

Chinese reverse M&As in the Netherlands: Chinese managers' trust building practices

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Abstract

Purpose - Building trust is critical in reverse mergers and acquisitions (M&As), attributed to the divergence of governance and culture between the East and the West. This research explores the barriers and trust-building practices of Chinese managers in reverse M&As in developed countries.

Design/methodology/approach - The primary dataset of this research contains case studies of two Chinese M&A deals and in-depth interviews with managers and advisories in the Netherlands.

Findings - This research finds that the divergences of decision-making structure, communication style, and trust orientation generate barriers to the trust building in Chinese reverse M&As. The third-party advisory participation helps to build cognition-based trust of acquired company managers on Chinese acquiring company managers through providing information and explanation, fitting Chinese buyers in the Western M&A procedure, and offering communication. It also helps to build affect-based trust through bridging the divergence of trust orientation and filling the cultural voids. Meanwhile, the invisible integration helps to build cognition-based trust through maintaining the core business, offering great help to acquired companies for their business expansion, and selecting the business collaboration areas in the long term. It

also helps to build affect-based trust through granting a high degree of governance independence and enabling a balanced status in acquired companies.

Originality/value - This research unveils the ‘black box’ of Chinese reverse M&As from an inter-personal trust perspective, and advances the nuanced understanding of trust and trust-building practices in Chinese reverse M&As. It also provides practical tools for both Chinese companies and acquired companies in developed countries.

Keywords Reverse M&As, Cognition-based trust, Affect-based trust, Advisory participation, Invisible integration approach, Chinese companies

Paper type Research paper

Introduction

In recent years, Chinese outbound mergers and acquisitions (M&As) of knowledge-intensive companies have increased rapidly (Madhok & Keyhani, 2012; Sun, 2018). The main purpose is to acquire advanced technological and managerial know-how, brands, talents, marketing networks, and sales channels in Western developed countries. This phenomenon is coined as ‘reverse M&As’ (Li & Yang, 2017; Madhok & Keyhani, 2012). Despite the growing importance, the differences in corporate governance and culture between the East and West often lead to the trust missing during reverse M&As, which causes great difficulties, such as management team resignation and employee resistance in acquired companies (Spigarelli, Alon, & Mucelli, 2013), not even to mention the knowledge transfer or sharing. One of the consequences is that Chinese reverse M&As encounter a high possibility of failure (Zhang, Zhou, & Ebbers, 2011).

As an important factor in M&As, trust attracts an increasing attention (Bansal, 2016; Graebner, 2009; Lander & Kooning, 2013; Maguire & Phillips, 2008; Searle &

Ball, 2004; Stahl, Larsson, Kremershof, & Sitkin, 2011). Trust is a multilevel concept that can be defined as the willingness of individuals, teams, or organisations to rely on others when encountered with opportunities and risks (Graebner, Heimeriks, Huy, & Vaara, 2017). The value of trust in all kinds of transactions is self-evident. Trust helps to reduce transaction costs in uncertain environment (Barney & Hansen, 1994). Social capital theory argues that trust is one of the key factors for effective knowledge sharing. The effective tacit knowledge sharing from one party is based on the expectation of equal return from the other party. Any violation of the psychological contract will hinder the transfer of tacit knowledge. Therefore, trust constitutes the basic mechanism of knowledge transaction (McAllister, 1995).

Building trust is of great significance to reverse M&As by Chinese companies. As new players from the East to the West, Chinese management often suffer trust missing from acquired companies (Sun, 2018). Thus, it becomes an urgent practical problem with regard to the question of how to build trust in reverse M&As by Chinese managers. Prior research on Chinese reverse M&As tends to implicitly involve the significance of trust, and sees trust missing as normal, while trust-building barriers and trust-building practices remain poorly understood. In addition, most research in cross-border M&As is in sheer ignorance of the heterogeneous nature of trust (Graebner et al., 2017). However, because trust may derive from diverse sources, such as affect and cognition (McAllister, 1995), trust should not be solidified as only one form. An ignorance of the heterogeneity of trust may mislead the trust-building practices to the wrong direction and backfire the outcomes of reverse M&As.

Therefore, the question needs a fine-grained exploration: *What are the barriers to trust building by Chinese managers in reverse M&As? And how is the trust being built during the M&A process?* To address the above questions, we adopt a multiple-

case study approach to explore the trust building process of Chinese reverse M&As in the Netherlands. While much has been reported about the reverse M&As in developed countries (Deng, 2013), such as in European Union (EU) countries, the Netherlands as an important location of Chinese direct foreign investment in EU and of China's 'Belt and Road' road map, has not been thoroughly investigated. Thus, this research makes the Netherlands as the target country to explore.

This research makes several contributions to the literature. First, it provides a new insight for Chinese reverse M&As from the inter-personal trust perspective. Prior research on Chinese reverse M&As has paid more attention to objective factors such as resources, capability, and selected strategy of Chinese companies, while largely neglecting the subjective psychological factors (Angwin & Meadows, 2015; Weber & Tarba, 2010). By introducing the subjective element of trust, this research transforms the study of Chinese reverse M&As from the objective to subjective perspective. By recognising the heterogeneous trust in the trust building process of reverse M&As, this research unveils the 'black box' of the reverse M&As.

