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Stahl, Günter; Chua, C.H.; Pablo, A.

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Does National Context Affect Employee Reactions to Takeovers?

A Policy-Capturing Study of the Predictors of Target Firm Member Trust after Acquisitions

Günter K. Stahl • Chei Hwee Chua • Amy L. Pablo

Abstract

- In this study, we test the assumption that the way target firm employees respond to a takeover is contingent on their national origin.
- The antecedents of target firm member trust in the acquiring firm management were examined in a cross-national sample of German and Singaporean employees using a policy-capturing design.
- Five factors hypothesized to affect target firm member trust after a takeover were found to be significant influences on employees' trust judgments in a decision-making simulation: (i) combining firms' collaboration history, (ii) mode of takeover, (iii) whether it was a domestic or cross-border acquisition, (iv) degree of autonomy removal, and (v) attractiveness of the acquiring firm's human resource policies and reward system. Further analyses suggest that the relative importance of these factors in predicting target firm employees' reactions to a takeover varies depending on their national origin.
- We conclude that companies engaged in cross-border acquisitions need to consider contingencies in the cultural and institutional contexts in which the acquired firms are embedded and adapt their approaches for integrating them accordingly.

Keywords: cross-border mergers and acquisitions, post-acquisition integration, trust, policy-capturing, hierarchical linear modeling

Authors

Günter K. Stahl
Institute for International Business,
Vienna University of Economics and Business, Vienna, Austria
Organizational Behavior Area,
INSEAD, Fontainebleau, France
e-mail: guenter.stahl@wu.ac.at; guenter.stahl@insead.edu

Chei Hwee Chua
Department of Management, School of Business Administration,
University of Miami, Coral Gables, USA

Amy L. Pablo
Strategy and Global Management Area, Haskayne School of Business,
University of Calgary, Calgary, Canada

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Introduction

There has been a dramatic growth in mergers and acquisitions [M&A] in the global marketplace during the last two decades. During this period, the global distribution of M&A has changed. One significant change is that the proportion of cross-border M&A increased from less than 30 percent in the year 2000 to almost half of the total value of global M&A at the end of the decade (Evans, Pucik, & Björkman, 2011). Even if the M&A fever subsides whenever the global economy cools off—such as after the dot.com-boom which ended in 2000, and during the global financial crisis that began in 2008 (World Investment Report, 2010) — a further increase in the number of cross-border deals can be expected in the long run.

Despite their popularity and strategic importance, the track record of such transactions is not very encouraging. A meta-analysis of 93 empirical studies conducted by King, Dalton, Daily and Covin (2004) revealed that the post-acquisition performance of acquiring firms fails to surpass that of non-acquiring firms, which suggests that anticipated synergies are often not realized. Of most interest to this paper's central focus is that this meta-analysis showed that none of the most commonly researched antecedent variables (degree of diversification, degree of relatedness, method of payment, prior acquisition experience) were significant in explaining variance in post-acquisition performance. King et al. (2004) conclude that “despite decades of research, what impacts the performance of firms engaging in M&A activity remains largely unexplained” (p. 198).

While attempts to explain M&A success and failure have traditionally focused on strategic and financial factors, an emergent and growing field of inquiry has been directed at the sociocultural and human resources issues involved in the integration of acquired or merging firms (Cartwright & Schoenberg, 2006). Variables such as cultural fit (Björkman, Stahl & Vaara, 2007; Chakrabarti, Gupta-Mukherjee & Jayaraman, 2009), the pattern of dominance between merging firms (Hitt, Harrison & Ireland, 2001; Vaara, 2003), the combining firm's interaction history (Porrini, 2004), issues of procedural and distributive justice (Ellis, Reus & Lamont, 2009; Meyer & Altenborg, 2007), attention to cultural and HR issues in the due diligence process (Gebhardt, 2003; Stahl & Voigt, 2008), the acquiring managers' leadership style (Kavanagh & Ashkanasy,

2006; Sitkin & Pablo, 2005) and, more broadly, the social climate surrounding a takeover (Birkinshaw, Bresman & Håkanson, 2000) have increasingly been recognized to be critical to the success of M&A.

Another potentially important, but underexplored, factor in the success of M&A is trust. Indirect evidence about the critical role of trust in the M&A process can be drawn from a large body of research that suggests that development of trust is critical to the success of forming and implementing cooperative alliances between firms, such as joint ventures, R&D collaborations, and marketing partnerships (Child, 2001; Inkpen & Currall, 2004; Currall & Inkpen, 2002; Ring & Van de Ven, 1992; Zaheer, McEvily & Perrone, 1998). Krishnan, Martin and Noorderhaven (2006) found that the benefits of trust on alliance performance are magnified when partner behavioral uncertainty is high. They argue that trust allows for the benefit of the doubt in interpreting partner actions. This facilitates openness in sharing knowledge and reduces fear of opportunistic behavior by alliance partners. This research is relevant to M&A, where behavioral uncertainty is generally high, especially among the acquired firm's managers and employees. While few attempts have been made to systematically examine the role of trust in the context of M&A, qualitative case studies (e.g., Chua, Stahl & Engeli, 2005; Olie, 1994) as well as interviews with managers and employees affected by M&A (e.g., Krug & Nigh, 2001; Schweiger, Ivancevich & Power, 1987) suggest that trust is critical to the successful implementation of M&A. This is because trust helps management to overcome resistance and gain commitment from employees. The following quote from Novartis CEO, Daniel Vasella concerning the merger that created the Swiss pharmaceutical giant highlights both the importance and fragility of trust in M&A:

Only in a climate of trust are people willing to strive for the slightly impossible, to make decisions on their own, to take initiative, to feel accountable. Trust is a prerequisite for working together effectively. ... Among all the corporate values, trust was the one that suffered most from the merger.
(Chua et al., 2005: 391-392)

Despite the large body of anecdotal evidence supporting the critical role of trust in M&A, surprisingly little is known about the factors that facilitate or hinder the development of trust in acquired organizations. The benefits of trust and the damage incurred by trust violations make it essential to understand the conditions under which trust can develop after a takeover. The purpose of this paper is to identify important aspects of the acquirer-target relationship and the acquirer's integration approach that would influence the emergence of trust in acquired organizations. Because of the popularity and growing importance of cross-border acquisitions (e.g., Chakrabarti

et al., 2009; Evans et al., 2011; Shimizu, Hitt, Vaidyanath, & Pisano, 2004), another contribution of this study is that it tests whether target firm members' reactions to a takeover are dependent on the national context in which they are embedded, thus requiring a country-compatible post-acquisition integration strategy. To provide for the standardization and experimental control necessary to make cross-national comparisons, we used a decision-making simulation to examine the variables hypothesized to influence target firm member trust in the acquiring firm management in a cross-national sample of German and Singaporean employees. Since Germany and Singapore present interesting similarities and differences in their cultural and institutional contexts which are likely to influence how employees react to a takeover, comparing responses of employees from these two countries will enable us to gain insights into how effectiveness of M&A integration approaches may be contingent on the national context.

Predictors of Target Firm Member Trust after a Takeover

The Role of Trust in the Post-Acquisition Integration Process

Research on trust within and between organizations has shown that trust exists at different levels. While most research on interorganizational trust has been carried out at the firm level of analysis (e.g., Ariño, de la Torre & Ring, 2001; Das & Teng, 1998; Ring & Van de Ven, 1992; Vlaar et al., 2007), trust has also been conceptualized at the individual, dyadic or group level or as a multilevel phenomenon (see Currall & Inkpen, 2002). Since the focus of this study is on target firm member trust in the acquiring firm management, the level of analysis chosen for the trustor is the individual (i.e., members of the target firm). This conceptualization of trust is consistent with Zaheer et al.'s (1998) definition of *interorganizational trust* as “the extent of trust placed in the partner organization by the members of a focal organization” (p. 142).

