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TRUST IN CORPORATE ACQUISITIONS

by

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Few attempts have been made to examine the potentially critical role that trust plays in the acquisition process. Drawing on research on intra- and inter-organizational trust as well as research on post-acquisition integration, this paper presents a model with trust as a key mediating variable. The model synthesizes the factors identified by prior studies to be of critical importance to the post-acquisition integration process. A number of testable propositions are derived from this model, and the implications for merger and acquisition research and practice are discussed.

Trust in Corporate Acquisitions

Mergers and acquisitions [M&As] have become an increasingly popular strategy for achieving corporate growth and diversification. In spite of the popularity and strategic importance of M&As, however, there is considerable dissatisfaction with their performance (Hall & Norburn, 1987; Hunt, 1990; Porter, 1987; Ravenscraft & Scherer, 1987). For example, a study of 107 of the largest cross-border M&As completed between 1996 and 1998 found that 83% were not successful in terms of shareholder value creation (KPMG, 1999).

The process of "socio-cultural integration" (Shrivastava, 1986) has been identified as a key factor in the poor performance of M&As. It has been estimated that about a quarter to half of M&A failures are caused by problems integrating the different cultures and workforces of merging firms (Davy, Kinicki, Kilroy & Scheck, 1988; Walter, 1985). Sharp inter-organizational conflict seems to frequently surface during integration, as the different management styles, corporate cultures, human resource management systems, and other aspects of organizational life come into contact. Negative outcomes of socio-cultural integration that have been discussed in the M&A literature include a decrease in employee productivity and commitment, high rates of absenteeism, reduced job satisfaction, the departure of senior managers, and, ultimately, failure to achieve projected synergies (for reviews, see Buono & Bowditch, 1989; Cartwright & Cooper, 1996; Marks & Mirvis, 2001; Schweiger & Walsh, 1990). Problems are often exacerbated when M&As occur between companies based in different countries. National cultural barriers, different legal systems, and foreign language problems can be major obstacles to uniting the workforce behind a common vision and achieving integration benefits (Olie, 1990; Stahl, Mendenhall & Evans, 2002; Very & Schweiger, 2001).

Most M&A research has focused on "strategic fit," that is, the degree to which the target firm augments or complements the acquirer's strategy and thus makes contributions to its long-term goals

(Jemison & Sitkin, 1986). It was only in the late 1980s that research attention has begun to shift to the socio-cultural problems and human resource management issues involved in integrating merging or acquired firms. Factors such as the cultural fit between the combining firms (e.g., Cartwright & Cooper, 1996; Morosini, Shane & Singh, 1998), their preferred mode of acculturation (e.g., Nahavandi & Malekzadeh, 1988; Sales & Mirvis, 1984), management style similarity (e.g., Datta, 1991; Larsson & Finkelstein, 1999), the amount and quality of communication (e.g., Bastien, 1987; Schweiger & DeNisi, 1991), the social climate surrounding the M&A (e.g., Hambrick & Cannella, 1993; Hunt, 1990), the acquirer's degree of cultural tolerance (e.g., Chatterjee, Lubatkin, Schweiger & Weber, 1992; Pablo, 1994), and the pattern of dominance between the combining firms (e.g., Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986) have increasingly been recognized to be of critical importance to the M&A success.

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 have been left unexplored. In particular, few attempts have been made to examine the role that trust plays in the M&A process. This is despite evidence from the organizational trust literature (see Jones & George, 1998; Kramer, 1999; Mayer, Davis & Schoorman, 1995; Rousseau et al., 1998 for reviews) indicating 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 combination of firms. Disruptive changes following a M&A – loss of organizational identity, sustained uncertainty due to lack of information, and loss of friends and coworkers due to turnover – may adversely affect employees' trust in the management and the organization as a whole (Buono & Bowditch, 1989; Cartwright & Cooper, 1996; Schweiger & DeNisi, 1991). In particular, the types of disruptions associated with acquisitions may have a detrimental effect on trust because of their inherent power asymmetry, and resulting fears of being dominated on the part of the acquired firm (Datta & Grant, 1990; Hambrick & Cannella, 1993; Jemison & Sitkin, 1986).

This paper presents a model with trust as a key mediating variable that synthesizes the factors identified by prior studies to be of critical importance to the post-acquisition integration process. It focuses on the relationship between the main parties involved in an acquisition: the members (managers and employees) of the target firm and the top management of the acquiring firm. The model deals with corporate acquisitions only, although it is likely to be applicable also to mergers to the extent that the pattern of relative firm power is asymmetrical. By applying research on trust to the domain of post-acquisition integration, this paper attempts to make a theoretical contribution to the M&A literature. Further, by expanding trust theory to a domain in which it has only incidentally been applied, it attempts to fill an important gap in the growing literature on intra- and inter-organizational trust.

THE CRITICAL ROLE OF TRUST IN INTEGRATING ACQUISITIONS

The paper begins with a review of our current understanding of the concept of post-acquisition integration, followed by a discussion of the previously unanalysed, but potentially critical, role that trust plays in the integration process following acquisitions. Next, a model of trust in the post-acquisition integration process will be presented. From this framework, a number of propositions will be derived to guide future empirical research in the field of post-acquisition integration. The paper concludes with a discussion of the model and its implications for acquisition research and practice.

The Process of Post-Acquisition Integration

Various stage-models of the acquisition process have been proposed in the literature (e.g., Gertsen, Søderberg & Torp, 1998; Marks & Mirvis, 2001; Schweiger & Walsh, 1990). Gertsen et al. (1998) discriminate between the planning of an acquisition (phase 1), the identification of a suitable target (phase 2), the evaluation of the potential target (phase 3), the negotiation and agreement (phase 4), and the integration of the acquiring and the target firm (phase 5). In the first four phases, special emphasis is usually put on the strategic and financial goals of the transaction, while "people issues" are often not considered. It is typical for socio-cultural implications to receive attention only after the announcement of an acquisition, in the post-acquisition integration phase (Cartwright & Cooper, 1996; Gertsen et al., 1998). The post-acquisition integration phase may last for several years or even decades (Hall & Norburn, 1987; Sales & Mirvis, 1984). However, the state of transition, instability, and disruption that many acquisitions encounter (with its severe impact on employee morale and productivity) usually lasts considerably less time. Hambrick and Cannella (1993) have observed that the strains of most acquisitions greatly diminish after two or three years.

Integration can be defined as "the making of changes in the functional activity arrangements, organizational structures and systems, and cultures of combining organizations to facilitate their consolidation into a functioning whole" (Pablo, 1994: 806). As such, integration involves managerial actions taken to secure the efficient and effective direction of organizational activities and resources toward the accomplishment of common organizational goals. According to Shrivastava (1986: 70), the most critical integration task following mergers or acquisitions is *socio-cultural integration*, "...a complex combination of issues related to the selection or transfer of managers, the changes in organizational structure, the development of a consistent corporate culture, ... the gaining of commitment and motivation from personnel, and the establishment of new leadership".

Acquisitions can be part of a strategy of related diversification in which the acquired business is expected to provide new resources, product lines, and managerial expertise, or foster growth through unrelated diversification and conglomeration with no intention of achieving synergies (Haspeslagh & Jemison, 1991; Larsson & Finkelstein, 1999). Post-acquisition integration levels for different companies, divisions, or subunit can range from total autonomy to total absorption. While more closely related acquisitions usually require a higher degree of operational integration, post-acquisition integration efforts in conglomerate mergers tend to be minimal (Chatterjee et al., 1992; Datta & Grant, 1990).

