Abstract

The phenomenon of trust and trust building has been widely researched with regard to different contexts and subjects. Nevertheless, the factors that influence trust building in Mergers and Acquisitions (M&As) and how trust impacts the post M&A process remain still unclear. This study explores trust development in the cross-cultural integration process following emerging country firms’ acquisitions in an advanced economy. A grounded theory model was developed to link the contextual characteristics of the Chinese M&As in Germany that require the development of trust and how managers understand sources of trust building. The perceived future uncertainty, different levels of technology and management, previous public discourses, and differences in institutional and cultural norms require the development of trust. The data reveal that a range of factors can foster trust development, including financial factors as well as emotional factors such as mutual understanding, reliability, familiarity, and emotional bonding. Trust development impacts the acquiring firm’s behavior with regard to the exercise of control on the acquired firm, the grant of autonomy, and the information policies in the cross-cultural integration processes.

Key words: Trust development; Cross-Border Mergers and Acquisitions (M&A), Chinese M&As, Germany, Grounded Theory, Cross-Cultural Integration

1. Introduction

Mergers and acquisitions (M&As) have become one of the most popular strategies for internationalization and the total deal volume in 2017 reached $3.7 trillion globally according to JP Morgan 2018 outlook. Cross-border activity represented a significant component of global M&A transactions accounting for over $1.3 trillion and approximately 35% of total volume. Among others, the China-outbound M&A volume in 2017 was $141 billion. Looking ahead, China’s “One Belt, One Road” initiative is likely to increase China-outbound M&As in 2018 and beyond. This initiative is also likely to hasten China-outbound M&A in jurisdictions beyond its traditional focus in the United States and the United Kingdom (Brownstein et al, 2018). For example, in 2016, Chinese investors took over more companies in Europe than in the previous four years combined, most of them in Germany.
Germany had established a reputation for investment competitiveness. The value of Foreign Direct Investment (FDI) net inflows in Germany was $52 billion as of 2016 and further increased by $5 billion in January of 2018. Companies in Germany's leading technological sectors are preferred targets for Chinese investors. According to a study of Ernst & Young in 2017 China's investments in Germany reached a new record of $13.7 billion (Ernst & Young, 2018). Corporations and private equity firms expect a step-up in merger and acquisition activity in 2018—both in the number of deals and the size of those transactions (Thomson, 2018).

However, according to Deloitte 2018 M&A trend report, 40 percent of companies and private equity firms in 2016 and 10 percent in 2017 said that more than half of their deals did not deliver the return on investment they had anticipated. More than half (55 percent) of all respondents say that up to a quarter of all deals fall short of meeting or exceeding expectations. Respondents agreed that effective integration is one of most important factors for a deal’s success and that well-planned, carefully-executed integrations yield transaction success. Therefore, this study focused on the post-acquisition integration process, in particular the cooperation process at the strategic level in German firms acquired by Chinese companies. This strategic cooperation level determines the long-term direction of the acquired firm. Moreover, the views of managers are especially salient in organizational changes (Isabella, 1990). This research focuses on the members of the executive board because this level in the corporation is the initial point where comprehensive information can be collected.

Given the different institutional, economic, and cultural frameworks of the firms involved in cross-cultural M&As, the post-acquisition process is likely to involve more challenges and different problems when it comes to the integration of these companies. The role of culture in this context has been examined by a large body of literature (e.g. Cartwright & Schoenberg, 2006; Datta 1991; Larsson and Finkelstein, 1999; Morosini et al., 1998; Nahavandi and Malekzadeh, 1998; Stahl and Voigt, 2008). There is general acceptance that cultural differences impact the post-acquisition process of M&As, however, it remains unclear how M&A performance is influenced by different cultural factors. Trust and trust building have been identified as critical concepts in alliances and in particular in cross-cultural collaboration (e.g. Inkpen & Currall, 2004; Krug & Nigh, 2001; Lv & Li, 2016). The underlying mechanisms and processes of trust building in cross-cultural cooperation remain however unclear. Thus, there is a need for further empirical research on which factors facilitate or hinder trust building in acquired organizations (Stahl et al., 2013).

This study aims to add to the understanding of trust building in cross-cultural management. Given the significant role of China in the present and future global business as well as the increasing trend of Chinese acquisitions in Western industrialized economies, we focus on the
case of Chinese M&As in Germany. We aim to complement existing research on cross-cultural management in M&As, specifically for this article, in advanced economy firms acquired by developing economy enterprises, namely Chinese acquisitions in Germany.

Furthermore, from a practice perspective, this research seeks to provide managerial implications for trust building in the cross-cultural integration process in cross-border M&As. Research outcomes can be applied to acquired firms in advanced economies, as well as Chinese investors and thereby increase cross-cultural understanding between Western and Chinese business people.