Central to most definitions of trust are the notions of risk and vulnerability. In the absence of risk, trust is irrelevant because there is no vulnerability (Lewicki & Bunker, 1996; Mayer et al., 1995; Rousseau et al., 1998). In this study, we refer to trust 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: 395). Conversely, distrust can be defined as negative expectations of another's intentions or behavior (Sitkin & Roth, 1993; Lewicki, McAllister, & Bies, 1998). This conceptualization of trust has also been applied to interorganizational relationships. For instance, in joint ventures, factors such as open communication and information exchange, task coordination, informal agreements, and levels of surveillance are all manifestations of trust based on a willingness to rely on, or be vulnerable to, another party under

a condition of risk (Currall & Inkpen, 2002; Inkpen & Currall, 1997).

It has been observed that the turbulence following the announcement of a merger or an acquisition creates a breeding ground for distrust because the situation is unpredictable, easy to misinterpret, and people feel vulnerable (Hurley, 2006; Krug & Nigh, 2001; Stahl & Sitkin, 2005). Social networks and mutual understanding established through years of working together are sometimes destroyed in an instant. With a new organization, a new top management team and a new superior, there is little trust initially and employees are left wondering what the next wave of changes will bring and whether they will be negatively affected (Lubatkin, Schweiger & Weber, 1999; Chua et al., 2005). Employees may perceive a merger as a psychological contract violation or a breach of trust, requiring renegotiation of the broken psychological contract (Buono & Bowditch, 1989; Weber & Drori, 2008). The period following the announcement of a takeover is thus one of intense risk assessment in which target firm employees have to judge whether the acquiring firm management can be trusted.

Theoretical work on trust has suggested that trust can take various forms, ranging from cognitive-based (or “calculative”) trust, which is based on the predictability, dependability, and consistency of another party’s behavior, to affect-based (or “identification-based”) trust, which is rooted in emotional attachment and concern for the other party’s welfare (Lewicki et al., 2006; Mayer et al., 1995). Consistent with prior research on interorganizational trust, we focus mainly on calculus-based trust, which involves a predominantly cognitive assessment of others’ trustworthiness. This conceptualization of trust does not mean to imply that individuals affected by a takeover form an unbiased or reasonably accurate perception of the acquiring managers’ trustworthiness. Research suggests that following a takeover announcement, employees tend to place disproportionate weight on rumors and other unreliable information sources while selectively searching for, discounting, or reinterpreting important information (Kramer, 1999; Marks & Mirvis, 2001; Sitkin & Stickel, 1996). Given the limited amount of validated information that is available about the acquirer’s plans, motives and intentions, the effects of such perceptual and attributional biases on employees’ trust judgments may be profound. The cognitive-trust concept adopted in this study suggests that, however inaccurate or incomplete the information available in the aftermath of a takeover may be, target firm members will process that information through their own lenses in making inferences about the acquiring firm managers’ trustworthiness.

Acquired Firm Member Trust: The Impact of National Context

Cross-border M&A are particularly difficult to implement due to the embeddedness of the

combining organizations in their respective national contexts (e.g., Aguilera & Dencker, 2004; Child, Faulkner & Pitkethly, 2001; Krug & Nigh, 2001). Although research on cross-national variations in M&A is limited, there is some evidence that the way acquiring firms approach integration and the way target firm members respond to a takeover are contingent on their national origin (Goulet & Schweiger, 2006; Stahl & Javidan, 2009). For example, the results of a survey of European top executives regarding national perspectives on pre-acquisition due diligence suggest that cultural differences play an important role in affecting acquiring managers' perceptions of target companies and their use of professional advisors in the pre-acquisition phase, both of which have implications for deal negotiation and subsequent management of the post-acquisition integration process (Angwin, 2001).

In addition to national cultural characteristics, researchers have looked at aspects of the broader institutional environment within which M&A transactions take place (of which culture is one important component) to predict or explain differing national tendencies in integration processes. Calori, Lubatkin, Very, & Veiga (1997) have suggested that at the national level, social, political and legal institutions form the context in which managerial practices develop and are applied. Thus, differences in business systems, corporate governance structures, laws and regulations, labor management relations, and a host of other factors that vary across countries can result in distinct approaches to M&A and affect the M&A process (Angwin, 2001; Child et al., 2001; Schuler, Jackson & Luo, 2004; Shimizu et al., 2004). The hostile takeover bid of Mannesmann by Vodafone, which we will analyze in more detail later, provides an instructive example. Vodafone not only had to deal with the German system of worker co-determination, but also with an entirely different ownership structure influenced by banks, opaque accounting and disclosure rules, a two-tiered board structure with a strong orientation towards consensus decision-making, different company laws, a German corporate culture with a strong orientation towards production and engineering, and a relatively weak 'equity culture' (Aguilera & Dencker, 2004).

While research on cross-national variations in M&A has, for the most part, examined whether acquirer's preferences for different integration approaches vary depending on nationality, there has been limited research on how the institutional and cultural contexts within which target firms operate affect the integration process. A notable exception is a study of cross-border acquisitions conducted by Morosini and Singh (1994). They found that members of target firms in countries high on uncertainty avoidance tend to respond negatively when subjected to high levels of integration. Conversely, target firm members from national cultures low on uncertainty avoidance were found to respond more positively and perform more effectively when subjected to

higher levels of integration. These findings support the conclusion that a post-acquisition integration strategy that is consistent with the target firm's national culture can improve cross-border acquisition performance.

In this study, we will consider various factors in the institutional and cultural contexts¹ as potential influences on trust dynamics following a takeover. Differences in cultural norms and values do not only influence managerial practices (Hofstede, 1980; House, Hanges, Javidan, Dorfman, & Gupta, 2004) and, hence, approaches to M&A integration, but also set up expectations about behavior and provide a frame for interpreting others' trustworthiness. Individuals from different cultures may thus have different expectations of what constitutes trustworthy behavior (e.g., Doney, Cannon & Mullen, 1998; Johnson & Cullen, 2001; Whitener, Maznevski, Hua, Saebo & Ekelund, 1999). For example, perceptions of acquiring managers' trustworthiness may be rooted in demonstration of professional competence and open two-way communication in individualist cultures, and in behavioral consistency and demonstration of concern for the welfare of acquired employees in collectivist cultures. Employees from different cultures thus have diverse interpretive frameworks, rooted in their cultural norms and values that influence interpretations of their experiences in the organization (Whitener, 2006). To fully understand trust dynamics in cross-border M&A, it seems important to consider contingencies in the institutional and cultural contexts.

To examine whether national origin affects target firm member trust, we developed a set of hypotheses concerning aspects of the acquirer-target relationship, as well as the acquirer's integration approach, that are likely to influence target firm member trust, and tested them in a cross-national sample of German and Singaporean employees. German and Singaporean companies have been heavily involved in M&A activity over the past decade and both countries rank among the top five destinations for M&A activity in Europe and Asia, respectively, with cross-border deals accounting for about two thirds of all transactions in these countries (World Investment Report, 2010). By the first half of 2009, Singapore is among the top three economies for cross-border M&A sales in Asia, a position that is tied with Hong Kong (China), and trailing behind only India and China, while Germany holds a strong second position in Europe, behind United Kingdom (UNCTAD, 2009). Both Germany and Singapore can be classified as co-ordinated market economies based on their financial and labor market systems (Hall & Soskice, 2001), but they vary on a number of aspects in their institutional and cultural contexts as

¹ We recognize that the "cultural" and "institutional" contexts are overlapping since the normative and cultural-cognitive components of the institutional environment are conceptually close to culture (Scott, 1995; Kostova, 1999).

explained below.