Various frameworks of the post-acquisition integration process have been proposed in the literature, resulting in a number of acquisition typologies (e.g., Bastien & Van de Ven, 1986; Haspeslagh & Jemison, 1991; Marks & Mirvis, 1998; for a review, see Schweiger & Goulet, 2000). Haspeslagh and Jemison (1991) identified four integration modes (preservation, holding, symbiosis, and absorption) by combining two dimensions of the post-acquisition integration process: the need for strategic interdependence (high/low) and the need for organizational autonomy (high/low). Each of the four integration approaches has different managerial implications. For example, while in absorption acquisitions one of the key managerial challenges is to ease the transition from separate to joint operations and to allay target firm members' fears through clear communication, preservation acquisitions require arms-length status and managers must be willing to protect the target's autonomy and learn from the target firm.

The perspective embodied in most post-acquisition integration frameworks is a static one. Yet, there is a growing awareness that post-acquisition integration outcomes depend heavily on the management of the integration process (Haspeslagh & Farquhar, 1994; Hunt, 1990; Jemison & Sitkin, 1986). A "process perspective" on acquisitions holds that integration-related decision processes are influenced by individual, organizational, and situational characteristics, and that the integration process can, in turn, affect acquisition outcomes (Pablo, Sitkin & Jemison, 1996). Consistent with a process perspective, Hunt (1990), in a study of British acquisitions, found that contextual factors such as buyer strategy, acquisition experience or health of seller could only be predictive of success if process variables such as the tone of negotiations (friendly vs. hostile) or the integration approach ("hands on" vs. "hands off") were taken into consideration. This research suggests that without a proper understanding of the socio-cultural processes following acquisitions, including the process by which trust is developed and maintained, any theory of post-acquisition integration will likely be incomplete.

Processes related to the development of trust appear to be particularly critical to acquisitions that require high degrees of integration. Trust is not likely to be as critical an issue for preservation and conglomerate-type acquisitions because they require low degrees of integration due to minimal interdependencies between the acquiring and the target firms' businesses. In contrast, absorptive and symbiotic acquisitions involve substantial integration, interdependence – and, thus, trust.

The Critical Role of Trust in the Post-Acquisition Integration Process

Few attempts have been made to examine, either conceptually or empirically, the role that trust plays in the post-acquisition integration process. Furthermore, there is a total absence of attention in the research literature to systematically considering trust as a key part of any theory of the acquisition process or the determinants of acquisition success. Yet, evidence from M&A case studies (e.g., Bastien, 1987; Cartwright & Cooper, 1996; Sales & Mirvis, 1984) as well as interviews with managers and employees of acquired organizations (e.g., Caudron, 1996; Krug & Nigh, 2001; Schweiger, Ivancevich & Power, 1987) consistently stress that trust is of critical importance to the success of acquisitions. Perhaps the most telling statement on the critical role that trust plays in the integration process following a merger or an acquisition is that of Daniel Vasella, Chairman of the Board and CEO of Novartis (cited in Engeli, 1999: 5):

> Trust is the most important of our values. ... Only in a climate of trust are people willing to strive for the slightly impossible, to take decisions on their own, to take initiatives, to feel accountable; trust is a prerequisite for working together effectively; trust is also an ally to fight bureaucracy. ... Among all the corporate values, trust was the one that suffered most from the merger. ... We need to create a culture based on trust.

In the literature on intra- and inter-organizational trust there is a remarkable diversity in conceptualizations of trust. However, central to most definitions are the notions of risk and vulnerability. Risk means that a party could experience negative outcomes if the other party is untrustworthy. The risk of negative outcomes must be present for trust to operate, and the trustor must be willing to be vulnerable. In the absence of risk, trust is irrelevant because there is no vulnerability (Inkpen & Currall, 1997; Mayer et al., 1995; Rousseau et al., 1998). Rousseau et al. (1998: 395) define *trust* as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another." Conversely, *distrust* can be defined as negative expectations of another's intentions or behavior (Lewicki et al., 1998: 439). This conceptualization of trust has been applied to inter-organizational relationships. In the context of joint ventures, for example, communication and information exchange, task coordination, informal agreements, and low levels of surveillance and monitoring are all manifestations of trust based on a willingness to rely on or be vulnerable to another party under a condition of risk (Currall & Judge, 1995; Inkpen & Currall, 1997).

Evidence about the critical role that trust may play in the post-acquisition integration process can be drawn from a large body of research on intra- and inter-organizational trust. This research suggests that trust is important in a number of ways: it can improve the quality of employee work performance, problem-solving, and communication, and can enhance employee commitment and citizenship behavior. Trust can also improve manager-subordinate relationships, implementation of self-managed work groups, and the firm's ability to adapt to complexity and change. Further, trust can decrease agency and transaction costs by limiting the need for monitoring and control and, ultimately, can provide firms with a competitive advantage (for reviews, see Dirks & Ferrin, 2001; Jones & George, 1998; Kramer, 1999; Mayer et al., 1995; Rousseau et al., 1998). Further, research on inter-organizational trust has shown that trust is of critical importance to 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; Ring & Van de Ven, 1992; Zaheer et al., 1998).

The latter line of research seems particularly relevant to the study of acquisitions because the factors which are held responsible for the poor performance of alliances are in part those theorized to be associated with M&A failure (Cartwright & Cooper, 1996). However, there are unique characteristics that distinguish acquisitions from other types of inter-organizational relationships and, therefore, limit the generalizability of research findings on alliance trust to the study of post-acquisition integration. From a human resource perspective, acquisitions are likely to have an even stronger and more detrimental impact on the morale and productivity of personnel who are involved in an acquisition than has been observed when other inter-organizational relations are involved. Further, while takeovers are usually accompanied by an array of changes that are largely uncontrollable and highly stressful for the acquired personnel, such as massive restructurings or job losses (Buono & Bowditch, 1989; Marks & Mirvis, 1998; Schweiger & Walsh, 1990), the amount of disruption experienced by alliance members is typically less severe.

There are numerous sources of risk and forms of risk taking involved for the different parties in an acquisition. For employees of the acquired firm the period following the announcement of the takeover is one of intense personal risk analysis, in which the individual decides whether s/he will leave the organization or stay (Cartwright & Cooper, 1996). During this period, employees have to rely on statements of the top management guaranteeing their future employment status and roles in the organization. Another type of risk concerns the efforts of middle managers devoted to building cooperative relationships, dispelling rumors, reducing employee anxiety, and so forth – efforts that may prove futile if the acquirer decides to lay off major parts of the workforce. The top management of the acquirer, on the other hand, may run the risk of opportunistic behavior if it allows the members of the acquired firm a high extent of autonomy. It also has to rely on their willingness to focus attention on the organization's best interest as opposed to their personal interest. In general, acquisitions carry high levels of risk for the managers involved in them because of their high visibility, their tendency to raise issues of personal commitment, and their major career impact (Pablo et al., 1996). These examples illustrate that the sources of risk, and the forms of risk taking required, vary considerably for the different parties involved in an acquisition. But for all parties to an acquisition, trust-related concerns are critical due to the high degree of risk involved.