Second, this research contributes to the trust theory by applying it to an emerging phenomenon—Chinese reverse M&As. Prior research on trust is mainly based on the practices of Western players. However, the corporate governance and culture in China are significantly different from those in developed countries, thus, the antecedents and the process of trust building in Chinese reverse M&As are supposed to be embedded in a different context. Whether the existing trust theory derived from the Western experience is applicable to the context of China remains to be explored (Ahmed and Li, 1996). By revealing the uniqueness of the trust building practices in Chinese reverse M&As through multiple-case studies, this research helps to advance the understanding of trust theory in the Chinese context.

Literature review

Trust and trust building mechanisms

Trust is a state of mind willing to accept losses based on positive expectations of the other person/organisation's intentions and actions (Rousseau, Sitkin, Burt, & Camerer, 1998). On the contrary, distrust is regarded as a negative expectation of the other person/organisation's intention or behaviour (Lewicki, McAllister, & Bies, 1998). In the field of international business, trust is usually defined as the reliance on the expertise and reliability of a partner, or the willingness to bear losses for the partner in the event of a risk (Currall & Inkpen, 2002). Thus, trust is not an act such as cooperation or a choice such as risk taking, but a state of mind that originates or causes such behaviour. Trust is rooted in the understanding of frequent interaction between partners (Arino & Doz, 2000). It has a crucial role in the development of cross-border relationship (Irrmann, 2005), and in facilitating effective knowledge creation and sharing within social networks (Abrams, Cross, Lesser, & Levin, 2003; Mayer et al., 1995).

Trust is not universal, but of heterogeneity. McAllister (1995) defined the two foundations of trust: affect and cognition, and constructed two forms of inter-personal trust: affect-based trust and cognition-based trust. Affect-based trust arises from emotional bonds between individuals (Lewis & Weigert, 1985). The interaction between colleagues caused by help, care and social similarity other than personal responsibility determine the level of affect-based trust (Lewis & Weigert, 1985). On the contrary, cognition-based trust originates from cognition and reasoning (Sako, 1992). It depends on the performance of colleagues and professional qualification (Zucker, 1986). In other words, cognitive trust is knowledge-driven, ability, responsibility, credibility and reliability are the core of cognition-based trust (Mayer,

Davis, & Schoorman, 1995; McAllister, 1995), while affect-based trust is emotion- and relationship-driven, which depends on the relationship strength and the emotional foundation (Johnson & Grayson, 2005). Different types of trust can exist independently, and have different effects. Relying on inter-personal relationship consistently matters in knowledge sharing, but trusting people's ability becomes more important when that knowledge is tacit and difficult to codify (Levin, Cross, Abrams, & Lesser, 2002).

Trust is environmentally sensitive. In fact, the differences in the corporate governance and the cultural basis might lead to an asymmetry in trust orientation between partners (Ariño, Torre, & Ring, 2001; Zaheer & Zaheer, 2006). The cognition-based trust plays a major role in the business relationship when the governance system is well established in the society, while the affect-based trust dominates when the opposite is the case (Pearce, Branyicki, & Bigley, 2000; Schoorman, Mayer, & Davis, 2007). The trust orientation differs greatly between the East and the West (Stahl, Chua, & Pablo, 2012). In the East, inter-personal relationships characterise an explicit and strong orientation of affect-based trust. The Eastern people are more focused on affection, in their willingness to help others (Li & Filer, 2007). By contrast, the Western people are more focused on cognition, that is, basic good intentions, skills and practical outcomes (Li, 2008; Zhu, Nel, & Bhat, 2006).

A variety of actions can be adopted to promote trust in inter-personal relationships. First, appointing third-party referral either as persons in the personalised process or as institutions can improve trust. The third party relationships predict the behaviours and have trust-related judgments in the relation between the two parties (Ferrin, Dirks, & Shah, 2006). Nooteboom (1999) and Nooteboom, Berger, & Noorderhaven (1997) found that the third party has an important role in establishing collaboration by revealing the right information and in the building of inter-personal

trust for the two parties in knowledge-sharing process. Therefore, different third parties might help the two parties to smooth the collaboration process. Second, the actions such as improve information quality, offer proper incentives and respect the own culture of one another in the cross-border inter-personal relationship help to nurture the trust. In other words, trust might be established through discretion and creating a common understanding between the two parties regarding the nature and goals of the work (Abrams et al., 2003; Levin et al., 2002).

Trust crisis in M&As

The turbulence and changes often leads to a lack of trust from acquired companies. This is because the new owner and managers often bring their own culture and working styles to, and disturb the established culture and work routines in the acquired company (Cartwright and Cooper, 1993; Datta, 1991). In the early phase of reverse M&As, in the face of new organisation and new management team, the managers and employees of acquired companies might question the future changes and the potential negative effect generated by acquiring company managers (Knoerich, 2010; Zheng et al., 2016). In the post-M&A process of M&As, managers and employees of acquired companies might generate a fear of technological exploitation and of value loss in cutting edge know-how (Deng, 2009). Empson (2001) explains the fear of exploitation¹ and the fear of contamination² as the main causes for the lack of trust in reverse M&As.

