

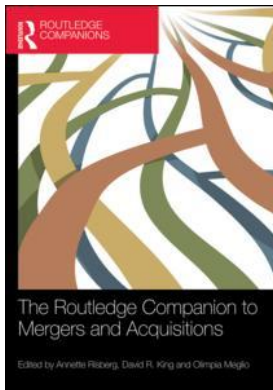
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Antecedents of anticipatory justice among acquired firm employees

Kaitlyn DeGhetto, Sangbum Ro, Bruce T. Lamont, and Annette L. Ranft

Introduction

In business interactions, first impressions are crucial. While you can't stop people from making snap decisions—the human brain is hardwired in this way as a prehistoric survival mechanism—you can understand how to make those decisions work in your favor.

Forbes, 2011

Despite the prevalence of acquisitions, we know that the majority (between 70 percent and 90 percent) end in failure (Christensen *et al.* 2011). In an effort to help mitigate failures and enhance the chances of successful outcomes, scholars have emphasized the importance of managing the acquisition integration process (e.g. Cording *et al.* 2008; Ellis *et al.* 2009; Haspeslagh and Jemison 1991; Ranft and Lord 2002). Specifically, effectively managing the acquisition process starting from an early stage, such as due diligence and negotiations, is important to secure employee engagement during the integration phase (Jemison and Sitkin 1986) which in turn can lead to value creation (Birkinshaw *et al.* 2000). While it has long been posited that the quality of the due diligence, or pre-deal, phase has important effects on the later stages of the acquisition process, little systematic theoretical work has clarified how the pre-deal process actually sets the stage for employee engagement during the integration process. Thus, the purpose of our study is to highlight the importance of “first impressions” in the acquisition process.

Acquisition pre-deal processes vary, including the templates used, overall complexity, time frame allotted, and employees involved. Despite these differences, all acquisition processes include a pre-deal phase, more than just the top executives become aware of the pending deal to varying degrees, and all acquirers have the opportunity to manage the pre-deal process to their advantage. Drawing on anticipatory justice theory and supporting evidence, we posit that the first impression made by the acquiring firm, positive or negative, will become salient in the minds of target firm managers and employees as they enter the integration process. Further, these initial perceptions are difficult to change and will continue to influence future perceptions.

In this chapter, anticipatory justice refers to “expectations regarding whether one will (or will not) experience justice in the context of some future event” (Rodell and Colquitt 2009: 989; Shapiro and Kirkman 2001) as it relates to target employee justice expectations in the integration process. Drawing on acquisition process research, we identify certain process characteristics that the acquiring firm can develop and implement during the pre-deal phase to increase the likelihood of target employee anticipatory justice which should in turn lead to their engagement and a smoother and more successful integration process. Also, by blending both acquisition research and justice theory, we elaborate our model by including factors likely to moderate the effects of the pre-deal process characteristics on anticipatory justice.

In sum, the proposed model allows us to speculate about the path-dependent acquisition process that will unfold depending upon actions taken during the pre-deal phase and the justice intentions of the acquirer’s top managers. In the following sections, we 1) describe various pre-deal processes and highlight several practical examples; 2) introduce and describe the concept of anticipatory justice; 3) elaborate on our conceptual model and develop propositions; and 4) conclude with a discussion of the main contributions, implications, and opportunities for future research.

Pre-deal processes: practical insights

Although the pre-deal phase varies from acquisition to acquisition, it is an important aspect of every acquisition process. Part of the variation in pre-deal processes is due to the acquirer’s past experiences and templates used to guide the due diligence process, but variation may also be due to the characteristics of the acquisition itself (Marks and Mirvis 2010). Due to the noted differences in acquisition processes, target employees become aware of the pending acquisition during the pre-deal to varying degrees and, in turn, begin to form perceptions about the forthcoming acquisition. Below, we discuss several reasons why pre-deal processes vary and provide practical examples that highlight circumstances when target employees throughout the firm became aware of the prospective acquisition prior to the deal being finalized.

Merger size is one reason that pre-deal processes differ. A merger between two large firms is more complicated and takes longer than a merger between firms in which at least one firm involved in the deal is small (Ellis *et al.* 2009). For example, the merger between Mellon Financial Corporation and The Bank of New York resulted in the “largest securities services and asset management firm” in the world (Taliaferro *et al.* 2009: 2). Thus, it took several years and substantial efforts from a wide-range of employees from both firms during the pre-deal (Taliaferro *et al.* 2009).

The extent of intended integration is also directly related to the complexity of the acquisition process and length of the pre-deal phase. Partial integration may only affect a few functional areas of the combined firms, whereas full integration will likely result in substantial changes for both firms across all departments (Haspeslagh and Jemison 1991). The complexity of full integration requires more thorough investigation and complete analysis to be conducted prior to the closing of a deal, typically requiring a prolonged, comprehensive pre-deal process that may involve more employees throughout the firm (Haspeslagh and Jemison 1991; Marks and Mirvis 2010).

