

A Decision-Making Approach to Modeling Individuals' Reactions to a Takeover: Findings of a Study of Singaporean Employees

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Abstract

186 Singaporean employees working in Singapore-based companies participated in a policy-capturing study that examined how characteristics of the initial takeover situation and the acquiring firm's integration decisions and actions influence target firm members' trust in the acquiring firm management. Five antecedents were hypothesized to influence target firm members' trust: mode of takeover, extent of control imposed by acquiring firm, interaction history between acquiring and target firm, cultural distance between acquiring and target firm, and attractiveness of acquiring firm's HR system. Further, we hypothesized that some of the antecedents interactively influence target firm members' trust in the acquiring firm management. Our findings indicate that mode of takeover, imposed control, interaction history and attractiveness of acquiring firm's HR system affect target firm members' trust in the acquiring firm management, with some playing a more important role than others. Only the cultural distance antecedent does not seem to influence target firm members' trust in the acquiring firm management. A significant interaction effect between mode of takeover and cultural distance was found, suggesting that negative effects of a hostile mode of takeover on target firm members' trust are stronger in cross-border acquisitions compared to domestic ones. Our findings also show that respondents' demographic characteristics such as position level in the company, gender, age, prior personal experience with M&As and industry sector do not seem to influence their trust decisions. The implications of this study for M&A study and practice are discussed.

1. Introduction

Mergers and acquisitions [M&As] have become an increasingly popular strategy for achieving corporate growth and diversification. The total value of worldwide deals involving US firms increased more than tenfold from about US\$140 billion to over US\$1.700 trillion during the last decade. A substantial growth of M&As could also be observed in Europe and Asia (M&A Almanac, 2001).

Despite their popularity and strategic importance, M&As frequently fail. Failure rates reported in the M&A literature typically range between 50 and 70 percent, and are sometimes as high as 80 percent (Hall & Norburn, 1987; Hunt, 1990; Porter, 1987; Ravenscraft & Scherer, 1987). For example, a recent study on 107 of the largest cross-border M&As completed between 1996 and 1998 found that 83% of them were not successful in terms of shareholder value creation (KPMG, 1999).

Theoretical frameworks for explaining M&A success or failure have traditionally focused on financial factors and poor “strategic fit”, that is, the degree to which the target firm augments or complements the acquirer’s strategy, thereby contributing to the long-term goals of the M&A (Jemison & Sitkin, 1986). It was only until the late 1980s that research endeavors have begun to analyze cultural and human resource management (HRM) issues involved in integrating merging or acquired firms. Factors such as cultural fit, pattern of dominance between merging firms, management style similarity, combining firms’ preferred mode of acculturation, and social climate surrounding the M&A have increasingly been recognized to be of critical importance to M&A success (Cartwright & Cooper, 1996; Marks & Mirvis, 2001; Schweiger & Walsh, 1990; Haspeslagh & Jemison, 1991).

Although scholars and practitioners have acknowledged that “human factors” play a key role in the success or failure of M&As, several important issues related to the process of socio-cultural integration are left largely unexplored. In particular, few attempts have been made to examine, either conceptually or empirically, the role that trust plays in the M&A integration process. The lack of attention on issues related to trust in the M&A literature is surprising for two reasons. First, evidence from M&A case studies (e.g., Bastien, 1987; Cartwright & Cooper, 1996; Olie, 1994) as well as interviews with managers and employees of acquired organizations (e.g., Caudron, 1996; Krug & Nigh, 2001; Napier, Simmons & Stratton, 1989) consistently stress that trust is of critical importance to the success of acquisitions. Second, evidence from the organizational trust literature (see Kramer, 1999; Mayer, Davis & Schoorman, 1995; Rousseau et al., 1998 for reviews) indicates that the development of trust may be of critical importance to overcoming employee anxiety and resistance, enhancing employee commitment and job performance, and increasing the quality of communication and collaboration – all critical issues for the successful integration of acquired firms.

The purpose of this paper is twofold. First, we will highlight the previously neglected, but potentially critical role that trust plays in the acquisition process; and discuss a number of hypotheses that link cultural and human resources related variables to the process of trust creation in the aftermath of a takeover. Second, we will present the findings of a policy-capturing study conducted to test these hypotheses. By testing these hypotheses in a sample of Singaporean respondents, this study is one of the few to examine employee reactions to a merger or an acquisition in a non-US and non-European sample. Employees in Singapore-based companies were selected for this study because Singapore is a leading economic player in Asia, and Singapore-based companies have been heavily involved in M&As in the past few years (Lee, 2001).

2. Antecedents of Target Firm Employees’ Trust in the Acquiring Firm Management: The Importance of Cultural and Human Resource Management Factors

Trust can be defined as “a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another” (Rousseau et al., 1998, p. 395). Prior research has shown that trust contributes significantly to the effective functioning of organizations in several ways: Trust can enhance employees’ work performance, commitment and citizenship behavior, as well as create a conducive environment for joint problem-solving and open communication among employees. Trust can also improve manager-subordinate working relationships, facilitate the implementation of self-managed work groups, and increase the firm’s ability to adapt to complexity and change (see Dirks & Ferrin, 2001; Mayer et al., 1995; Rousseau et al., 1998; Whitener et al., 1998 for reviews). With regard to interorganizational relationships, several researchers have found substantial evidence demonstrating that trust plays a central role in the formation and implementation of cooperative alliances between firms, such as joint ventures, R&D collaborations, and marketing partnerships (Das & Teng, 1998; Inkpen & Currall, 1997; Zaheer et al., 1998). While it is of no doubt that trust is a vital facet of interpersonal and interorganizational relationships, it remains a challenge to

build and sustain trust, especially in relationships that cross cultural boundaries (Whitener et al., 1998).

