

TURUN KAUPPAKORKEAKOULUN JULKAISUJA

PUBLICATIONS OF THE TURKU SCHOOL OF ECONOMICS



Erkki Vuorenmaa

***TRUST, CONTROL AND
INTERNATIONAL
CORPORATE INTEGRATION***

Copyright © Erkki Vuorenmaa & Turku School of Economics

ISBN 951-564-376-7 (nid.) 951-564- 377-5 (PDF)
ISSN 0357-4652 (nid.) 1459-4870 (PDF)
UDK 65.012.2
65.012.4
65.016
658.112.3
657
65.012.7

Esa Print Tampere, Tampere 2006

ACKNOWLEDGEMENTS

I would like to express my gratitude to the people who have contributed to the writing of this Thesis. I am especially grateful to my supervisors, Professors Kari Lukka and Pekka Pihlanto, for their guidance. Kari has continually challenged my thoughts and given high-quality comments, which have significantly contributed to my learning and to this Thesis. Pekka has provided important comments and assistance during this research project, and he played a central role in my decision to start post-graduate studies.

The Department of Accounting and Finance at the Turku School of Economics has provided a good base for development as a researcher. I have benefited both from informal and formal discussions with my learned colleagues. The research seminar discussions have been high in quality, providing both new ideas and challenges to improve the quality of the research. I thank all my colleagues for their comments on my research. I want to express special gratitude to Markus Granlund, Vesa Partanen, Tero-Seppo Tuomela and Niko Lappalainen who have made exceptional efforts in commenting on my work.

I also want to thank people who have commented on my work at international conferences and colloquiums. During this research project I have benefited from discussions with Professors Robert Chenhall, Jan Mouritsen, Robert Scapens and Mike Shields. I especially want to thank my pre-examiners, Professors John Burns and Sten Jönsson, for their thoughtful comments and encouragement to continue research in this area.

This research would not have been possible without such a great case company. I am extremely indebted to all interviewees and other people in the company who contributed to the success of this study.

I am grateful to the following foundations for their financial support: the Foundation for Economic Education, the Jenny and Antti Wihuri Foundation, Turun Kauppaopetussäätiö, Hjalmar Karlströmin säätiö, Turun Kauppaseuran säätiö, The Finnish Foundation for Economic and Technology Sciences — KAUTE, and the Turku School of Economics Support Foundation. I also want to thank Tim Glogan for his valuable efforts in making this Thesis readable.

Finally, I want to thank my family for their encouragement and support, especially, Piia who has stood by me during all the ups and downs of this project.

Turku, September 30, 2006

Erkki Vuorenmaa

TABLE OF CONTENTS

1	INTRODUCTION.....	9
	1.1 Motivation for the study	9
	1.2 Purpose, methodology, and the structure of the research process	11
2	TRUST AND CONTROL	19
	2.1 Trust	19
	2.1.1 The perspectives and components of trust	19
	2.1.1.1 <i>Introduction</i>	19
	2.1.1.2 <i>Calculative and transaction cost perspective on trust</i>	20
	2.1.1.3 <i>Trust and culture</i>	22
	2.1.1.4 <i>Trust at macro and micro level</i>	25
	2.1.1.5 <i>Trust in an organisational context</i>	28
	2.1.2 The development of trust.....	31
	2.2 Control.....	33
	2.2.1 Forms of control.....	33
	2.2.2 Result control	34
	2.2.3 Administrative control	36
	2.2.4 Social control	39
	2.3 Perspectives of the relationship between trust and control	40
	2.3.1 Introduction.....	40
	2.3.2 Trust as a control mechanism	41
	2.3.3 Complementary view.....	43
	2.3.4 Supplementary view	46
	2.3.5 Intertwined view	50
	2.3.6 Establishing an integrative view of the relationship.....	52
	2.4 Summary	57
3	TRUST, CONTROL AND CORPORATE INTEGRATION: A LITERATURE ANALYSIS.....	61
	3.1 Acquisition and integration doctrine.....	61
	3.1.1 Introduction.....	61
	3.1.2 Culture perspective	64
	3.1.3 People perspective	68
	3.1.4 Process perspective	71
	3.2 Trust and control in corporate integration	76
	3.2.1 Control in integration.....	76
	3.2.1.1 <i>Result control</i>	76
	3.2.1.2 <i>Administrative control</i>	79
	3.2.1.3 <i>Social control</i>	81