Existing literature mainly takes the context of Western developed countries as the object of analysis to investigate the trust building process in M&As. For instance, Stahl & Sitkin (2010) propose that the trust of employees in acquired companies to the acquiring company managers is affected by the relationship history between the two companies, the cultural distance, and the selected integration approach. Stahl et al.

(2011) show that integration speed, multiculturalism, communication quality and perceived welfare significantly affect the trust building in acquired companies.

The research context: Chinese reverse M&As

According to the knowledge-based view, knowledge, tacit knowledge in particular, is the most important strategic asset for companies (Kedia, Gaffney, & Clampit, 2012). Correspondingly, the ability to acquire, integrate and share knowledge is the most important to form and maintain companies' competitive advantage (Kogut and Zander, 1992). Kogut and Zander (1993) adopted the knowledge-based view to the analysis of multinational enterprises (MNEs) and regarded MNEs as an effective tool for cross-border knowledge transfer. In line with this argument, traditional MNE theory holds that cross-border M&As is an important way for MNEs from developed countries to utilise their advanced knowledge and further strengthen their competitive advantages in other developed or developing countries (Dunning, 2001). By contrast, the emerging MNE theory argues that MNEs from emerging countries do not have specific capabilities and competitive advantages, reverse M&As is a way for emerging MNEs to close the gap with the world market through exploring and acquiring appropriate assets and resources (Mathews, 2006).

To acquire the resources and knowledge of acquired companies, reverse M&As and traditional M&As adopt different integration approach in the post-M&A process. Haspeslagh and Jemison (1991) proposed an integration approach framework, which regards the synergy potential as the key determinant of the choice of integration approach. The framework, and proposes three different integration approaches: absorption, symbiosis, and preservation³. The traditional Western M&As often use absorption or symbiosis approach when both companies have high synergy potential

(Larsson and Finkelstein, 1999). By depriving the managers' autonomous decision-making power in acquired companies, acquiring companies usually introduce their own operational norms and routines directly to acquired companies (Haspeslagh & Jemison, 1991). Unlike the practices of Western managers, despite the high-level synergy potential in reverse M&As, Chinese managers are witnessed to adopt a new integration approach (Cogman and Tan, 2010) .

This new integration approach is coined as invisible integration approach (Li & Yang, 2017; Sun, 2018). It refers that no aggressive integration action is adopted during the post-M&A integration, but a step-by-step integration strategy is developed together with acquired companies in the long term (Li & Yang, 2017). To be specific, first, by keeping a certain distance, giving acquired companies a high degree of management freedom, maintaining the job positions for both high-level managers and common employees, a boundary is maintained between the two sides (Knoerich, 2010). Second, Chinese companies hold a long-term vision for the reverse M&As in developed countries, with a step-by-step and strategic integration. In other words, the business is selected strategically in a stepwise and non-threatening way (Cogman & Tan, 2010; Kale et al., 2009).

To sum up, an increasing number of Chinese companies invest in developed countries through reverse M&As, and an emerging body of literature begins to discuss the resources, capabilities and strategies of Chinese companies in this emerging phenomenon. However, the subjective psychological factor of trust underlying these objective factors remains under-explored. Although the heterogeneous trust has been identified in the context of developed countries, as reverse M&As distinguish from traditional M&As, if all M&A deals are treated equally, the results might be confusing in terms of the antecedents and practices of trust building involved in reverse M&As

(Graebner et al., 2017). Thus, we employ the case study to reveal the trust building process of reverse M&As and construct a theory of trust for Chinese MNEs in this research.

Research design and methodology

The investigation research methodology is case study based, an empirical inquiry that investigates a contemporary phenomenon within a real life context (Yin, 2009). Researchers (e.g. Deng, 2013; Graebner et al., 2017) observed that there is a real need for building new theoretical constructs in the M&A research area to explore new knowledge and improve the existing literature. We believe that a case study based approach has special merit as it aims to answer “how” questions as well as to build new theory and suggest testable propositions based on in-depth case analysis.

Case selection

The context for this research is the trust-building process in reverse M&As between Chinese managers, representatives of an Eastern culture, and managers from small- and medium-sized enterprises based in the Netherlands, symptomatic of a Western business context. The major reason for selecting the Netherlands as the research target is because the Netherlands has become China’s second largest investment country within EU, and an important country along the ‘Belt and Road’ route. Attributed to its advanced technologies, outstanding talent advantages, and open investment policies, recent years witness an increasingly close collaboration between China and the Netherlands in a variety of areas. A considerable number of Chinese companies invest in the Netherlands, establishing manufactures and R&D centers, conducting M&As, engaging in broad collaborations with Dutch institutions and organisations. From 2009 to 2014,

Chinese companies have acquired over 14 companies in the Netherlands. One of the largest M&As was COFCO taking over Nidera in the food sector, with a transaction value of 285 million US dollars and a stake of 51%. In 2014, the new tax treaty between China and the Netherlands entered into force and stimulated more cross-border investment between the two countries.

The selected cases in this research need to meet a couple of requirements. First, the acquiring companies are from Mainland China and the acquired companies come from the Netherlands. Second, M&As is mainly characterised with the motivation of absorbing strategic assets such as technological and managerial know-how. Third, M&As has completed and contains at least 50% of the stake.