Beyond intended integration, ownership structure can also impact the acquisition process. In their case study of Starbro Manufacturing, a family-owned firm acquired by BGD Industries, Mickelson and Worley (2003) indicated that family-owned firms may have unique motives, deal requirements, and processes. Differences may occur because emotions and identities are closely tied to the company, all affected family members must approve the deal, and family members

demand to be included within the combined firm. Also, Capron and Shen (2007) described how acquiring a publicly held versus a privately held firm will lead to differences in the availability of information during the pre-deal process in terms of both quality and quantity. They proposed that acquiring firms will incur greater search costs when purchasing a privately held firm due to a lack of transparent information.

Further, certain regulatory environments and associated laws introduce additional hurdles and restrictions for mergers and acquisitions that can significantly extend the pre-deal process (Capron and Guillen 2009). Indeed, Dikova *et al.* (2010) found that the institutional environment and the institutional distance between the acquiring and target firms' home nations impacts the completion rates and timeliness of cross-border acquisitions. These scholars emphasized that differences in antitrust laws or national legal systems (civil vs. common law) may complicate acquisition processes.

The cross-border acquisition between DuPont (US-based) and Danisco (Denmark-based) is a prime example of how the regulatory environment within a given nation can significantly impact the length of the pre-deal process. Although an arguably friendly acquisition from the firms' perspectives, this particular deal was stalled because Danish law requires tender from 90 percent of shareholders and multiple countries had to approve the acquisition (Kullman 2012). Another time-intensive merger occurred between Sirius Satellite Radio Inc. and XM Satellite Radio Holding Inc. for regulatory reasons. The deal was announced 16 months prior to its full approval by the US Federal Communication Commission (*Forbes* 2008), and ample media attention surrounded this merger during the pre-deal process. In these instances, regulatory requirements extended the pre-deal phase, increasing the number of employees from both sides who were aware of and potentially involved in the deal.

Also, many acquisitions occur after the firms have worked together in partnership arrangements. Ultimately, prior business relationships impact pre-deal processes and target employees' perceptions because the acquisition is not the first time that the two firms' employees have worked together. For example, Google Inc. acquired wind energy company Makani Power in May 2013. However, Google's relationship with Makani Power, and investment in the company, dates back to 2006 (*Yahoo Finance* 2013), indicating that the two firms developed a long-term collaborative relationship prior to the pre-deal phase. In addition, DuPont and Danisco were involved in joint ventures prior to DuPont's acquisition of Danisco. These prior partnership arrangements are important because they establish a base of trust that will subsequently transfer into the pre-deal phase (Gulati 1995, Zaheer *et al.* 1998). Prior research has noted the benefits of two firms first engaging in lower-risk projects in order to temper feelings of vulnerability and increase trust (McCarter *et al.* 2011). Further, gaining a preview of the other firm during alliances relates to higher performance outcomes (Porrini 2004). Thus, if the target and acquiring firms have a record of prior collaborative relationships, the pre-deal phase may create less uncertainty for the target firm employees and result in greater value creation for stakeholders.

Regardless of the degree of active participation by target employees or aforementioned variations in the pre-deal process, target employees may hear about the pending deal through their supervisors, peers, the media, or simply rumors in the industry (Scheweiger and DeNisi 1991). Prior research indicates that discourse and framing techniques used by the media and executives have a substantial impact on how mergers and acquisitions are perceived by various stakeholder groups (Risberg *et al.* 2003; Vaara and Tienari 2002; Vaara *et al.* 2003). Thus, executives should recognize the importance of the pre-deal phase and begin to manage perceptions as early as possible.

These practical examples illustrate that 1) pre-deal processes vary depending upon the circumstances and 2) there are instances when employees at all levels are aware of the pending deal, even if not directly involved. Regardless of the reasons for the varying pre-deal processes, we posit that it is likely that these differences will differentially shape the target firm participants' expectations of fair treatment and, in turn, their receptivity toward change and engagement after the deal is complete.

Anticipatory justice

Anticipatory justice versus experienced justice

Anticipatory justice describes the phenomenon of how individuals form expectations that justice will be carried out in the future based on past justice episodes (Shapiro and Kirkman 2001). In turn, individuals become more receptive to forthcoming changes or other critical decisions that affect them (Cropanzano and Ambrose 2001; Rodell and Colquitt 2009; Shapiro and Kirkman 2001). Prior studies show that anticipatory justice is conceptually and empirically distinct from “experienced” justice, the typical foci of the justice and M&A literature (Bell *et al.* 2006; Colquitt *et al.* 2001; Rodell and Colquitt 2009). Simply put, anticipatory justice is an antecedent to experienced justice (Rodell and Colquitt 2009). Individuals are biased in that there is a tendency to unknowingly focus on new information that supports prior beliefs (Jonas *et al.* 2001; Nickerson 1998). Thus, perceptions of what is experienced (i.e. experience justice) are at least partially a result of what is expected, or anticipated (Shapiro and Kirkman 2001). For these reasons, the concept of anticipatory justice is important to consider separately from experienced justice. However, to our knowledge, the concept of anticipatory justice has yet to be considered in M&A research.