3.2.2	Trust in integration	82
3.2.3	The relationship between trust and control in integration	87
3.3	Summary	90
4	TRUST, CONTROL AND CORPORATE INTEGRATION: AN EMPIRICAL ANALYSIS AND DEVELOPMENT OF THEORETICAL FRAMEWORKS.....	95
4.1	Introduction to the empirical section and presentation of case companies	95
4.2	Acquisition process	98
4.3	Governance integration	102
4.3.1	Governance integration process	102
4.3.1.1	<i>Initial feelings and establishing the integration process</i>	102
4.3.1.2	<i>Managing the integration process</i>	105
4.3.1.3	<i>Managing the group during the integration</i>	111
4.3.2	Critical factors and the importance of trust and control in governance integration	117
4.4	Networking.....	130
4.4.1	Establishing networks in the merged company	130
4.4.2	Critical factors and the importance of trust and control in networking .	140
4.5	Procedural integration	146
4.5.1	Procedural integration process	146
4.5.2	Critical factors and the importance of trust and control in procedural integration	153
4.6	Operational integration.....	159
4.6.1	Integration process in a regional organisation	159
4.6.2	Integration process between two business units	170
4.6.3	Critical factors and the importance of trust and control in operational integration	181
5	TRUST, CONTROL AND THEIR RELATIONSHIP: ESTABLISHING AND REFINING THEORIES	191
5.1	The interplay between trust and control in an organisational context	191
5.1.1	Introduction.....	191
5.1.2	Administrative control and trust.....	192
5.1.3	Result control and trust.....	200
5.1.4	Social control and joint impacts of control forms and their relationship with trust	203
5.1.5	The development of trust and the relationship between trust and control	205

5.2 Refining the frameworks of control and the theories of trust.....	210
5.2.1 Introduction.....	210
5.2.2 From action control to administrative control.....	210
5.2.3 Refining result and social control frameworks	215
5.2.4 Refining the theories of trust	219
6 CONCLUSIONS AND EVALUATION OF THE STUDY	225
6.1 Conclusions	225
6.2 Evaluation of the study and further research possibilities.....	228
REFERENCES	231
APPENDIX INTERVIEW DATA	248

1 INTRODUCTION

1.1 Motivation for the study

Acquisitions and mergers are a common but complex phenomenon in everyday business life. It has frequently been pointed out that more than half of all acquisitions and mergers fail (see, e.g., Hunt 1990; Porter 1987; Young 1991; KPMG 2001; A.T. Kearney 1999). The integration process is central to the outcome of mergers and acquisitions, since the benefits of mergers and acquisitions are realised in that process (e.g., Larsson & Finkelstein 1999). Despite the significant amount of acquisitions and mergers carried out in business life, and substantial research in this field, we have an incomplete understanding of factors affecting success and failure in the integration processes. The main reason for this incomplete knowledge is fragmented integration studies, which have shown limited interest in synergy realisation and the business consequences of integration. An important explanation for these problems in previous research seems to be a lack of proper frameworks for studying integration processes.

Despite our lack of knowledge of the precise factors impacting on the outcome of integration, we have at our disposal several studies demonstrating some factors that impact on integration failure, including cultural distance between an acquired and an acquiring company, increased confusion due to lack of communication, lack of resources for implementing integration, personal conflicts, increased complexity arising from the acquisition, and the difficulty of the integration process (see, e.g., Haspelagh & Jemison 1991; Kitzhing 1967; Santala 1996). All this suggests that controlling the company during the integration process is potentially challenging, and that control might be one of the critical factors affecting its success. There is evidence that establishing control over the acquired unit may have significant organisational consequences (Jones 1985a, b, 1986; Granlund 2003; Roberts 1990). Previous studies, however, have focused mainly on accounting systems, and research into the wider implications of control in corporate integration has been called for (Granlund 2003).