Predictors of Target Firm Member Trust: Cross-National Differences

Stahl and Sitkin (2005, 2010) have suggested that target firm member trust in the acquiring firm management is affected by a set of status variables, which comprise aspects of the acquirer-target relationship at the time of the takeover, as well as process variables related to the acquirer's integration approach. The distinction between status variables and process variables is consistent with a "process perspective" (Birkinshaw et al., 2000; Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986) on acquisitions. It proposes that the extent to which potential synergies can be realized depends on the ability of the acquirer to manage the integration process in an effective manner. In this study, we focus on factors that are likely to influence target firm member trust at an early stage of the integration process, following a takeover announcement, and for which we have evidence that their relative importance in predicting target firm members' trust may vary depending on their national origin. These include: (i) combining firms' collaboration history; (ii) mode of takeover; (iii) whether it is a domestic or cross-border acquisition; (iv) degree of autonomy removal; and (v) perceptions of attractiveness of the acquirer's HR policies and reward system.

Collaboration History

Research on the role of trust in work groups, strategic alliances and socially embedded partnerships suggests that trust evolves over time through repeated interactions between partners (Gulati, 1995; Ring & Van de Ven, 1992; Zaheer et al., 1998). Like 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". Furthermore, partners learn about each other's idiosyncrasies and develop deeper mutual understanding over time, which improves the affective quality of the relationship (Inkpen & Currall, 2004; Parkhe, 1993). This indirect evidence from the alliance literature suggests that in acquisitions, familiarity through prior collaboration will facilitate the emergence of a shared identity and trust.

While a history of collaboration is likely to be critical to both German and Singaporean takeover targets, we propose that the combining firms' collaboration history has a relatively

greater influence on employees from cultures characterized by a strong relationship orientation than on those from more individualistic cultures. Based on the findings of the GLOBE research program, a study of cultural values and practices in 62 cultures (House et al., 2004), Singapore has significantly higher scores on institutional and in-group collectivism than Germany, reflecting the importance of strong ties and personal relationships in an Asian cultural context. Similarly, Hofstede's (1980) landmark study of work-related values in 40 countries indicates that Singapore is significantly more collectivistic than Germany. Singapore is part of the Confucian Asia cultural cluster (along with countries like China, Taiwan, and South Korea), where great emphasis is placed on social networks and on building trust through personal contacts (Luo, 2000; Redding, 1990). Hitt, Ahlstrom, Dacin, Levitas and Svobodina (2004) have argued that in such a cultural context, managers of firms with whom a history of collaboration exists are more likely to be trusted because there is information on their actions in previous alliances. A history of collaboration thus represents a cumulative record of past behaviors that allows alliance partners to infer their partner's future behavior (Parkhe, 1993). This logic applies equally well to M&A. If managers and employees from the companies involved in an M&A have prior experience collaborating on a joint venture or some other form of alliance, they are more likely to trust each other, especially in cultures where personal relationships are critical. In contrast, business transactions in individualistic cultures such as Germany are carried out largely on a calculated and contractual basis (Brodbeck, Frese & Javidan, 2002). Therefore, we propose that the positive impact of a collaboration history on trust is likely to be weaker for German takeover targets. The foregoing discussion suggests the following hypotheses:

Hypothesis 1a: The level of target firm member trust in the acquiring firm management is positively related to the extent to which a history of collaboration exists between the two firms.

Hypothesis 1b: National context moderates this relationship, such that the positive relationship between collaboration history and level of trust is stronger for Singaporeans than for Germans.

Mode of Takeover

Although M&A research has not directly addressed the relationship between mode of takeover and trust, it has been argued that hostile takeover tactics can result in sharp interorganizational conflict and difficulties integrating the acquired firm (Buono & Bowditch, 1989; Hambrick & Cannella, 1993; Hitt et al., 2001). According to Hunt (1990), the tone of the negotiations –

whether it is friendly or hostile – is an important influence on the post-acquisition integration success. This is because of its effect on the quality of the interpersonal relationships between members of the combining organizations. Friendliness is likely to generate perceptions of openness, goodwill, and trustworthiness (Buono & Bowditch, 1989; Stahl & Sitkin, 2010). In contrast, trust can erode when executives from a hostile takeover target and those of the acquiring firm battle each other in a public forum, each being suspicious of the other's intentions and claiming the other party's inadequacy and lack of integrity. Hambrick and Cannella (1993) have observed that the atmosphere surrounding a hostile takeover is often characterized by bitterness and acrimony, making smooth social integration after the deal less likely. Social Identity Theory (Tajfel, 1982; Turner, 1982) suggests that under conditions of external threat, such as in a hostile takeover attempt, "us-versus-them" thinking is likely to set in, with individuals striving to maintain their positive social identity by idealizing their own group and denigrating the other. Support for this proposition can be found in research showing that hostile takeover attempts lead to resistance and increased cohesiveness among the target firm members (Elsass & Veiga, 1994; Krug & Nigh, 2001).

While hostile takeover tactics are likely to have a universally negative effect on target employees' trust and their willingness to collaborate, we propose that the mode of takeover has a relatively greater impact on German than Singaporean takeover targets. Germany has a 'stakeholder' model of corporate governance, which emphasizes consensual decision-making, and the principles of 'co-determination' and collective bargaining. Banks provide substantial long-term corporate finance, act as stable shareholders, and protect companies against hostile takeovers (Aguilera & Dencker, 2004; Hoepner & Jackson, 2001). As a result, there are few hostile takeovers and when a hostile takeover is attempted, it typically causes public uproar. An example is the hostile takeover bid of Mannesmann by Vodafone. As mentioned previously, Vodafone not only had to deal with co-determination, but also with an entirely different ownership structure influenced by banks, a two-tiered board structure with a strong orientation towards consensus decision-making, different company laws, and a relatively weak 'equity culture' (Aguilera & Dencker, 2004; Hoepner & Jackson, 2001). It also had to deal with a German public that was vehemently opposed to the takeover bid, as evidenced by the warning given by Gerhard Schröder, the Chancellor of Germany at that time, that a hostile takeover would "destroy the corporate culture" and undermine the principle of co-determination (Hoepner & Jackson, 2001: 36). These features contrast with the market- and shareholder-oriented logic of Anglo-American corporate governance adopted in the non-government-linked sector in Singapore, where corporations lack protection against hostile takeover bids and the business

community and general public tend to view these types of transactions as legitimate². The above arguments lead to the following hypotheses:

Hypothesis 2a: The level of target firm member trust in the acquiring firm management is positively related to the friendliness of the takeover.

Hypothesis 2b: National context moderates this relationship, such that the positive relationship between takeover friendliness and level of trust is stronger for Germans than for Singaporeans.