Anticipatory justice in acquisitions

In the acquisition context, target employees' anticipatory justice formed during the pre-deal phase equates to their beliefs about how they will be treated by the acquirer during the integration phase (Shapiro and Kirkman 2001). This is important because how individuals expect to be treated generally mirrors their “reality,” or the justice they perceive, within a future event. Once an individual forms anticipatory justice from a current or past event, it impacts the cognitive frame applied to evaluate relevant future events (Rodell and Colquitt 2009; Shapiro and Kirkman 1999). In turn, individuals will be more or less receptive to forthcoming changes or other critical decisions that affect them (Rodell and Colquitt 2009). Anticipating justice will result in target employees' acceptance of the change and motivation to engage in productive behavior and positive feelings at the onset of the integration process (Bell *et al.* 2006; Rodell and Colquitt 2009). By contrast, anticipatory injustice likely results in dysfunctional behavior (Shapiro and Kirkman 1999; Shapiro and Kirkman 2001; Sinetar 1981).

Two aspects of anticipatory justice should be noted. First, fairness judgments do not involve thorough consideration of all relevant information. In explaining how fairness judgments are formed, Lind (2001) posited that, at the outset of new relationships, individuals use readily available information to form expectations about future fairness. Research indicates that individuals take a cognitive shortcut by relying on the first available information or impression (Bell *et al.* 2006). These findings highlight the importance of first impressions in the acquisition process, and acquiring firm managers should emphasize pre-deal processes that shape anticipatory

justice. Indeed, a negative first impression of anticipatory injustice is costly and difficult to change. For example, Lind *et al.* (1998) found that employees who experienced injustice early in their interaction with supervisors were more likely to view their supervisors' future actions as unfair. Other studies found that anticipatory injustice is significantly related to employees' resistance to change, turnover, withdrawal of commitment, and defiance of leadership authority (Greenberg 1990; Shapiro and Kirkman 1999).

Second, anticipatory justice is heightened when there is a high level of uncertainty in the environment (Shapiro and Kirkman 2001). Justice formation occurs during a substantial change in the organizational context such as leadership change, acquisitions, or major restructuring because these events create a sense of uncertainty and insecurity among employees. The positive relationship between uncertainty and formation of justice has been empirically examined in a number of studies (Dutton and Duncan 1987; Rodell and Colquitt 2009; Shapiro and Kirkman 2001; Weick 1995). In particular, Shapiro and Kirkman (1999) found that employees, when faced with substantial organizational changes, engage in sense making and try to predict subsequent outcomes based on their expectations in order to deal with uncertainty and insecurity. Anticipating how one will be treated in the future, in this case during acquisition integration, helps individuals cope with anxiety and uncertainty (Bell *et al.* 2006).

We believe that the concept of anticipatory justice has important implications for the acquisition process, particularly the pre-deal process. During the pre-deal process, new relationships are starting to form, change and uncertainty are substantially high, and there are opportunities for acquiring firm managers to develop positive (or negative) first impressions. Further, within this context, justice expectations are likely to be informed by salient preceding events. As such, anticipatory justice formed during the pre-deal process sets the stage for employees' receptiveness and participation at the beginning of the integration process, in which most value from the acquisition is created.

Conceptual development

With this chapter, we propose that anticipatory justice is central to the acquisition integration process to facilitate target employee engagement. In the following section, we develop several propositions surrounding the theoretical model depicted in Figure 18.1.