Trust has been described as an essential element of social and economic life, since it facilitates co-operation, lowers agency and transaction costs, and acts as a basis for interaction between people (Mayer *et al.* 1995; Smith *et al.*

1995; Jones 1995; Rempel *et al.* 1985). Although there is a considerable amount of research into trust, our knowledge of its nature is still limited and contradictory. One important controversial topic is the development of trust. For one thing, it has been argued that trust develops gradually over time (e.g., Blau 1964; Rempel *et al.* 1985; Zand 1972), and in the context of interpersonal relations (Mayer *et al.* 1995). On the other hand, it has been argued that there may be very high initial trust without any interpersonal contacts (McKnight *et al.* 1998). An important reason for these controversial views is the lack of empirical research. The lack of empirical and contextual studies is the main problem in previous trust research, and contextual trust research has been called for in order to capture how trust truly functions (Rousseau *et al.* 1998).

Trust could be assumed to be a significant factor in the integration process, because co-operation is vital in order to achieve synergy targets, uncertainty must be limited so that business can function normally, and resources are generally limited — not everything can be controlled. Previous studies argue that the building up of trust between the acquirer and the acquired is important (Buono *et al.* 1985). Neither its establishment, however, nor its role in corporate integration, which has been described as important, has attracted research attention.

It is highly beneficial to study the nature of control and trust in the context of integration, because some level of trust and control needs to develop between the acquirer and the acquired. The relationship between trust and control is also an interesting and important subject of research, as both elements are important ingredients of social life. There are several contradictory views of the relationship. For one thing, it is argued that trust itself is a control mechanism (Bradach & Eccles 1989). On the other hand, the relationship between the two is considered to be complementary, meaning that when trust increases, control necessarily decreases (Inkpen & Currall 1997; Leifer & Mills 1996). Third, the relationship is argued to be supplementary, meaning that increasing trust does not necessitate decreasing control: the two support each other (Das & Teng 1998). Lastly, it is argued that trust and control are often intertwined with each other (Knights *et al.* 2001). Previous research in this field has been fragmented and has paid limited attention to contextual factors, which are important elements in understanding the interplay of the relationship.

This research contributes to our understanding of corporate integration, trust, control and their relationship. *First*, this research develops a four-dimensional integration framework, which, besides classifying the factors that affect M&A performance, assists future research in this area and corporate managers executing integration projects. *Second*, this study solves current

contradictory views of the relationship between trust and control, demonstrating that the relationship can have complementary, supplementary and intertwined dimensions and the different forms of control have their own specific relationship with trust. The relationship between trust and control cannot be treated acontextually, but trust and control are closely connected to their context, which determines the interplay between the two. This study categorises the contextual factors explaining the interplay between the two. *Third*, this study contributes to our understanding of trust, demonstrating that, besides the fact that the development of trust can be gradual or trust can be initially high, the trust relationship can also be forced. This study also indicates that the development of trust depends on organisational structures, culture, resources, politics and the use and types of control forms. This study also meets the need for contextual trust research, which classifies organisational factors that affect different forms of trust and that develop a climate of trust concept, through which we can increase our understanding of behaviour and trust in an organisational context. *Fourth*, this research discusses contextual impacts on the use and efficiency of different control forms, and refines commonly used Merchant's (1985) control typology. The action control form is revised to an administrative control form and is shown to have an important function in facilitating trust in organisations.

1.2 Purpose, methodology, and the structure of the research process

The *first purpose* of this study is to analyse the importance of trust and control at different levels of corporate integration. The *second* is to analyse the relationship and interplay between trust and control on a more general level.

This study has been conducted on iterative grounded-theory methodology. Iterative grounded-theory means an iterative process between inductive and deductive research. This iterative process means combining detailed inductive theory generation and theoretical alertness of deductive research in a research process (Orton 1997). This iterative grounded-theory concept was developed in Orton's (1997) article, in which he argued that organisational process researchers have moved to conduct research according to the iterative process, between inductive and deductive research methodology. In his article, he does not develop any specific guidelines for conducting research using this methodology, but raises some challenges which iterative researchers face in their research process. As the iterative grounded-theory is a vague concept,

and as the concept of grounded-theory (GT) itself is in fact ambiguous¹, after explaining reasons for choosing this methodology, it is relevant to make clear in detail how this research process has been conducted.