This article seeks to answer three sub-questions that relate to trust building in cross-cultural management. (1) What are contextual characteristics that add to the relevance of trust building in Chinese M&As in Germany? (2) What are the sources of trust building in Chinese M&As in Germany? This question is analyzed from the perspective of the acquired enterprises’ management. And (3) how does trust building affect cross-cultural collaboration in the post-acquisition process?

This article is structured as follows: Section 2 reviews the concepts of trust and previous studies on the role of trust development in cross-border M&As. Section 3 outlines the research methods employed in this study. Findings are presented in Section 4 and we finally discuss some theoretical implications, practical suggestions, and future research opportunities.

2. Literature Review

2.1 Key impact factors in the post M&A process

A growing body of research has attempted to examine the factors that impact the performance of M&As. Success and failure of M&As have traditionally been explained from a strategic management view (for example Lubatkin, 1983; Shelton, 1988; Singh & Montgomery, 1987; Zaheer et al., 2013) and from the perspectives of capital market scholars (Andrade et al., 2001; Danbolt, 2004; Dutta & Jog, 2009; Goldberg, 1983; Jensen & Ruback, 1983; Moeller et al., 2004). In recent years, the human side of M&As and sociocultural factors have gained attention of M&A-researchers (Buono & Bowditch, 1989; Chatterjee et al., 1992; Datta, 1991; Nahavandi & Malekzadeh, 1988; Olie, 1994; Weber, Reichel, & Tarba, 2006; Weber et al., 2011).

One school of thought is the organizational behavior school that focuses on impacts of acquisition on individuals and their organization. Another perspective is the process school that addresses the strategic and organizational fit as well as the acquisition decision-making
process. These perspectives argue that the post-acquisition process plays a key role for value creation and therefore impacts the success or failure of M&As (Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986; Larsson & Finkelstein, 1999). Lv & Li (2016) argued that the integration after M&As is the most critical step in international M&As. Through the effective integration, cross-border M&As can reduce the presence of conflicts, improve the synergies, and thereby enhance the core competitiveness of enterprises. Otherwise, it will eventually lead to the failure of these M&As (Li & Jiang, 2014).

The national context of the acquirer has been identified as an important factor that implies differences in the choice of post-acquisition integration type and control systems (Shimizu et al., 2004) as well as differences in institutional and cultural frameworks and management practices (Child et al., 2001). Ahern et al. (2015) in their study on the effect of cultural values on mergers around the world found out that three key dimensions of national culture (trust, hierarchy, and individualism) influence M&A volume and outcome.

Even though emergent M&A research has increasingly recognized the critical role of sociocultural factors and human resources integration in M&A there is still a lack of understanding of these factors (Sarala et al., 2016). One such element is the concept of trust. Trust is a crucial yet under-researched field of study in this context (Stahl et al., 2011; Weber et al., 2012; Stahl et al., 2013). In particular, our understanding of the development of trust and its impacts on the post-acquisition process in cross-cultural M&As remains incomplete.

2.2 The concept of trust between organizations

Central to most definitions of trust is the notion of vulnerability. Rousseau et al. (1998, p. 395) state: “Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another”. The essential foundations underlying the psychological, sociological, and economic conceptualizations of trust are risk and interdependence. In alliances, such as M&As, risk relates to uncertainty about the partner’s intentions and behavior. Interdependence involves the interrelationship between the partners and their reliance upon each other. According to Rousseau et al. (1998, p. 395), “Trust is not a behavior (e.g., cooperation), or a choice (e.g., taking a risk), but an underlying psychological condition that can cause or result from such actions.”

Economic scholars have noticed a long time ago that commercial transactions are facilitated by trust (Arrow, 1972). In their study on culture impacts on economic outcomes, Sapienza et al. (2006) state that trust plays a particular role in the transactions that take place over a longer period of time, and when legal protection is not fully provided. Trust can provide confidence in economic transactions where these aspects provoke situations of uncertainty. In contrast, the
lack of trust may be compensated by investing in monitoring resources that verify the truthfulness of the counterpart’s claims (Zak & Knack, 2001). In addition, Child et al. (2005) state that cultural and institutional systems usually “support trust through the sharing of a common social identity, norms of conduct and institutional safeguards such as the law” (p. 52). International alliances cross these boundaries of cultural and institutional systems and therefore provide a particular challenge for trust building in addition to the difficulties in alliances of the same system (Child et al., 2005).

Research on inter-organizational trust exists at different levels of analysis. Currall & Inkpen (2002) suggest that trust exists at the individual level, at the group level, or as a multilevel phenomenon. Zaheer et al. (1998, p. 142) differentiate between interpersonal trust “as the extent of a boundary-spanning agent’s trust in her counterpart in the organization” and interorganizational trust “as the extent of trust placed in the partner organization by the members of a focal organization”. Both concepts of trust are related and impact M&A performance. Although trust is basically an interpersonal phenomenon, the individuals within an organization may have a collective trust-related orientation towards another organization, for example an acquiring or investing firm. As a result, trust between individuals and groups may have a significant effect on relations between organizations.

