The Role of Business Ethics in Merger and Acquisition Success: An Empirical Study

Carol Yeh-Yun Lin; Yu-Chen Wei

Carol Yeh-Yun Lin
E-mail: yehyunln@nccu.edu.tw

Yu-Chen Wei
Department of Business Administration National Chengchi University 64, Zhi-nan Rd., Sec. 2, Wenshan, Taipei, 116 Taiwan
E-mail: ycwei@nccu.edu.tw

Carol Yeh-Yun Lin is a Professor of the Department of Business Administration at National Chengchi University in Taiwan. She received her Ph.D. in Human Resource Development from the University of Texas at Austin in 1992. She has published previously in the Journal of Small Business Management, Journal of Psychology, Journal of Engineering and Technology Management, Industrial Relations Journal, International Journal of Human Resource Management, and a number of other scholarly journals.

Yu-Chen Wei is a doctoral candidate of the Department of Business Administration at National Chengchi University. Her research interests include intellectual capital, high performance work system and business ethics.

ABSTRACT. The purpose of this paper is to explore job performance, mergers and acquisitions (M&A) from an ethical perceptive. A great number of studies have extensively discussed the link between M&A and performance; however, most focused on the financial functions and strategy selections. Although ethical issues emerge in the M&A process, it is a less studied area. This study adopted the structural equation modeling approach to empirically test our hypotheses. Based on 264 samples from financial companies, data analyses indicated that ethical conduct in M&A is significantly correlated with employee job performance. Ensuring employment security and caring practices can significantly explain organizational commitment. Organizational commitment also plays a significant mediating role between a company's ethical conduct and employee job performance. Managerial implications are also provided.

KEY WORDS: mergers and acquisitions, business ethics, organizational commitment, job performance

Introduction

The continuously deteriorating global environment and business scandals have rekindled interest in business ethics. Aburdene (2005) in her Megatrends 2010 elaborates the rise of conscious capitalism and stated that companies have to create a performance ethic. In May and June 2004, The Academy of Management Executive and Academy of Management Journal devoted issues to the search for ethical behavior, trust, and relevant psychological contract. Carroll (2004) particularly called for ethical leaders for corporate ethical responsibility. Thomas et al. (2004) reported that the roots of the Enron, WorldCom, and many other bankruptcies were not confined to poor business models or misjudgments of the market; these incidents in fact involved substantial and well-documented ethical failures. These financial flaws destroyed public trust in these outwardly good corporations. In extreme cases, unethical practices can literally destroy a company; Arthur Anderson, a company of over a century, crumbled within a few days. The incurred corporate loss was immense.

In estimating the business cost of ethical failures, Thomas et al. (2004) proposed a cost model and reported that employee cynicism, reduced employee morale, and employee turnovers were the most understated damage with the greatest negative impact. In today's business environment, where competition for size and speed is the norm, the described phenomenon is most likely to occur during the merger and acquisition (M&A) phase. Undeniably, M&A is an efficient way for corporations to expand their operational domain in search for external growth. According to a 2003 survey report, worldwide M&A volume in 2003 reached approximately 1.3 trillion US dollars (Thomson Financial, 2003). Even though favored by many corporations, the failure rate of M&A exceeds 50% (Ashkenas and Francis, 2000; Marks and Mirvis, 1998; Serpa, 1988); M&A unethical conduct may play a critical part in its failure.

Based on Clark's (2003) study, employees in organizations undergoing M&A report observing misconduct and feeling ethics-related pressures at nearly double the rate of other workers. Considering the ethical call and the size of people influenced by the waves of M&A, examining the human side of M&A from business ethics perspective has become a pressing issue. However, an extensive literature search from 1999 onward discloses that relatively few researchers examine M&A from the perspective of business ethics, not to mention an empirical study. Past studies reveal that M&A studies have been approached from several major theoretical perspectives. Strategic management scholars believed that M&A is a means to diversification (Ansoff et al., 1971; Dixon et al., 2001; Walter and Barney, 1990), economists concerned about the economic motives of M&A (Goldberg, 1983; Holder, 1993), finance scholars examined M&A performance from stockmarket-based measures (Jarrell et al., 1988; Jensen and Ruback, 1983; Ramaswamy and Waegelein, 2003), organization theorists emphasized the management of the post-acquisition integration process (Bijlsma-Frankema, 2001; Haspeslagh and Jemison, 1991), and human resource scholars focused on effective human resource systems and communication (Applebaum and Gandell, 2003; Levinson, 1970). Yet, comparatively little is known about the effects of business ethics on the success or failure of M&A.