Cross-border versus Domestic

Research suggests that managers and employees affected by acquisitions are likely to differ in their attitudes and reactions depending on whether the acquirer is a local or a foreign company (Angwin, 2001; Calori et al., 1994; Krug & Nigh, 2001; Weber et al., 1996). For example, Krug and Nigh (2001), based on surveys and interviews with executives of US target companies, found that a greater number of executives in foreign acquisitions were terminated and those who left voluntarily complained more frequently about lower job status than executives in domestic acquisitions. Most of these executives left shortly after the takeover as both companies struggled to overcome cultural barriers that hindered the integration process. Although studies that tested the cultural distance hypothesis in the context of M&A have yielded inconclusive results (see Cartwright & Schoenberg, 2006; Stahl, 2008; Stahl & Voigt, 2008; Teerikangas & Very, 2006; Weber & Drori, 2008 for reviews), research has shown that shared norms and values facilitate the development of trust and the emergence of a shared identity (Lewicki et al., 1998; Sarkar et al., 1997). Conversely, trust can erode and the potential for conflict can increase when a person or group is perceived as not sharing key values (Sitkin & Roth, 1993). Social Identity Theory (Tajfel, 1981; Turner, 1982) suggests that in a merger situation, the mere existence of two different cultures is enough to lead to in-group out-group bias (e.g., Hogg & Terry, 2000; Kleppesø, 2005; Elsass & Veiga, 1994). In-group bias and out-group derogation are likely to be greatest when the out-group is perceived to be very different from the in-group, such as in cross-border acquisitions (Björkman et al., 2007). In international acquisitions, feelings of mistrust may

² The Singaporean model defies easy categorization (like most Asian economies), partly because governance structures differ substantially between government-linked and non-government-linked companies. However, corporate governance practices in non-government-linked companies show the influence of the Anglo-American 'shareholder' model (see Governance Primer Asia, 2001).

be further fueled by cultural stereotypes, nationalism and xenophobia (Teerikangas & Very, 2006; Vaara, 2003).

While we expect both German and Singaporean takeover targets to be similarly affected by these cultural dynamics, there are reasons to believe that Singaporeans are better equipped to cope with the challenges involved in cross-border takeovers. Singapore is a multicultural society where people are accustomed to dealing with cultural differences in both their work and personal life. In Singapore, the government's policy is for all citizens to be bilingual, and nearly 80 percent of the citizens support having people of different ethnic groups living in Singapore and believe that multiculturalism is vital to uniting the nation (Latif, 2002). Furthermore, Singapore stands in stark contrast to Germany in terms of openness as a host economy for foreign investment and percentage of total employment by affiliates of foreign multinationals with a Host Economy Transnationality index of 65.2% compared to Germany's 10.4% (UNCTAD, 2008)³. Singaporeans are thus more likely to have experience working for a foreign company and/or are accustomed to the prospect of working for one. Germany, on the other hand, is a much more culturally homogeneous society and is grappling with issues of multi-ethnicity and multiculturalism (Hertkorn, 2000). A minority of Germans are fluent in English, which is likely to augment cultural and communication problems in cross-border M&A. For example, in the DaimlerChrysler merger, while most managers on the Daimler side could speak some English, few were able to do so with the ease and accuracy that is needed for effective working relationships (Vlasic & Stertz, 2000). Collectively, these arguments lead to the following hypotheses:

Hypothesis 3a: The level of target firm member trust in the acquiring firm management is higher in domestic than in cross-border acquisitions.

Hypothesis 3b: National context moderates this relationship, such that the more negative effect of cross-border acquisition on trust compared to that of domestic acquisition is stronger for Germans than for Singaporeans.

Autonomy Removal

Although, theoretically, integration can result in a balanced merging of two organizations,

³ The Host Economy Transnationality Index is calculated from the average of the four shares: FDI inflows as a percentage of gross fixed capital formation; FDI inward stocks as a percentage of GDP; value added of foreign affiliates as a percentage of GDP; and employment of foreign affiliates as a percentage of total employment. The reported statistics are UNCTAD estimates for 2005 – latest year available.

cultures and workforces, this balance rarely occurs in acquisitions. Instead, the acquirer typically removes autonomy from the target firm and imposes a rigorous set of rules, systems, and performance expectations upon it in order to gain quick control (Jemison & Sitkin, 1986; Marks & Mirvis, 2001; Pablo, 1994). Autonomy removal can be devastating from the perspective of target firm members and lead to resistance and hostility (Hambrick & Cannella, 1993; Krug & Nigh, 2001), as managers and employees vigorously defend their autonomy – a situation that Datta and Grant (1990) have termed the “conquering army syndrome.” Moreover, because tight controls tend to signal the absence of trust, the use of controls typically hampers its emergence, often resulting in a cycle of escalating distrust and conflict (Inkpen & Currall, 2004; Jemison & Sitkin, 1986). In such a situation, the acquirer’s executives may be perceived as uniformly malevolent and not to be trusted, especially if target firm members perceive a gap between the acquirer’s stated goals and intentions (e.g., a “merger of equals”), and the actual integration approach taken, as could be observed in the case of the DaimlerChrysler “merger” (Epstein, 2004; Gebhardt, 2003).

While autonomy removal is likely to have a universally negative effect on the emergence of trust between acquiring and target firms, we expect this aspect of the integration approach to play a bigger role in the case of German employees than Singaporean ones. How individuals react to autonomy removal in the aftermath of a takeover is likely to depend on the level of power distance in a culture (Angwin, 2001; Goulet & Schweiger, 2006). Power distance reflects the extent to which a society accepts and endorses authority, status privileges, and unequal power distribution in organizations (Hofstede, 1980). Higher power distance indicates a greater acceptance and reliance on centralization of authority. Thus, in societies with higher power distance, subordinates tend to display a greater tolerance for lack of autonomy, and they are accustomed to taking orders from their supervisors. Various studies have found that job autonomy or empowerment has a stronger effect on job satisfaction in lower power-distance cultures than in higher power-distance cultures (e.g. Hui, Au, & Fock, 2004; DeCarlo & Agarwal, 1999). Conversely, we can expect autonomy removal to be met with less negative reactions in higher power-distance cultures than in lower power-distance cultures. Comparative studies have shown that Germany has significantly lower power distance scores than Singapore and most other Asian countries (Hofstede, 1980; House et al., 2004). German takeover targets are thus more likely to respond negatively when subjected to high levels of integration and a resulting loss of autonomy than do Singaporean takeover targets. Consistent with this analysis, Angwin (2001) has argued that German employees are not accustomed to high levels of supervision and control, and that this must be considered in pre-acquisition due diligence as it is likely to cause problems during

integration. Taken together, these arguments support the following hypotheses:

Hypothesis 4a: The level of target firm member trust in the acquiring firm management is negatively related to autonomy removal.

Hypothesis 4b: National context moderates this relationship, such that the negative relationship between autonomy removal and level of trust is stronger for Germans than for Singaporeans.

Attractiveness of Acquirer's HR Policies and Reward System

Finally, we propose that attractiveness of the acquirer's HR policies and reward system may affect trust dynamics in acquired organizations. More generally, there is evidence that expected benefits of organizational changes resulting from the takeover, particularly the quality of post-acquisition reward and job security changes, is a critical factor in determining employees' reactions to an acquisition (Chaudhuri, 2005; Evans et al., 2011; Van Dick et al., 2006). For instance, Bartels et al. (2006) revealed that expected utility of the merger (anticipated benefits such as salary increases or more job security) was the strongest predictor of employees' identification with the post-merger organization. If target firm members see the takeover as a chance for more job security and increased prospects for compensation and promotion, they are more likely to have a positive attitude towards the acquirer (Evans et al., 2011; Schweiger, 2002). This is especially true when target firm employees see the acquiring company as a savior or having a more enlightened culture, or when they see other positive outcomes from an association with the acquiring company, such as higher prestige or better career opportunities. Cisco, for example, buys companies for their technology and R&D talent and then assimilates them into the Cisco culture, but it attempts to retain most of the employees and provides strong financial incentives, excellent career opportunities, and promotes a vision of the merged entity that includes an important role for the acquired employees to play. Such recognition and incentives help to build trust and encourage acquired employees to stay (Chaudhuri, 2005).