One strand of literature on interorganizational trust examines the antecedents and the evolution of trust. Child et al. (2005), in their seminal book on cooperative strategy, examine the foundations of trust in an alliance and state that “there are some fundamental issues that provide bases for trust, such as a clear calculus of costs and benefits, the development of mutual understanding, and the emergence of friendship and bonding between people” (p. 50). The authors also state that the reputation of an investing firm for reliable behavior is a major point for the decision. Drawing on Lane’s (1998) three perspectives of trust, they suggest that there are identifiable stages in the evolution of trust. The first is calculative trust, in which “trusting involves expectations about another, based on calculations which weigh the costs and benefits of certain courses of action to either the trustor or the trustee” (Lane, 1998, p. 5). This form of trust is particularly relevant to the formation phase of strategic alliances, such as the pre-acquisition decision phase of M&As. For example, in the case that an investor and a target firm agree to cooperate, but considerable uncertainty remains, trust is based primarily on calculation.

The second perspective of trust is knowledge-based trust, which involves increased mutual knowledge among the partners. This form of trust is more likely to emerge in an alliance when partners are growing more familiar with each other. Organizational actors learn to understand each other and may even learn to predict each other’s thinking and actions. This form of trust
is also based on the sharing of cognitions and common ways of thinking. In addition, mutual understanding or complementary goals are another basis for trust (Lane, 1998). A third perspective of trust, which Child et al. (2005) explain is identification-based trust, meaning that people share common values and a common concept of moral obligation. In the course of cooperation, friendship may develop, which involves an emotional bond that provides a basis for identification-based trust. This allows the partners to identify with each other's interests. Child et al.'s (2005) findings involve an evolution process of trust, which is compliant with the phases of alliance development.

While the concept of trust has been subject to examination in the alliance research, it has been largely neglected in the context of M&As (Stahl et al., 2013) and particularly in cross-cultural M&As. In the next section we explore the body of literature that focuses on mechanisms in the post-acquisition process of M&As and the role of trust in this process.

2.3 Trust in the post-acquisition process of cross-cultural M&As

The literature on integration processes in cross-border M&As suggests that the nationality of the acquiring firm influences the choice of integration type and control system, which in turn has consequences for the performance of the M&A (Shimizu et al., 2004). The literature extensively stresses that both national and corporate culture differences involve increased challenges in the post-acquisition management process (see for example Krug & Hegarty, 2001). The institutional context may have influence on employees' reaction to cross-border M&As (Stahl et al., 2012). For example, Stahl & Voigt (2008) argue that cultural differences affect sociocultural integration, synergy realization, and shareholder value, depending on the degree of integration needed and the dimensions of cultural differences. Whereas cross-border M&As that need a high level of integration tend to be negatively affected by cultural differences, acquisitions that require less integration are positively associated with integration benefits (Weber et al, 2012). Ahern and colleagues (2015) in their large-scale study found out that national culture influences multiple aspects of cross-border mergers. They provide evidence that trust as one of the key dimensions of national culture affects merger volume and synergy gains. Bachmann (2001) analyzed trust and power as means of coordinating trans-organizational relationships. He argues that whether trust dominates a relationship highly depends on the institutional framework and the specific business environment.

In line with the conceptualization and definition of trust outlined in the previous sections, trust is a phenomenon that is particularly relevant in situations of uncertainty. There is no need for trust in the case that someone can be sure of something or can take something for granted. A considerable strand of literature that analyzes the role of trust in alliances argues that trust
affects alliance performance in a positive way (for example Child, 2001; Child et al., 2005; Inkpen & Currall, 2004; Zaheer et al., 1998). Child et al. (2005) suggest that trust is essential in alliances because it provides more openness and honesty to the cooperation and it allows partners to focus on sustainable goals of mutual benefit instead of controlling each other. Krishnan et al. (2006), in their study of the role of trust in interorganizational cooperation, state that trust plays a more significant role in performance under high behavioral uncertainty than under environmental uncertainty. This means that the type of uncertainty, be it external or internal, is relevant to the relation between trust and alliance performance. Behavioral uncertainty is related to the actions of the cooperation partners. According to Krishnan et al. (2006), the potential competition between the partners and high level of interdependence in alliances involve considerable behavioral uncertainty and therefore trust plays a significant role in the success of these kinds of alliances.

Another significant issue in the context of behavioral uncertainty relates to institutional differences. Child (2001) suggests that in a society like China, trust is of great importance because there is a high degree of uncertainty and a generally low level of trust. This means that in societies where institutional support for trust is weak, the traditional bases for trust become more important. This paradox suggests that trust in personal relationships plays a highly significant role in business collaborations with Chinese firms. Ganesan (1994) states that in addition to dependence and specific assets, trust is necessary for long-term orientation because it implies the perception of fair conditions in the future.