ANTECEDENTS AND CONSEQUENCES OF TRUST IN CORPORATE ACQUISITIONS

In this section, a model of trust in corporate acquisitions is presented that integrates the various factors that prior research has identified to be of critical importance to the process and outcomes of post-acquisition integration. Although many stakeholders are involved in any acquisition and trust is relevant to each of them, the model developed here focuses on the relationship between the two main parties involved in an acquisition for whom trust is most critical to acquisition success: *target firm members* (i.e., the managers and employees of the target firm) and *acquiring firm management* (i.e., the top management of the acquiring firm). In focusing on these two groups of individuals, the model proposed here excludes other potentially important parties in the post-acquisition integration process.[1]

While most alliance researchers have viewed trust at the firm level (e.g., Das & Teng, 1998; Gulati, 1995; Parkhe, 1993; Ring & Van de Ven, 1992), others have conceptualized trust as an

[1] The model also treats each of the two focal groups as a homogeneous entity, thereby disregarding differences among members of the same organization (e.g., employees and executives). The potentially critical role of such differences is beyond the scope of the model presented in this paper, but will be addressed in the discussion as one potentially fruitful direction for future research.

individual, dyadic or inter-group phenomenon (e.g., Currall & Judge, 1995; Gill & Butler, 1996) or as a multilevel construct (e.g., Inkpen & Currall, 1997; Zaheer et al., 1998). Since the model presented in this paper focuses on the relationship between the members of the target firm and the managers of the acquiring firm, and since the definition of trust adopted in this paper views trust as a "psychological state" (Rousseau et al., 1998), the level of analysis chosen is the individual or – on an aggregated level – the group.[2]

Figure 1 depicts the theoretical framework developed in the following discussion. The major relationships in the model are numerically coded to correspond with the propositions developed in the text. While the main focus of the model is on the target firm members' reactions to a takeover, the acquiring firm manager's perspective is considered as well.

Insert Figure 1 here

Proceeding from left to right, the model suggests 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. Not only do we propose that trust affects target firm member reactions, but we also model how these reactions influence how much the acquiring firm management will trust. Specifically, we propose that target firm members'

[2] Although trust expectations do ultimately reside within the individual, this conceptualization of trust does not preclude the possibility that individuals within an organization have a collectively-held trust orientation toward another group or another organization as a whole (Gulati, 1995; Nooteboom et al., 1997; Zaheer et al., 1998). These represent two future directions for research in this domain.

reactions to a takeover will affect the acquiring firm management's perceptions of the target firm's trustworthiness, and that these trust perceptions will, in turn, influence the acquiring firm management's integration decisions and actions.

An important feature of the model is its reciprocal and dynamic nature, which we modeled as a cycle of escalating trust/distrust between the members of the two organizations. Cycles of escalating conflict are well-documented in both the M&A literature (Jemison & Sitkin, 1986; Olie, 1990) and in the trust literature (Fox, 1974; Rousseau et al., 1998), but the critical role that trust may play in M&A escalation cycles has not been systematically theorized about or studied.

In the sections that follow, we discuss each of the proposed variables and their hypothesized relationships. Because of the paucity of research on trust in M&As, findings were also considered from related areas of inquiry, such as trust in strategic alliances, work groups, and socially embedded partnerships.

Bases of Trust in Acquisitions

The model depicted in Figure 1 proposes that trust is a key mediating variable in the post-acquisition integration process. One approach to understanding why a given party will have a greater or lesser amount of trust for another party is to consider attributes of the trustee (Butler, 1991; Gabarro, 1978; Mayer et al., 1995; Whitener et al., 1998). A review of the organizational trust literature shows that five characteristics of a trustee appear to be particularly critical for the development of trust in a relationship: ability, integrity, benevolence, openness, and value congruence.

Ability. The perceived ability or competence of a person is an essential element of attributions about that person's trustworthiness (Butler, 1991; Mayer et al., 1995). Gabarro (1978), from interviewing executives, identified nine bases of trust, of which four – functional competence, interpersonal competence, business sense, and judgment – are related to the ability dimension of trust. Competence perceptions also play an important role in inter-organizational relationships. For example, to the extent that a supplier's products meet a buyer's quality standards, the buyer will no longer inspect those products before accepting delivery, evidencing greater trust in the supplier's competence (Mishra, 1996). While most authors argue that competence-based perceptions of trustworthiness are highly domain specific, perceptions of another party's abilities may generalize across different tasks (behavior in a specific context is perceived as typical of that person) and persons (behavior of a specific person is perceived as typical of the whole group) (Sitkin & Roth, 1993). As one example, in the context of acquisitions, failure of a project team to meet performance expectations may be judged by the acquiring firm management to be typical of the incompetence of the target firm as a whole.

Integrity. Several authors have argued that perceptions of a person's trustworthiness can be explained in terms of expectations about the reliability, dependability, or consistency of that person's behavior (Butler, 1991; Lewicki & Bunker, 1996; Mayer et al., 1995). For example, in manager-subordinate relationships, if managers behave consistently over time and across situations, employees can better predict manager's future behavior, and become willing to take risks in their relationship with their supervisor (Whitener et al., 1998). If, on the other hand, employees notice a discrepancy between what their managers preach and what they actually practice, perceptions of managers' honesty and trustworthiness will quickly deteriorate. According to Mayer et al. (1995), the consistency of a party's past actions, credible communications about the trustee from other parties, and the extent that the party's actions are congruent with his or her words all affect the degree to which that party is judged to have integrity. For example, in the context of acquisitions, inconsistent information about the extent of job losses provided by the acquirer may adversely affect target firm members' perceptions of the acquiring firm management's trustworthiness.

Benevolence. Several researchers have identified benevolence or related constructs, such as concern, loyalty, goodwill, or forbearance, as a basis for trust (Inkpen & Currall, 1997; Mayer et al., 1995; Mishra, 1996). Trust in another party in terms of benevolence or concern "does not mean that the other party lacks any self-interest. Rather, trust in terms of concern means that such self-interest is balanced by interest in the welfare of others" (Mishra, 1996: 267). Acting in a way that protects employees' interests, being sensitive to employees' needs, and refraining from exploiting employees for the benefit of one's own interests all affect the degree to which managers are judged to have benevolence (Whitener et al., 1998). A party can logically expect another party to act benevolently if both parties share the same goals and interests. Research has shown that goal congruence and the perceived benefits derived from a relationship have a positive impact on the mutual trust of the parties involved (Anderson & Weitz, 1989; Sarkar et al., 1997). For example, perceptions of target firm members' trustworthiness will likely depend on the degree to which they are perceived as being loyal to the management of the acquiring firm.

Openness. Several scholars have identified openness as an important element of trust (Butler, 1991; Gabarro, 1978; Mishra, 1996; Whitener et al., 1998). A person can be considered open to the extent that s/he freely shares thoughts, feelings, and information with another person. There seems to be some overlap in the perceptions of openness and integrity (Butler, 1991; Mishra, 1996), suggesting that in the absence of open communication, a person may be perceived as dishonest and not to be trusted. However, as Mishra (1996: 267) has noted, openness beyond a certain level may serve to impair rather than enhance trust. For example, telling someone the complete truth about his or her character may decrease, rather than increase, trust. Nevertheless, a sufficient degree of openness can be considered an essential element of perceptions of that party's trustworthiness. For example, in the context of acquisitions, failure of the acquiring firm's management to share critical information with employees of the target firm will likely have a detrimental effect on trust.

Value Congruence. Research on trust within and between organizations has shown that perceived value congruence and/or cultural similarities can help to establish trust between individuals, groups, and organizations (Gabarro, 1978; Sitkin & Stickel, 1996; Young-Ybarra & Wiersema, 1999). Sitkin and Roth (1993) have suggested that distrust is engendered when an individual or group is perceived as not sharing key cultural values. "When a person challenges an organization's fundamental values, that person may be perceived as operating under values so different from the group's that the violator's underlying world view becomes suspect" (Sitkin & Roth, 1993: 371). Because individuals are more likely to perceive out-group members as untrustworthy than they are to so perceive in-group members, McAllister (1995) proposed that a manager's trust in a peer will be greater when the two are culturally or ethnically similar. Studies of cooperative alliances between firms have found that shared values or other sources of perceived similarity facilitate the creation and maintenance of trust (Anderson & Weitz, 1989; Gulati, 1995; Sarkar et al., 1997). In the context of acquisitions, strong culture barriers between the acquiring and the target firm may lead to negative stereotyping and reduce mutual perceptions of trustworthiness.