The starting points of this study were two major questions: why do mergers and acquisitions succeed or fail, and what is the relationship between trust and control? These two major themes were linked according to my two research questions. Answering the question of the importance of trust and control in integration requires classifying factors affecting the integration outcome. As previous research in the field of integration was contradictory, fragmented and involved several gaps, not even offering any helpful framework for empirical research, there was no other way than to choose the grounded-theory approach. The same problem was faced also in trust and control literature. Although some trust and control relationship frameworks existed, they were in contradiction with others, and choosing one could lead to misguided empirical research. Another major problem in previous research in the fields of both integration and the trust and control relationship was the lack of empirical research that limited the reliability of existing research findings. All the above issues resulted in the decision to go to the field without any explicit theoretical lenses, but with some theoretical alertness. After categorising the findings of this study, the existing frameworks in the field of control and trust were found helpful in connecting the findings of this study to previous doctrine. At that stage, opportunities were also found to refine existing control and trust frameworks. This iterative process is explained in more detail as the whole research process is described.

¹ This GT research methodology was developed in the 1960s in the context of an observational field study of the way hospital staff dealt with dying patients (Glaser & Strauss 1965, 1968). Glaser & Strauss (1967) ended up writing a book “The discovery of grounded theory” to give guidance to sociologists in conducting theory-generating research. GT is an approach whereby a theory is inductively derived from the phenomenon it represents. GT research aims to systematise ideas that have emerged from the field, through the analysis of documents, interviews and field notes, and by continuously coding and comparing data to produce a well-constructed theory. Rather than verifying existing theories, the researcher begins to study in a field without a priori preconceptions, and allows theoretical constructions to emerge (Glaser 1978; Strauss 1987). However, after developing this GT approach, these two GT developers have further developed their GT methods independently. The differences between the two camps are so considerable that it is possible to call them two different GT schools. The main differences are in the data analysis, in the way in which a research question is chosen, and in the verification of the research findings. Strauss & Corbin (1990) introduced a three-level coding procedure for theory generation and verification. Glaser (1992) argues that all these features are unnecessary and destroy the inductive nature of the GT approach. In his view, the comparative method is applicable without the use of any specific coding procedures. Strauss & Corbin (1990) also have given up the requirement of starting a GT study with no a priori knowledge, which has played an important role in this methodology. They argue that a research problem can stem from prior literature and theory. According to them a GT research purpose can be to improve an existing framework while Glaser (1992) states that researchers should go to the field without any a priori theoretical knowledge.

The case company was selected on the basis that it would offer multiple perspectives for both integration and trust and control analysis. The case company was selected following a review of the international acquisitions of public companies made during the late 1990's. The research was conducted in a global company, which now has manufacturing and sales operations in more than thirty countries. The acquisition² under scrutiny was made in the late 1990's. The company was chosen because of its large size and the complexity of the acquisition: the acquisition hugely increased the turnover of the acquiring company, and involved globally-separate businesses. A complex and large acquisition can be expected to present more challenges than a small and simple one. The first contacts were made during autumn 2001. The interviews started in March of 2002 and the last interview was conducted in the middle of May 2004.

Categorisation of empirical findings started immediately after first interviews. The first framework — the different integration aspects — was developed after noticing that integration involves different features in different organisational and functional areas. This integration framework consisting of four integration aspects guided further empirical research. The four dimensions of the integration framework are governance, procedural, networking and operational integration. The *governance* aspect involves structuring the company, managing the group and the formal integration process, which, in this case, was established immediately after the deal was closed. The second aspect is *networking*. The network dimension of the issue was found when it was noticed that, besides trying to find synergies in restructuring the transfer of knowledge, sharing best practices, developing new product innovations together and cross-selling were important in creating value for the merged company. This internal network and its establishment are considered in this study from the perspective of the group and the business units. Thirdly, the *procedural* aspect involves harmonising and integrating procedures, including accounting, during and after the integration. The fourth aspect is *operational*. Two sub-perspectives with a similar focus were selected in order to capture different forms of operational integration.³ The first is the integration and reorganisation process of the five units, two of which belonged to the acquired company and three to the acquiring company. That process was managed by the director from the acquired company. The second is the

² The integration concerned was based on acquisition, although it was referred to in the media and even within the newly-formed company as a 'merger of equals'. This particular issue is discussed in the empirical section.