We predict that expected benefits associated with changes resulting from a takeover, particularly potential improvements in HR policies and reward system, will have a positive effect on target employees' reactions to a takeover largely independent of their nationality. There is some evidence to suggest that Singaporeans, maybe more so than Germans, are "preoccupied with acquiring material possessions" (Jung, 2001, p. 4), and that aspects like high compensation, HR development, and career advancement opportunities figure prominently in their career decisions. Also, in the absence of a well-developed centralized social security system with

comprehensive welfare benefits such as in Germany, Singaporeans' welfare and retirement benefits are directly linked to the rewards and benefits system provided by their companies (Asher, 1995). However, there is little theoretical clarity concerning how these institutional factors might differentially affect the reactions of Singaporean and German employees to a takeover, particularly their level of trust in the acquirer. We explore this issue in our policy-capturing study and posit a non-directional moderator hypothesis. Taken together, the above arguments support the following hypotheses:

Hypothesis 5a: The level of target firm member trust in the acquiring firm management is positively related to attractiveness of the acquirer's HR policies and reward system.

Hypothesis 5b: National context moderates this relationship, such that the relationship between attractiveness of acquirer's HR policies and reward system and level of trust is different for Singaporean and German employees.

Figure 1 summarizes the hypothesized relationships.

Insert Figure 1 about here

Methods

Sample

We tested the hypotheses in a cross-national sample of German and Singaporean employees. Data were collected through a survey questionnaire. The questionnaire was sent via regular mail or email to 403 German and 600 Singaporean target respondents, along with a letter requesting their participation. 206 Germans and 228 Singaporeans completed and returned the questionnaire, for a response rate of 51% and 38% for the German and Singaporean samples, respectively. 30 returned questionnaires were unusable, resulting in a final sample size of 404 (197 Germans and 207 Singaporeans). The sample consisted of Germans and Singaporeans who were working in multinational corporations, except for a couple of MBA students who had at least several years of working experience. Among the German respondents, 45.7% were in managerial positions, 31.5% had a college education, 62.9% were male, 38.6% were at least 40 years old, and 63.5% had experienced an acquisition while working with their current/previous employers. Among the Singaporean respondents, 68.8% were in managerial positions, 70.0% had a college education,

48.8% were male, 28.5% were at least 40 years old, and 48.8% had experienced an acquisition while working with their current/previous employers.

Research Design and Survey Questionnaire

We used the policy capturing method to test our hypotheses. Policy capturing is a concept derived from social judgment theory and has been used to study an array of decision-making processes within organizational contexts, including job choice decisions (Judge & Bretz, 1992), judgments of sexual harassment (York, 1989), alliance partner selection (Hitt, Dacin, Levitas, Arregle & Borza, 2000; Hitt et al., 2004), integration decisions in acquisitions (Pablo, 1994), and willingness to reconcile a relationship following a trust violation (Tomlinson, Dineen & Lewicki, 2004). Policy capturing involves presenting respondents with a set of scenarios in which multiple theoretically determined decision criteria are embedded, and asking respondents to make decisions based on each scenario. The decision criteria used by the respondent (constituting the independent variables) are then identified from the specific decisions made (constituting the dependent variable) (Slovic & Lichtenstein, 1971).

The policy-capturing methodology is particularly suited for use in our study which seeks to examine how our hypothesized variables influence target firm member trust decisions following a takeover and to make cross-national comparisons. This method provides several benefits that are necessary for our study over other methods. First, it offers the standardization and experimental control to enable us to examine how our respondents “weight, combine, or integrate information” when making their trust decisions (Zedeck, 1977:51). Second, it provides a higher degree of control over confounding variables (Aiman-Smith, Scullen & Barr, 2002) as respondents are asked to make their trust decisions solely based on the five variables that are of interest to this study. Third, unlike other methods (e.g. the self-report attribute ratings method) where social desirability response bias can occur, this method uses indirect assessment of the importance of hypothesized variables which weakens the occurrence of this potential bias (Arnold & Feldman, 1981; Judge & Bretz, 1992). Fourth, this method avoids problems of retrospective bias associated with some survey techniques (e.g., Golden, 1992; Hitt et al., 2004).

In constructing the acquisition scenarios, we embedded the five factors hypothesized to influence target firm member trust as decision criteria in the scenarios. We varied each of the five factors at two levels as illustrated by Table 1 (e.g. friendly mode of takeover or hostile mode of takeover). With five factors and each having two possible levels, a full factorial experimental design (Cochran & Cox, 1957) would yield a total of 32 possible distinct scenarios (2 x 2 x 2 x 2 x 2). In other words, there can be a total of 32 scenarios where each scenario would portray at

least one factor at a different level. Since fractional designs produce substantially the same results as a full factorial design for nomothetic research (Graham & Cable, 2001), we used a one-half fractional replication. Such a fractional design gives us the benefit of reducing respondent overload and fatigue that might unduly affect the results. Since a full factorial design consists of 32 scenarios, an one-half fractional replication results in two different sets of 16 scenarios ($\frac{1}{2} \times 2 \times 2 \times 2 \times 2 \times 2$). They became part of two questionnaires, respectively. To control for effects of order on responses, we varied the sequencing of the two sets of 16 scenarios and created another two questionnaires. Hence, we had four questionnaires where each questionnaire contained 16 acquisition scenarios for respondents to evaluate and make their trust decisions. Respondents were randomly assigned to one of the four questionnaires. Our data collection proceeded in phases so that we were able to ensure that for each sample, we had almost the same number of completed usable questionnaires for each of the four questionnaires.

Insert Table 1 about here

Variables

Dependent variable

The dependent variable was the level of target firm member trust in the acquiring firm management. Respondents were instructed to adopt the perspective of a target firm member and, after reviewing each acquisition scenario, to indicate on a five-point Likert-type scale, ranging from 1 (very little extent) to 5 (very great extent), the extent to which they would trust the acquiring firm management. Pretest findings indicated that a five-item scale measuring different components of trust (acquiring managers' perceived trustworthiness in terms of their competence, integrity, benevolence, openness, and value congruence) yielded comparable results to the item measuring overall trust. Therefore, the single-item solution was chosen.

Independent variables

The independent variables were the five hypothesized predictors of trust. They varied at two levels across the scenarios as illustrated by Table 1. A dummy variable was created for each variable: collaboration history (0 = no history; 1 = a history of collaboration); mode of takeover (0 = hostile; 1 = friendly); domestic vs. cross-border acquisition (0 = cross-border; 1 = domestic); autonomy removal (0 = low; 1 = high); attractiveness of acquirer's HR policies and

reward system (0 = low; 1 = high).

Control variables

Since it is possible that certain respondent demographic characteristics might potentially influence their trust decisions, we controlled for age, gender, educational level, position level in the company, and prior experience with an acquisition situation in the tests for differences between the German and Singaporean decision models. A dummy variable was created for each variable: age (0 = below 40 years old; 1 = at least 40 years old); gender (0 = female; 1 = male); educational level (0 = without college education; 1 = at least college education); position level (0 = non-managerial; 1 = managerial); acquisition experience (0 = no prior experience with an acquisition situation; 1 = prior experience with an acquisition situation).

Moderator

A dummy variable was created representing the respondent's nationality (0 = German; 1 = Singaporean).