Trust as a Combination of the Dimensions of Perceived Trustworthiness. The framework presented in this study rests on the idea that the dimensions of perceived trustworthiness vary largely independently of each other and represent different components of an overall trust construct. Mishra (1996: 269) has suggested that the dimensions likely combine multiplicatively in determining the overall degree of trust that one party has with respect to a given referent. That is, a very low level of trust in terms of any of the dimensions can undermine trust (Sitkin & Roth, 1993), and greater trust exists in a given referent when high levels of trust along several dimensions are present. On the other hand, there may be situations in which a meaningful amount of trust can develop with lesser degrees of one or more of the factors of perceived trustworthiness (Mayer et al., 1995). Clearly, more research is needed in order to find out how these dimensions interactively influence the development of trust. Nonetheless, theoretical and empirical evidence indicates that all five dimensions are essential elements of trust. In acquisitions, these five dimensions are proposed to form the basis for a generalized perception of the trustworthiness of the other party.

> Proposition 1: In acquisitions, the dimensions of perceived ability, integrity, benevolence, openness, and value congruence combine in determining the overall level of trust that one party has for the other party.

Antecedents of the Acquiring Firm Management's Perceived Trustworthiness

Two sets of variables are proposed to affect target firm members' trust in the acquiring firm management: characteristics of the relationship between the acquiring and the target firm, and the acquiring firm management's integration decisions and actions. It is evident that the two sets of antecedents are not independent of each other (i.e., the nature of the relationship between the acquiring and the target firm will both influence and be influenced by the acquiring firm management's integration decisions and actions). For example, the mode of takeover will likely have an impact on the amount of control that is imposed on the target, because in hostile bids the acquirer is usually inclined to adopt a more "hands-on" integration strategy than in amicable bids (Hunt, 1990; Jemison & Sitkin, 1986). Also, within each of the two sets of antecedents, the variables cannot be assumed to be completely independent of each other. For example, the amount of control exerted by the acquiring firm management will likely have an impact on the quality of communication between the acquiring and the target firm (Bastien, 1987; Schweiger & Walsh, 1990).

Relationship Between the Acquirer and the Target Firm

Five aspects of the relationship between the two firms are proposed as determinants of trust: takeover friendliness, power equality, relative firm performance, cultural similarity and positive interaction history. Each is discussed below.

Takeover Friendliness. 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 acquires another firm against its will. The purchasing company, driven by financial interests, usually seeks domination of the acquired firm rather than a cooperative mode of integration (Hogan & Overmyer-Day, 1994; Hunt, 1990). Although prior research has not directly addressed the relationship between mode of takeover and trust, it has been suggested 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 – may 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 acquirer and the target firm. In contrast, trust can erode when executives from a hostile takeover target and 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 trustworthiness (Hambrick & Cannella, 1993). Compared to friendly acquisitions, in hostile takeovers the acquirer is more likely to replace the management of the target firm and impose rigorous controls on the target (Hambrick & Cannella, 1993; Krug & Nigh, 2001). As a result of the threat of a hostile takeover, in-group out-group bias often increases, with the members of the target firm striving to maintain their positive social identity by fiercely resisting the takeover (Buono & Bowditch, 1989; Elsass & Veiga, 1994). Executives of acquired firms have 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).

Proposition 2: The friendlier the mode of takeover, the higher the level of target firm members' trust in the acquiring firm management.

Power Equality. A power differential between the two organizations involved in an acquisition reflects the extent to which there can be a unidirectionality of influence from acquirer to target. Although there are various sources of power in and between organizations, the capability and tendency of the acquiring firm for exercising power to enforce its preferences upon the target is particularly strong when the acquirer is significantly larger than the target firm (Pablo, 1994). In this case, target firm members' needs tend to get overlooked or trivialized by the acquiring firm management (Chatterjee, et al., 1992; Datta & Grant, 1990). The impact of a power differential between the two organizations involved in an acquisition "is not simply the overwhelming and domination of the smaller entity through sheer magnitude, but also the intensification of beliefs about superiority and inferiority" (Pablo, 1994: 810). Feelings of inferiority are often fueled by arrogance on the part of the acquiring firm management. As Jemison and Sitkin (1986: 159) have noted, an attitude that "since we acquired you, we are smarter than you are" is prevalent in many acquisitions.

It may be useful to discriminate between the *existence* of power and its actual *use* in the implementation of an acquisition. Although interdependency fosters the use of power when it is available, this need not necessarily be the case in an acquisition. In some situations the acquirer may decide to adopt a more "hands-off" integration strategy, even though it has considerable power over the target firm (Haspeslagh & Jemison, 1991; Hunt, 1990). Further, evidence of distrust can be seen in the data showing turnover among members of smaller target firms even prior to them being acquired (Hambrick & Cannella, 1993; Krug & Nigh, 2001). Thus, the mere existence of a power differential may lead to distrust through anticipation of an acquirer's future actions. As power asymmetry increases, the weaker party usually becomes distrustful because the more powerful firm has no need to be trusting, as it can use its relative power to obtain cooperation (Anderson & Weitz, 1989; Kumar, Scheer & Steenkamp, 1994). Although the relationship between power and trust is complex, the foregoing discussion suggests that power asymmetry will negatively affect target firm members's trust in the acquiring firm management.

Proposition 3: The smaller the power differential between the acquiring and the target firm, the higher the level of target firm members' trust in the acquiring firm management.

Relative Target Firm Performance. The impact of a takeover on employee morale and productivity is not always negative (Napier, 1989; Schweiger & Walsh, 1990). Researchers have argued that being liberated from weak and ineffective management may actually enhance employee satisfaction, commitment, and job performance (Hunt, 1990; Larsson, 1990). For example, Bastien (1987) found that the overall mood of the employees in one of the organizations in his study was celebratory and optimistic after a "white knight" acquisition by a healthy buyer. If a poorly performing firm is acquired by a more successful one, employees may see this as a chance for greater job satisfaction, more job security, and increased prospects for promotion and compensation. These findings suggest that acquisition by a highly performing firm will have a positive impact on target firm members' trust in the acquirer, mediated through perceptions of the acquiring firm management's competence.

Poor target firm performance in the past may also increase an acquirer's tendencies toward arrogance and domination, which supports a prediction of the opposite effect of relative firm performance on trust. Since the poor performance of a company is commonly attributed to its top managers, the prospect of being acquired by a more successful company will be particularly threatening to the target firm's executives. As Hambrick and Cannella (1993) have noted, even if executives of a poorly performing firm are not fired outright after their acquisition, they may feel inferior or depart voluntarily because they are anticipating the dominating behaviors of their "conquerors." Those who remain will likely experience anxiety from fears they will lose their jobs or will not be able to meet the acquirer's high performance standards. Relative firm performance may thus have a positive or negative effect on target firm members' trust in the acquiring firm management, depending on their hierarchical level in the organization. Specifically, we expect that

> Proposition 4a: From the perspective of the employees of the target firm, the better the pre-acquisition performance of the acquirer relative to that of the target, the higher their level of trust in the acquiring firm management.