In an attempt to understand the antecedents and consequences of trust in M&As, Stahl et al. (2011) conducted a case study, where they found out that the acquiring and target firms’ relationship history, the interfirm distance, and the acquirer’s integration approach will affect target firm member trust in the acquiring firm’s management. They argue that particular integration process variables, such as speed of integration, communication quality, and acquirer multiculturalism considerably influence trust.

In recent years, research has recognized the impact of sociocultural factors on post-M&A processes (e.g. Sarala et al., 2016). Existing literature explains antecedents of trust, conceptualizations of trust, and the relevance of trust in inter-organizational settings such as alliances. However, there is still a lack of understanding the concept of trust in M&As (Stahl et al., 2013), particularly with regard to cross-cultural M&As. In fact, most M&A studies were based on the transactions where most of the investors were based in the West. This research focuses on trust in the relatively new context of Chinese M&As in Germany, which refers to foreign direct investments from an emerging country in an advanced economy. The understanding of trust development in this cross-cultural context, as well as its impact on cross-cultural
collaboration remains incomplete and this gap needs to be bridged – such is the purpose of this research.

3. Research Methodology

The present research attempts to explore trust development in a cross-cultural context from acquired company managers’ perspective to obtain a better understanding about the phenomenon. We adopt grounded theory as a research methodology that is particularly appropriate to capture the complexity of “a multifaceted account of organizational action in context” (Locke, 2001, p. 95). In the grounded theory investigation data is systematically collected and processed and a grounded theory model is derived from primary data.

This study employs semi-structured interviews as a main method to collect qualitative data and secondary data is collected to complement the primary data. The concept of theoretical sampling is pursued to extend the general applicability or analytic generalizability of the theory (Locke, 2001). The number of sample cases is based on theoretical saturation that no additional data can be found in developing the properties of the conceptual categories.

The relevant organizations were selected according to differences such as industry involved, sizes of firms, financial situations, prior international experience, acquirer’s share, year of transaction (see table 1).

<table>
<thead>
<tr>
<th>Case/ Company</th>
<th>Interviewees</th>
<th>Deal year</th>
<th>Industry/ Sector</th>
<th>Ownership of investor</th>
<th>Share of investor</th>
<th>Financial situation¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1</td>
<td>German shareholder and CEO</td>
<td>2013</td>
<td>Manufacturing engineering</td>
<td>POE²</td>
<td>&gt;50%</td>
<td>Unremarkable</td>
</tr>
<tr>
<td>C2</td>
<td>Member of Board 1, Member of Board 2</td>
<td>2012</td>
<td>Automotive supplier industry</td>
<td>SOE³</td>
<td>100%</td>
<td>Unremarkable</td>
</tr>
<tr>
<td>C3</td>
<td>Chairman/Asia Manager, Shareholder</td>
<td>2010</td>
<td>Manufacturing engineering</td>
<td>POE</td>
<td>50%</td>
<td>Unremarkable</td>
</tr>
<tr>
<td>C4</td>
<td>Member of Board</td>
<td>2013</td>
<td>Manufacturing engineering</td>
<td>SOE</td>
<td>100%</td>
<td>Financial problems</td>
</tr>
<tr>
<td>C5</td>
<td>CEO</td>
<td>2012</td>
<td>Automotive supplier industry</td>
<td>Stock listed (30% family owned)</td>
<td>100%</td>
<td>Insolvent</td>
</tr>
</tbody>
</table>

¹ at the time of the deal  
² POE = Private owned enterprise  
³ SOE = State owned enterprise
Table 1. Overview of sample

<table>
<thead>
<tr>
<th>Case/ Company</th>
<th>Face-to-Face Interview</th>
<th>Interview data from secondary sources</th>
<th>Documents used in this study: Organizational documents and public documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>C6 CEO/Chief restructuring officer 2012 White goods/Appliance industry Stock listed (part of shares family owned) 100% Serious financial problems</td>
<td></td>
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<tr>
<td>C7 CEO 2011 Manufacturing engineering/ Electronic industry Stock listed 100% Unremarkable</td>
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<tr>
<td>C8 General Manager 2013 Automotive supplier industry Stock listed 100% Unremarkable</td>
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</tr>
<tr>
<td>C9 German shareholder 2012 Manufacturing engineering Stock listed &lt;50% Unremarkable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C10 CEO of German subsidiary, Former CEO 2004 Manufacturing engineering SOE 100% Insolvent</td>
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</table>

In this study, ten personal semi-structured face-to-face interviews with top managers of companies in Germany that had been acquired by Chinese investors are the primary source of data. One significant assumption of interpretive studies on organizational change is that “the views of managers as a collective are especially salient because managers appear to be at the heart of the cognitive shifts that occur during organizational change” (Isabella, 1990, p. 9). There is also evidence in the literature that it is the leaders from which organizations draw meaning and significance (Isabella, 1990, p. 10). Accordingly, this research focuses on members of the executive board, because it is on that level that the cooperation has its initial point and from which comprehensive information can be provided. Most of the investigated M&A took place between 2010 and 2013. The first years after the transaction are expected to be influenced more by this organizational change than the time many years afterwards. The sample includes one exception in which the transaction took place before the defined time range. This case was last added to the data when data saturation seemed to be achieved, but the case was expected to provide valuable evidence due to its different time horizon.