Pretesting, Translation and Back-Translation

Pretesting was done at several stages of the development of the original German language version of the questionnaire, using graduate students and employees of German companies. Pretests involved reading the instructions and scenarios for clarity. Testing was also done to examine the perceived validity of the scenarios, efficacy of the variables, and amount of time required to complete the questionnaire. Revisions were made at each stage of pretesting. As a result of the pilot tests, the scenarios used in the final questionnaires were considerably shorter and less elaborate than those used in the original pilot test. Subsequently, the German language version was translated into English for the Singaporean sample. Based on methodological guidelines by Brislin (1986), the questionnaire was translated and back-translated by effectively bilingual translators to ensure semantic equivalence between the two versions.

Results

Table 2 shows the descriptive statistics and intercorrelations for all variables.

Insert Table 2 about here

To test Hypotheses 1a, 2a, 3a, 4a, and 5a, we developed models for the German and Singaporean respondents, respectively using hierarchical linear modeling [HLM] (Raudenbush & Bryk, 2002). HLM has been recommended for analyzing policy-capturing data (Hitt et al., 2000; Hitt et al., 2004). It is able to overcome the statistical weaknesses of traditional methods for analyzing nested data (Hoffman, 1997). In this study, there were 16 observations per respondent. Thus, observations were nested within respondents. Altogether, there were 3151 observations for German respondents (1 missing value), and 3286 observations for Singaporean respondents (26 missing values), resulting in a total of 6437 observations for the full sample of 404 respondents. Since the 16 observations for each respondent may not necessarily be independent, using HLM is advantageous because it controls for potential autocorrelation and heteroskedasticity (Hoffman, 1997). Moreover, HLM is able to assess between-respondents variance and group effects while controlling for within-respondent variance (Raudenbush & Bryk, 2002).

The original HLM results have been rearranged for easy understanding in Table 3. The coefficients can be interpreted like those of ordinary least squares regression analysis (Raudenbush & Bryk, 2002). The results show that all coefficients were statistically significant ($p < 0.01$), suggesting that collaboration history, mode of takeover, domestic vs. cross-border acquisition, autonomy removal, and attractiveness of acquirer's HR policies and reward system were significant predictors of respondents' trust judgments. The direction of effects was as hypothesized in all cases, except for the effect of domestic vs. cross-border acquisition in the Singaporean model. As hypothesized, the level of trust was lower in a cross-border than in a domestic acquisition situation for German respondents. However, the opposite was observed for Singaporean respondents. Thus, Hypotheses 1a, 2a, 4a and 5a were supported while Hypothesis 3a was only supported by the German sample.

Insert Table 3 about here

Since the independent variables have relatively equal standard errors, it is possible to infer the relative strength of the five trust predictors from the coefficients (Hitt et al., 2000; Hitt et al., 2004). The results presented in Table 3 indicate that attractiveness of the acquirer's HR policies and reward system was the strongest predictor in both German and Singaporean models. For

German respondents, the second strongest predictor was mode of takeover, followed by autonomy removal, domestic vs. cross-border acquisition, and collaboration history (in descending order of strength). For Singaporean respondents, collaboration history was the second strongest predictor, followed by mode of takeover, autonomy removal, and domestic vs. cross-border acquisition.

Next, we tested for differences between the German and Singaporean models (Hypotheses 1b, 2b, 3b, 4b, and 5b), while controlling for demographic differences between them, including age, gender, educational level, position level, and prior acquisition experience. To do so, we used HLM analysis with a combined German and Singaporean sample. The original HLM results are again rearranged and edited for easy understanding in Table 4. A significant interaction effect between nationality and a predictor variable indicates that the relationship between that particular predictor variable and level of trust varied significantly between German and Singaporean respondents. The results show that the coefficients of four of the interaction terms (Collaboration History*Nationality; Friendliness of Takeover *Nationality; Domestic vs. Cross-border*Nationality; Autonomy Removal*Nationality) were statistically significant at $p < 0.001$. This suggests that respondents' national origin moderated the relationship between these four predictors and trust. The direction of effects was as hypothesized. Thus, Hypotheses 1b, 2b, 3b and 4b were supported. The relationship between attractiveness of acquirer's HR policies and reward system and trust did not vary significantly between German and Singaporean respondents. Hence, Hypothesis 5b was not supported.

Insert Table 4 about here

Discussion

Prior research on post-acquisition integration has paid little attention to the conditions that facilitate or impede the development of trust in acquired companies. We proposed that aspects of the acquirer-target relationship and the way the acquirer approaches integration will affect employees' reactions to a takeover, and identified a set of variables that are likely to influence the level of trust in the acquiring firm management. Given the increasing importance of cross-border acquisitions, we examined whether the hypothesized trust antecedents vary across different national groups. We selected Germany and Singapore because these countries rank among the top destinations for cross-border M&A activity in their respective regions and, more importantly,

because they vary on a number of institutional and cultural dimensions that are likely to affect the development of trust in M&A. We predicted several differences regarding how employees would react to a takeover based on their nationality, and our predictions were largely supported by the results of a policy-capturing study.

The findings show that there are similarities, as well as some important differences in the way German and Singaporean employees reacted to the takeover scenarios presented to them. By comparing and contrasting employee responses to takeovers from two globally important regions, Western Europe and Southeast Asia, this study adds to our understanding of how effectiveness of M&A integration approaches is contingent on the national context. Among the five factors hypothesized to affect trust, attractiveness of the acquirer's HR policies and reward system was by far the most powerful predictor of both German and Singaporean respondents' trust judgments. This finding is consistent with research that shows that the way employees react to a takeover depends to a large extent on the personal benefits and losses attributed to the takeover (e.g., Cartwright & Cooper, 1996; Chaudhuri, 2005; Evans et al., 2002). It is also consistent with research on organizational trust that suggests that employees' trust in management is rooted in the fairness and support they perceive in the organization's HR policies and practices (Whitener, 2006). In the aftermath of a takeover, not only do the acquirer's HR policies and practices have a major impact on acquired employees' careers, they also reveal much about the acquiring executives' integrity, fairness, and concern – and, thus, their trustworthiness.

Goulet and Schweiger (2006), in a review of research on the role of culture in M&A, have argued that “acquirers may be culturally predisposed in the way they approach integration, and that targets may be culturally predisposed in the way they respond to integration” (p. 410). While there is substantial evidence that acquirers from different countries have different perspectives on how integration should be approached and how to deal with post-acquisition issues (e.g., Aguilera & Dencker, 2004; Stahl & Javidan, 2009; Child et al., 2001), there is little research comparing employees' reactions across national contexts. This study fills the lacuna by showing that the way employees perceive and react to an acquirer's integration approach is contingent on their national origin. As predicted, Germans and Singaporeans differed significantly in the way they responded to the takeover scenarios presented to them, after controlling for variables such as age, gender, educational level, position level, and prior acquisition experience. While German employees responded more negatively to hostile takeover tactics, autonomy removal, and acquisition by a foreign company, Singaporean employees placed more emphasis on the history of collaboration between the combining firms and tended to distrust acquirers with whom they had no prior experience collaborating on a joint venture or some other form of alliance.

These differences can be partly explained by cultural factors. For example, Singaporeans, coming from a society that accepts authority and power differences (Hofstede, 1980; House et al., 2004), may be more tolerant of acquirer dominance than Germans, who, due to their cultural background, are likely to resent dominance and may thus resist an acquiring firm's attempts to "make them like us" (Angwin, 2001). Also, like most countries in Asia, Singapore is high on institutional and in-group collectivism (House et al., 2004), reflecting the importance of strong ties and personal relationships in business dealings. In collectivist countries, much emphasis is placed on building trust through personal contacts and collaboration over time (e.g., Hitt et al., 2004; Luo, 2000; Redding, 1990). To Singaporean respondents, the existence of a history of collaboration may have indicated the strength and quality of the relationship between the two firms – and, thus, the acquiring management's trustworthiness.