> Proposition 4b: From the perspective of the executives of the target firm, the better the pre-acquisition performance of the acquirer relative to that of the target, the lower their level of trust in the acquiring firm management.

Cultural Similarity. It has often been argued that culture barriers can be a major obstacle to achieving integration benefits in M&As (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), whereby not only different corporate cultures, but different national cultures also have to be combined.

Despite strong theoretical evidence for the detrimental effects of culture barriers on the success of M&As, studies examining the relationship between cultural distance, as measured in terms of differences in management style, work-related values, or other parameters (Kogut & Singh, 1988; Weber, 1996), and acquisition performance have yielded mixed results. While some studies found that cultural differences had the expected negative effect on acquisition performance, others found a positive effect (for reviews, see Schweiger & Goulet, 2000; Stahl et al., 2002). For example, Larsson and Risberg (1998) found higher degrees of acculturation, lower levels of employee resistance, and a higher extent of synergy in cross-border acquisitions – a finding that directly contradicts the cultural distance hypothesis. However, to date, no study has examined the impact of cultural differences on trust in acquisitions. Prior research on intra- and inter-organizational trust has clearly shown that shared values or other sources of cultural similarity facilitate the development of trust between organizational members (Gabarro, 1978; Sarkar et al., 1997; Sitkin & Roth, 1993). In contrast, culture barriers, stereotypes, and chauvinistic biases are frequently cited as a source of hostility and distrust between members of merging organizations (Elsass & Veiga, 1994; Malekzadeh & Nahavandi, 1998; Olie, 1990).

> Proposition 5: The greater the cultural similarity between the acquiring and the target firm, the higher the level of target firm members' trust in the acquiring firm management.

Positive Interaction History. Indirect evidence for the importance of the combining firms' interaction history to the post-acquisition integration process comes from a large body of research on the role that trust plays in work groups, strategic alliances, and socially embedded partnerships. 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). 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". Further, partners come to learn each other's idiosyncrasies and to have deeper mutual understanding over time, which improves the affective quality of the relationship (Parkhe, 1993).

Unfortunately, few studies have explored the impact of prior contact on acquisition outcomes, and research findings on trust in alliances are mixed. While some studies (Gulati, 1995; Parkhe, 1993) found that familiarity between organizations through prior alliances did in fact breed trust, others found no significant relationship between the firm's interaction history and trust. For example, Inkpen and Currall (1997) found that the length of the prior relationship between alliance partners was unrelated to trust. They argued that, although a firm may have worked with its partner for many years, the formation of a joint venture creates a new type of relationship between the partners, and prior experiences may have little transferability to the new situation. Moreover, reliance on trust can be expected to emerge between members of organizations only when they have *successfully* completed transactions in the past and they perceive one another as complying with norms of equity (Ring & Van de Ven, 1992). Thus, the nature of the relationship may be at least as important to alliance success than its duration. In the context of acquisitions, if members of the acquiring and the target firm had a conflict-rich or inequitable exchange prior to the takeover, this may limit the potential for trust to emerge.

> Proposition 6: The more positive the interaction history between the acquiring and the target firm, the higher the level of target firm members' trust in the acquiring firm management.

The Effect on Trust of Acquiring Firm Management's Integration Decisions and Actions

Five aspects of the acquiring firm management's integration-related decisions and actions are proposed as determinants of trust: retained autonomy, integration speed, cultural tolerance and sensitivity, job security and reward enhancement, and communication quality. Each is discussed below.

Retained Autonomy. Although, theoretically, integration of an acquired company can result in a balanced merging of two organizations, cultures, and workforces (Haspeslagh & Jemison, 1991; Marks & Mirvis, 2001), this balance rarely occurs in practice. Instead, the acquirer typically imposes control onto the target firm, and where changes occur in policies, systems, and culture, they affect the members of the target firm more strongly than those of the acquirer (Hambrick & Cannella, 1993; Pablo, 1994). Imposed control refers to a situation in which the acquirer 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 tendency of the acquirer to impose control onto the target depends primarily on the strategic type of acquisition and the attempted level of integration. In unrelated acquisitions, the target firm usually maintains its identity, organizational change is minimal, and limited control is exerted by the acquirer, whereas in related acquisitions the corporate identity of the target firm is often lost, reductions in work force are high, and control is exerted across all operations (Chatterjee et al., 1992; Datta & Grant, 1990; Larsson & Finkelstein, 1999).

Autonomy removal can be devastating from the perspective of the members of the target firm (Buono & Bowditch, 1989; Hambrick & Cannella, 1993; Jemison & Sitkin, 1986). 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." Autonomy removal and close monitoring will likely lead to feelings of helplessness, hostility, and distrust on the part of the target firm members (Jemison & Sitkin, 1986; Olie, 1990). Because controls tend to signal the absence of trust, their use typically hampers its emergence (Sitkin & Roth, 1993; Sitkin, 1995; Long, 2002).

Proposition 7: The greater the extent of retained autonomy, the higher the level of target firm members' trust in the acquiring firm management.

Speed of integration. In the M&A literature, there is considerable disagreement about the nature of the relationship between speed of integration and integration outcomes. Many authors have suggested a "window of opportunity" (e.g., Buono & Bowditch, 1989: 15) occuring during the first 100 days following an acquisition, when employees expect organizational change. This line of reasoning suggests that changes should be implemented quickly so as to minimize the amount of uncertainty and trauma that employees must face (e.g., Bastien, 1987; Mitchell, 1989). In contrast, others have cited the tendency to consummate M&As too hastily as a major contributor to the high failure rates (e.g., Jemison & Sitkin, 1986; Shrivastava, 1986). Robino and DeMeuse (1985) found that both a fast-paced and a slow-paced rate of change resulted in undesirable integration outcomes and concluded that a moderate speed of integration is advisable – fast enough to reduce anxiety, and slow enough to provide thorough communication among all parties involved. What is the optimal speed probably depends on a number of contingencies, such as the strategic intent behind the acquisition, the integration approach taken, and the climate of the takeover (Evans, Pucik & Barsoux, 2002; Haspeslagh & Jemison, 1991).

Despite this complex relationship, it is evident that a high speed of integration is often associated with lower decision-making quality at the top management level (Evans et al., 2002) and higher degrees of employee stress and anxiety (Schweiger & Ivancevich, 1985; Shrivastava, 1986). Paradoxically, though, since members of the target firm usually expect significant change following a takeover, approaching integration hesitantly and telling them that little will change can create frustration, confusion, and can undermine the credibility of top management (Buono & Bowditch, 1989; Haspeslagh & Farquhar, 1994). As Mitchell (1989: 44) has noted, "if the acquirer does not act quickly to harness the expectations of the target firm and take advantage of the new loyalties, the chances are these expectations and loyalties will rapidly disappear into a miasma of disillusionment and mistrust." In order to motivate the members of the target firm and strengthen their confidence that the acquisition was a step in the right direction, it is important to deliver quick wins, such as profit improvements based on shared practices, and effectively communicate them (Evans et al., 2002). The foregoing discussion suggests that a fast-paced rate of integration may positively affect target firm members' perceptions of the acquiring firm management's trustworthiness on a variety of dimensions, including the acquiring firm management's perceived competence, integrity, and openness.

> Proposition 8: The greater the speed of integration, the higher the level of target firm members' trust in the acquiring firm management.