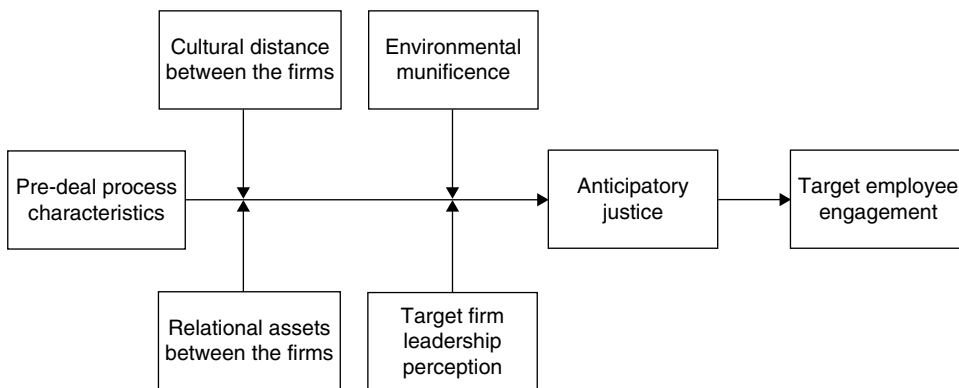


Figure 18.1 Anticipatory justice in the M&A pre-deal process

Pre-deal process characteristics

Previous studies have found that target firm employee engagement during the integration phase is critical to integration efforts and the future success of the newly combined firm (e.g. Ellis *et al.* 2009; Graebner 2004; Ranft and Lord 2000). Many of these studies also emphasized the importance of perceived justice as a precondition for employee engagement. Employees become more receptive to changes and actively participate in the integration process when they perceive justice. While a number of studies have looked at the antecedents and consequences of perceived, or experienced, justice during the integration phase (e.g. Ellis *et al.* 2009; Lipponen *et al.* 2004; Meyer 2001; Steensma and van Milligen 2003), no known research has explicitly addressed what can be done during the pre-deal phase to enhance employees' senses of justice, expectations, and resulting employee receptiveness to change.

Anticipatory justice has important implications for acquisition research because of the situational contexts that acquisitions create. That is, acquisitions tend to create a high level of uncertainty, anxiety, and even fear among members of both firms involved, but especially for target firm employees (Bastien 1987; Jemison and Sitkin 1986; Schweiger and DeNisi 1991). Scholars have gone as far as equating mergers and acquisitions to "major life changes" for employees (Sinetar 1981: 863). A proactive involvement and fair treatment of target managers and employees in the pre-deal phase is essential for affecting employees' construction of anticipatory justice and, in turn, employee engagement.

Noteworthy organizational change events, such as acquisitions, provide an opportunity for managers to engage in sense-giving processes (Søderberg 2003). This is because existing mental models used for sense making are no longer useful and must be adjusted to understand the new organization (Weick 1995). If the acquiring firm managers understand this, they can take actions to support the adoption of a preferred schema (Søderberg 2003). Prior studies found that discourse used in the pre-deal process can play a substantial role in framing how the acquisition is perceived (Risberg *et al.* 2003; Søderberg 2003; Vaara *et al.* 2003; Vaara and Tienari 2002). By taking a lead role in guiding and managing the organizational change event, target firm executives can influence how lower-level employees interpret the upcoming change (Kanter *et al.* 1992). Thus, we believe that implementing key pre-deal processes can lead to anticipatory justice rather than injustice. Specifically, we discuss the following pre-deal process characteristics: 1) bilateral communication, 2) range of participants, 3) comprehensiveness, and 4) consistency. Although we acknowledge that there are still other characteristics or aspects of the pre-deal process that should be evaluated in future studies, we believe that these are the most pertinent pre-deal process characteristics identified in previous research. In this study, we posit that these four characteristics will directly relate to target employees' anticipatory justice.

Bilateral communication

Communication between the target and acquiring firm employees is an important aspect of the acquisition process, in both pre- and post-acquisition phases (Allatta and Singh 2011; Ranft and Lord 2002; Searby 1969). The mounting uncertainty created by the acquisition context and heightened distrust and dissatisfaction among target employees during the pre-deal phase requires a rich flow of communication between merging firms as early as possible (Bastien 1987). Indeed, past research indicates that, by engaging in frequent, high-quality and one-on-one communication during the pre-deal, managers can alleviate target employees' anxiety and uncertainty and prevent them from developing negative biases about the forthcoming changes (Schweiger and DeNisi 1991; Sinetar 1981). Further, target employees perceive the acquiring firm as increasingly "trustworthy,

honest, and caring” if realistic communication about post-acquisition plans is provided (Schweiger and DeNisi 1991: 128). In their experimental study, Schweiger and DeNisi (1991) found that open, realistic communication by managers mitigates dysfunctional feelings and attitudes among employees created by merger announcements.

Lander and Kooning (2013) observed in the merger between Air France and KLM that close cooperation and open communication between the two companies early in the pre-deal process contributed to long-lasting positive views and attitudes during later stages of the pre-deal. They also observed that the anticipation and trust that was first developed among top managers of both firms quickly trickled down to lower-level employees affecting their beliefs about future changes. Alternatively, when communication quality is poor or incongruent, target employees rely on rumors and gossip to cope with uncertainty, which may damage anticipatory justice and generate negative expectations about the upcoming integration procedures (Bastien 1987). In sum, if bilateral communication exists during the pre-deal process, target employees are likely to feel more comfortable with the idea of the pending acquisition and anticipate the same amount of communication and justice in the future.

Range of participants

In many acquisitions, top managers fail to realize that they need to work closely with functional managers for input and place themselves in charge of the entire integration planning (Haspelslagh and Jemison 1991). However, it may also be important to engage a wide range of participants during the pre-deal, while still trying to minimize interruption of the normal operations. Target employees’ participation in the pre-deal process can help them to cope with the pending changes (Amiot *et al.* 2006). Also, getting initial input from employees affected by and responsible for the integration efforts is useful in identifying potential integration issues as early as possible. Further, involving more participants may increase overall commitment to the post-acquisition firm and the likelihood of anticipatory justice among target employees (Jemison and Sitkin 1986).