This research uses more than one type of data source. Interviews and documents are used in combination with each other as a means of data triangulation to “seek convergence and corroboration through the use of different data sources” (Bowen, 2009). The face-to-face interviews were complemented by seven interviews from secondary sources, fourteen organizational documents, and fourteen documents from press releases (see table 2).
Table 2: List of interviews and documents used in this study

For confidentiality reasons, detailed dates of the documents, such as firms’ press releases and press articles, are not included.

We followed a structured coding procedure for analyzing the data (Saldana, 2009). Interview data and documentary data were analyzed together so that concepts could emerge across data sets. As categories emerged from the data, the sample was expanded to further increase diversity in order to strengthen the emerging theory by defining the properties of the categories. The interviews were fully transcribed and the data was used as the basis for developing a grounded theory. This study utilized open coding, axial coding and selective coding to analyze data and develop the concepts and relationships between them (Strauss & Corbin, 1998). The
research findings were presented as a set of interrelated concepts and interview quotes were
used to instance them (Locke, 2001).

4. Findings and discussion

A grounded theory model as showing in figure 1 was derived from data analysis in which the
central phenomenon is trust development in the context of cross-cultural M&As with an
intervening condition of Chinese M&As in Germany. The contextual characteristics, such as
the perceived future uncertainty, different levels of technology and management, previous
public discourses on Chinese investments, and different cultural and institutional norms,
require the development of trust. The research data reveal that rational elements, such as
business management factors as well as emotional aspects, such as mutual understanding,
reliability, familiarity, and emotional bonding, are sources of trust building and foster the
development of trust. In addition, trust development impacts the cross-cultural collaboration
with regard to transparency and openness in the partner’s information policies, the integration
of the acquired firm’s management in higher level decision-making processes, the exercise of
control, and the degree of autonomy of the acquired company.

Figure 1: A grounded theory model of trust development in cross-border M&As
4.1 The contextual characteristics as particular conditions

The findings from data analysis suggest that a range of contextual factors provoke a particularly salient role of trust in the cross-cultural context of Chinese M&As in Germany.

Perceived uncertainty

In more than 80% of the interviews, target firms' top managers perceived that future uncertainty such as on potential mutual dependence, on potential future competitive relation between the firms, or on the investment motives. For example, one interviewee explained:

“It's for the future that I see a risk (...). I don't know what will happen in 5 years' or in 10 years' time. If the overlap becomes larger, in other words if we really help them to raise the standard, then the question arises to what extent we are undermining our own market. This risk exists for the future, although today the situation is still relatively clear.” (I1).

In particular, the investment motives of emerging countries, such as China, seem to play an important role in this context which is confirmed by the next identified factor:

Different levels of technology and management

In this study the acquired firms usually possess more advanced technology and managerial experiences. In 7 organizations, interviewees mentioned that this fact may induce a risk for the German acquired firm if Chinese investors intended to access their core assets through these investments. For example, a German manager said that:

“When I first started here I wondered whether I would need to work with a Chinese investor. Are the Chinese only here to carry off what they can get and remove our intellectual property before disappearing? These questions come up again and again.” (I5)

One of the major investment motives of Chinese firms in Germany is the access to technology and knowhow. China uses acquisitions as an alternative to internal product and process innovation, thus learning from others rather than industrialization on the basis of internal innovation.

Previous public discourses
Pre-existing views that stem from public discourses do often imply that Chinese investors have a negative reputation. In recent years, debates on Chinese acquisitions in Germany mostly provided a rather negative image of investors from China (Focus Online, 2012, 2014). Several media reports challenged Chinese acquisitions and provided a rather threatening picture of the Chinese investor regarding technology transfer and job cuts in the German subsidiary. More than 90% of the interviewees explained that there were prejudices at least at the beginning. For example, the following quotes and similar opinions from other interviewees demonstrate that.

“There was a lot of suspicion about Chinese investors because people believe they aren’t competent. (...) That has changed now because people have seen that everything isn’t being turned upside down after all, and good business decisions are being taken – however, at the beginning there were a lot of reservations.” (I6).

**Differences in cultural and institutional norms**

In all interviews, the managers mentioned that significant differences in cultural and institutional norms require the development of trust. China has a relationship-oriented culture which is often linked to the notion of “guanxi”. This fundamental premise for business relations involves some kinds of trust. Moreover, differences in communication patterns may provoke misunderstandings and imply more challenges in verbal and non-verbal communication. In addition, the long-term perspective of the Chinese investor requires the development of trust:

“when it really comes to long-term thinking, then it’s the Chinese who do so. (...) And therefore you analyse more carefully whether the management is the right one.” (I7a)

“In my opinion it [trust] plays a much greater role than with any other type of investors. There is something which the Chinese call ‘guanxi’. You are either inside the inner circle or you are outside of it. But once you are part of this inner circle, then you enjoy real trust.” (I2a).