Through formal inquiry and informal networks, we collected two cases in the Netherlands. In Case 1, Company A is a large state-owned manufacturer of heavy machines in China, and one of the largest heavy machine manufacturers worldwide. Company B is a Dutch developer of advanced machine control applications, specialised in hydraulic fluid power. The applications are applied in heavy machines, offering the interaction service between the customers and their machines. Company A acquired Company B in 2011. In Case 2, Company Y is a state-owned company, and the largest digital map provider in China, specialised in compiling raw data for the production of maps used for navigation system in the automotive market. Company Z is a Dutch company providing the interface between raw data and navigation systems. The acquisition completed in 2011.

Data collection

This case study research relies on multiple sources of evidence, mainly through interviews with senior managers in the acquired companies. In both cases, we contacted

with the management in the Dutch acquired companies B and Z. This resulted in interviews with Head of Energy Department in Company B, and Business Development Manager in Company Z. Head of Energy Department in Company B has twenty-five years of experience in the management position in the manufacturing industry, and Business Development Manager in Company Z has joined the company since the foundation of the company and has over fifteen years' work experience in the industry. Meanwhile, we wrote formal emails to Company A and Company Y, asking for permission to conduct fieldwork research in acquiring companies. Finally, we got response and permission from Company Y and had interviews with Overseas Investment Manager, responsible for international investment business in Company Y. In doing so, the research tries to overcome the problem of homologous deviations in data analysis by focusing on both acquiring companies and acquired companies as much as possible. Table I provides a description of the cases.

[Insert Table I about Here]

In addition, in-depth interviews took place with seven advisories specialised in Sino-Dutch M&As, as collecting interviews from experts in the field is one of the most usual ways of conducting exploratory research (Saunders and Lewis, 2012). The selected respondents hold important positions at advisories and are active in different industries, such as banking, law, and consultancy. The diverse respondents and multichannel data help to offer a holistic view on the research subject, to triangulate the data and resolve potential information bias problem. Table II shows the information of advisory respondents.

[Insert Table II about Here]

In terms of in-depth interviews, we asked about a set of themes using pre-formulated questions, followed by additional questions during the interviews (Saunders and Lewis,

2012). Interview questions were developed on three broad directions: (1) the information of the respondents and their role in the M&As, (2) the M&A process/overview involving the search for the potential acquirer/acquired, deal approval, deal closing, to a few years after deal closing including post-M&A integration, and (3) the M&A outcome. Thus, this research has a longitudinal sense as it involves changes over time.

The respondents freely express what they think is important. Respondents were asked to describe which characteristics or behaviour of the trusted party affected trust building in the early and late stages of the inter-personal relationship. Because trust is always related to some special behaviour, respondents were asked to describe a key event that promotes trust. The content analysis and induction method were used to analyse the key events that facilitate trust building. The interviews were conducted either face to face or via phone calls. We sent the questions to each respondent before the interview, so that they were able to prepare and keep their focus during the interviews. Each interview took about an hour.

Due to the limitations of time, it is undoubtedly impossible to have periodical visits to track the entire M&A and trust building process. However, the interviews make it possible to discuss the phenomenon over a longer period. In addition, the interviews with advisory respondents that witnessed and engaged in Chinese M&As in the Netherlands ensure the validity of the longitudinal study.

Data analysis

The two cases enable to obtain a good understanding about the research focus within its specific context. In terms of coding, two kinds of coding methods were used in the data analysis. We conducted the comparative coding method to analyse the trust

building barriers between Chinese and Dutch managers (Strauss & Corbin, 1998; Xing, Liu, Tarba, & Cooper, 2016). In the first coding stage, the open coding was adopted. We recognised four types of divergence in trust building between Chinese and Dutch managers. In the second coding stage, we categorised these four types of divergence into three dimensions, namely, decision-making, communication, and trust orientation. To analyse the trust-building practices in Chinese reverse M&As, the three-step coding method was used (Pratt, Rockmann, & Kaufmann, 2006). During the first step of open coding, eight types of trust-building mechanisms were identified from the common statements. In the second step of axial coding, we synthesised these general constructs of trust-building mechanism into more abstract constructs of trust-building effect. In the third step of thematic coding, the second-order constructs were classified into two broad dimensions as trust-building practices. In addition to the coding strategy, we also conducted both intra-case analysis and inter-case analysis without pre-hypothesis (Eisenhardt, 1989). In terms of the intra-case analysis of a single case, we coded the key events, actions and the ideas of the respondents. As far as the inter-case analysis is concerned, this research used the replication method to find the preliminary relationship and refined the unified model (Yin, 2009).

Results

The analysis of interview data divides M&A process into two distinct phases: pre-M&A phase and post-M&A phase. Pre-M&A phase is the whole period from the initial search for potential acquiring or acquired companies to the deal closing. Post-M&A phase refers to the period after the deal closing.

Barriers to trust building in the pre-M&A phase

The respondents stated that the challenge to fit Chinese potential acquiring companies in the M&A process in the Netherlands generates a great difficulty in obtaining cognition-based trust of the managers in acquired companies. The reason lies on three aspects.