Business ethics related studies cover an array of issues, including macro environmental issues (Singh and Carasco, 1996), human rights principle (Cragg, 2000), industry-specific practices (Lamb, 1999), organizational philosophy (Hunt et al., 1989), and individual conducts (Kantor and Weisberg, 2002; Lund, 2000). Business ethics has been widely studied in the areas of marketing, information management, labor relations, and human resource management. Yet, its influence is less explored by M&A scholars.

M&A success lies not in the completion of the financial transaction but in the post-acquisition human resources integration and the realization of the synergy effects of the parties involved (Armour, 2002; Birkinshaw et al., 2000; Cartwright and Cooper, 1990; Levinson, 1970; Larsson and Finkelstein, 1999; Napier, 1989). Organizational commitment and job performance of the acquired company employees have been identified as major indicators of M&A success (Wilde, 2004). Given the impact of M&A on future economic development and the call for more empirical research on global business ethics (Carroll, 2004), this study attempts to explore the effects of acquired company employees' perception of employment security, justice, and caring practices on organizational commitment and job performance by empirically testing the hypotheses developed from literature.

Hopefully, this study will contribute to a better understanding of employee related ethical issues in M&A; it may also provide a frame of reference for future relevant empirical studies. Moreover, this research is conducted in an Eastern context, where a major portion of future economic growth lies. Historically, the literature has primarily highlighted M&A studies in Western countries; however, in the words of Adler (1986), ‘‘Paralleling the shift of business from the Atlantic to the

Pacific Basin, we move from the field's conceptually Occidental history to an Oriental perspective.'' In Asia, foreign-directed investment based in Taiwan is becoming a major source of economic strength. Lin (2000) estimated that Taiwanese investment in Southeast Asia has provided at least 360,000 job opportunities in the host countries. Generally, financial service companies are the backbone to support such an overseas endeavor. In addition, the fact that Taiwan has waded through the Asian financial crisis fast and has become stronger afterwards may indicate that the financial service industry in Taiwan has some merits (Fok et al., 2004; Li, 2003). The investigation of Taiwanese financial service industry M&A is taking on added significance not only because of the increasing stature of Taiwanese business in Asia, but also because of the roles played by Asian nations in the world economy.

In the following sections, we first review the relevant literature to develop the hypotheses. The research method is then described and followed by the research findings, and we conclude with a discussion on the managerial implications.

Literature review and hypotheses development

Analysts estimated that at least 30% of the world's top organizations are considering an M&A (Bailey, 2001). It is the most efficient way for corporations pursuing a growth strategy to obtain external human resources, financial resources, and expand their operational domain (Bradley et al., 1988; Brigham, 1983; Williamson, 1983). In spite of the high frequency of M&A, few enjoyed the benefits of the expected outcome (Brush, 1996; Caves, 1989; Schleifer and Vishny, 1991). The M&A failures included a negotiation break-up without signing an official document, financial losses (Reed and Lajoux, 1998), failure to meet shareholder and earnings expectations within the first 18 months of the merger announcement (Bailey, 2001). Another realistic view of M&A failure is a wave of voluntary resignations, low morale, reduced productivity, and even resentment of the acquired employees. Thomas (2004) described this as the most damaging situation incurring the highest costs. Indeed, the financial results of a merger are extremely important, yet people-related issues are equally critical. Employees of the acquired company in particular become frustrated with the uncertainty and instability that a merger announcement brings. Studies have reported that business ethics are positively related to organizational commitment (Byington and Johnston, 1991; Hunt et al., 1989; Kelley and Dorsch, 1991). Therefore, a formidable challenge to top management during the M&A process is keeping and motivating good employees, managing their expectations, concerns, and fears.

Literature review reveals that relatively few papers have a combined focus of M&A and ethics. Out of these limited studies, Buono and Bowditch (1990) reported that most discussions on M&A focused on external ethics, such as well-planned M&A enhances the value of the firm or the firm's value to society, while internal ethical dilemmas and non-financial issues are less explored. In fact, a majority of relevant literature are conceptual papers, describing critical M&A business ethics issues such as job protection, fair treatment, respect toward acquired employees (Serpa, 1988; Werhane, 1988) and the responsibilities of shareholders (Werhane, 1988). A paper with empirical data looked into the obligations of companies when they are dismissing employees (Eby and Buch, 1998). Ironically, the human resources issues are the most critical factors in determining the success or failure of the M&A; yet, it is often neglected before, during and after the merger (Serpa, 1988). To fill the gap of empirical testing, this study explores acquired employees' perception of M&A ethics and examines its effect on their organizational commitment and job performance.