“But there are always question marks, because you can’t read Chinese faces in the same way that you can read faces here.” (I5).

The findings reveal four central aspects that relate to the particular contextual conditions of Chinese M&As that add to the relevance of trust. First, trust is a phenomenon that is particularly relevant in situations of uncertainty. The uncertainty may be based on the interdependence of
the firms, which is of a financial nature from the perspective of the German target firm, and it may result from a future potential competition situation.

Second, the access of the Chinese acquiring firms to unique assets, for example technology know-how, managerial know-how, and high-quality R&D, generates the perception of threat and risk for German target firms. In other words, this context increases the level of uncertainty, and trust is therefore even more important, "yet the threat posed by the risk itself can inhibit the development of trust" (Child, 2001, p. 276).

Third, in recent years, debates have often taken place in the media on Chinese acquisitions in Germany. The reports mostly provided a rather threatening picture of the Chinese investor who would only be interested in know-how transfer and who may cut jobs in the German subsidiary. This public image of the Chinese investor can exert an impact on the need for trust development.

Fourth, the crucial role of trust is based on cultural and institutional frameworks. The Chinese culture is assigned a relation-oriented nature, which is explained in the notion of “guanxi”, which is a basic condition for any business relation and involves a form of trust. From the perspective of the German target firms, the high relevance of trust is based on the cultural distance between the firms, which induces increased uncertainty in verbal and non-verbal communication. This involves more challenges compared with relations with culturally less distant business partners from Western industrialized countries with whom German firms have already gained long-term experience over decades. In addition, differences in value systems hamper the development of a common social identity. The existence of cultural stereotypes of German top managers who are closely connected with their own national culture is another challenge for trust development.

The findings of this research are consistent with the existing literature since they state that trust plays a highly significant role for both the acquiring Chinese firm and the German target firm, even though the antecedents for this are different. In addition, this research suggests that the significant role of trust in the context of Chinese M&As is rooted in the different cultural and institutional systems of the Chinese and German cooperation partners, which may cause increased uncertainty. Drawing on Zucker’s (1986) seminal work on trust production, Child et al. (2005) argue that differences in the cooperation partners’ cultural norms influence the trust development of individuals in cooperating organizations (Child et al., 2005, p. 57; Zucker, 1986). The reason for this is of an emotional nature in that the existence of the same values leads to a common cognitive frame and provides a kind of common social identity. In addition, the cultural stereotypes of managers as an outcome of being strongly bound to their national identities may negatively influence trust building, as evidenced by the interview data of this research work (Vaara, 2003).
4.2 Actions or interactions in trust development

The interviewees perceived that a range of actions/interactions are sources of trust building, thus fostered the development of trust.

Business management factors

Five interviewees pointed out several times that business management factors seem to play a considerable role in the trust-building process. One interviewee stated, for example, that the successful financial situation of the German acquired firm influenced the trust development of the Chinese shareholder:

“There is confidence in us as a management team, but this is due to the favorable financial situation.” (I2a).

On the contrary, a more difficult business management situation may hamper trust development. This understanding takes trust as a dynamic process, which can change, rather than a stable relationship.

Mutual understanding

According to interviewees of four target firms, a mutual understanding of the firms’ strategies and the identification of advantages for both parties facilitate trust development

“I think that the most important thing with such a cooperation is sharing the same interests. When people's interests are not relatively similar, then the cooperation is doomed to failure anyway, whether it's with the Chinese or anyone else.” (I3a)

The sharing of the same interests on the basis of a complementary business strategy is viewed as a basic condition for a successful cooperation and therefore for trust development: It is important that people work towards the same goal, share the same strategy, and work as a family. For example, one of the interviewees stated:

“I think both sides have to share the same understanding of the strategy, of the mother firm and also of the local firm in Germany. So if the strategy is clearly defined and also is quite persuasive to both sides, it is not so difficult to get trust to each other. We are working in the same direction and in the same family and share exactly the same strategy. That is most important.” (I10a).
Reliability

80% of the interviewees suggested reliability to be a basis of trust. Trust would develop when someone could rely on what his or her cooperation partner promised and when the agreements or plans were realized. An interviewee explained that an agreement between the cooperation partners involves value. If one party does not keep to the agreement, it loses its value.

“They stick to the agreement. (...) And nothing underhand happens. I find that positive. I would even say that with them you can rely on a handshake. They keep their promises.” (I9a).

On the contrary, another interviewee stated that he perceived mistrust because of the lack of reliability in the business relationship.