Stahl and Sitkin (2001) have suggested that, in the context of corporate acquisitions, trust between members of the target firm and the acquiring firm may play a key role in the post-acquisition integration process. Specifically, they have proposed that characteristics of the initial takeover situation, as well as processes related to the acquirer's integration decisions and actions, will affect target firm members' trust in the acquiring firm management. The degree to which target firm members trust the acquiring firm management, in turn, will affect both target firm members' attitudes and intentions, as well as their post-acquisition behavior and performance. Further, their model proposes that target firm members' reactions to a takeover will affect the acquiring firm management's perceptions of the target firm's trustworthiness, which, in turn, will influence the acquiring firm management's integration decisions and actions (see Figure 1).

This study draws upon the proposed antecedents of target firm members' trust in the acquiring firm management identified in the first part of the model (denoted by dotted lines in Figure 1). Specially, this study examines the impact of the following antecedents: mode of takeover, extent of control imposed by acquiring company, interaction history between the acquiring and target firm, cultural distance between the acquiring and target firm, and attractiveness of the acquiring firm's HR system. Next, we will discuss each of these antecedents in detail.

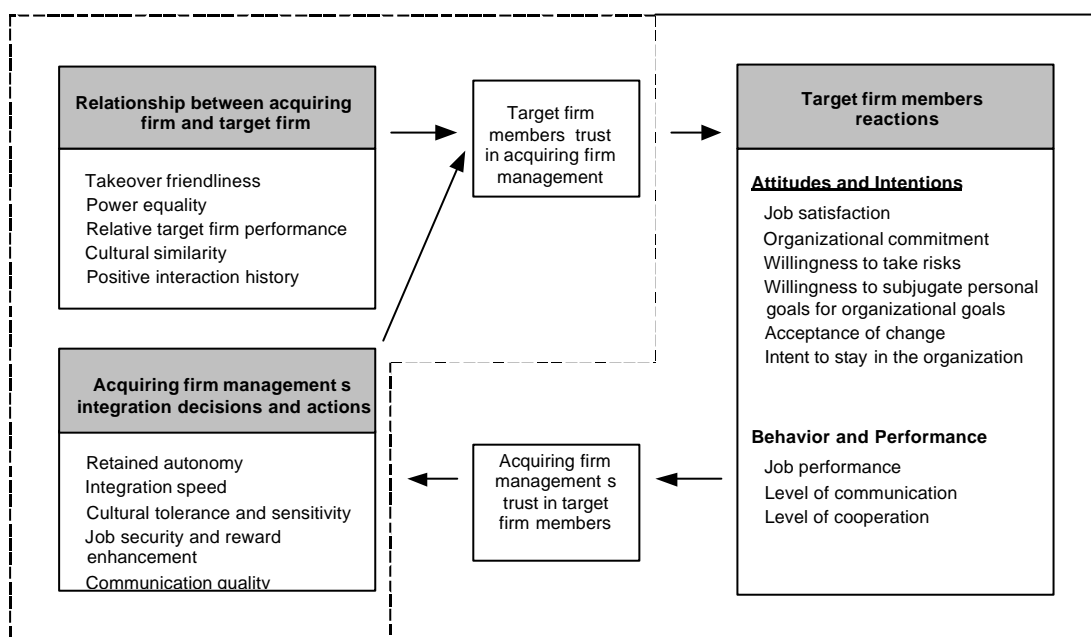


Figure 1 Model of Trust in the Post-Acquisition Integration Process (Stahl and Sitkin, 2001)

2.1 Mode of Takeover

The most extreme and probably most devastating form of hostility in M&As is the unwanted takeover attempt, occurring when a company either overtly or covertly seeks acquisition of another firm against its will (Hogan & Overmyer-Day, 1994). In this case, the purchasing company, driven by financial interests, usually seeks domination of the acquired firm, rather than a cooperative mode of integration. Although prior research has not addressed the relationship between mode of takeover and trust, it has been argued that hostile takeover tactics can result in sharp inter-organizational conflict and major difficulties integrating the acquired company (Buono & Bowditch, 1989; Hambrick & Cannella, 1993; Larsson, 1990).

According to Hunt (1990), the tone of the negotiations – whether the tone is friendly or hostile – is likely to be the most important influence on post-acquisition integration success because of its effect on the quality of the interpersonal relationships between members of the two organizations. Friendliness will likely generate perceptions of goodwill and trust, and will enhance the quality of communication and collaboration between the acquiring and target firm. In contrast, target and acquiring firm executives in a hostile takeover often battle each other in a public forum, with each being suspicious of the other's intentions, and claiming the other party's inadequacy and lack of trustworthiness (Hambrick & Cannella, 1993). The acquiring firm is also more likely to replace the management of the target firm and impose rigorous controls on the target in hostile takeovers than in friendly acquisitions (Buono & Bowditch, 1989; Hambrick & Cannella,

1993). Executives of acquired firms have often likened the unwanted takeover to a rape and described the acquiring firm's managers as attackers or barbarians – people not to be trusted (Marks & Mirvis, 2001).

Hypothesis 1: The friendlier the mode of takeover, the higher the level of target firm members' trust in the acquiring firm management.

2.2 Imposed Control

Theoretically, although integration of an acquired company can result in a balanced merging of two organizations, cultures, and workforces (for example, see the models of Haspeslagh & Jemison, 1991; Marks & Mirvis, 2001), this balance rarely occurs in practice. Instead, the target firm is usually expected to conform to the acquiring firm's culture (Cartwright & Cooper, 1993; Chatterjee et al., 1992), and where changes occur in policies and systems, they affect target firm members more strongly than those of the acquiring firm (Pablo, 1994; Schweiger & Walsh, 1990). Imposed control refers to a situation in which the acquiring firm removes autonomy from the target firm and imposes a rigorous or standardized set of rules, systems, and performance expectations upon it in order to gain quick control (Datta & Grant, 1990; Jemison & Sitkin, 1986). The capability and tendency of the acquiring firm to impose control on the target firm depends partly on the power differential between the two organizations, for example, as manifested in differences in size (Pablo, 1994).