³ The two countries where the operational integration processes were studied were different from the countries where the headquarters of the acquirer and the acquired were located.

integration process of two units that were competitors before the acquisition, and that process was managed by the director of the acquirer company. The operational integration includes back-office, production, sales force integration and structural changes.

At each of the above-mentioned four integration dimensions, analysis was concentrated on the critical factors in the integration process, the role and importance of trust and control and the relationship between trust and control. The empirical material was collected by interviewing key people in each integration aspect, reading acquisition and integration materials concerning such things as studies made of the acquisition target, business plans of the merged company, several integration and implementation plans, and external and internal news items. This written material played an important role in analysing key processes in different integration aspects, giving information on such matters as what kind of synergies were expected through specific restructuring processes, and how much additional sales were targeted at cross-selling. A total of 33 interviews with 27 people (Appendix) were conducted in six different countries. Nine of the interviewees were Finnish, and the rest were of seven other nationalities. Almost all persons interviewed were involved with more than one integration aspect. Besides information collection, interviews at different organisational levels also targeted data triangulation. All interviews were planned carefully beforehand in order effectively to collect empirical material. Therefore, all interview guides, which, in every case, were sent beforehand to the interviewees, were modified individually in order to capture critical factors in each integration aspect and process. The average length of the interviews was about two hours, varying from 1 hour to 4½ hours. All interviews were tape-recorded and transcribed verbatim. Besides interviews and written documents, information was collected in informal discussion with people who may or may not have been formally interviewed, during such occasions as factory tours, lunches and coffee breaks.

During the data collection, I continuously analysed the empirical material classifying critical integration processes and the role and importance of trust and control in these processes. This continual data analysis directed the empirical data collection and helped to analyse when empirical saturation was reached. Besides data categorisation, I also wrote case reports while collecting the empirical material, in order to help analysis and to assist in the analysis of the requirement for further empirical material. When I thought that I had reached empirical saturation in the middle of May 2004, I began more thorough coding process. In order to guarantee that all aspects of the data were considered I once again categorised the entire batch of material from the beginning. This second process brought to light several additional features of

the trust and control relationship, but no further critical integration activities. This analysis process lasted almost the whole of autumn 2004.

After the second coding process, which involved categorisation of trust, control and their relationship, critical processes in each of the integration aspects, and connections between these issues, I linked my findings to previous literature. At the end of the coding process, I decided to categorise control in the empirical study using Merchant's (1985) classification of control. Some previous trust and control relationship literature has been categorised according to Ouchi's (1979) three forms of control. I, however, found Ouchi's classification of control rather approximate for the purposes of this study. As Merchant's (1985) classification also involves three forms of control and is more exact, I found it helpful for categorising my findings. I noticed, however, that Merchant's concept of action control is not exactly the same as the hierarchical control found in this and previous integration studies. Therefore, I decided to use the concept of administrative control instead of action control. This new concept also meant refining Merchant's control typology. After this categorisation, trust, control and their relationship literature were classified and written in the thesis. I then classified and wrote up a summary of the previous literature regarding corporate integration. After writing literature chapters, I wrote case chapters. After each case section, I compared my findings with integration literature. I then classified and wrote the relationship between trust and control sections, connecting my findings to prior literature. After completing the first draft of my thesis, I noticed that I have empirical material for explanatory factors affecting the outcome of each integration aspect and for explaining the relationship between trust and control. I then decided to conduct a third categorisation process. In this process, I classified critical outcome factors in each integration aspect and what the factors affecting the relationship between trust and control are. After categorisation of my empirical material, I classified previous literature in the same manner. I then started my final writing process. During this process, I also found possibilities to refine trust and control theories. So I also conducted some additional categorisation processes during my final writing.