Familiarity

In five cases the interviewees believed that trust developed based on the process of becoming acquainted with one another. This process was started at the top management level and then gradually transferred to the next hierarchical levels in the German acquired firm. This allowed the generation of a basis for trust development in the German subsidiary. The following quote illustrates that.

“I would say that after we had the employees together with the managers here for training, where people worked with one another for several months, that's when it all developed. And they then passed this on and reported to their boss everything they had experienced. In the evening they didn't go off on their own or withdraw into their own rooms. No, Chinese people enjoy eating and every evening they cooked together with my team. I sometimes wondered how it worked out so well. With our people here the situation was more critical when they first saw the Chinese arrive. I think that lasted for two weeks at the most, and then they really came to respect the Chinese for their skills and hard work.” (I9a).

Emotional bonding

The issue of trust development is often associated with emotional aspects. Interviewees argued that mental fit, an understanding of non-verbal communication has an impact on the development of trust:

“I can't begin to sell something to someone if I notice that mentally the other party is not on my wavelength. But if I have the feeling that the other party is reliable,
loyal, communicative, someone who understands my gestures, then I can develop a profitable discussion with him.” (I9a).

Two interviewed German top executives took one step further. Both perceived the relations with the Chinese partners are like a family relationship. One interviewee personally felt responsible for the acquiring firm’s sustainable success and aimed to support the Chinese shareholder:

“Today our shared interests have led to a kind of family relationship, and in my opinion also to a relationship of trust, combined with responsibility. This applies to me personally, because I want them to be successful in the long term. This is what I’m ready to fight for.” (I2a)

The interviewees referred to different sources of trust in their collaboration with the Chinese shareholder. These are necessary to enhance the understanding of the trust development process. The interviewees suggested business management factors as one source of trust development. This implies that a successful financial situation of the German acquired firm can foster trust building, particularly at the beginning of cooperation; in the later course of it, other bases of trust may consolidate or even replace the business management factor. From the perspective of the German acquired firm, the interviewees referred to the Chinese shareholder’s conduct that creates trust and to previous experiences that influence trust development. Reliability and honesty are crucial bases of trust; a lack of these characteristics would induce uncertainty and anxieties, which challenge trust building. According to some interviewees, the development of mutual trust is based on becoming acquainted with one another, on a mutual understanding, and on a developing emotional bond between key individuals. A common understanding of strategy, matching interests, and complementary goals facilitate trust development. The issues involved in becoming familiar with one another and the development of an emotional bond between key individuals refer to a phase of trust development after the beginning and illustrate that trust is a dynamic phenomenon. In this phase of trust development, both parties can verify their stance and a relationship on a more personal basis can be developed.

The findings are consistent with Lane’s three perspectives of trust (Lane, 1998). Calculative trust, which refers to business management factors, is particularly relevant in the pre-acquisition phase and in the beginning of the integration phase of Chinese M&As. At a later stage of the integration process knowledge-based trust is more likely to emerge when partners are growing more familiar with each other. The interviewees referred to their partner’s behaviour and becoming acquainted with each other. In addition, they explained that mutual
understanding or complementary goals are another basis for trust. The findings of this research also support a third perspective of trust, which Child et al. (2005) explain is identification-based trust. In the case of Chinese M&As in Germany, some interviewees reported their process of reaching the point at which the two partners share the same understanding of their business and/or the same understanding of a common or complementary strategy (I10a). One interviewee even stated that a family relationship has developed along with the feeling of responsibility (I2a). In addition, another interviewee explained that some sort of “mental fit” is a condition for successful cooperation (I9). In most of these interview statements, trust is seen to be an evolving process. This is supported by Child et al.’s (2005) findings that involve an evolution process of trust, which is compliant with the phases of alliance development (Child et al., 2005, p. 61).

4.3 The impacts of trust development on the cross-cultural collaboration

In addition to insights into the role of trust in Chinese M&As in Germany and the executives’ understanding of trust development in the post-acquisition process, this research identified the impacts of trust development on the cross-cultural collaboration. The data reveal that trust building influences the transparency and openness in information communication, integration of the acquired companies’ management in decision making, and the exercise of control on the acquired companies, and the degree of autonomy.

Transparency and openness

First, in five interviews the managers argued that trust development between the Chinese investors and the management members of the target firm influences the transparency and openness policies in strategic information communication:

“Openness. Being integrated immediately. Taking things on trust, simply trusting what’s going on, and then looking at what happens and think okay, that’s satisfactory – we can build on that.” (I7a)

Two interviewees mentioned the opposite consequences because of mistrust. For instance, an interviewee stated that he was completely left out.