One of the most interesting results of this study is the difference between German and Singaporean employees in how they responded to the situation of a cross-border takeover. While the prospect of being acquired by a foreign firm had a negative impact on Germans' trust judgments, Singaporeans seemed to welcome a takeover by a foreign company. To explain this finding, it is necessary to look at the broader institutional context that may shape individuals' reactions to a takeover. In Germany, there is a long established tradition of industrial democracy through powerful workers' councils that is reinforced by a system of worker co-determination (Jackson, Hoepner & Kurdelbusch, 2004).⁴ HRM practices include more restricted employer autonomy, difficult hiring and firing decisions, lower employee mobility, and a stronger link between seniority and career progression (e.g., Aguilera & Dencker, 2004; Sparrow, Schuler & Jackson, 1994). Most German companies offer job security, social benefits and predictable careers in return for employee commitment and loyalty. In fact, German employees' overriding attribute is loyalty to the company and an emphasis on security (Angwin, 2001). In such a context, employees are less likely to welcome an acquisition by a foreign company. On the contrary, most Singaporean employees prefer to work for subsidiaries of foreign companies in Singapore, which are thought to have more sophisticated HR practices and generally offer more attractive benefits and better career opportunities than homegrown Singaporean companies (Wan, 2006).

The foregoing discussion suggests that in order to understand country-specific biases in the

⁴ Since the mid-1990s, corporate governance has changed dramatically in Germany. However, changes in the corporate landscape and firm governance have not undermined employee codetermination, collective bargaining institutions, and labor-management- relations in Germany (see Jackson et al., 2004).

way employees respond to M&A, a thorough analysis of the cultural and institutional contexts is necessary.

Limitations and Implications for Research

This study has provided some new insights into the antecedents of target firm member trust in the aftermath of a takeover. However, there are several possible limitations that need to be discussed, as well as avenues for future research.

Perhaps the most critical question is related to the external validity of the findings, i.e., whether the results of policy-capturing research can be generalized to real-world situations. This study used hypothetical scenarios to simulate individuals' trust decisions in the context of a corporate takeover. This design allowed us to examine how employees make trust judgments in a variety of takeover situations, and it provided the control required to isolate the unique independent effects of the hypothesized factors. However, employees may respond differently to hypothetical situations compared to similar actual situations. Although research has suggested that intentions can predict subsequent behavior (Fishbein & Ajzen, 1975) and results from contrived situations used in policy capturing have been found to be consistent with results obtained in real-world situations (Brown, 1972; Hitt & Middlemist, 1979; Pablo, 1994), the external validity of the findings can only be established through further research using alternative methodologies, such as in-depth interviews and survey designs.

Another possible limitation to the external validity of the findings should be noted. The simulation of individuals' decision processes through policy capturing allows for evaluation of how respondents use a limited set of criteria to make judgments in a specific domain. To the extent that additional variables outside the set of trust antecedents examined in this study affect employees' trust judgments, the decision models obtained through the policy capturing approach are likely to be incomplete. One fruitful avenue for future research is to investigate the role of implementation factors that have not been tested in this study, including speed of integration, social integration mechanisms used, aspects of the communication process during integration, etc. (Birkinshaw et al., 2000; Hitt et al., 2001; Schweiger, 2002).

In addition to those already suggested, several interesting research opportunities can evolve from this research. Although the dependent variable of interest was trust, our discussion suggests that the variables hypothesized to affect target firm member trust may affect a range of behavioral and attitudinal outcomes. For example, research has shown that departure rates of executives from the acquired firms depend on factors related to the acquirer-target relationship and the integration approach such as preacquisition performance differences between the acquiring and

target firms, friendliness of the takeover, and removal of autonomy from target firm executives (Hambrick & Cannella, 1993; Lubatkin, Schweiger & Weber, 1999). The policy-capturing method seems well-suited for examining how these and other preacquisition and implementation factors may affect employees' willingness to stay after a takeover and whether the effects of these factors vary across different national groups.

In this study, we left unexamined the question of whether trust is of any consequence to the post-acquisition performance of the combining firms. There is a myriad of anecdotal evidence – mainly from M&A case studies and interviews with acquired employees – that suggests that trust does matter in M&A; but when it matters, under what conditions it matters, and how it matters are currently poorly understood. Future research – and management practice as well – would benefit from a closer examination of the conditions that facilitate or hinder the development of trust in the aftermath of M&A.

Implications for Practice

Consistent with a “process perspective” on acquisitions (Haspeslagh & Jemison, 1991), this study points to the crucial role played by the acquirer's integration approach and practices in ensuring acquisition success. A number of actions can be taken by the acquiring firm management to build trust and secure commitment from acquired employees. Given the importance of the acquirer's HR policies and reward system in influencing target employees' trust, it seems essential to design and implement “high commitment” HR policies and practices (Arthur, 1994; Becker, Huselid & Ulrich, 2001) that benefit target firm members. HR policies and practices that are perceived as transparent and fair, financial incentives to employees who ought to be retained, and adequate support to those who are negatively affected by the takeover can go a long way towards building trust and securing commitment from acquired employees (e.g., Chaudhuri, 2005; Chua et al., 2005; Evans et al., 2002; Schuler et al., 2004). Based on the findings of this study, carefully setting the appropriate tone during and after the negotiations, providing opportunities for interaction between members of the combining organizations, and resisting the temptation to remove more autonomy from the target firm than the strategic rationale of the deal requires are also essential for building trust and commitment.

Perhaps most importantly, the results of this study suggest that companies engaged in cross-border acquisitions need to adapt their approaches for integrating acquired firms. They need to understand that target employees in other countries may react differently to their integration approach, and that sometimes a “culture-compatible” (Morosini & Singh, 1994) post-acquisition integration strategy may be required. Executives involved in cross-border acquisitions must have

a thorough understanding of both the target firm's cultural and institutional contexts and their own if the post-acquisition integration is to be successful (Aguilera & Dencker, 2004; Calori et al., 1994; Goulet & Schweiger, 2006). This means that cultural issues have to be considered during the early stage of the acquisition process – as early as during the evaluation of a suitable target and planning of the post-acquisition integration. In the due diligence phase, learning about the “soft” factors influencing acquisition success is just as important as financial analysis and strategic fit considerations (Evans et al., 2002).

This recommendation, however, does not mean that acquisitions should be limited to firms in countries with similar cultures and institutional environments. This would be both unrealistic and unwise. It is unrealistic because in today's global business environment, in which M&A activity is mainly driven by strategic imperatives, few companies can afford the luxury of avoiding potential deals on account of cultural issues. It would be unwise because research suggests that acquisitions in unfamiliar markets and cultures can enhance a firm's competitive advantage by providing access to unique and potentially valuable capabilities that are embedded in a different cultural and institutional environment (Morosini, et al., 1998; Olie & Verwaal, 2004; Vermeulen & Barkema, 2001). But this does not mean that cultural and institutional differences can be ignored. Quite the contrary, because they are so critical, they have to be understood and well managed.