The structure of this Thesis is presented in Figure 1. The lines in the picture describe how main themes in different chapters are connected to each other. The first chapter motivates the study, describes the research methodology, methods, and the structure of the research process and the study. The second chapter discusses different forms of trust and control. These trust and control theories are used later in the empirical part to categorise empirical findings, but this study also contributes to refining these theories. The latter part of the second chapter categorises previous trust and control relationship literature. Four different perspectives on this literature are presented, and finally, in the

integrative section, literature is categorised using the refined version of Merchant's (1985) control forms. The third chapter analyses integration literature. First, general literature is discussed, which concerns previous findings and arguments regarding mergers and acquisitions performance and the outcome of integration. Second, findings in previous control literature are analysed and categorised. Third, findings and arguments regarding trust in integration are discussed. Finally, previous integration findings regarding the relationship between trust and control are analysed. The fourth chapter consists of five mini-cases. Each mini-case analyses critical factors of integration and the importance of trust, control and their relationship to the outcome of integration. After each mini-case, these critical outcome factors are categorised and connected to previous literature. The importance of trust and control regarding these factors is also discussed. The fifth chapter involves establishing theories and refining existing frameworks and theories regarding trust, control and the relationship between the two. The sixth and last chapter presents a summary and conclusions, evaluates the study and discusses further research possibilities.