First of all, this is a result of the divergence of the decision-making structure between Chinese acquiring companies and Dutch acquired companies. Chinese acquiring companies are characterised by a highly centralised decision-making structure. An important aspect of this centralised decision-making structure is that approval needed not only for important decisions, but also for relatively small and unimportant decisions. In contrast, the decentralised decision-making structure is dominant in the Netherlands. Dutch companies tend to let employees decide. Only when decisions are important, employees ask approval from senior management. Business Development Manager in Company Z elaborated that:

“In the Netherlands, we don’t need top management to make all the micro-management decisions. That is something that employees throughout the organisations perfectly can do on their own.... The Chinese company usually acts slowly.... There is a misfit between slow Chinese decision-making and fast Dutch acting.”

Meanwhile, the non-transparent decision-making structure leads to a lack of clear information in acquiring companies. The interviews indicated that the non-transparent decision-making process makes it unclear about the necessary internal approvals inside the potential buyers. In the Netherlands, decision-making process is more transparent and no hurdle exists to approach to the person in charge. This diversity in decision-making makes the M&A transactions time consuming and unpleasant. As a

consequence, M&As often comes to a hold in the pre-M&A phase. For instance, Head of Energy Department in Company B explained it:

“A negative side of the daily governance of Chinese companies is the lack of clear information and management structures. In many cases approval is needed, but it is unclear on who and how achieves that.”

Second, the divergence of communication leads to confusion in the negotiation in the pre-M&A phase. In the Netherlands, Dutch companies have a straightforward and aggressive negotiation style; directness and openness indicate good intentions and dedication. By contrast, Chinese companies are indirect, prefer subtle hints, and avoid saying “no” (Ahmed, 1998; Chen and Starosta, 1997; Rarick, 2007). The indirect communication style adds to the confusion and lack of trust in Dutch companies in the reverse M&A process, in the negotiation process, in particular. Head of Energy Department in Company B explained it:

“A linear path characterises Dutch negotiations: from initial contact, entry into negotiation, signing of the contract, and implementation. Differently, a spiral path typifies Chinese negotiations, in which Chinese negotiators act between foreign parties and backstage negotiations with senior executives, state authorities and other interested parties.”

Third, the asymmetry in trust orientation between the East and the West also becomes barriers for building inter-personal trust in the pre-M&A phase. Chinese trust is characterised by heavy weight on *guanxi* and building an in-group network, while good intentions and sufficient capacity are pre-requisite to trust in developed countries (Chen and Starosta, 1997; Li, 2008). This divergence is also reflected in the negotiation, where Chinese perceive building *guanxi* and fostering affection as a pre-requisite for in-depth

and open negotiation, while Westerners see this as unnecessary and time consuming.

As one of the advisories put it:

“When doing business with Chinese people, it is important to value the process of personal trust building.”

Table III juxtaposes the divergence of decision-making structure, communication styles, and trust orientations between Chinese managers and Dutch managers involved in reverse M&As.

[Insert Table III about Here]

Divergences of decision-making and communication have led to a lack of trust from Dutch managers towards Chinese managers. To be specific, Dutch managers have a lack of trust in the capabilities and knowledge of Chinese managers in successfully completing the M&As. In other words, the cognition-based trust from the Dutch managers is missing. In many cases, Dutch managers have more cognition-based trust towards their Western counterparts because these counterparts are believed to be more capable of revealing information, improving negotiation efficiency, and clearing the decision-making and approval process, and thus are more likely to meet the tight M&A process and realise the completion of M&As. Meanwhile, the divergence of trust orientation and the unfamiliarity of the Chinese culture lead to a lack of the affect-based trust from the Dutch managers.

Barriers to trust building in the post-M&A phase

The interview data show that the divergences of decision-making structure and communication complicate the trust building in the post-M&A phase.

First, the highly centralised decision-making structure enlarges the lack of cognition-based trust from Dutch managers towards Chinese managers. Business

Development Manager in Company Z explained this barrier using the example of their moving the production from the Netherlands to China. Both parties acknowledged the benefit of moving the production. Once the decision was made, Company Y needed to take the initiative in terms of planning and implementing the moving. However, as Chinese managers did not feel comfortable with taking initiative, but waited for approval about every detail, the moving took too much time provisionally. This slow response raises the doubt of capability by Dutch managers on the Chinese side.

Second, both cases acknowledged the divergence of communication between Chinese and Dutch managers leads to trust-building difficulties in the post-M&A phase. For instance, the lack of direct communication resulted in the lack of acknowledging mistakes by Chinese senior managers during the post-M&A phase. Head of Energy Department of Company B acknowledged it:

“It is impossible for me to talk about the previous mistakes made by higher placed managers in the parent company. Nobody from higher management can be responsible for that because it is a loss of face. However, this can be frustrating.”

Meanwhile, both the advisories and the managers in case companies suggested that the language barrier plays a negative role in communication. As Business Development Manager in Company Z put it:

“Especially in the first period after the acquisition we faced many difficulties because of language barriers.”

These barriers together increase the difficulties for Dutch managers to establish cognition-based trust towards Chinese managers. The above analyses lead to the following propositions:

P1a. The divergence of the decision-making structure between Chinese managers and Dutch managers impedes the cognition-based trust building in reverse M&As.

P1b. The divergence of communication between Chinese managers and Dutch managers impedes the cognition-based trust building in reverse M&As.