Cultural Tolerance and Sensitivity. The extent to which a takeover has a negative effect on target firm members' morale and productivity will likely depend on the acquirer's degree of multiculturalism and cultural sensitivity (Chatterjee, et al., 1992; Nahavandi & Malekzadeh, 1988; Pablo, 1994). The term multiculturalism refers to the degree to which an organization values cultural diversity and is willing to tolerate and encourage it. A multicultural organization considers diversity an asset, and is therefore likely to allow an acquired firm to retain its own values and practices. In contrast, a unicultural acquirer emphasizes conformity and adherence to a unique organizational ideology, and is therefore likely to impose its culture on the target firm (Nahavandi & Malekzadeh, 1988). Intolerance of cultural diversity may increase an acquirer's tendency to overemphasize cultural differences and, in turn, may result in an attitude polarization toward distrust (Sitkin & Roth, 1993; Sitkin & Stickel, 1995).

A related variable that will likely affect target firm members' reactions to a takeover is the acquirer's cultural sensitivity (Haspeslagh & Jemison, 1991; Stahl et al., 2002). Research on trust in alliances suggests that cultural sensitivity, defined as a firm's capability to deal sympathetically with cultural differences, can enhance partner trust and increase the likelihood of successful strategic integration (Johnson, Cullen, Sakano & Takenouchi, 1997). In contrast, where key symbols that provide continuity and meaning for the members of the target firm are cast aside by the acquirer, the cultural arrogance of the acquiring firm can detrimentally affect the level of trust in the relationship (Jemison & Sitkin, 1986).

Proposition 9: The greater the acquirer's cultural tolerance and sensitivity, the higher the level of target firm members' trust in the acquiring firm management.

Reward and Job Security Enhancement. Theoretically, the perceived attractiveness of an acquirer, as manifested in its corporate culture, HR policies and practices, and reward systems, will determine target firm members' reactions to a takeover, and the subsequent acculturation process (Nahavandi & Malekzadeh, 1988). If members of the target firm do not feel attracted to the acquirer and are unwilling to adopt its systems and practices because they anticipate negative career implications, the acculturation process will likely be characterized by a high degree of conflict. If, on the other hand, 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, this will reduce the potential for conflict in the post-acquisition integration period (Evans et al., 2002).

Although few studies have examined the impact of the acquirer's HR policies and practices on acquisition success, several authors have stressed the importance of the quality of the post-acquisition reward and job security changes in determining target firm members' reactions to a takeover (Evans et al., 2002; Napier, 1989; Schweiger & Walsh, 1990). Graves (1981), in a study of the effects of a merger on two firms of brokers in the reinsurance industry, found that the employee reactions depended on the personal benefits and losses attributed to the merger. In a study of British takeovers conducted by Hunt (1990), the degree to which the target firm members' career opportunities were expanded in the post-acquisition implementation phase was directly related to acquisition success. Finally, 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. The strategic alliance literature also addresses this issue. Specifically, research on alliance trust has shown that the perceived benefits derived from an alliance have a positive effect on the mutual trust and commitment of the parties involved (Anderson & Weitz, 1989; Morgan & Hunt, 1994; Sarkar et al., 1997).

> Proposition 10: The greater the post-acquisition reward and job security enhancement, the higher the level of target firm members' trust in the acquiring firm management

Communication Quality. The quality and quantity of the information provided by the top management has been proposed to be a key factor in the post-acquisition integration process. Mergers or acquisitions are usually associated with high degrees of ambiguity and uncertainty, especially for the members of the target firm, and communication can reduce this ambiguity and decrease employee anxiety and stress (Bastien, 1987; Davy et al., 1988; Schweiger & DeNisi, 1991). Providing employees with credible and relevant information has been shown to mitigate the traumatic effect that M&As have on employee well-being, satisfaction, and trust in the top management (Schweiger & DeNisi, 1991). A lack of credible and open communication, on the other hand, is believed to adversely affect such outcomes as employee commitment, productivity, and trust (Evans et al., 2002; Napier et al., 1989; Schweiger et al., 1987).

The quality of the information provided by the acquiring firm management will likely influence all five dimensions of trust. For example, failure to "sell" members of the target firm on the merits of the takeover may affect trust through perceptions of the acquiring firm management's competence and value congruence; failure to share critical information with members of the target firm may be attributed to a lack of openness, integrity, and/or benevolence. While the perceived credibility of the acquiring firm management's communication can be considered a *sine qua non* for trust to emerge, the optimal amount and timing of communication will likely depend on contingencies such as level of integration and stage in the integration process. For example, Hogan and Overmyer-Day (1994) found that too much information disseminated to employees in mergers characterized by high levels of integration exacerbated undesirable attitudes and behaviors, because it increased anxiety in a situation where employees already felt uncertain about their jobs. Therefore, it may be the quality, rather than the absolute amount and promptness, of the information provided by the acquiring firm management that will determine how the target firm members respond to a takeover.

> Proposition 11: The more the information provided by the acquirer meets target firm members' needs in terms of amount, timing and relevance of communication, the higher the level of target firm members' trust in the acquiring firm management.

The Effects of Trust on Target Firm Members' Reactions

To this point, the focus of this paper has been on the antecedents of target firm members' trust in the acquiring firm management. We now turn to the next part of the model, in which we examine the effects of that trust on the reactions of member of the target firm.

Dirks and Ferrin (2001), in a review of the consequences of trust for leaders and other referents, differentiate between two sets of outcome variables: attitudes/intentions and behavioral/performance outcomes. Consistent with Dirks and Ferrin, prior research on intra- and inter-organizational trust (e.g., Jones & George, 1998; Kramer, 1999; Mayer et al., 1995; Rousseau et al., 1998) has suggested that trust is important in a number of ways that are manifest in specific organizational member reactions. Trust can enhance employee job satisfaction, organizational commitment, willingness to take risks, and willingness to subjugate personal goals for organizational goals. It can also enhance the willingness to accept change and the intent to stay in the organization. Further, trust can improve employee job performance and the level of communication and cooperation within and between organizations.

The attitudinal, behavioral, and performance effects of trust are the very variables that have been observed to be suffering significantly during post-acquisition integration. Some of the typical employee reactions following a takeover include a decrease in productivity, low job satisfaction, high rates of turnover, resistance to change, a focus on personal security rather than organizational goals, a tendency to not pass information up or down, and lack of cooperation (e.g., Buono & Bowditch, 1989; Cartwright & Cooper, 1996; Olie, 1990; Schweiger & Walsh, 1990). Together, these two different streams of research suggest that target firm members' trust in the acquiring firm management will affect a variety of outcomes.

> Proposition 12a: Trust in the acquiring firm management will be positively related to target firm members' attitudinal and intention-related reactions (i.e., target firm members' level of job satisfaction, organizational commitment, willingness to take risks, willingness to subjugate personal goals for organizational goals, acceptance of change, and intent to stay in the organization).

> Proposition 12b: Trust in the acquiring firm management will be positively related to target firm members' behavioral and performance outcomes (i.e., level of job performance, communication, and cooperation).

Target Firm Members' Reactions As Determinants of Acquiring Firm Management's Trust

In addition to the determinants and effects of target firm members' trust, the model also examines target firm members' reactions as determinants of the degree to which the acquiring firm is likely to trust members of the target firm. This is an important part of the model, as it explicitly models the causal mechanisms underlying the mutually reinforcing, escalating, and cyclical nature of trust in acquisitions. Specifically, the model presented in Figure 1 depicts how the target firm members' reactions to a takeover influence the acquiring firm managers' trust in the target firm, and that this trust, in turn, affects the acquiring firm management's subsequent integration decisions and actions.