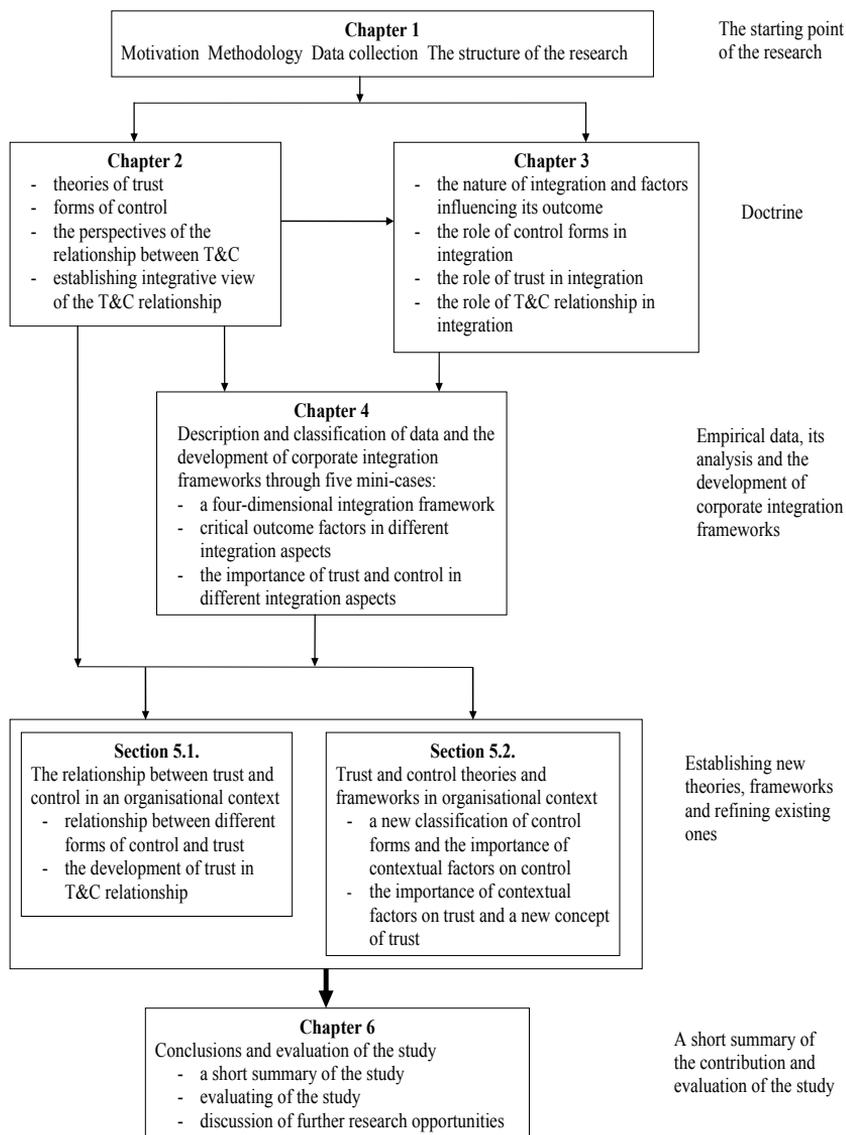


Figure 1 Structure of the Thesis

2 TRUST AND CONTROL

2.1 Trust

2.1.1 The perspectives and components of trust

2.1.1.1 Introduction

Trust has been regarded as being of considerable importance in society, and has attracted academic scholars in many different disciplines. Trust has been regarded as important since it, for example, lubricates social systems (Arrow 1974), is a necessary ingredient of a healthy personality (Erickson 1963), makes co-operative behaviour possible (Gambetta 1988), promotes adaptive organisation forms such as networks (Miles & Snow 1994), reduces transaction costs (Meyerson *et al.* 1996), advances individual performance (McAllister 1995) and facilitates effective reactions to crises (Mishra & Spreitzer 1998).

Academic and practical interest in trust has increased considerably over recent decades. The reason for the growing interest in trust has been that trust is perceived as being more important in today's society and business life than in previous times. For example, the evolution of technology and increased knowledge intensity, greater need for flexibility and co-operation within and between firms, changes in management styles and organisational structures, increased reliance on teams and teamwork and a growing amount of workforce diversity have increased the importance of trust in daily life (e.g., McEvily *et al.* 2003; Miles & Creed 1995; Mayer *et al.* 1995; Rousseau *et al.* 1998).

Despite the importance of trust in society and business life and a substantial amount of research into it, our knowledge of trust is considerably limited. Previous research has mainly only been theoretical. Several frameworks and hypotheses have been developed but only a few of them have been empirically tested. The limited amount of contextual studies has resulted in a situation in which we lack knowledge of how trust truly functions (Rousseau *et al.* 1998). This section discusses our knowledge and the gaps in it, and is divided into discussion of different forms and of perspectives on trust.

Trust in the broadest sense refers to expectations concerning the behaviour of another, and is the basis of our social life. Its complete absence would prevent us from getting up in the morning, as we would be afraid of doing anything. Without it we would not be able to define distrust or take precautionary measures, since that would presuppose trust in other directions (Luhmann 1979). After this basic definition of trust, however, there are almost as many specific definitions of trust as there are scholars writing about trust. Nevertheless, we are able to capture two common themes in definitions of trust — uncertainty and expectations concerning the conduct of another. These are both implicitly included in one of the earliest definitions of trust by Deutch (1958), who defines it as “*An individual may be said to have trust in the occurrence of an event if he expects its occurrence and his expectation leads to behavior which he perceives to have greater negative motivational consequences if the expectation is not confirmed, than positive motivational consequences if it is confirmed.*” There is some discussion about whether vulnerability to the conduct of another should also be in the definition of trust. For example, Luhmann (1988) considers vulnerability to be a key point in the difference between trust and confidence. Definitions of trust, which do not include vulnerability widely have, however, been adopted. They only include uncertainty such as that proposed by Lewicki *et al.* (1998), that trust means having confident positive expectations regarding the conduct of another. In this study, vulnerability is not included in the definition of trust. In this research, trust is defined as confidence in positive expectation outcomes in terms of behaviour, processes, performance or any situations in which actors operate under circumstances of uncertainty.

2.1.1.2 Calculative and transaction cost perspective on trust

There are contradictory views about where trust starts. Whilst others see that trust starts where rational calculation ends (e.g., Luhmann 1979; Barber 1983; Zucker 1986; Gambetta 1988; Preisendörfer 1995), in the agency theory of social sciences, calculative perspective of trust has been widely discussed (e.g., Axelrod 1984; Coleman 1990; Dasgupta 1988). In calculative perspective of trust, trusting involves expectations about another based on calculations, which weigh up the cost and benefits of certain actions for either the trustor or trustee. In this calculative perspective of trust, man is seen as a rational actor, who chooses the course of action likely to gain him the maximum benefit.