P1c. The divergence of trust orientation between Chinese managers and Dutch managers impedes the affect-based trust building in reverse M&As.

Trust building practices in the pre-M&A phase

Regarding how to overcome the trust-building barriers in the pre-M&A phase, the interview data show that advisories play a critical role in smoothening the pre-M&A process. In particular, the advisories help Chinese managers to build cognition-based trust from Dutch managers.

First, advisories provide information and explanations towards Dutch managers about the lengthy and unclear Chinese M&A process. In many cases, the lack of cognition-based trust occurred because Dutch managers have little knowledge on the internal decision-making and approvals inside Chinese acquiring companies. The advisories play an important role in communicating with Dutch managers and explaining the decision-making and approval process in China. In this way, it breaks the “fear of the unknown” of Dutch managers. When Dutch managers have an increasing understanding of the Chinese M&A process, it helps to fill up the void of the cognition-based trust towards Chinese managers in the pre-M&A phase.

Second, the advisories take action by trying to fit Chinese managers in the Western M&A process. They do this, for example, by approaching potential Chinese buyers earlier. An important hurdle in the pre-M&A phase is the inefficient decision-

making process and hence the long waiting time in the Chinese side. This might easily damage the cognition-based trust from the Dutch side. The advisory respondents stated that they approach potential Chinese buyers a couple of months earlier in the pre-M&A phase. In this way, Chinese managers have more time to process the given information inside the company and to potentially prepare an M&A bid. This is a simple but effective way to create the cognition-based trust from the Dutch side. Moreover, Chinese companies are blamed for their highly centralised and non-transparent decision-making structure because the actual decision-makers always operate in the background. The advisories stated that they are specialised in finding the right decision-makers inside Chinese companies to accomplish a more efficient decision-making.

Third, the advisories offer communication between both parties to ensure that they “talk the same transaction language”. It means that it is important that both parties have the same concepts of transactions and business operations. The advisories “translate” the transaction language to the Chinese and Dutch side that eases the M&A process. In so doing, it avoids the misunderstanding between Chinese and Dutch managers on the discussed concepts.

In summary, the participation of advisories in the Sino-Dutch M&A process bridges the void of the cognition-based trust from Dutch managers towards Chinese managers.

In addition, the interviews show that the advisories have an important role in bridging the divergence of trust orientation. Chinese managers attach great value to build inter-personal *guanxi* and affection in the pre-M&A process, while Dutch managers feel it time inefficient. By highlighting the importance of Chinese inter-personal *guanxi* and affection, the advisories stimulate Dutch managers to engage in this way of trust building and doing business. Meanwhile, the advisories suggest their

Chinese customers to pay more attention to the international rule of game and focus more on the impersonal capabilities instead of the inter-personal characteristics of the counterparts. To some degree, it narrows down the divergence of relationship and trust orientation between the two parties. The analyses lead to the following propositions:

P2a. Through providing information and explanation, fitting Chinese buyers in the Western M&A procedure, and offering communication, the third-party advisory participation helps to build the cognition-based trust towards Chinese managers in the pre-M&A phase.

P2b. Through bridging the divergence of trust orientation, the third-party advisory participation helps to build the affect-based trust towards Chinese managers in the pre-M&A phase.

Trust building practices in the post-M&A phase

When it comes to the post-M&A phase, the interviews apparently show that the third-party advisory plays a role of middlemen at the interface of the cultural middle. Both the Chinese and Dutch sides see the great value of the third-party advisory to fill the cultural voids for the both sides. As the understanding of a new culture grows, the fear of the new culture is mitigated. The mitigation of the fear and bias of Chinese culture might be a starting point for managers and employees in acquired companies to build affect-based trust. As Overseas Investment Manager in Company Y said:

“We collaborated with the Brabant Development Agency... The agency provides specific course for our managers. Then the managers will teach the knowledge what they learnt to the common employees. We want our employees to understand more about the two cultures.”

Business Development Manager in Company Z stated that:

“We were given Chinese names during the course, that was interesting!...We also have discussions with the Chinese ‘students’. After class, sometimes we have drinks together... We get to know more about each other...Through the course I have a feeling that all the cultures are the same, as you respect the others, they respect you.”

This analysis leads to the following proposition:

P2c. Through filling the cultural voids between the two sides, the third-party advisory participation helps to build the affect-based trust towards Chinese managers in the post-M&A phase.

Meanwhile, the invisible integration approach adopted by Chinese managers in the post-M&A integration process shift Dutch managers from the original trust missing, and fear of exploitation and contamination to an increasing cognition-trust towards their Chinese counterparts.

First, the emergence of cognition-based trust is because that both parties operate separately and keep their strengths by focusing on their own advantages after M&As. The two cases suggest that Chinese managers keep the most valuable assets in the Netherlands, and an extra investment flows to the R&D and innovation activities in Dutch companies.

Second, Chinese management offers great help when acquired companies expend their business in China. The respondents in both cases confirmed the help from their Chinese counterparts when acquired companies access to Chinese market. In so doing, Dutch managers experience the good faith and capability of Chinese managers on a day-to-day basis (Knoerich, 2010).