“Instead of telling me that ‘there's something coming up or I've got an idea and we can talk about it tonight’... I'm left completely out of the loop. (...) So often when I've been with him for a while together, either here or over there, wherever, there's suspicion, distrust, hierarchical thinking. (...) he doesn't tell me anything.” (I1).
Integration in decision-making

Second, some interviewees perceived that the development of trust between the acquired company and the investor even affected the integration of the German management in the decision-making processes at a higher hierarchical corporation level. One top manager reported that they have a very trustful cooperation and he felt fully that he was integrated in the decision-making process:

“They call the management team the 'executive committee'. It's made up of the CEO, the CFO, the CTO and the heads of the individual sections. And I was part of this group from the very beginning. They didn't say 'let's speak in Chinese now so that he won't understand what we're saying.' I was involved in everything.” (I7a).

Exercise of control

Third, three interviewed German top executives stated that trust development resulted in less controlling by the Chinese investor. An interviewee reported that the Chinese shareholder reduced the regular requests for reports from the German management. He interpreted this behavior as the result of development of trust in the German management, which resulted in less control.

“... at the beginning he summoned me to a video conference every week. That stopped after 4 months. Now he calls me occasionally for a brief telephone conference. For me it is simply the greatest demonstration of trust they can provide you with when they say: 'You're doing okay there, we don't have a problem with what you're doing, it's all okay'. (I8).

Degree of autonomy

The development of trust in the post-acquisition process affects the degree of autonomy granted to the acquired firms by the parent company. The interviewees mainly took two different perspectives. In cases in which trust development was difficult, the interviewees claimed that the parent company exercised a high degree of control that even concerned operational decisions. Other interviewees reported that the acquisition implied only minor changes in the previous autonomy of the German management. An interviewee perceived a positive trust development process after the transaction:

“We have a lot of freedom, have no restrictions and we haven't experienced any attempt to influence our business decisions. We have the freedom to do what we want and here in Germany the company decisions are made by the board today in
the same way as 2, 3 and 5 years ago. In this respect, we are in a situation that makes us very happy.” (I2b).

5. Conclusion

Our findings add to the existing research on trust building in cross-cultural management by providing insights into trust building in cross-cultural M&As and the impact of trust on cross-cultural collaboration. Furthermore, our research contributes to the literature by analyzing trust building in the particular context of a developing country firm acquiring an advanced economy firm.

First, we suggest that the particular context of acquisitions from a developing country (China) in an advanced economy (Germany) induces new factors that influence the relevance of trust building in the cross-cultural collaboration. Drawing on the findings of Labarca (2014) who stated that trust needs to be understood in its embedded context, we identified the contextual factors such as the perceived uncertainty, different level of technology and management, the previous public discourse on Chinese investors, and the differences in institutional and cultural norms. In this context these factors are mainly perceived as sources of distrust which exist at the beginning of the cross-cultural collaboration between the German acquired firm and the Chinese acquiring firm. In our studied context the initial stage of the post M&A cross-cultural collaboration is characterized by weak trust.

Second, we propose the following key principles in building trust in the context of Chinese M&As in Germany: Business management factors, such as the financial performance of the acquired firm facilitates trust building in the acquiring firm. This is consistent with Lane’s (1998) perspectives of trust in which she noted that in particular at the beginning of a cooperation trust is based primarily on calculation. In this vein, we suggest mutual understanding as another source of trust building which refers to Lane’s (1998) knowledge-based trust. Familiarity and emotional bonding are further bases of building trust in which we agree with Child et al. (2005) who explained that identification-based trust is a form of trust that can develop in the course of a cooperation when the actors become acquainted with each other and friendship may develop. In line with King and Zhang (2018, p. 165) who stated that “practicing proper behavior and adherence to social norms play a role in trust and trust building” we found out that reliability is a factor that is perceived as a salient source of trust by German acquired firms’ managers.

Third, we propose that trust building impacts the acquirer’s behavior in several ways. As a consequence of trust development, the Chinese acquiring firms enhance the transparency and
openness in the cooperation, the integration of the acquired firm's management in their
decision-making processes, reduce the exercise of control in the collaboration, and grant a
higher degree of autonomy to the acquired firm.

This research has some managerial suggestions. This context involves a range of particular
factors that provide sources of mistrust and may hinder trust development, notably at the
beginning of the post M&A process. First, the awareness of these particular contextual
characteristics can help the managers to understand the importance of establishing a trust-
based relationship. Second, as a consequence we recommend that in the post-acquisition
process of M&As the managers actively generate positive trust dynamics and develop a
foundation for trust development by fostering transparent communication of the firms’
strategies and the identification of advantages for both parties. Since trust is a personal issue
some emotional factors like mutual bonding might strengthen the trust-based relationships. In
addition to managerial implications for German target firms, it might help other potential target
firms in other advanced countries and potential investors from China.

Nevertheless, this research has some limitations and future research could be conducted. This
study was conducted in the particular context of Chinese M&As in Germany and therefore a
wider context might be subject to further research. Moreover, the results reflect the
perspectives of top executives in German target firms, since this target group is directly
involved in the strategic decision-making processes and is considered to have major influence
on the management of the post-acquisition process and on organizational members' behavior.
However, the integration of other hierarchical levels in a further study could add valuable
information to this field of research.

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