M&A ethics is represented by employee perceived employment security, justice, and caring practices in this research. The rationale for identifying these three variables among others is that ‘‘employment security’’ is a bread-and-butter issue that directly impacts employee’s income; ‘‘justice’’ is the system and process that affect employees’ perception about whether they were fairly treated; and ‘‘caring practices’’ is an indicator of whether the acquired employees can be successfully assimilated into the new company after the M&A. In addition, both ‘‘justice’’ and ‘‘caring’’ factors are integrated in this study to gain new perspectives. French and Weis (2000) particularly differentiate these two ethical concepts and explain that the prevailing Western approach on the ethics of justice postulates self as separated from others, whereas an ethics of caring places more emphasis in virtue, concerns for others, and sees self as connected to others.

Since perception plays a central role in determining what is ethical or unethical, theoretical support of employees’ perception on M&A can be examined from the perspective of social exchange theory. Social exchange refers to the voluntary actions of individuals that are motivated by the returns they are expected to bring (Blau, 1964). This is therefore, premised on a long-term exchange of favors based on an obligation to reciprocate. In a company, the employment relationship may be characterized either as an economic or social exchange. Economic exchanges rest on a formal contract that stipulates the exact quantities to be exchanged and can be enforced through legal sanctions. Social exchanges provide the conceptual underpinning of work attitudes and behaviors (Settoon et al., 1996; Wayne et al., 1997); unlike the tangible benefits, involved in an economic exchange, social exchange is an indicative of mutual support and investment in the relationship. Employees provide services in exchange for the transactional obligations of fair pay, safe working conditions, job security, and employee–employer reciprocal support and mutual respect. Cognitively, when employees feel that the companies they serve no longer provide these supports, the emotional bonds are broken. In such cases, the employees may either leave or stay in the company with reduced productivity; organizational commitment and job performance will then be jeopardized.

Our first variable of interest – employment security is defined by Herzberg (1968) as the extent to which an organization provides stable employment for employees. Employment security has been one of the most widely discussed issues due to violent competition in the global economy during the past decade, and M&A is frequently a major incurred organizational change (e.g. Ashford et al., 1989; Schweiger and Ivancevich, 1985). During the negotiation process, generally little information about the M&A is disseminated (Buono and Bowditch, 1989; Marks and Mirvis, 1985; Robino and DeMeuse, 1985; Schweiger et al., 1987); employees thus experience uneasiness, stress, fear, or even psychological trauma. In the midst of research on the antecedents and consequences of employment security, there is still a debate regarding the effects of job security on employee behavioral reactions (Ashford et al., 1989; Davy et al., 1997; Greenhalgh and Rosenblatt, 1984). Ashford et al. (1989) study shows no relationship between job insecurity and job performance, yet a large quantity of studies reported that job insecurity leads to reduced commitment, reduced satisfaction, and reduced job performance (e.g., Mooney, 1984; Rosow and Zager, 1985). For instance, Yousef (1998) found that satisfaction with job security is positively correlated with both organizational commitment and job performance; and Rosenblatt and Ruvio’s (1996) study indicated that job insecurity had an adverse effect on organizational commitment and perceived performance (Yousef, 1998). This study adopts the majority opinion and predicts that

Hypothesis 1: During M&A, acquired employees’ perception of employment security leads to higher organization commitment.

Our second variable of interest is justice, another common ethical issue of M&A (Chonko and Hunt, 1985; Vitell et al., 1991). Justice encompasses people’s perceptions of fairness based upon the implicit and explicit nature of the roles and duties (Greenberg, 1990; James, 1993). From the social exchange perspective, goodwill on the part of the organization engenders an obligation of employees to reciprocate the good deeds of the organization (Blau, 1964); whereas, when employees perceive unfair treatment, they are likely to quit or decrease their commitment to the organization (Serpa, 1988). In general, M&A not only results in organizational restructuring but also is the critical moment that unethical behaviors are perceived by the employees of the merged units. The unfair treatment involves post-acquisition layoffs, transfers, performance evalutions and other actions. The unfair treatment makes the employees of the acquired company consider themselves inferior to their colleagues from the acquiring company. Their commitment to and confidence in their new employers is analogous to captives in a lost battle (Marks and Mirvis, 1992; Newman and Krzystofiak, 1993).