Third, integration is focused on the long term to a great degree. To be specific, Chinese managers strategically select the business areas together with Dutch managers where both parties have a mutual interest to develop the competitive advantage in the future. In this way, Chinese managers do not impose knowledge sharing but rely heavily on the willingness of Dutch managers to share knowledge (Zheng et al., 2016). Therefore, the integration is achieved in an invisible way. In Case 1, a joint venture was established in China with the help of managers in Company B. This joint venture was mainly used to share and transfer knowledge from Company B to Company A. In Case 2, Company Z attempts to share the process and knowledge, because it is applicable to the value chain of the Chinese side. An important feature of this knowledge sharing is that it is on a free base between both parties. As Business Development Manager in Company Z explained:

“Even though the Chinese company has a separate R&D department in China, they want to get inspired by us. Thus, we will do it when we can contribute to it.... We offer help to improve some of their automation processes.”

Importantly, the interview results suggest that affect-based trust is nurtured from Dutch managers towards Chinese management. It might derive from two specific aspects of the invisible integration. First and most important, instead of replacement of local managers, it is retained with a high degree of governance independence and autonomy in acquired companies in the formulation of local strategy (Sun, 2018). Head of Energy Department in Company B confirmed that Chinese managers operate from the background but only actively involve in the approval of the strategies. Similarly, Overseas Investment Manager of Company Y insisted that the two local managing directors in Company Z would at least stay three years after the acquisition. While four years after the acquisition, the two managers still served in the company.

Second, the invisible integration approach enables a balance in status between the two parties. Despite the asymmetries in firm scale, a high-level independence and autonomy of Dutch management during the integration process in the post-M&A phase leads to the non-imbalance in status.

Therefore, in addition to build cognition-based trust, the invisible integration approach also helps to build affect-based trust from Dutch managers towards Chinese managers. These analyses lead to the following propositions:

P3a. Through maintaining the core business, offering great help to acquired companies for their business expansion, and selecting the business collaboration areas together with acquired companies in the long term, the invisible integration helps to build the cognition-based trust towards Chinese managers in the post-M&A phase.

P3b. Through granting a high degree of governance independence in formulation of local strategy, and enabling balanced status in acquired companies, the invisible integration helps to build affect-based trust towards Chinese managers in the post-M&A phase.

To summarise, we display our empirical evidence guided by theoretical argumentation in Table IV.

[Insert Table IV about Here]

Discussion and conclusion

Using two case studies of Chinese reverse M&As in the Netherlands and interviews with advisories active in the Sino-Dutch M&A market, this research explores the trust-building barriers and practices in Chinese reverse M&As. The findings show that the divergences of decision-making structure, communication style are major barriers of

building the cognition-based trust, while trust orientation impedes the affect-based trust in reverse M&As. However, two practices taken by Chinese managers help to overcome the trust-building barriers and promote the emergence of trust. To be specific, the third-party advisory participation helps to build the cognition-based trust from Dutch managers towards Chinese managers through providing information and explanation, fitting Chinese buyers in the Western M&A procedure, and offering communication in the pre-M&A phase. The advisory participation also helps to build affect-based trust through bridging the divergence of trust orientation in the pre-M&A phase, and through filling the cultural voids in the post-M&A phase. The invisible integration approach helps to build cognition-based trust from Dutch managers towards Chinese managers through maintain the core business, offering great help to acquired companies to expand business in China, and selecting the business collaboration areas together with acquired companies in the long term in the post-M&A phase. It also helps to build affect-based trust towards Chinese managers through granting a high degree of governance independence in formulation of local strategy, and enabling a balanced status in acquired companies in the post-M&A phase. Based on our findings, we propose a model to illustrate the Chinese managers' trust-building barriers and practices in Chinese reverse M&As, see Figure I.

[Insert Figure I about Here]

Theoretical implication

This research makes theoretical contribution in three aspects. First, this research answers the call for a fine-grained study of reverse M&As from emerging countries to developed countries by introducing the lens of inter-personal trust (Graebner et al., 2017). M&A researchers believe that there are unidentified variables existing and

obscuring the M&A process (e.g. Liu and Woywode, 2013; Quah and Young, 2012). By introducing the inter-personal trust, this research transforms the study of reverse M&As from objective factors to subjective factors, which provides a new theoretical insight into reverse M&As by emerging MNEs, and enriches the relevant theories of internationalisation. This research has clarified diverse barriers to trust building, such as divergent decision-making structure, communication styles, and trust orientations, and identified heterogeneous trusts in Chinese reverse M&As, i.e. cognition-based trust and affect-based trust. On this basis, we propose practices and solutions to trust building in Chinese reverse M&As. In so doing, it advances the nuanced understanding of trust and trust-building practices in Chinese reverse M&As.