Based on prior research on post-acquisition integration, we expect that the target firm members' reactions to a takeover will affect all five dimensions of trust. Trust may be undermined, for example, when performance expectations are not met and the lack of performance is attributed to a lack of competence on the part of the target firm's management (Jemison & Sitkin, 1986). In addition, the massive departure of key employees after an acquisition may violate expectations about the target firm members' commitment or integrity (Cartwright & Cooper, 1996) and be generally applied to remaining employees who are now viewed with suspicion. Even normal levels of resistance to the change that inevitably follow an acquisition may create distrust by reinforcing fears concerning target firm members' lack of loyalty to their new parent firm (Olie, 1990). Trust is also undermined when there is a concern among managers that their employees are not being forthright about problems and opportunities. Thus, failure to pass critical information up the acquirer's management, if discovered or even falsely assumed, may adversely affect the perceived openness of employees (Marks & Mirvis, 1998) and, thus, the managers' trust in them. Finally, disagreements of a variety of sorts may be seen as indicators of distrust-creating value incongruence (Sitkin & Roth, 1993). This is especially critical for trust formation or erosion when it concerns core acquisition integration issues, such as different risk propensities (Pablo et al., 1996). Since these attributes of trustworthiness (such as ability, integrity, and benevolence) are usually inferred from a trustee's behavior (Mayer et al., 1995), target firm members' behavioral reactions to a takeover will affect the degree to which the acquiring firm's managers will trust the members of the target firm.

Because of the paucity of research on the perceptions and reactions of acquiring managers in the post-acquisition integration process, the propositions discussed in this section concerning the determinants of acquiring firm management trust are less rooted in the literature and less elaborated than are those regarding the antecedents of target firm members' trust and, thus, are necessarily more exploratory.

> Proposition 13a: Target firm members' attitudes and intentions (i.e., level of job satisfaction, organizational commitment, willingness to take risks, willingness to subjugate personal goals for organizational goals, acceptance of change, and intent to stay in the organization) will be positively related to acquiring firm managers' level of trust in the target firm.

Proposition 13b: Target firm members' behaviors and performance (i.e., level of job performance, communication, and cooperation) will be positively related to acquiring firm managers' level of trust in the target firm.

Acquiring Firm Management's Trust as a Determinant of Integration Decisions and Actions

Top management decisions and actions regarding post-acquisition integration have been characterized as being guided primarily by the strategic or organizational issues that motivated the acquisition (Haspeslagh & Jemison, 1991; Larsson & Finkelstein, 1999; Pablo, 1994). In addition, a process perspective on acquisitions suggests that integration-related decisions are influenced by a variety of process variables, including the relationship between the target and the acquiring firm, their leaders, and their members (Jemison & Sitkin, 1986). Although trust has at best received incidental consideration in the M&A literature, we propose that the acquiring firm managers' trust in the target firm is a critical variable that affects key attributes of acquisition integration decisions and actions.

Evidence comes from a large body of research that has shown that the level of trust in a relationship affects the amount of risk a person is willing to take (e.g., Mayer et al., 1995; Mishra, 1996; Rousseau et al., 1998). Post-acquisition integration decisions require a willingness on the part of the acquiring firm management to take various forms of risk. For example, the acquiring firm management may take a risk by allowing the target firm a high degree of autonomy, but the willingness to grant such autonomy is likely to be higher to the extent that target firm behavior and performance has engendered acquirer trust. Similarly, we propose that other key acquisition integration features rest on a willingness on the part of the acquiring firm management to tolerate risk based on a willingness to trust. Acquirer management is thus more likely to reduce the speed of integration, tolerate and encourage cultural diversity, guarantee job security and rewards to the extent that the target firm members have built a basis for trust based on actions and outcomes. Finally, open communication can be quite risky when handling highly sensitive and delicate issues like those that surround acquisitions. Acquirer openness is much more likely to occur when a relationship of trust has been established (or at least is emerging).

This analysis suggests that target employee behavior and performance is critically important as an influence on how acquirer managers take decisions and actions as the firms are integrated. However, we propose that this influence is not direct. Instead, we argue that influence is mediated by the degree to which target behaviors and performance engender trust, for even the most stellar target outcomes are insufficient if they have not effectively created a willingness to trust on the part of the acquiring firm management. Conversely, regardless of how positive the target's outcomes and behaviors are, if distrust of target firm members is high the opposite effect is likely to occur (i.e., tighter control, a tendency to complete the integration process quickly, intolerance of cultural diversity, reduced communication quality, and, in general, less benign integration decisions). The foregoing discussion suggests the following proposition:

> Proposition 14: Acquirer trust in the target firm decreases the degree to which the acquiring firm management's integration decisions and actions are characterized by autonomy removal and high speed of integration, and will increase the degree to which they are characterized by cultural tolerance and sensitivity, job security and reward enhancement, and high communication quality.

DISCUSSION

Implications for Future Research

The goal of this paper has been to extend current research on corporate acquisitions in several ways. First, the literature on M&A integration has been criticized for being highly fragmented (Datta, 1991; Jemison & Sitkin, 1986; Larsson & Finkelstein, 1999). Schweiger and Goulet (2000: 87) have noted that "[a]lthough many aspects of integration have been addressed by research, there exists a need to consolidate the findings of these studies in an effort to significantly advance M&A theory. …

Antecedents of, and the context surrounding, M&As need to be simultaneously and parsimoniously linked to integration processes and procedures that will lead to post-acquisition performance."

Drawing on this large body of literature as well as on research on intra- and inter-organizational trust, this paper offered a conceptual synthesis of the factors that prior studies have identified to be of critical importance to the process and outcomes of post-acquisition integration, with trust as a key mediating variable.

Second, prior research on post-acquisition integration has suffered from a lack of theory development, in that most of the research has been prescriptive, atheoretical, and rather limited in scope (for exceptions, see Hambrick & Cannella, 1993; Haspeslagh & Jemison, 1991; Pablo, 1994). Schweiger and Walsh's (1990) concerns are still valid – when one turns to the empirical literature, inductive studies that focus on identifying major variables in the integration process, rather than deductive studies that focus on hypothesis testing comprise the overwhelming majority of the literature in this area.

In an effort toward a more theory-driven analysis of the psychological and social processes following corporate acquisitions, this paper has applied trust theory to the domain of post-acquisition integration. The trust-based model of post-acquisition integration offered in this paper suggests a number of testable propositions to guide future empirical research on corporate acquisitions. By expanding trust theory to a domain to which it has only incidentally been applied in the past, this paper also fills an important gap in the growing literature on intra- and inter-organizational trust, and also leverages acquisitions as a context for extending, making more specific and testable several aspects of trust theory.

An overarching theme in this paper is that trust between the parties involved in an acquisition can be contagious, in that "trust begets trust" (Creed & Miles, 1996: 18). However, rather than perpetuating the somewhat over-simplified notion that one party's trust has an immediate impact on another party's trust, the model we propose suggests a series of specific actions and processes by which the members of the acquiring and the target firm signal each other and thus create and recreate mutual trust or distrust. For example, the members of the target firm may signal and create distrust through their unwillingness to cooperate with the acquirer, and the managers of the acquiring firm may signal and create distrust through imposing rigorous controls on the target. The dynamic nature of the model suggests a standard kind of positive feedback loop that reinforces the positive effects of trust cycles, but also that, if unaddressed, exacerbates the mutually reinforcing distrust that can grow in intensity between the members of the two organizations, until relationships are irreparably damaged and integration fails.