The issue of justice also involves the perception of equity. Equity theory states that people behave within a social setting and compare their own inputs and outcomes to those of others (Adams, 1965). Inequity is described in the literature as a ''tension'' or ''distress'' in the form of anger and/or resentment. According to Dubinsky and Levy (1989), organizational fairness includes the degree to which one is paid fairly relative to coworkers, the perceived fairness of work assignments, and the perceived supervisory fairness with regard to employee job latitude. Past researches have indicated that employees' perceptions of equity affect their decisions to join, remain, and contribute to a company (Adams, 1965; Becker, 1964; Mitchell, 1989); yet, it has received little emphasis in the M&A context. The most relevant study reported that fair appraisal and reward system is positively related to organizational commitment of the acquired companies' employees (Huang et al., 2002). Since the perception of unfair treatment and inequality disorients qualified employees with an ensuing loss of commitment, reduced productivity and oftentimes job quitting, we hypothesize that

Hypothesis 2: After M&A, acquired employees' perception of justice leads to higher organizational commitment.

''Ethic of care'' is a relatively new perspective of business ethics; Gatens (1998) reported that one of the pioneer ethics researchers, Kohlberg, included ''ethics of care'' in addition to ''ethics of justice'' in his recent empirical research. In this respect, Gilligan (1982) is one of the initiators who emphasized the importance of ''caring for'' others through actual relationships, as opposed to ''caring about'' others in the abstract. Noddings (1984, 1992) identified the importance of being authentically open and receptive to the reality of others, rather than having an assumed knowledge of another's needs. The emphasis is on the sensitivity and responsiveness to the feelings, concerns, and particular circumstances of individuals.

Caring practices can be explained from the perspective of a caring culture and a caring system. Studies focused on the post-acquisition integration process always highlight the importance of the organizational culture fit between the acquired company and acquiring company. Walsh (1988) reported that cultural differences can be particularly acute in the case of M&A, as a large number of employees may quit voluntarily because of the cultural clash. Marks and Mirvis (1998) argued that the best way to avoid a cultural clash is to hold the culture of the acquired company in esteem and try to integrate. At the initial stage, an organization-wide caring culture that supports the acquired employees is particularly vital (Trevino et al., 1990); caring system is the manifestation of a caring culture. Scholars reported that many managers of acquiring companies have difficulty in integrating the unwritten norms and values because the acquiring company does not respect the employees of the acquired companies (Nahavandi and Malekzadeh, 1988). Owing to different work styles and attitudes, the ''we against them'' attitude may develop (Lefkoe, 1987; Nahavandi and Malekzadeh, 1988). Therefore, when caring systems, such as open-door policy are stipulated and enforced to assimilate the acquired employees, positive results may be anticipated. Social exchange theory thus explains the various caring practices in that employees will enhance the psychological attitude when they are positively treated (Settoon et al., 1996; Wayne et al., 1997). Therefore, we predicted that

Hypothesis 3: After M&A, acquired employees' perception of caring practices leads to higher organizational commitment.

In addition to the foregoing reasoning, we would like to further explore the relationship between business ethics and job performance, an indicator of M&A success. Business ethics is a cognitive expression through stakeholders' perception. The impact of such perception is reflected in behaviors via attitude variables and literature review helps us decide organizational commitment as the attitude variable that may mediate business ethics and job performance. Various scholars reported that higher organizational commitment result in higher employee identification, satisfaction, and a greater willingness to work harder for the organization (Kirkman and Shapiro, 2001; Parnell and Crandall, 2003). Therefore, organizational commitment is one critical index for measuring performance (DeCotiis and Summers, 1987; Johnston et al., 1990).

However, whether organizational commitment and job performance has a positive correlation is still not ascertained (Mowday et al., 1982). Some studies reported a positive relationship (Boshoff and Mels, 1995; Becker et al., 1996; Chonko, 1986), others argued for a partly or weakly positive relationship only (Steers, 1977; Wiener and Vardi, 1980). Blake and Mouton (1985) researched the M&A human resource integration and found that employees of the acquired company could not develop identification with the new corporate entity because of perceived uncertain future. This failure of ''culturally and psychologically integrated'' perception causes the malfunctioning of the M&A with a result of unfulfilled goal. Greater losses are incurred when key people resign and leave the company after M&A (Henderson, 1989; Pritchett, 1987). Therefore, employees' perception about employment security, justice, and caring practices will determine the degree of their organizational commitment, which further influences their job performance. Thus, we predict that

Hypothesis 4: After M&A, acquired employees' organizational commitment mediates the relationship between perceived business ethics and job performance.