Organizational change, oftentimes substantial, is inevitable in most acquisitions (Searby 1969). This change will trigger a sense-making process for the target firm employees which is impacted by perceptions of justice (Monin *et al.* 2013). For many employees, the fact that they are invited into the pre-deal planning and due diligence process can raise their justice expectations by signaling that 1) they will be treated with respect after the acquisition, 2) they may be a part of the decision-making process in the future, and 3) they will be provided with accurate and quality information. Indeed, the opportunity to have a voice in the pre-deal process increases feelings of value, respect, and belonging for the target employees (Steensma and van Milligen 2003).

The merger between Mellon Financial Corporation and The Bank of New York is a good example of the importance of developing a sense of justice during the pre-deal phase by involving managers and employees from both parties in the deal (Taliaferro *et al.* 2009). After the CEOs agreed to pursue a merger between the two institutions, they quickly organized a merger committee comprised of approximately an equal number of top managers from both firms. This equal representation signaled to the employees of both firms that they would be treated with fairness and respect in the future. In addition to the merger committee comprised of top managers, the two firms also established a merger task committee comprised of operational-level leaders from both firms. The members of the merger task committee were selected based not only on subject-matter expertise but also on reputation for people-driven personalities. The primary responsibility of the merger task committee was to provide task-specific expertise to managers, but they were also expected to facilitate the communication and collaboration among

the employees at the operational level. This case illustrates how firms can leverage a wide range of participation for overall efficiency and reduced feelings of uncertainty. Further, if involved in the acquisition process during the pre-deal phase, target employees may begin to identify with the “new” organization and feel a sense of common group membership with the acquiring firm employees (Lipponen *et al.* 2004).

Comprehensiveness

Acquisition scholars argue that an effective integration plan should be thorough and comprehensive (Haspeslagh and Jemison 1991; Jemison and Sitkin 1986). A comprehensive integration plan not only serves as a good road map but also as an agent in reducing anxiety for both target firm top managers and employees which in turn will enhance positive expectations about the future changes. However, even prior to the integration phase, acquiring firm managers can influence anticipatory justice by recognizing the importance of a comprehensive pre-deal process. Despite the time pressures that often accompany an acquisition, acquiring firm managers should start early and take time to fully understand firm differences, including conflicting values and managerial styles (Datta 1991; Hitt *et al.* 2001).

For example, in the merger between Mellon Financial Corporation and The Bank of New York, the merger committee conducted a thorough cultural analysis in which similarities and dissimilarities in values and management styles were clearly identified and solutions for reconciliation were devised (Taliaferro *et al.* 2009). The early detection of the potential conflicts due to the cultural differences not only helped both firms to generate a more realistic plan for the integration, but also served to reduce employees' uncertainty and anxiety by signaling that the firms would amicably work together rather than forcefully infuse one system into the other (Taliaferro *et al.* 2009).

Often, target employees have their own distinct social identity, which can add value to the future acquisition if appropriately understood and maintained (Colman and Lunnan 2011). If the acquiring firm managers work with target firm employees during the pre-deal to gain a comprehensive understanding of the idiosyncrasies of the target firm, employees may expect to receive the same levels of respect, consideration, and collaboration during the future integration process. Therefore, comprehensive pre-deal planning provides both the target firm top managers and employees with information regarding what to expect once integration starts, thereby positively influencing justice expectations.

Consistency

Due to the uncertainty created by acquisitions, target firm top managers and employees demand consistency in decisions and plans made regarding the acquisition. This can be traced to the sense-giving and sense-making processes (Gioia and Chittipeddi 1991; Weick 1995). Decisions and plans made during the pre-deal provide information to be used for sense-giving and sense-making purposes (Monin *et al.* 2013) and, when facing crucial changes in both firm structure and identity, the target firm members try to make sense out of all the upcoming changes from the available information. Ambiguity, on the other hand, may limit employees' abilities to deal with and make sense out of the upcoming change (Sinetar 1981). It is important to note that there are likely multiple “realities” or interpretations of the acquisition depending upon the position held within the target firm, involvement within the acquisition process, and amount of details provided by upper management (Risberg 2001; Risberg 2003). Effective and consistent communication surrounding the motives, goals, and objectives of the pending acquisition may

help deter employees from anticipating the worst case scenario and, in turn, disengaging or leaving the company (Risberg 2001).

Indeed, researchers have identified consistency as an important aspect of organizational justice (Arino and Ring 2010; Kim and Mauborgne 1991). When decision-making processes are consistent, the decisions are perceived to be fair. When consistency is perceived in decisions and plans made by the top managers during the pre-deal, anticipatory justice will form. Even if they do not like the outcome, target employees will feel the process used to get there was just (Marks and Mirvis 2010). In contrast, inconsistency in decisions leads to feelings of deception, deprivation, and unfair procedures (Kahneman 1992). As such, if information obtained during the pre-deal is inconsistent, target employees may develop low expectations about future information quality or accuracy and develop anticipatory injustice.

