to manage each acquisition, such as ABC corp.'s integration manager. Further studies may also consider investigating the relationship between

organisational justice perceptions and employee commitment in the context of the internationalisation process of SMEs through M&As. Given the importance of emotions in explaining affective commitment, it further studies could investigate the potential mediating effect of emotions in the relationship between organisational justice and affective commitment.

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<sup>i</sup> To identify the relevant literature, we consulted three article databases, namely EBSCO, Scopus and Web of Knowledge, as well as Google Scholar, using the search terms "strategic alliances", "mergers and acquisitions", in combination with "procedural justice", "interactive justice", "affective commitment" and "calculative commitment". We also searched for all papers on M&As, procedural and interactive justice and commitment in Japan.

TABLE 1: An Illustrative Literature on Organisational Justice in the Context of M&A

|                                            | <b>Types of Organisational Justice</b>                |                                      |                                        |
|--------------------------------------------|-------------------------------------------------------|--------------------------------------|----------------------------------------|
|                                            | <b>Procedural</b>                                     | <b>Distributive</b>                  | <b>Interactional (and informative)</b> |
| Power basis                                | (Steensma & van Milligen, 2003)                       |                                      |                                        |
| Employee reactions to allocation processes | (Meyer, 2001)                                         |                                      |                                        |
| Social integration process                 | (Meyer & Altenborg, 2007)                             |                                      |                                        |
| Employees willingness to cooperate         | (Melkonian, Monin, & Noorderhaven, 2011)              |                                      |                                        |
| Employees post-merger identification       | (Lipponen et al., 2004)<br>(Edwards & Edwards, 2012 ) |                                      |                                        |
| Value creation and employee commitment     | (Ellis Reus & Lamont, 2009)                           |                                      | (Ellis Reus & Lamont, 2009)            |
| Sensegiving and sensemaking                |                                                       | (Monin et al., 2013)                 |                                        |
| Integrative equality                       |                                                       | (Drori, Wrzesniewski, & Ellis, 2011) |                                        |
| Managers' commitment                       | (Klendauer & Deller, 2009)                            |                                      |                                        |

Source: Author analysis.

Table.2. Questionnaire items: Calculative, procedural and affective commitment.

| Interactional Justice  | Items                                                                                                                                                     | Source                         |
|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
|                        | I feel that the top management (either international or Japanese) has treated me with respect.                                                            | (Bies and Moag, 1986)          |
|                        | I feel that the top management (either international or Japanese) has treated me with dignity.                                                            | (Bies and Moag, 1986)          |
|                        | Since the acquisition, my immediate supervisor has been candid in his/her communication with me                                                           | (Bies and Moag, 1986)          |
|                        | My immediate supervisor (either foreign or Japanese) has communicated details in a timely manner.                                                         | (Colquitt, 2001)               |
| Procedural Justice     | After the acquisition, procedures have been constructed in a way that takes into consideration the concerns of all the employees affected by the decision | (Leventhal, 1980)              |
|                        | I have been well informed since the acquisition took place                                                                                                | (Kotter and Schlesinger, 1979) |
|                        | I have been formally involved during the acquisition and was able to express my views and ideas                                                           | (Colquitt, 2001)               |
|                        | I have been given enough time to adapt to the changes brought by the acquisition process                                                                  | (Daly & Geyer, 1994)           |
| Affective Commitment   | After my company was acquired, I do not feel like “part of the new family”*                                                                               | (Meyer & Allen, 1997)          |
|                        | I do not feel a strong sense of belonging to this acquired company*                                                                                       | (Meyer & Allen, 1997)          |
|                        | I do not feel emotionally attached to my company since it was taken over by Experience*                                                                   | (Meyer & Allen, 1997)          |
| Calculative Commitment | After the acquisition, it has become very difficult for me to leave my organisation, even if I wanted to*                                                 | (Meyer & Allen, 1997)          |
|                        | I feel that remaining with my company after the acquisition is a matter of necessity as much as a desire                                                  |                                |

\*Reverse scaled

Table.3: Descriptive statistics

|                        | Mean | Std. Deviation | AVE  | Composite Reliability | No. of items |
|------------------------|------|----------------|------|-----------------------|--------------|
| Interactional justice  | 4.6  | 1.38           | 0.76 | 0.92                  | 4            |
| Procedural justice     | 3.44 | 1.29           | 0.73 | 0.91                  | 4            |
| Calculative commitment | 4.41 | .95            | 0.49 | 0.50                  | 2            |
| Affective commitment   | 4.06 | 1.20           | 0.61 | 0.82                  | 3            |

Table.4 Interconstruct correlations and square root of AVE

|                        | 1    | 2    | 3    | Square root of AVE |
|------------------------|------|------|------|--------------------|
| Calculative commitment | 1.00 |      |      | 0.7                |
| Interactional Justice  | 0.42 | 1.00 |      | 0.87               |
| Procedural Justice     | 0.40 | 0.57 | 1.00 | 0.85               |
| Affective commitment   | 0.24 | 0.36 | 0.44 | 0.78               |

Table.5: Path analysis coefficients (PLS)

| Path from                            | Path to                | Standardised coefficients |
|--------------------------------------|------------------------|---------------------------|
| Interactional Justice                | Affective Commitment   | 0.159**                   |
| Interactional Justice                | Calculative Commitment | 0.257*                    |
| Procedural Justice                   | Affective Commitment   | 0.338**                   |
| Procedural Justice                   | Calculative Commitment | 0.27*                     |
| Interaction of Int Just and Pro Just | Affective commitment   | N.S                       |
| Interaction of Int Just and Pro Just | Calculative commitment | N.S                       |

\*\* p <0.01, \*p<0.05