Methods

This study was approached with a questionnaire survey; individual level data were collected from acquired companies in financial service industry in Taiwan. A LISREL structural equation model was adopted to examine the relationships between three ethical behaviors (employment security, justice, and caring practices) and organizational commitment. In addition, the mediating effect of organizational commitment between ethical behaviors and job performance was also explored. Measurement and data collection are described in the following sections.

Measurement

The questionnaire consists of four sections, namely ethics, organizational commitment, job performance, and demographic information. Based on an extensive literature review (e.g., Buono and Bowditch, 1990; Chase et al., 1997; Hanly, 1992; McGee, 1989; Werhane, 1988) and several in-depth interviews of our target subjects, a total of 28 items were developed to cover employment security, justice, and caring practices. Eight scholars and professionals then examined and revised the items for better and clearer expression. Therefore, the scale should possess a given face validity. Readers are referred to Appendix A for the questions items. This set of items is scaled from strongly disagree ‘‘1’’ to strongly agree ‘‘7’’.

For organizational commitment measurement, the Chinese version of OCQ (Mowday et al., 1979) modified by Ding (1987) was utilized. The OCQ is composed of 15 Likert-type items scaled from strongly disagree ‘‘1’’ to strongly agree ‘‘7’’. Ding used a translation and back translation method to optimize the Chinese OCQ edition and achieved a reliability of 0.85, comparing to Mowday and association’s measurement of 0.88.

Job performance was measured with six self-reported items adapted from the job performance scale developed by Black (1992). The items include job quality, attitude, cooperation, attendance rate, communication ability, and efficiency as exhibited in Appendix A. The rating scale ranges from 1 to 5, in a spectrum of ‘‘very much disagree’’ to ‘‘very much agree’’. Past studies (Serpa, 1988; Werhane, 1988) have revealed that the supervisors from acquiring companies do not often evaluate the acquired employees fairly; therefore, we utilize self-reported job performance measure instead of supervisors’ rating to fit the special M&A context. However, to ensure a more reliable response, respondents were assured of the confidentiality and complete the questionnaire anonymously.

In addition, respondents also provided information on their personal characteristics, including gender, working tenure, monthly salary, age, position, and the level of education. Gender is coded ‘‘1’’ for male and ‘‘2’’ for female; position is coded ‘‘1’’ for employees, ‘‘2’’ for low-level managers, and ‘‘3’’ for branch managers; and education is coded ‘‘1’’ for university and college, ‘‘2’’ for senior high school, and ‘‘3’’ for junior high school. Other variables are actual numbers.

Data collection

This study collects data of our interest from the financial service industry in Taiwan, which included banks, insurance and security companies. Four concerns justify our selection. First, since government regulation requires all firms in this protected industry to formally publish their operation data, researchers are able to obtain consistent and comprehensive information in identifying M&A case companies. Second, there are more M&A deals in the financial service industry in Taiwan. Third, while opposed to the manufacturing industries that diversified and unrelated M&A are common (Karim and Mitchell, 2000), more homogeneous types of M&A are observed in the financial service industry. Besides, data from a single industry can control for between-industry difference and decrease within industry variations. Fourth, financial service companies often operate in various regions. When the acquiring company does not have branches in a certain region, the operations of the acquired company are often retained. Thus, it is easy to identify whether a particular branch was from the acquired company.

We were able to identify 24 M&A cases from 1998 to 2000, from the data provided by ‘‘Taiwan Stock Exchange Cooperation’’ and ‘‘Over the Counter and Fair Trade Commission.’’ Among them, 13 companies agreed to participate in this study. After contacting each identified branch, as expected, many branches denied our request due to the sensitive ethics related topic. We successfully solicited the support of 34 branches from 13 companies. With the assistance of the branch managers, 950 copies of surveys were distributed to our target samples and received 264 valid responses with a response rate of 26.7%. The distribution of the 264 responses among the 13 companies is presented in Appendix B.

Table I exhibited the profile of our respondents. About two-third were females; a majority had 2–5 years working tenure, and within the 26–35 age group. About 40% of our respondents had supervision responsibility and about 80% of them had received at least a college education.

Results

Testing of model fit

Before data analyses, measures were taken to examine the construct validity and reliability of the question items. For the self-developed ethics questions, we employed item-to-total correlations and dropped the items with poor coefficients. LISREL 8.30 was utilized to conduct a confirmatory factor analysis (CFA) to check both convergent and discriminate validity for all ethics, organizational commitment, and job performance measurements.