In sum, there are certain pre-deal process characteristics that can result in anticipatory justice when properly implemented during early phases of the acquisition process. Formally stated:

Proposition 1: Pre-deal process characteristics, including bilateral communication, a wide range of participants, comprehensiveness, and consistency are positively related to anticipatory justice.

Moderators

In addition to the expected main effects between pre-deal process characteristics and anticipatory justice, it is important to highlight several moderators of these main effects. Certain events that occur prior to or concurrent with the pre-deal process may impact the overall importance of implementing the aforementioned pre-deal process characteristics. Further, due to the proposed moderating effects, target employees may rely more or less on justice cues from the acquiring firm during the pre-deal process. The moderators considered in this chapter include, 1) cultural distance, 2) previously developed relational assets, 3) prior justice experiences within the acquired firm, and 4) environmental munificence.

Cross-border acquisitions: cultural distance

Despite the added complexity due to institutional differences such as cultural distance, cross-border acquisitions are increasingly common across the globe (cf. Bertrand and Betschinger 2012; Bertrand and Zitouna 2008; Hitt *et al.* 2001). In particular, differences in national culture, defined as shared values, social norms, and beliefs within a given nation (Hofstede, 1983), can result in language barriers, conflicting values, diverse business practices, methods of communication, etc. (Ghemawat 2001; Johanson and Vahlne 1977). We believe that cultural distance is an important aspect of the pre-deal phase because target employees may rely on salient differences in national culture to make sense of the deal.

Although lower-level employees may be involved in certain aspects of the deal, top executives are usually the ones more actively engaged in every aspect of the pre-deal process (Jemison and Sitkin 1986). Due to different levels of involvement, information asymmetry typically exists between top executives managing the deal and lower-level employees, leaving lower-level employees more uncertain about the pending deal when compared with top executives. For these reasons, deal specifics are bypassed, and public, readily available information, such as national culture, plays a role in shaping target employees' expectations about the pending acquisition.

M&A scholars have researched the impact that culture has on integration and subsequent performance (Calori *et al.* 1994; Chatterjee *et al.* 1992; Datta 1991; Marks 1982; Morosini *et al.*

1998; Olie 1990). While some studies conclude that differences in culture hinder integration efforts and diminish returns to shareholders (Datta and Puia 1995), others find positive effects (Morosini *et al.* 1998). However, these differences, if understood, can be managed to the combined firm's advantage (Reus and Lamont 2009). Indeed, if properly managed, cultural distance between the acquiring and target firm may ultimately result in positive outcomes through new learning occurring across traditional domestic boundaries (e.g. Chakrabarti *et al.* 2009; Slangen 2006; Reus and Lamont 2009).

Considering the mixed results found in the literature, culture is a complex phenomenon (Teerikangas and Very 2006) that is often conceptualized as a double-edged sword (Stahl and Voigt 2008). Although there is some disagreement on whether and how culture impacts performance, there is general consensus that effort should be taken by managers to understand cultural differences from the earliest stages of the acquisition process (Cartwright and Cooper 1993; Teerikangas and Very 2006). This is because cognitive biases stemming from national culture are difficult to change and impact how individuals view the world (Berger and Luckmann 1967). Indeed, past research shows that national culture is deeply rooted in history and relates to target employees' identities, sense-making processes, and "us versus them" stereotypes (Vaara *et al.* 2003). When these in-group biases form and the acquiring firm is perceived as a threat, stereotypes can drive distrust, hostility, stress, turnover, and lack of engagement that impact socio-cultural integration (Cartwright and Cooper 1993; Datta and Puia 1995; Stahl and Voigt 2008).

For these reasons, we propose that national cultural distance may impact the proposed main effects between pre-deal process characteristics and anticipatory justice. Due to stereotypes related to national culture (Vaara *et al.* 2003), cultural distance may heighten target firm employees' sensitivity to justice cues in the pre-deal process and increase skepticism about the future acquisition. The breakdown in target employees' existing sense-making processes (Söderberg 2003; Weick 1995) provides an increased need for the acquiring firm executives to engage in specific pre-deal processes that promote anticipatory justice. For these reasons, we posit that cultural distance may strengthen the proposed relationship between pre-deal process characteristics and formation of anticipatory justice.

Proposition 2: Cultural distance moderates the relationship between pre-deal process characteristics and anticipatory justice such that with larger cultural distance the relationships become stronger.

Relational assets between the firms

Relational assets refer to previous cooperative relationships between the two firms. Regardless of the acquiring firm's motives for shifting from cooperative arrangements to acquisition, prior collaborative interactions may affect acquisition planning and integration processes by predetermining the level of established trust (Gulati 1995; Rousseau *et al.* 1998).