Imposed control can be devastating from the perspective of target firm members (Buono & Bowditch, 1989; Jemison & Sitkin, 1986; Schweiger & Walsh, 1990). Senior managers are likely to suffer most from a loss of autonomy and control following an acquisition because they were accustomed to doing things their own way and must now look to the acquiring firm management for approval (Hambrick & Cannella, 1993) – a situation that Datta and Grant (1990: 32) have termed the “conquering army syndrome”. Loss of autonomy and being put under close monitoring are likely to arouse feelings of helplessness and antagonism among target firm members (Jemison & Sitkin, 1986; Olie, 1990). Usage of controls signals the absence of trust and this, in turn, can hamper its emergence (Rousseau et al., 1998).

Hypothesis 2: The greater the extent of imposed control by the acquiring firm, the lower the level of target firm members' trust in the acquiring firm management.

2.3 Interaction History

Few studies have explored the impact of combining firms' interaction history on the process and outcome of M&A integration. Nevertheless, there is a large body of research on the role that trust plays in work groups, strategic alliances, and socially embedded partnerships which we can draw indirect evidence from. This research has shown that trust evolves over time through repeated interactions between partners (Gulati, 1995; Lewicki et al., 1998; Ring & Van de Ven, 1992; Zaheer et al., 1998). Not unlike romantic relationships, interfirm relationships mature with interaction frequency, duration, and the diversity of challenges that partners encounter and face together (Lewicki et al., 1998). As Rousseau et al. (1998: 399) have noted, “[r]epeated cycles of exchange, risk taking, and successful fulfillment of expectations strengthen the willingness of trusting parties to rely upon each other and expand the resources brought into the exchange”. Partners also come to learn each other's idiosyncrasies and develop deeper mutual understanding over time, thereby improving the affective quality of the relationship (Parkhe, 1993).

Thus, there is clear evidence from the strategic alliance literature indicating that familiarity breeds trust. In the context of corporate acquisitions, prior contact between the acquiring and target firm can be considered a precondition for assessing the other firm's trustworthiness, especially in the absence of other trustworthiness indicators such as a strong positive reputation.

Hypothesis 3: The greater the extent of prior contact between the two firms, the higher the level of target firm members' trust in the acquiring firm management.

2.4 Cultural Distance

It has often been argued that culture barriers can pose major obstacles to fully reaping envisaged integration benefits in mergers and acquisitions (Cartwright & Cooper, 1996; Nahavandi & Malekzadeh, 1988; Very & Schweiger, 2001). The “cultural distance hypothesis”, in its most general form, holds that the difficulties, costs, or risks associated with cross-cultural contact increase with growing cultural divergence between two individuals, groups, or organizations (Hofstede, 1980; Kogut & Singh, 1988). Cross-border acquisitions seem to be particularly difficult to integrate because they require “double layered acculturation” (Barkema, Bell & Pennings, 1996), meaning that not only different corporate cultures, but also different national cultures have to be combined.

Despite strong anecdotal and theoretical evidence, studies on the impact of cultural distance on M&A performance have yielded mixed results. While some studies found that cultural differences had the expected negative effect on M&A performance, others found a positive effect (see Stahl, Mendenhall & Evans, forthcoming, for a review). For example, Larsson and Risberg (1998) found higher degrees of acculturation, lower levels of employee resistance, and a higher extent of synergy realization in cross-border M&As – a finding that directly contradicts the cultural distance hypothesis. To date, there is still a dearth of studies that examined the impact of cultural differences on trust in M&As. Social Identity Theory research suggests that cultural differences are likely to increase in-group out-group bias and thus negatively affect perceptions of the acquiring firm management’s trustworthiness in the aftermath of a takeover because members of the target firm will strive to maintain their positive social identity by idealizing their own company and denigrating members of the acquiring firm (Elsass & Veiga, 1994). In contrast, shared norms, values or other sources of cultural similarity are likely to facilitate the development and maintenance of trust (Gabarro, 1978; Sitkin & Roth, 1993). Therefore,

Hypothesis 4: The greater the cultural distance between the two firms, the lower the level of target firm members’ trust in the acquiring firm management.

2.5 Attractiveness of Acquiring Firm’s HR System

Nahavandi and Malekzadeh’s (1988) model of acculturation in corporate acquisitions proposes that attractiveness of an acquiring firm will determine target firm members’ responses to a takeover, and influence the subsequent acculturation process. From the target firm employees’ perspective, the acquiring firm’s HR policies and reward structures are arguably an important element of its perceived attractiveness, and a predictor of their subsequent reactions to a takeover. If target firm members do not feel attracted to the acquiring firm and are unwilling to adopt its systems and practices because they anticipate negative career implications, the acculturation process is likely to be characterized by a high degree of conflict. On the other hand, the potential for conflict in the post-acquisition integration period will most likely be lessened if members of the target firm see the takeover as a chance for greater job satisfaction, more job security, and increased prospects for compensation, development, and promotion.

Although few studies have systematically examined the impact of the acquiring firm’s HR system on acquisition success, several authors have stressed the importance of the quality of post-acquisition reward and job security changes in determining target firm members’ responses to a takeover (Evans, Pucik & Barsoux, 2002; Schweiger & Walsh, 1990). In a study on the effects of a merger involving two brokerage firms in the reinsurance industry, Graves (1981) found that employee reactions depended on personal benefits and losses attributed to the merger. In a study of British takeovers, Hunt (1990) found that the degree to which target firm members’ career opportunities were expanded in the post-acquisition implementation phase was directly related to acquisition success. In a similar vein, Larsson’s (1990) study of Swedish acquisitions revealed that increased job security, rewards, and opportunities for future career advancement reduced target firm members’ resistance to a takeover. Although none of these studies looked at trust issues, it seems reasonable to extrapolate that attractiveness of the acquirer’s HR system will affect target firm members’ trust in the aftermath of a takeover. Research on interorganizational trust has shown that perceived benefits derived from a relationship have a positive effect on mutual trust and commitment of the parties involved (Anderson & Weitz, 1989; Sarkar et al., 1997).