In addition to parsing and beginning to explain the cyclical escalation noted in the M&A literature and in the trust literature, the model also provides potential insights into how such escalation processes can be stopped. Small acts of trust, for example, may serve to dampen or even switch negative spirals and help begin the creation of a climate of trust. While trust theorists (Gulati, 1995; Mayer et al., 1995; Sitkin & Roth, 1993; Ring & Van de Ven, 1992) have often stressed that trust has a reciprocal quality, the critical role that trust may play in the post-acquisition integration process has not been addressed by researchers. And the acquisition-specific actions and processes identified here may inform how trust cycles operate in other organizational domains.

Although this paper has outlined some new insights into the process of post-acquisition integration, the proposed model of trust in corporate acquisitions requires further conceptual refinement as well as empirical testing. Perhaps the most critical question related to the validity of the model is whether it is possible to link highly general acquisition-level phenomena, such as "power differential" or "mode of takeover" to micro-level phenomena such as organizational members' trustworthiness perceptions. Because critical actions during the M&A process are taken by individuals and groups of individuals, it seems to us essential that our theories reflect that many aspects of the M&A process are influenced by psychological as well as sociological processes. Thus, we believe it is not only possible – but necessary – to theoretically link acquisition context variables to individual- or group-level processes. Rousseau and House (1994) have called for more "meso" organizational research integrating macro and micro perspectives in the study of phenomena that by their nature are a synthesis of psychological and socioeconomic processes, such as trust and leadership. In line with Rousseau and House (1994), we believe that the integration processes following a takeover cannot be fully understood without considering organizational members' perceptions of and reactions to the context within which an acquisition occurs. Consequently, we have adopted a meso-level perspective on corporate acquisitions.

While the affective, motivational, and behavioral reactions of acquired personnel have received considerable attention in the literature on corporate acquisitions, there is an almost complete lack of research dealing with the implications of a takeover for the managers of the acquiring firm (Cartwright & Cooper, 1996; Hogan & Overmyer-Day, 1994; Schweiger & Walsh, 1990). Consequently, the processes discussed in this paper are necessarily biased toward the target firm members' perspective. This bias notwithstanding, the proposed model points to the important role of the acquiring firm's executives in initiating and maintaining cycles of trust and distrust. More research is needed on the perceptions and behaviors of acquiring executives in order to better understand cycles of escalating distrust between merging organizations and their members.

Future work on the role of trust in acquisitions should go further than we have been able to in broadening the acquisition-related constituencies considered when theorizing about the acquisition integration process. In focusing on two groups of individuals involved in a takeover, the top managers of the acquiring firm and the members of the target firm, the model presented in this paper excludes other potentially important parties in the post-acquisition integration process, such as consultants and shareholders, from the analysis. Moreover, the model treats each of the two focal groups as a homogeneous entity, thereby disregarding differences among members of the same organization. This issue needs to be addressed in future work because research has shown that the reactions of senior managers to a takeover may differ from those of employees at lower levels of the target firm (Hambrick & Cannella, 1993; Krug & Nigh, 2001; Schweiger & Walsh, 1990). While individual differences in the reactions to a takeover are beyond the scope of the model presented in this paper, we believe that the role of individual characteristics that moderate organizational members' reactions to the uncertainty and change inherent in a takeover are critical to more fully understanding of the post-acquisition integration process and should be addressed by future research. Although this work has not explicitly examined trust in acquisitions, such differences are consistent with the general thrust of our model, and may provide interesting contrasts for future empirical studies of the integration process for different subgroups within the acquiring and target firms.

The model presented in this paper deals with corporate acquisitions only, but it is likely to be applicable to all types of mergers in which the pattern of power is asymmetrical. Although many acquisitions are described as mergers to avoid the appearance of dominance by one firm (Hogan & Overmyer-Day, 1994; Jemison & Sitkin, 1986; Napier et al., 1989), in practice the occurrence of "mergers of equals" is rare. Cartwright and Cooper (1996) found that "collaborative mergers," where partner equality is recognized and differences in organizational culture are seen as potentially adding value to the partnership, are extremely rare. Yet, such mergers exist. Although the model – in its current form – is not applicable to mergers in which the distribution of power is balanced, the propositions derived from the model can be readily extended to suggest that such "mergers of equals" will result in higher levels of trust and less antagonistic employee reactions than more asymmetric mergers. Future research – and management practice as well – would probably benefit from a closer examination of the implications that different types of M&As have for the development of trust between organizational members.

Although the model presented in this paper does not give insight into how trust is incrementally built and sustained over time, its cyclical nature suggests that the development of trust or distrust between the parties involved in a takeover is a dynamic, self-reinforcing process. Prior research on intra- and inter-organizational trust has shown that trust changes over time – developing, deteriorating, and sometimes resurfacing in long-standing relationships (Creed & Miles, 1996; Das & Teng, 1998; Rousseau et al., 1998). Further, research has shown that the quality of trust changes over the course of a relationship, often from calculus- or deterrence-based trust to a more relational-based trust, as the parties gradually expand the resources brought into the exchange, form emotional bonds, and identify with each other's goals and intentions (Lewicki & Bunker, 1996; Parkhe, 1993). A more complete understanding of trust in corporate acquisitions would come from consideration of its evolution (both in terms of the quality and quantity of trust), beginning at the time of the announcement of an acquisition and ending when the two organizations have either been integrated successfully or integration has failed.

Finally, more empirical research is 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 here. Although the complexity of the model mitigates against its being tested in its entirety in a single study, individual studies can test key aspects of the model. In addition to large-scale survey designs, in-depth interviews (Morosini et al., 1998), case surveys (Larsson & Finkelstein, 1999), and experimental approaches such as the policy-capturing method (Pablo, 1994) can help to establish causality and provide a richer understanding of the process by which trust is created and maintained in corporate acquisitions.

Implications for Practice

The trust-based framework of post-acquisition integration developed in this paper has clear implications for the management of acquisitions. As several authors have noted (Cartwright & Cooper, 1996; Gertsen et al., 1998; Stahl et al., 2002), in acquisitions, a special emphasis is usually put on the strategic and financial goals of the transaction, while the socio-cultural implications receive much less attention. In focusing on the psychological and social processes involved in combining firms, particularly processes related to the development of trust between organizational members and leaders, this paper can usefully direct the attention of executives to the more subtle and emergent issues of establishing new leadership and developing a corporate culture based on trust – and, in particular, what precisely is malleable in ways that can serve to build mutual trust.

Although much prescriptive advice has been offered in the practitioner literature on how to best manage the post-acquisition integration process, this advice has rarely been grounded in theory or empirical findings, and little evaluation research attests to the value of the interventions recommended (Schweiger & Walsh, 1990). The model of trust in acquisitions suggests the effectiveness of a number of human resource management interventions in mitigating the detrimental impact that takeovers can have on individual, group, and organizational outcomes. Specifically, the model suggests that characteristics of the initial takeover situation, such as culture barriers, power asymmetry, or a hostile mode of takeover, can be obstacles to achieving integration benefits because they can undermine trust. Therefore, the socio-cultural 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 (Evans et al., 2002).

Consistent with a "process perspective" on acquisitions (Haspeslagh & Jemison, 1991; Hunt, 1990; Jemison & Sitkin, 1986; Pablo et al., 1996), this paper suggests 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's management, being aware of the desire to complete the integration process quickly and to remove autonomy from the target firm, and resisting this desire if necessary, can go a long way toward building a relationship that is based on cooperation and trust rather than domination. Carefully setting the appropriate tone in the negotiations, encouraging cultural diversity, providing timely and accurate information, and improving corporate HR systems and reward structures will also have a positive impact on trust, and increase the chances for successful integration.

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Figure 1
Model of Trust in the Post-Acquisition Integration Process