We first assessed the convergent validity; the final model fit for the ethics scale retained 17 items and 11 items were dropped mainly due to repeated descriptions. To test a new dimension, it is common to design more question items than needed in describing a concept for the purpose of retaining better ones. The selected items corresponded to the three constructs, namely five items for ‘‘employment security’’, four items for ‘‘justice’’, and eight items for ‘‘caring practices.’’ Cronbach’s alpha values for the three constructs ranged from 0.89 to 0.94, indicating that this measurement is reliable. For the well-established OCQ scale and performance scale, the final model fit retained 13 out of 15 OCQ items and all six performance items with the reliability of 0.92 and 0.93, respectively. Table II reports descriptive statistics and correlations of the factors to be analyzed. Relevant CFA statistics exhibited in Figure 1 explain that the three measurements have good convergent validity. In addition, the standardized loading of all items to their respective constructs was also significant ($P < 0.001$).

The CFA was also utilized to check for discriminate validity, examining whether the ethics measurement actually reflects the three distinct constructs. All phi values were less than one, indicating a good discriminate validity (Smith and Barclay, 1997). With an individual level survey, demographic data were included in the structural model. Highly correlated variables were dropped after correlation analysis. As a result, we retained gender, position, and education for further analyses.

TABLE I

Respondent profiles

Characteristic	Number	Percentage	Characteristic	Number	Percentage
Gender			*Age*		
Male	87	(33.0%)	<25	32	(12.1%)
Female	177	(67.0%)	26–35	151	(57.2%)
Working tenure			36–45	73	(27.7%)
<2 years	55	(20.8%)	46–55	6	(2.3%)
2–5	175	(66.3%)	>55	2	(0.7%)
6–10	24	(9.1%)	*Position*		
11–15	8	(3.0%)	Branch manager	17	(6.4%)
>16	2	(0.8%)	Low-level manager	92	(34.9%)
Monthly salary (US$)			Employee	155	(58.7%)
Less than 880	63	(23.9%)	*Education*		
880–1500	106	(40.1%)	Junior high school	8	(3.0%)
1500–2000	42	(15.9%)	Senior high school	199	(75.4%)
More than 2000	53	(20.1%)	University and College	57	(21.6%)

TABLE II

Descriptive statistics and correlations (n = 264)

Variables	Means	s.d.	1	2	3	4	5	6	7
Employment security	5.03	1.39	(0.94)						
Justice	4.94	1.37	0.874***	(0.89)					
Caring practices	4.96	1.28	0.830***	0.849***	(0.94)				
Organizational Commitment	5.61	1.28	0.803***	0.768***	0.768***	(0.92)			
Job performance	2.40	0.47	0.431**	0.404**	0.324**	0.545**	(0.93)		
Gender	1.67	0.47	0.092	0.028	0.147*	0.107	0.028	–	
Education	2.80	0.49	−0.011	−0.043	−0.046	−.018	0.106	0.014	–
Position	1.48	0.62	0.372**	0.397**	0.457**	0.436**	0.191*	−0.006	.111

Remark:

1. Numbers with parenthesis are alphas of each factor.
2. The first four factors are on a scale of 1–7, whereas job performance is on a scale of 1–5. In addition, job performance is measuring the degree of agreement regarding the change comparing pre- and post-acquisition.

*P< 0.05, **P< 0.01, ***P< 0.001.

Hypotheses testing

To test the four hypotheses, we employed a path model. Table III and Figure 1 indicated a good overall model fit (v2 = 13.52 at 3 degrees of freedom, P < 0.005, RMSEA = 0.055, GFI = 0.99, CFI = 0.99). All the hypothesized paths are significant in the predicted direction, except the path from justice to organizational commitment. Table III exhibited that, as predicted, more employment security leads to higher organizational commitment (hypothesis 1), and more caring practices induced higher employees' commitment (hypothesis 3). For hypothesis 2, t-value of 1.85 is only significant at the 0.10 level that shows a weak relationship between perceived justice and organizational commitment. Hypothesis 2 was rejected with the criterion of significance at the 0.05 level. The result of path analysis indicated that organizational commitment directly and positively influences employees' job performance (t = 9.82, P <0.001), supporting Hypothesis 4.

In testing each path, we also include gender, education, and position as control variables. As a result, position is significantly related to organizational commitment (t = 2.97, P < 0.05) and education is significantly related to job performance (t = 2.44, P < 0.05).