Hypothesis 5: The greater the attractiveness of the acquiring firm’s HR system, the higher the level of target firm members’ trust in the acquiring firm management.

2.6 Interaction Effects

Three hypotheses address potential interaction effects between the antecedents of trust. First, we hypothesize that the detrimental effects of a hostile mode of takeover on target firm members’ trust in the acquiring firm management will be more pronounced in cross-border acquisitions. Feelings of helplessness and antagonism that often result from hostile takeover tactics are likely to be intensified by cultural barriers. National cultural differences and their associated

stereotypes, as well as chauvinistic biases and misconceptions are often cited as sources of hostility and continuing conflict between members of merging organizations (Cartwright & Cooper, 1996; Malekzadeh & Nahavandi, 1998). Angwin (2001) explained why deals such as Vodaphone/Mannesmann create an emotionally charged atmosphere and substantial media coverage by likening hostile cross-border M&As to wars of business and cultural systems.

Hypothesis 6: There is an interaction effect between cultural distance and mode of takeover where negative effects of a hostile mode of takeover on target firm members' trust will be stronger when there is a high degree of cultural distance between the target and acquiring firms.

Second, a similar interaction effect may be observed in the relationship between cultural distance and imposed control. Compared to domestic M&As, cross-border ones which involve the removal of autonomy and imposition of rules, systems, and performance expectations by the acquiring firm are likely to be more devastating for target firm members as they are expected to conform to the acquiring firm's culture, rules, and systems that are significantly different from both their national and corporate ones (Buono & Bowditch, 1989; Cartwright & Cooper, 1996). Therefore,

Hypothesis 7: There is an interaction effect between cultural distance and imposed control where negative effects of imposed control on target firm members' trust will be stronger when there is a high degree of cultural distance between the target and acquiring firms.

Third, we expect a significant interaction effect between imposed control and attractiveness of the acquiring firm's HR system. The extent of imposed control in M&As depends primarily on the level of attempted integration, and this can range from total autonomy (the target firm maintains its corporate identity, organizational change is minimal, and the acquiring firm exerts limited control) to total absorption (corporate identity of the target firm is lost and control by the acquiring firm is exerted across all operations) (Datta & Grant, 1990; Haspeslagh & Jemison, 1991; Larsson & Finkelstein, 1999). In the case of complete autonomy, the acquiring firm's HR system is irrelevant to the target firm because no change is required or expected. The acquiring firm's HR system only become relevant to target firm members if there is at least a moderate level of integration and imposed control. Therefore,

Hypothesis 8: There is an interaction effect between imposed control and attractiveness of the acquiring firm's HR system where the attractiveness of the acquiring firm's HR system will only affect target firm members' trust if there is at least a moderate extent of imposed control.

Figure 2 summarizes the hypothesized relationships between the antecedents and target firm members' trust in the acquiring firm management.

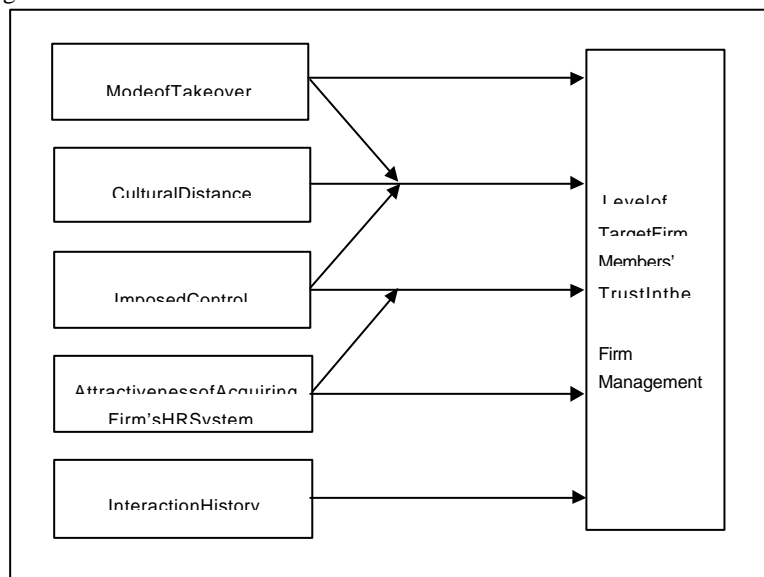


Figure 2 Hypothesized Relationships between the Antecedents and Target Firm Members' Trust in the Acquiring Firm Management

2.7 Relative Importance of Antecedents

It seems unlikely that employees of acquired companies give equal weight to all acquisition related information

available to them, and are equally influenced by the characteristics of the takeover situation and post-acquisition integration process. Intuitively, it seems plausible that characteristics of the post-acquisition integration process that have an immediate impact on target firm members' personal and professional situation, such degree of retained autonomy and attractiveness of the acquiring firm's HR system, have a greater relative importance in determining target firm members' reactions to a takeover than more peripheral aspects such as length of prior contact and cultural distance between the acquiring and the target firm. Therefore,

Hypothesis 9: In making trust decisions about the acquiring firm management, target firm members will not give equal weight to the variables of mode of takeover, imposed control, interaction history, cultural distance, and attractiveness of acquiring firm's HR system.