Second, while the invisible integration approach has aroused the interest of the academia, the underlying reasons have not been concerned. Although prior research has paid attention to the behavioural features of invisible integration approach, while little research focuses on how these behaviours are perceived. This research explores the hidden logic underlying the invisible integration approach from the inter-personal trust perspective. As stated by Teerikangas & Very (2006), the right integration approach is not only about the acquiring company selection, but also about how it is perceived by the acquired company. The control imposed by Western acquiring companies is a sign of lack of trust towards acquired companies. The loss of governance independence results in a sense of distrust by managers in acquired companies. On the contrary, the invisible integration approach offering acquired companies governance independence may express a signal of trust from managers in acquiring companies towards their counterparts in acquired companies. For instance, the human resources system in the invisible integration approach is characterised by zero layoff to secure the work positions in acquired companies. In so doing, it reduces the worries and fears of

managers and employees in acquired companies. Once this trust signal is received, acquired companies might feel the openness and kindness of management in acquiring companies (Mayer et al., 1995), which may stimulate the affect-based trust. As a result, managers and employees in acquired companies might generate a deep recognition towards acquiring companies, and begin to be willing to cooperate voluntarily and actively, and invest in additional energy, resources and work to smoothen the integration process and share tacit knowledge. In addition, the invisible integration approach offers all to help acquired companies. This is particularly true when acquired companies enter or expand their business in China. Chinese managers show their good faith, and provide relationship, capital, marketing channel, production base and other resources to acquired companies. This helps to build the cognition-based trust of managers in acquired companies towards managers in acquiring companies.

Third, this research proposes a mechanism of inter-personal trust building to link the third-party advisory participation with the cognition- and affect-based trust in the context of Chinese reverse M&As. Prior research proves that advisory participation plays an important role in the trust building in cross-border collaborations (Nooteboom et al., 1997), most research focuses on its significant impact on the cognition-based trust building through due diligence. In our research, the third-party advisory participation is favourable not only to the cognition-based trust building, but also to the affect-based trust building in Chinese reverse M&As through bridging the divergence of trust orientation in the pre-M&A phase and filling the cultural voids in the post-M&A phase. This is important in reverse M&As where the difference exists in cultural environment between the two parties. In doing so, this research advances the understanding of trust-building literature in the Chinese context.

Managerial implication

As for the managerial implications, first, it has instructional significance for Chinese companies and Chinese managers to understand the antecedents of inter-personal trust in reverse M&As, and to use this knowledge to build inter-personal trust. The findings of this research are helpful for Chinese managers to seek and create appropriate mechanisms to build inter-personal trust, as building an effective trust mechanism is conducive to weakening various challenges in reverse M&As. In essence, knowledge can only be transferred to acquiring companies if employees of acquired companies stay with the company, have trust towards acquiring companies, and are willing to cooperate (Knoerich, 2010).

Second, this research helps to offer strategists and executives some insights and useful strategies to overcome various divergences in the reverse M&A process. In practice, this research highlights the important role of advisories in building trust from Western managers towards Chinese managers. Reverse M&As set new request to the advisories that not only the professional capabilities such as due diligence, audition and financing are needed, but also act as a bridge to pitch up the cultural difference between the East and the West. Meanwhile, this research suggests that the invisible integration approach adopted by Chinese managers plays a critical role in trust building, and might result in an increasing inter-personal trust from acquired company managers.

Future research direction

This research has several limitations and needs further study. First, this research adopted two cases of Chinese reverse M&As in the Netherlands. However, although the trust orientation is similar in the countries with short cultural distance, the initial trust and the level/degree of trust may vary among partners (Ariño et al., 2001).

Therefore, further research could expand the research subject to different developed countries. Second, the Chinese acquiring companies in the case study were two state-owned enterprises (SOEs). However, trust-building barriers and practices might differ between SOEs and privately owned enterprises (POEs) in the context of Chinese reverse M&As. Therefore, by comparing these barriers and practices between SOEs and POEs in reverse M&As, it might provide a theoretical explanation for the antecedents and process of trust building from the ownership perspective, and lay the micro-institutional foundation for the inter-personal trust in reverse M&As. Third, this research mainly focuses on the practices by Chinese acquiring managers to gain trust of acquired managers. However, trust is asymmetric (Slovic, 1993; Zucker, 1986), and the stability of M&A relationship largely depends on the trust of both parties to each other. Therefore, it is important to take the both parties' trust into consideration. Fourth, this conceptual research builds a model to indicate the relationship between trust-building barriers and the emergence of trust in Chinese reverse M&As, and imply the moderating role of the third-party participation and invisible integration approach. It might provide a theoretical foundation for the future empirical research, for instance, to develop the scales of third-party participation and invisible integration approach, and adopt survey methods to empirically examine the aforementioned relationship. Last but not least, trust is of dynamic nature. Trust literature shows that trust presents different characteristics at different stages of a relationship, and one form of trust can be transformed into other forms over time. Then, how does trust change and develop in the context of reverse M&As? The investigation to this question might be helpful to understand the trust evolution in the process of reverse M&As.

Notes

1. The fear of exploitation is described as extreme anxiety that individuals appear to experience in M&As, when they are being asked to give away valuable knowledge to new firm members, while there is little being offered in return. This is not a result of rational or a commercial consideration, but a result of subjectivity and personal evaluations.
2. The fear of contamination contains the risk that employees experience when their company's image is called in to question when they are associated with the new "down market" company.
3. Absorption involves the highest level of integration and synergy potential, which is explained by dissolving the boundaries between the companies, and minimising autonomy of the target management. Symbiosis involves a moderate level of integration and synergy opportunity, whereby companies are separate entities but they become interdependent. Preservation is characterised by the lowest level of integration and little synergy potential, in which the acquired company's management have high autonomy.

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