To further confirm the mediating effect of organizational commitment, we compared the estimated model with a competing model, which added the three exogenous constructs (employment security, justice, and caring practices) as predictors of job performance. According to Anderson and Gering (1984), when chi-square statistic shows no significant difference in the new model fit, the original estimated model should be accepted. This additional analysis reveals that our original structural model should be accepted. In other words, the three M&A ethical factors indirectly influence job performance via organizational commitment. Consequently, organizational commitment as a critical mediator in linking M&A ethical factors and job performance is further confirmed.

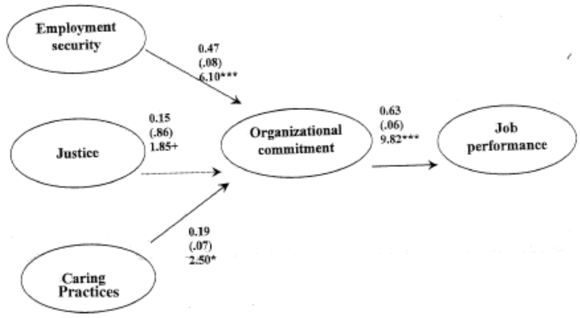

Figure 1. Structural model for employee performance.

TABLE III

Results of the proposed model

Causal path	Hypothesis	Expected direction	Path coefficient	t-value	Assessment
Employment security → Organizational commitment	H1	+	0.47	6.10	s. ($P < 0.001$)
Justice → Organizational commitment	H2	+	0.15	1.85	n.s. ($P < 0.1$)
Caring practices → Organizational commitment	H3	+	0.19	2.50	s. ($P < 0.05$)
M&A ethics → Organizational commitment → Job performance	H4	+	0.63	9.82	s. ($P < 0.001$)

Remark: χ^2 = 13.52, RMSEA = 0.055, GFI = 0.99, CFI = 0.99, NFI = 0.99, NNFI = 0.92.
''s.'' means significant; ''n.s.'' means non-significant.

Discussion and implications

As mentioned earlier, past empirical M&A studies paid relatively little attention to business ethics; this study bridges the gap and links these two areas of study by utilizing individual level data. We employed a structural model of three M&A ethical factors, organizational commitment, and job performance. In general, the results of this study provided supports for the proposed hypotheses: employment security and caring practices predict acquired employees' organizational commitment. Moreover, organizational commitment mediates the relationship between employees' perception of M&A ethics and job performance.

The research result of this study is in concert with previous reports that unethical M&A practices result in employees' lowered commitment and a rise in dysfunctional behaviors (Bastien, 1987; O'Boyle, 1985). We also found that in the post-acquisition process, higher commitment leads to better job performance on the part of acquired employees, which is similar to the findings in general situations (Becker et al., 1996; Chonko, 1986; Riketta, 2002; Wright and Bonett, 2002).

A possible explanation for the weak relationship between justice and organizational commitment is the ''third-person'' expression used in the question items. For instance, questions were phrased as ''my colleagues who were laid off had a fair separation package'' and ''the new company placed managerial positions fairly for both employees from acquiring and acquired companies.'' Very likely, the effects of justice practices pertaining to other people do not have a direct impact on organizational commitment of the respondents themselves.

In general, after M&A, the acquiring company will try to unify two divergent systems into one. Serpa (1988) suggested that after the merge the company must develop a fair appraisal system for redeployed employees. The acquiring company is often the vested with an advantage over the acquired company in resource relocation. The most effective way to prevent the acquired employees from perceiving that they are second-rate citizens is to treat all employees with justice and care. Our finding unveils that a caring culture and management practices for acquired employees do enhance their commitment to the new M&A Company.

The results of this research have several managerial implications for the M&A process. First, pay special attention to the balance between meeting acquired employees' basic needs and maintaining a pool of qualified acquired employees. This research found that employment security (significant at the 0.001 level) is the most influential ethical factor in inducing acquired employees' organizational commitment and job performance. However, oftentimes those who are very qualified in the acquired company left in the early stage of M&A because of the strong marketability of this group of people. On the contrary, quite a percentage of those that stay are not in the capable group and do not have elsewhere to go. Therefore, safeguarding qualified employee basic needs for a living and job security and concurrently shaking up management for a performing team is a big challenge for M&A decision makers.

Second, special attention must be paid to acquired employees' perception and ''care'' must be factored in with their personal feelings. Justice and caring practices are perceptual variables that are shaped through formal and informal information obtained by the acquired employees. Oftentimes, misunderstandings occur because of a lack of communication or ineffective communication. The finding that perceived ''caring practices'' rather than ''justice'' lead to organizational commitment and further transfer to job performance provides a direction for effective M&A management. Caring culture and practices that work through to the hearts of acquired employees need to be established and acted out through various means. The finding that justice does not have a significant explaining power of acquired employees' organizational commitment may imply the difference between ''care about'' and ''care for'' acquired employees as described in the literature review section. ''Care for'' puts emphasis on being authentically open and responsive to the feelings, concerns, and particular circumstances of individuals; whereas ''care about'' assumes knowledge of another's needs. It seems that the psychological linkage through caring conduct has a better effect than the rational justice on organizational commitment.