According to past research, alliances and joint ventures provide a platform to build trust between partners through frequent interactions (Zaheer *et al.* 1998). Thus, the more familiar the acquirer and target firms are with one another due to past collaborative relationships, the more likely that trust exists between the two parties (Gulati 1995). McCarter *et al.* (2011) described how smaller wins and pilot projects between two firms can lead to reduced perceptions of vulnerability and increased trust during subsequent, larger-scale collaborative relationships. The DuPont-Danisco acquisition, previously discussed, is a primary example. Key employees from the acquirer (DuPont) and the target (Danisco) were familiar with one another before the

formal negotiation and due diligence processes began, and they had a previously established base of trust between them (Gulati 1995, Kullman 2012).

Individuals form anticipatory justice from first impressions or initial salient events. However, a history of repeated interactions between the acquiring and target firms will affect anticipatory justice. This is because the target firm employees form general opinions about the acquirer from past work relationships. When previous interactions (prior to the pre-deal phase) between the acquirer and target are positive overall and trusting relationships are developed, target employees will pay less attention to justice cues and pre-deal process characteristics. Therefore, relational assets between the two firms tend to weaken the effect of the pre-deal process characteristics on the formation of anticipatory justice.

Proposition 3: Previously developed relational assets between the target and acquiring firm moderate the relationship between pre-deal process characteristics and anticipatory justice such that with increased relational assets between the two firms the relationships become weaker.

Target firm leadership perception

Employees activate their mental structure and stereotypes about prior leaders when developing evaluation and attitudes toward new leaders (Ritter and Lord 2007). Similarly, Rodell and Colquitt (2009) found that employees' general perceptions about employee-leadership relationships predetermine the perceived anticipatory justice during a major organizational change. Within the acquisition context, target employees' perceptions about the current leadership are likely to bias their ideas about the leadership of the future combined firm. Target employees' perceptions of the current leadership not only determine their perceptions of the future leadership but also affect how they interpret the acquiring firm's pre-deal efforts. Biases about the future combined leadership may lead individuals to interpret new information in such a way that it confirms existing biases, even furthering these biases (Tversky and Kahneman 1974).

Due to this confirming behavior, target employees with negative perceptions about the current leadership will likely develop a skeptical view of the pre-deal efforts by the acquiring firm. For example, bilateral communication efforts may be viewed as commandeering and monitoring, a wide range of participation may be viewed as interruption or more work, and comprehensiveness may be viewed as being forceful. With a negative bias about the new future leadership, the pre-deal procedural cues are reminders that they are being transferred from one poor employee-management relationship to another. Related to this idea, Welsh *et al.* (1993) found that providing a participative management opportunity to Russian employees did not increase their task performance. Based on historical events, these employees believed their voices would be ignored by management, and previously developed biases were difficult to change. Therefore, we propose that, when target employees have a poor perception of the current management, pre-deal process characteristics will be negatively related to the formation of anticipatory justice.

Alternatively, if the target employees have trusting relationships with the current leadership, it will be much easier for top managers of the acquiring firm to shape their anticipatory justice during the pre-deal phase. Target employees' inclination to confirm their positive feelings toward the future leadership will lead them to view the acquiring firms' pre-deal efforts in a positive way. Specifically, we posit that, when target employees' perceptions of current leadership are positive, the pre-deal process characteristics will increasingly be related to anticipatory justice.

Proposition 4: Target employees' relationships with their current management moderate the relationship between pre-deal process characteristics and anticipatory justice. Specifically, if perceptions of the current leadership are negative, the pre-deal process characteristics will weaken the relationships; by contrast, if perceptions of the current leadership are positive, the pre-deal process characteristics will strengthen the relationships.

Environmental munificence

Extant research indicates that target employee turnover rates are typically high post-acquisition (Walsh 1988). Generally, this trend increases the need for acquiring firm managers to implement pre-deal process characteristics that shape anticipatory justice, in an effort to engage and retain key target employees. However, the relationship between pre-deal process characteristics and anticipatory justice may also be affected by uncontrollable conditions within the external environment. Especially relevant in this context is environmental munificence (Dess and Beard 1984). Munificence refers to the carrying capacity of the environment and the availability of resources for industry prosperity and growth, which also impacts employment opportunities and unemployment rates (Dess and Beard 1984; Castrogiovanni 1991; Castrogiovanni 2002).

Environmental munificence may affect target firm employees' abilities to obtain alternative employment if dissatisfied with the pending acquisition. For example, according to the Bureau of Labor Statistics (2012), due to the recent economic recession, the unemployment rate in the United States rose from 5 percent in December 2007 to 10 percent in October 2009, the highest rate since 1982. Looking beyond these average trends, certain demographic groups, industries, states, and countries were, and continue to be, more affected by macro-economic trends. Although these environmental conditions are uncontrollable, they do impact opportunities that are available to target employees. Due to the difficulties associated with obtaining any form of alternative employment when environmental munificence is declining, target employees will place less emphasis on ascertaining whether or not the pending acquisition will relate to just treatment in the future based on pre-deal process characteristics. Alternatively, when the environment is munificent and target employees have alternative options for employment, they will be more sensitive to justice cues during the pre-deal process. This is because there are ample opportunities for employment, and if target employees are unhappy or anticipate injustice based on the pre-deal process, they may resign and seek alternative employment options. Therefore, we posit that environmental munificence positively moderates the expected main effect between pre-deal process characteristics and anticipatory justice.