2.8 Effects Of Demographic Variables

Demographic characteristics may play an important role in individuals' decisions to trust the acquiring firm management. For example, it has been argued that senior managers are likely to suffer most from the loss of autonomy and control following an acquisition because they were accustomed to doing things their own way and must now look to the acquiring firm management for approval (Datta & Grant, 1990; Hambrick & Cannella, 1993). Thus, target firm member's position level will likely influence how they react to a takeover. Other demographic variables that may have an effect on the relationship between the proposed antecedents and target firm member's trust in the acquiring firm are gender, age, level of education, prior personal experience with M&As, and industry (Schweiger & Walsh, 1990; Cartwright & Cooper, 1996; Buono & Bowditch, 1989). In the absence of empirical research on the impact of demographic variables on individuals trust decisions following a takeover, the following hypothesis is largely exploratory.

Hypothesis 10: The relationship between the antecedent conditions and target firm member's level of trust in the acquiring firm management will be moderated by variables such as position level, gender, age, level of education, prior personal experience with M&As, and industry.

3. Methodology

To test the hypotheses discussed above, we employed a decision-making exercise using a policy-capturing technique. Through the policy-capturing technique, individuals' decisions in particular domains can be modeled by presenting them with a series of experimentally designed decision scenarios to manipulate the level of a number of theoretically determined decision criteria. For example, in the context of M&A research, Pablo (1994) utilized a policy-capturing approach to examine how the task, cultural, and political characteristics of acquisitions influence top management decisions about levels of integration. Since the amount of trust that a given party has for another party can be conceived of as the result of a decision-making process (Mayer et al, 1995; McAllister, 1995), a policy-capturing approach seemed particularly suited to test our proposed hypotheses.

In the present study, we simulated trust decisions by constructing a set of hypothetical takeover scenarios with the decision criteria based on our hypothesized antecedents of target firm members' trust in the acquiring firm management. Next, we presented these experimentally designed takeover scenarios in the form of a questionnaire to a sample of employees. After reviewing each takeover scenario, respondents indicated on a rating scale the extent to which they would trust the acquiring firm management in that particular situation. This research design allowed us to study individuals' trust decisions in a variety of takeover scenarios.

3.1 Sample Characteristics

The hypotheses were tested on a sample of Singaporean employees. We defined Singaporean employees as Singaporeans by nationality or permanent residents of Singapore who are working in companies based in Singapore. Given the strong presence of foreign multinational corporations in Singapore where they account for more than 50% of employment, we decided to include Singaporean employees of both homegrown Singaporean companies and the Singapore subsidiary of foreign multinational corporations for our sample to be representative. We selected this target sample for two reasons. First, most of the research on psychological, social, and cultural processes following corporate acquisitions has been done using samples of American or European employees. By testing the hypotheses in a sample of Singaporean respondents, this study is one of the few to examine employee reactions to a merger or an acquisition in an Asian sample. Employees in Singapore-based companies were selected for this study because Singapore is a leading economic player in Asia, and Singapore companies have been heavily involved in M&As in the past few years, together with the rest of the Asian countries affected by the 1997 Asian financial crisis. In fact, M&A activities in Singapore

showed a significant increase in 2001 with the announced M&A volume increasing by more than twice the volume in 1999 (Lee, 2001). By 2001, the M&A volume in Singapore accounted for more than one-quarter of the M&A volume in the Asia Pacific region, excluding Japan (Lee, 2001). Second, this study is part of a larger research project examining individuals' trust decisions in the aftermath of takeovers using a cross-national sample of North American, European and Asian employees. By studying trust issues in acquisitions using a Singaporean sample, it is possible to assess potential cross-cultural differences in individuals' reactions to a takeover when the findings are compared against those obtained from North American and European subjects.

We identified potential participants for this study through their email addresses posted on their companies' websites found in the Singapore National Employers Federation's directory of members, through the National University of Singapore Alumni E-Mail Directory, and through personal and business contacts. An email requesting participation in the study with our survey questionnaire attached was sent to our target respondents. In order to expand our reach, we requested them to forward the survey request email to other potential participants in their company.

The questionnaires were distributed to 550 Singaporean employees working in Singapore-based companies via email. Of these survey questionnaires emailed, 201 were completed and returned, for a response rate of about 36.5% percent. Of these, 186 were usable. Table 1 summarizes the demographic characteristics of the respondents.

Table 1 Demographic Characteristics of Respondents

Demographic Characteristics of Respondents		Percentage
Position level	Non-managerial position	40.9
	Managerial position	59.1
Gender	Female	47.5
	Male	52.5
Age	Below 40 years of age	68.8
	At least 40 years of age	31.2
Level of education	Below a bachelor degree	27.7
	At least a bachelor degree	72.3
Prior personal experience with M&As	With prior experience	51.6
	Without prior experience	48.4
Industry Sector	Service	75.0
	Manufacturing	25.0
Nationality of Company	Homegrown Singaporean company	78.0
	Singapore subsidiary of a foreign MNC	22.0

3.2 Trust Decision-Making Simulation

The hypothesized antecedents of target firm members' trust in the acquiring firm management were used as decision criteria around which takeover scenarios were constructed to simulate the trust decision process. We developed two sets of scenarios, each based on a one-half fractional replicate of a full factorial experimental design (Cochran & Cox, 1957), with each of the five criteria at two levels (e.g., friendly and hostile mode of takeover). The result was two sets of 16 takeover scenarios (decisions). Each set of these 16 experimentally designed takeover scenarios became part of a standardized questionnaire, resulting in two different questionnaires for the study. Either two or three of the scenarios were described in one page of text, with the decision criteria embedded in the text. For each scenario, respondents were asked to indicate on 5-point rating scales the extent to which they would trust the acquiring firm management. To control for effects of order on responses, we varied the sequencing of the 16 takeover scenarios in each questionnaire such that there were two versions of the questionnaire that contained the same set of scenarios. Altogether, we developed four different versions of the questionnaire, each with either a different set of scenarios or a different sequencing of the same set of scenarios.

Pretesting was done at several stages of the development of the questionnaire using MBA students or employees and

managers of Singapore companies either with or without prior M&A experience. Pretests involved reading the scenarios for clarity and interest. Testing was also done to check the effectiveness of the manipulations, clarity of the instructions, and the amount of time needed to complete the questionnaire. Revisions were made at each stage of pretesting.