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Fig. 1: Predictors of Target Firm Member Trust

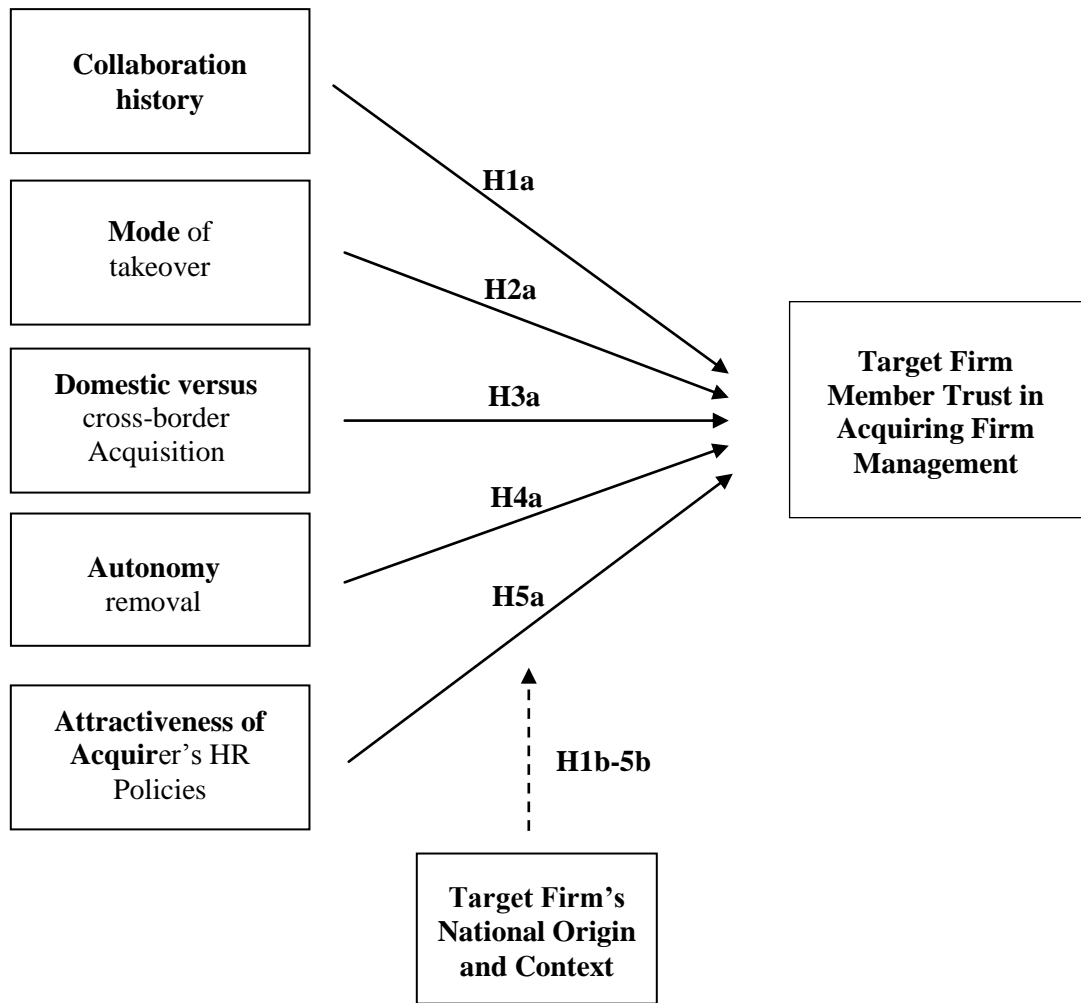


Table 1: Decision Criteria Embedded in Acquisition Scenarios

Independent Variable	Operationalization ^a	
Collaboration history	The companies have a history of collaboration, and you have some personal contact with members of the acquiring firm.	There is no history of collaboration and you do not have any personal contact with members of the acquiring firm.
Friendliness of takeover	The management of your company supports the takeover.	The takeover is against the will of the management of your company.
Domestic vs. cross-border acquisition	Your company is being acquired by another Singaporean/German firm.	Your company is being acquired by a foreign firm.
Autonomy removal	There are indications that your company will be allowed to retain its own culture and much of its autonomy during consolidation.	There are indications that the acquiring firm is likely to impose its culture and systems on your company during consolidation.
Attractiveness of acquirer's HR policies and reward system	The acquiring firm's HR policies and reward system are known to be employee-friendly.	The acquiring firm's HR policies and reward system are known to be employee-unfriendly.

Note: ^a Excerpts from the acquisition scenarios contained in the questionnaire.

Table 2: Descriptive Statistics and Correlations ^a

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1. Trust Level	2.45	1.02											
2. Collaboration History	0.50	0.50	0.15***										
3. Mode of Takeover	0.49	0.50	0.21***	0.01									
4. Domestic vs. Cross-border Acquisition	0.50	0.50	0.04**	0.04**	0.01								
5. Autonomy Removal	0.50	0.50	-0.13***	0.02	-0.01	0.02							
6. Attractiveness of Acquirer's HR Policies & Reward System	0.50	0.50	0.44***	-0.01	-0.01	-0.01	0.00						
7. Age	0.33	0.47	-0.07***	-0.01	-0.01	0.00	0.00	0.00					
8. Gender	0.56	0.50	0.00	0.01	0.01	0.00	-0.01	0.00	0.23***				
9. Educational Level	0.51	0.50	-0.03*	0.01	0.00	0.00	0.00	0.00	-0.14**	0.06***			
10. Position Level	0.57	0.50	-0.02	0.02	0.02	0.00	-0.01	0.00	0.29***	0.27***	0.25***		
11. Acquisition Experience	0.56	0.50	-0.03*	-0.01	-0.01	0.00	0.01	0.00	0.19***	0.05***	-0.13***	-0.02	
12. Nationality	0.51	0.50	0.01	0.02	0.01	0.00	0.00	0.00	-0.11*	-0.14***	0.39***	0.23***	-0.14***

Note. ^aN = 6437 for evaluating pairwise correlations among predictors (variables 1-6) and for evaluating pairwise correlations between predictors (variables 1-6) and respondent characteristics (variables 7-12).

N = 404 for evaluating pairwise correlations among respondent characteristics (variables 7-12).

* p < 0.05

** p < 0.01

*** p < 0.001

Table 3: Results of HLM Analysis: German and Singaporean Respondents' Trust Decision Models ^a

	Germany		Singapore	
	Coefficient	s.e.	coefficient	s.e.
Intercept	1.70***	0.04	1.73***	0.06
Collaboration History	0.21***	0.03	0.40***	0.03
Mode of Takeover	0.57***	0.03	0.34***	0.03
Domestic vs. Cross-border Acquisition	0.26***	0.03	-0.08**	0.03
Autonomy Removal	-0.42***	0.03	-0.17***	0.03
Attractiveness of Acquirer's HR Policies and Reward System	0.87***	0.04	0.95***	0.05

Note. ^a Detailed HLM analysis procedures and results can be requested from the authors.

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Table 4: Relevant Results of HLM Analysis – Differences between German and Singaporean Respondents ^a

	coefficient	s.e.
Intercept	1.87***	0.08
Collaboration History	0.22***	0.05
Mode of Takeover	0.51***	0.05
Domestic vs. Cross-border Acquisition	0.14**	0.05
Autonomy Removal	-0.36***	0.05
Attractiveness of Acquirer’s HR Policies and Reward System	0.82***	0.08
Age	-0.20*	0.08
Gender	0.02	0.08
Educational Level	-0.09	0.08
Position Level	-0.11	0.08
Acquisition Experience	-0.03	0.07
Nationality	0.06	0.08
Collaboration History *Nationality	0.17***	0.04
Mode of Takeover*Nationality	-0.24***	0.05
Domestic vs. Cross-border Acquisition*Nationality	-0.32***	0.04
Autonomy Removal*Nationality	0.28***	0.05
Attractiveness of Acquirer’s HR Policies and Reward System*Nationality	0.04	0.07

Note. ^a Detailed HLM analysis procedures and results can be requested from the authors.
 * p < 0.05; ** p < 0.01; *** p < 0.001