Lastly, it is crucial to work on acquired employees' organizational commitment before requesting for job performance. The finding that organizational commitment is a critical mediator of job performance sheds some light for effective M&A management. For a successful M&A, a stage-by-stage management focus should be planned. For instance, ethical conducts of the new M&A Company should be communicated to relevant stakeholders at the initial stage to induce employees' commitment and support. Organizational commitment takes time to develop, especially in a time of chaotic merging process; when the organizational commitment of a pool of qualified acquired employees is assured, the focus on job performance will reap its expected results in time.

The current research has three specific contributions to this field of study. First, we proposed a framework and empirically tested the relationships between ethical factors, organizational commitment, and job performance. The constructed framework provides reliable and viable factors that may explain an important facet of M&A success. Second, we identify the mediating role of organizational commitment between M&A ethical conduct and employee job performance. Third, we preliminarily uncovered the various effects of ''care for'' and ''care about'' factors in acquired employees. Hopefully, future research could explore more dimensions to advance this model and further test our findings.

This research is constrained by the following limitations. First, we used ‘‘third-person’’ rather than ‘‘first-person’’ expressions to describe ‘‘justice’’ items for the purpose of avoiding biased respondent answers. Yet, this may attenuate the linkage between justice and personal organizational commitment. Second, we used a cross-sectional design for this research. Although we particularly collected data at least one year after M&A announcement, the cross-sectional data does not allow us to rule out the possibility of variation of interval to measurement. The issue of causality may be better verified in a longitudinal data. Third, research findings may apply to financial service corporations only. Future research can extend this work to other industries in other cultural context. An intra-industry comparison may also yield some interesting findings and insights. In addition, a research on M&A ethics perceived by the acquiring company’s employees may also add values to this field of study, for not only the employees of the acquired company but also those of the acquiring company experience disquiet and annoyance when M&A takes place.

In conclusion, business ethics do contribute to organizational continuity. The success of M&A is by no means a short-term stock value or the financial gains represented by return on investment (ROI) or return on equity (ROE). Its full benefits will only be realized when there is an effective operation and human resource integration between the acquired and the acquiring companies. This paper provides another standpoint for understanding M&A performance – business ethics. Although Carey and Ogden (2004) claimed that the human side of the M&A is arguably the most critical success factor, the issue has not drawn enough attention yet. We hope that this study casts some light for researchers and practitioners to take a deeper view of M&A ethical issues for building competitive advantage through retaining qualified acquired employees.

Appendix A – M&A ethics and job performance question items

M&A Ethics

Employment security

– During M&A, the new company did not layoff employee at will.
– After M&A, the new company provided employees with job security.
– After M&A, the new company assigned me clear tasks.
– After M&A, I felt that my right was damaged.
– After M&A, the new working environment enabled me to work at ease.

Justice

– After M&A, the new company implemented a fair performance appraisal system.
– After M&A, the new company announced clear compensation and reward policy.
– My colleagues who were laid off had a fair separation package.
– The new company placed managerial positions fairly for both employees from acquiring and acquired companies.

Caring practices

– The new company set up a sound communication and grievance system.
– When I had difficulty adapting to the new organizational culture, there is always someone to help me out.
– After M&A, the new company acknowledged my efforts and supported me.
– The new company oriented me about company vision and future goals.

– The new company familiarized me with the new organizational culture through various activities.
– As long as we work efficiently, the new company respects our way of working.
– After M&A, the new company cheered us up via various activities.
– After M&A, I felt I was respected.

Job performance

– Comparing before and after M&A, my quality of work is better.
– Comparing before and after M&A, my working attitude is better.
– Comparing before and after M&A, my attendance rate is better
– Comparing before and after M&A, I become more cooperative
– Comparing before and after M&A, my communication ability is enhanced
– Comparing before and after M&A, I work more efficiently now

Appendix B Sample distribution

Company ID	No. of branches	No. of samples
A	2	17
B	3	25
C	4	32
D	2	12
E	2	14
F	2	9
G	4	27
H	5	39
I	1	10
J	2	8
K	2	28
L	3	19
M	2	24
Total 13 companies	34 branches	264 respondents

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