Proposition 5: Environmental munificence moderates the relationship between pre-deal process characteristics and anticipatory justice such that with environmental munificence the relationships become stronger.

Discussion

The proposed model and propositions developed in this chapter allow us to clarify how the pre-deal process affects anticipatory justice perceptions among target firm employees and their receptivity and support of the changes to follow after the deal is consummated. As a result, we make several contributions to the M&A literature.

First, extant research integrating justice theory with acquisition process research has focused on experienced justice during the integration phase. We employed anticipatory justice to emphasize the importance of justice formation through first impressions during the pre-deal

process, which has been largely overlooked in previous M&A process literature. Pre-deal processes and the number of employees aware of the deal differ for many reasons, including regulatory environments, ownership structures, media attention, prior business relationships, overall complexity, and the time frame allotted. Despite these differences, closer evaluation of several practical examples provides evidence that there are circumstances that mandate time-intensive pre-deal processes. Further, there are circumstances that result in employees throughout the organization becoming aware of the deal prior to final closing. Thus, we believe that there are opportunities to manage justice perceptions earlier in the acquisition process. If acquiring firm executives take steps to shape anticipatory justice during the pre-deal phase, target employees will develop positive perceptions surrounding the acquisition.

Second, our conceptual model delineates the myriad pre-deal factors likely in play that shape the perceptions of anticipatory justice among employees of the target firm. Specifically, we highlighted bilateral communication, range of participants involved, comprehensiveness, and consistency as common pre-deal process characteristics that may help to shape anticipatory justice. Further, we suggested key moderators that will likely affect the relationship between pre-deal process characteristics and anticipatory justice. By identifying specific antecedents and moderators to anticipatory justice, we hope to provide guidance to practitioners and a research platform for scholars.

Finally, we discussed how anticipatory justice can lead to employee engagement at the beginning of the integration phase. Although not yet integrated with the M&A literature, prior justice studies found that anticipatory justice is a distinct construct from experienced justice (e.g. Rodell and Colquitt 2009). Anticipatory justice is an important predictor of justice that is experienced in some future event, as well as overall employee engagement (Shapiro and Kirkman 2001). Based on prior findings linking anticipatory justice, experienced justice, and engagement (Bell *et al.* 2006; Rodell and Colquitt 2009; Shapiro and Kirkman 1999; Shapiro and Kirkman 2001), we believe that there are opportunities to manage justice perceptions earlier in the acquisition process. In turn, anticipatory justice will result in target employees' positive perceptions surrounding the acquisition and a desire to engage and add value in the newly combined organization. Where target employee support is required for realizing value from a particular deal, the effects on value creation are likely to be substantial (Ranft and Lord 2000).

This work has several limitations that we would like to acknowledge, but these limitations also open up opportunities for future research. First, we did not theoretically consider the dimensionality of anticipatory justice. Specific dimensions, including procedural, informational, interpersonal, and/or distributive justice, may be more or less important in the pre-deal phase. These dimensions can be considered under the umbrella of experienced justice or anticipatory justice. Again, anticipatory justice is a distinct concept from experienced justice, and certain dimensions of anticipatory justice may predict certain dimensions of experienced justice. Prior empirical studies, outside of the M&A literature, have taken steps to test these relationships (e.g. Rodell and Colquitt 2009). In this chapter, we work to introduce the concept of anticipatory justice and theorize how it may be integrated within the existing M&A literature. However, going forward, we encourage researchers to evaluate how different types of anticipatory justice developed during the pre-deal phase relate to different types of experienced justice during the integration phase.

Second, we encourage researchers to explore the empirical relationships between pre-deal process characteristics and the various dimensions of anticipatory justice in the merger and acquisition context. For example, a wide-range of participation may be more relevant to procedural anticipatory justice than to the other types of justice, whereas comprehensiveness may be more closely related to informational anticipatory justice. Finally, we considered several key

moderators and pre-deal process characteristics within our conceptual model. However, there are likely additional variables that should be included in the future. For instance, outcome favorability expectations have been examined in past anticipatory justice studies (Rodell and Colquitt 2009) and may potentially have an effect on the proposed relationships.

In conclusion, our intent was to highlight the importance of the pre-deal phase in shaping justice expectations in target firms. We hope we have succeeded in outlining useful avenues for future research on this underrepresented, but potentially important, factor in explaining employee engagement among target employees in the integration process.

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