3.3 Measures and Data Analysis

The independent variables in this study were the hypothesized antecedents of target firm members' trust in the acquiring firm management. They were specified in the hypothetical takeover scenarios as follows: Mode of takeover was the degree of friendliness of the acquiring firm's takeover tactics, that is, whether the target firm was acquired with the support or against the will of the management of the target firm. Imposed control was the extent to which the acquiring firm removed autonomy from the target firm and imposed its culture and systems onto the target firm. Interaction history was the extent of personal contact target firm members had with members of the acquiring firm. Cultural distance was operationalized through the distinction between domestic and cross-border acquisition, namely whether the target firm was acquired by another Singaporean company or by a Swedish company¹. Attractiveness of acquiring firm's HR system was the degree to which the acquiring firm's HR policies and reward systems were known to be employee-friendly.

The dependent variable in this study was target firm members' level of trust in the acquiring firm management. Respondents were instructed to adopt the perspective of a member of the target firm when reading the takeover scenarios. After reviewing each scenario, respondents indicated on a rating scale the extent to which they would trust the acquiring firm management in this particular situation. Level of trust in the acquirer was measured using a 5-point Likert scale, ranging from 1 (very little extent) to 5 (very great extent).

In addition to the instructions page and the pages describing the 16 takeover scenarios, the questionnaire included a personal profile page on which each respondent provided the following demographic and company information: respondent nationality/resident status, gender, age, level of education, position level in current company, industry in which the respondent's company is in, nationality of respondent's company, and prior personal experience with mergers and acquisitions.

The data were analyzed by using the standard policy-capturing approach described by Pablo (1994). First, standard multiple regression analysis was used to obtain the measures of decision consistency (R^2) and the vector of beta weight associated with each decision criterion for each respondent. The regression equation estimated for each respondent contained the five decision criteria and three interactions terms suggested by the theoretical model. Next, independent sample T-tests were conducted to examine whether the demographic variables have an impact on target firm member's trust in the acquiring firm management with respect to each antecedent that was found to have a significant relationship with target firm members' trust in the acquiring firm management.

4. Results

4.1 Decision-maker Consistency

The squared multiple correlation coefficient (R^2) was used as a descriptive measure of the consistency of our respondents' judgments across the 16 scenarios. The average R^2 across respondents was 0.80. Individual values ranged from 0.31 to 1.00 (s.d. = 0.15). These consistency measures compare favorably with those of other policy capturing studies that have used textual presentation of decision criteria (Bazerman, 1985; Mazen, 1990; Pablo, 1994).

4.2 Effects and Relative Importance of Decision Criteria

The significance of each decision criterion's contribution to judgments about the acquiring firm management's trustworthiness was examined by testing the hypothesis that the mean regression coefficient (averaged across respondents) for each term included in the regression equation was significantly different from zero. As Table 2 indicates, four decision criteria, mode of takeover, imposed control, interaction history, and attractiveness of acquiring firm's HR system were significant influences on respondents' trust decisions. The direction of their effects is as hypothesized. Thus, Hypotheses 1, 2, 3, and 5 are supported. In contrast, cultural distance was not a significant influence on respondents' trust decisions. Hence, Hypothesis 4 is unsupported. Among the interaction effects examined, mode of takeover and cultural distance was found to have a significant interaction effect on target firm members' trust in the acquiring firm management,

¹ We selected an industrialized country that is culturally distant from Singapore based on Hofstede's (1980) cultural dimension scores for the two countries.

thereby supporting Hypothesis 6. However, there is no support for Hypotheses 7 and 8 because interaction effects between cultural distance and imposed control, and between attractiveness of acquiring firm's HR system and imposed control were not significant.

Table 2 Influence of Decision Criteria on Trust Decisions in M&A Scenarios

Decision Criteria	Standardized Regression Coefficients			Outcome of Hypothesis Testing
	Mean of Beta Weights ^a	s.d.	t-value	
Mode of Takeover	-.25**	.33	-10.00	Hypothesis 1 supported
Imposed Control	-.10**	.39	-3.61	Hypothesis 2 supported
Interaction History	-.23**	.30	-10.31	Hypothesis 3 supported
Cultural Distance	-.04	.36	-1.52	Hypothesis 4 unsupported
Attractiveness of Acquiring Firm's HR System	-.54**	.43	-17.10	Hypothesis 5 supported
Cultural Distance x Mode of Takeover	.09**	.31	3.75	Hypothesis 6 supported
Cultural Distance x Imposed Control	.01	.34	.42	Hypothesis 7 unsupported
Attractiveness of Acquiring Firm's HR System x Imposed Control	.00	.36	.00	Hypothesis 8 unsupported

^a N = 186

s.d. = Standard deviation

*p < .05, **p < .01

In order to find out if some of the hypothesized antecedents are more important than others, we examined whether respondents would give equal weight to the variables of mode of takeover, imposed control, interaction history, cultural distance, and attractiveness of acquiring firm's HR system in making trust decisions. Table 3 reports the mean differences between pairs of beta-weights. The findings indicate that respondents do not give equal weight to the five decision criteria under investigation. Specifically, the findings show that the beta weight of attractiveness of the acquiring firm's HR system – the variable that has been given the highest weight (see Table 2) – differs significantly from the weights of all the other antecedents. Beta weights for mode of takeover and interaction history do not differ significantly from each other, but are given a greater relative importance than the variables of imposed control and cultural distance. These findings suggest that some of the characteristics of the post-acquisition integration process that are hypothesized to affect target firm members' reactions to a takeover have a stronger influence on target firm members' trust in the acquiring firm management than others. Thus, Hypotheses 9 is supported.

Table 3 Relative Importance of Decision Criteria

Decision Criteria	Compared with ...	Standardized Regression Coefficients		
		Mean Difference between Beta Weights ^a	s.d.	t-value
Attractiveness of Acquirer's HR System	Mode of Takeover	.30**	.56	7.24
	Imposed Control	.44**	.46	12.95
	Interaction History	.31**	.54	7.97
	Cultural Distance	.51**	.57	12.14
Mode of Takeover	Imposed Control	-.14**	.51	-3.83
	Interaction History	-.02 (n.s)	.39	-.53
	Cultural Distance	.21**	.37	7.59
Interaction History	Imposed Control	.12**	.45	3.67
	Cultural Distance	.19**	.47	5.50
Imposed Control	Cultural Distance	.06 (n.s)	.45	1.89

^a N = 186

s.d. = Standard deviation

*p < .05, **p < .01, n.s. = not significant

4.3 Moderating effects of demographic variables

We examined potential moderating effects of respondents' demographic characteristics on trust decisions by testing whether the mean beta weights with respect to each of the decision criterion differed significantly between respondents in managerial and non-managerial positions; between male and female respondents; between respondents who are below 40 years old and respondents who are 40 years old and above; between respondents with prior personal experience with M&As and respondents without prior personal experience with M&As; and between respondents working in the service sector and respondents working in the manufacturing sector. Results of the independent sample t-tests conducted revealed that respondents' demographic characteristics do not influence their trust decisions in the takeover scenarios, except for level of education. Specifically, respondents who had at least a bachelor degree tended to place more emphasis on attractiveness of the acquiring firm's HR system in their decision to trust the acquiring firm management than those who did not have a university education. Hence, the support for Hypothesis 10 is very weak.

5. Discussion

5.1 Main Findings

Using a policy-capturing approach, this study extended the current research on M&As by modeling individuals' trust decisions following a takeover in a sample of Singaporean respondents. The findings suggest that characteristics of the initial takeover situation, as well as processes related to the acquirer's integration decisions and actions, influence target firm members' trust in the acquiring firm management.

As hypothesized, we found evidence that mode of takeover, extent of imposed control, interaction history between the acquiring and target firm, and attractiveness of acquiring firm's HR system affect the level of target firm members' trust in the acquiring firm management. However, respondents did not give equal weight to all the acquisition related information available to them. Attractiveness of the acquiring firm's HR policies and practices, including reward system, was weighted more heavily than other acquisition related information in making trust decisions. This finding is consistent with the results of prior studies that have shown that the employee reactions to a merger or takeover depend mainly on the personal benefits and losses attributed to the merger or takeover (e.g., Graves, 1981; Larsson, 1990; Napier, 1989). For example, Larsson (1990), in a study of Swedish acquisitions, found that increased job security, rewards, and opportunities

for future career advancement reduced the target firm's resistance to a takeover.

These findings suggest that characteristics of the post-acquisition integration process that have an immediate impact on target firm members' personal and professional situation, such as acquiring firm's friendliness and attractiveness of the acquiring firm's HR system, have a greater relative importance in determining their reactions to a takeover than more peripheral aspects such as length of prior contact and cultural distance between the acquiring and target firm. However, somewhat surprisingly, respondents in this study weighted extent of imposed control less heavily than interaction history between the two firms. This is despite the fact that removal of autonomy and imposition of policies, systems, and culture by the acquiring firm is likely to have a stronger and more immediate impact on target firm members' work situation (Datta & Grant, 1990; Hambrick & Cannella, 1993) than a more peripheral aspect of the takeover situation such as length of prior contact between the acquiring and target firm. A possible explanation for this finding is the fact that our sample is made up of Singaporean employees. East Asian cultures are in general characterized by a strong relationship orientation. East Asians have a distaste for pure business transactions, carried out on a calculated and contractual basis. Much importance is placed on building trust through personal contact and collaborations over time in business relationships (Yum, 1991; Hofstede, 1980). To our Singaporean respondents, the extent of prior contact with members of the acquiring firm would imply the strength and quality of the relationship and thus have a critical influence over their trust decisions.

Contrary to our expectations, cultural distance between the acquiring and target firm does not seem to influence the level of target firm members' trust in the acquiring firm management. This finding, albeit unexpected, is consistent with the results of studies that have shown that cultural differences do not always have a negative effect on M&A outcomes (Larsson & Risberg, 1998; Morosini, Shane & Singh, 1998; Very, Lubatkin & Calori, 1996). For example, Very et al. (1996), in a study of acculturative stress in European cross-border M&As, found that cultural differences elicited perceptions of attraction rather than stress, depending on the nationalities of the buying and acquiring firms. They concluded that the cultural problems associated with integrating M&As may be more amplified in domestic, rather than cross-national settings. Thus, the "cultural distance hypothesis" provides too simplified a view of the cultural processes involved in integrating merging firms. Whether cultural differences have a positive or negative impact on trust in M&As will likely depend on the nature and extent of the cultural differences and the interventions chosen to manage these differences (Stahl, Mendenhall & Evans, forthcoming).

Further, the fact that our sample is made up of Singaporean employees could provide an explanation for this finding. Singapore's corporate landscape is characterized by a strong presence of foreign multinational corporations where they account for more than 50 percent of employment. Given the openness of Singapore's economy and its heavy reliance on the Singapore operations of foreign multinational corporations, Singaporean employees are likely to be accustomed to the prospect of working for the subsidiary of a foreign multinational corporation. Further, Singapore is a multicultural society where Singaporeans are accustomed to dealing with cultural differences in both their work and personal life.

Although cultural distance between the acquiring and target firm did not influence respondents trust decisions, we found evidence that, from the perspective of target firm members, cultural differences do matter in certain takeover situations. Among the interaction effects examined, mode of takeover and cultural distance was found to have a significant interaction effect on target firm members' trust in the acquiring firm management, indicating that the negative effects of a hostile mode of takeover on target firm members' trust is stronger in cross-border acquisitions compared to domestic ones. Thus, while cultural differences may have a neutral and sometimes even positive effect on target firm members in a friendly takeover, feelings of helplessness and antagonism that result from hostile takeover tactics (Hambrick & Cannella, 1993; Marks & Mirvis, 2001) are likely to be intensified by cultural barriers.

It has often been argued – but less often been researched – that individuals differ widely in their responses to a merger or an acquisition. Individual characteristics such as age, prior career success, and prior experience with M&As have been proposed to moderate target firm members' reactions to takeover (e.g., Graves, 1981; Napier, 1989; Schweiger & Walsh, 1990). Surprisingly, we found that respondents' demographic characteristics such as gender, age, position level in the company, prior personal experience with M&As and industry sector did not influence their trust decisions. The only exception was level of education where higher educated respondents tended to place more emphasis on attractiveness of the acquiring firm's HR policies and reward systems in their decision to trust the acquiring firm management. We believe that the role of individual characteristics that moderate organizational members' reactions to a takeover are critical to furthering our understanding of the post-acquisition integration process and should be addressed by future research.

5.2 Limitations and Implications for Research

This study provided some new insights into the antecedents of trust in acquisitions. However, there are several possible limitations and avenues for future investigations as well. Perhaps the most critical question related to the external validity of the findings is whether the results of policy-capturing research can be generalized to real-world situations. This study used hypothetical takeover scenarios to simulate individuals' trust decisions in a variety of take over scenarios. Although doing so was necessary to preserve the experimental control required to test the hypotheses advanced in this study, the responses to hypothetical takeover scenarios may differ from organizational members' reactions to similar actual situations. However, several researchers found that results from contrived situations used in policy capturing studies are not significantly different from results from real-world situations, particularly when decision makers are experienced in the types of decisions they are being asked to make (Brown, 1972; Pablo, 1994). In the present study, more than half of respondents had prior personal experience with M&As. The fact that the findings for the sub-sample of respondents who could have arrived at their answers by drawing on prior personal experience are not significantly different from the results of respondents without prior experience with M&As supports the external validity of this study. Nevertheless, more empirical research, using alternative methodologies such as large-scale survey designs, in-depth interviews, and case surveys (Larsson & Finkelstein, 1999), are needed to substantiate the critical role that trust plays in the post-acquisition integration process, and to test the validity of the causal relationships proposed in this paper.

Another possible limitation to the external validity of this study should be noted. Simulation of individuals' decision processes through policy capturing allows for evaluation of how respondents use a limited set of information to make decisions in a specific domain. Since the purpose of our study was to examine the relationships predicted by a particular theoretical model (Stahl & Sitkin, 2001), we included only variables proposed by this model as important antecedents of trust in acquisitions. Further, given the one-half fractional replicate of a full factorial experimental design employed in this study, we limited the number of independent variables to be studied to five (resulting in a set of 16 takeover scenarios that had to be evaluated by each respondent) in order to avoid respondent overload. To the extent that additional variables within or outside the theoretical model used in this study might have had a significant influence on respondents' trust decisions, the decision models derived using the policy-capturing technique may be incomplete.

Further, care must be taken in making inferences based on the results of this study about individuals other than current respondents because the study was experimental and lacked random sampling. The findings of this study describe the decision models of a broad group of Singaporean employees, both male and female, of all age groups, in managerial and non-managerial positions, with or without prior personal experience with M&As, and working in diverse functional areas and industries. Thus, it is likely that the findings of this study on individuals' trust decisions following a takeover are reasonably representative of the decision models of a larger population of employees in Singapore-based companies. However, emerging from a study of a sample of employees of one nationality, the generalizability of the results to theory and practice is limited, and can only be established by further research.

5.3 Implications for Practice

Much prescriptive advice has been offered in the academic and popular management literatures on how to best manage the post-acquisition integration process. However, most of the advice given has not been based on sound theoretical reasoning, and little evaluation research attests to the value of the interventions recommended (Schweiger & Walsh, 1990). The trust-based model of post-acquisition integration examined in this study, and the findings of our policy-capturing research, have clear implications for the management of acquisitions. As several authors have noted (e.g., Cartwright & Cooper, 1996; Gertsen et al., 1998; Nahavandi & Malekzadeh, 1988), in M&As special emphasis is usually put on the strategic and financial goals of the transaction, while the psychological, social, and cultural implications do not receive much attention. In focusing on processes related to the development of trust between the members of firms involved in an acquisition, this paper may direct the attention of executives from the financial and strategic issues to the more subtle, and emergent issues of establishing new leadership and developing a corporate culture based on trust.

Specifically, the findings of this study suggest that characteristics of the initial takeover situation, such as lack of prior personal contact between members of the two firms involved in an acquisition or a hostile mode of takeover, can be major obstacles to achieving integration benefits because they can undermine trust. Therefore, the sociocultural implications have to be considered already at an early stage in the acquisition process, in the evaluation and selection of a suitable target and the planning of the integration process. Further, consistent with a "process perspective" on acquisitions (Haspeslagh & Jemison, 1991; Hunt, 1990; Jemison & Sitkin, 1986), the theoretical model examined in this study as well as the empirical findings suggest that the outcome of an acquisition depends heavily on the management of the

post-acquisition integration process. While characteristics of the initial takeover situation may form the upper bound on the degree of success that an acquisition can achieve, top management's integration decisions and actions affect the degree to which that potential is realized (Pablo et al., 1996). On the part of the acquiring firm management, being aware of the tendency to remove more autonomy from the target firm, and impose more control onto it, than might be necessary in order to achieve the projected synergies, and resisting this tendency if necessary, can go a long way toward building a relationship that is based on trust. Carefully setting the appropriate tone in and after the negotiations, providing opportunities for interaction between members of the target and the acquiring firm, and improving HR policies and reward systems will also have a positive impact on trust, and increase the chances for successful integration.

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