The best-known development of this perspective of trust is the decisional-theoretical approach by Coleman (1990). Coleman views trust as a unilateral

transfer of resources to another actor based on expectations that another actor might satisfy the trustor's interests better than he could himself. A rational actor bestows trust only if his calculation advises that the gain from reciprocated trust is higher than the loss threatened by a betrayal of trust and when trust relations are supported by negative sanctions (Preisdörfer 1995; Lane 1998). This decision-theoretical approach has both been welcomed and received a considerable amount of criticism. Economic and social analysts have welcomed the rational choice theory because it allows precise judgment of the conditions and strategies in the presence of which repeated games and intense social networks are conducive to generating trust (ibid.). Criticisms hinge on the observation that rational actor theory ignores the social nature of action, which makes it difficult to predict future outcomes. If gains and losses can be calculated in exact and reliable terms, the need for trust can be questioned (Lane 1998; Bachmann 2001).

Although calculative trust has been widely criticised among sociologists, it has been acknowledged that decisions concerning trust, particularly within and between business organisations, are not completely free of calculation (Lane 1998). Kramer *et al.* (1996) and Zucker (1986) argue that an element of calculation may exist in most decisions on trust. The importance of calculation depends on context and the object of trust as well as the stage of the trusting relationship. According to Zucker (1986), collectivity-orientation exists at the beginning of the relationship when rules are being established, whereas self-interest and calculation are often present at later stages. In economic relationships in which people play the game to win, self-interest is in fact explicitly legitimised (Lane 1998).

There are also contradictory views about the kinds of relationships where trust is involved. That theme mostly concerns the transaction cost economics approach. In transaction cost economics, the risk of opportunistic behaviour of potential partners is mitigated by employing control mechanisms and by making opportunism costly. Only when an agent expects calculation of the balance of costs, and also expects the benefits of either opportunism or co-operative behaviour to favour co-operation, is he willing to trust. Eliminating the risk of opportunism by using control mechanisms has led Williamson to conclude that trust has no place in economic transactions. According to Williamson (1993, 463) *"it is redundant at best and can be misleading to use term "trust" to describe commercial exchange for which cost effective safeguards have been devised in support of more effective exchange."* According to Williamson (1993) trust is only reasonable for special personal relationships. Williamson (1993, 486) argues that personal trust means switching out of a rational decision-making mode and it *"is warranted only for very special personal relations that would be seriously degraded if a*

calculative orientation were “permitted”. Commercial relations do not qualify.”

Transaction cost economics with its view of bounded rationality and the possibility to eliminate trust and social ties from exchange situations does not stand scrutiny. First, in network literature in particular, transaction cost theory has faced criticism when it has been found that trust can have a central role in establishing, facilitating and governing network relationships (Dekker 2004). Second, transaction cost economics has also faced criticism in organisational trust research, when it has been found that social ties and trust relations are involved in exchange situations in organisations (Tyler & Degoy 1996). Finally, the view of eliminating trust from contracting does not find support. Trust has been argued to be involved in transaction situations even when we use specific contracts. In terms of contracting, parties rely on the same assumptions that institutional mechanisms can be used to resolve any disputes they themselves cannot settle (Macneil 1978), and the exchange participants and the legal system share the same norms of fair behaviour (Neu 1991). As a result of this, the relationship between trust and contracting has been argued to be asymmetrical: when trust does not exist, contracting is not possible and when a high level of trust exists, contracts are not needed (Neu 1991). Thus, the transaction cost economics view precluding trust from business transactions, either within or between organisations, does not give us a true view of trust and exchange situations, although contracts and calculative behaviour are important in decreasing the need for trust. Trust is more tied to contracts, exchange situations, governing organisations than calculative and transaction cost perspectives assume. The role of trust in governing organisations is focused on in Chapter 2.3 when is discussed the relationship between trust and control.

2.1.1.3 Trust and culture

Culture, mainly in terms of values and norms, has been a central topic in trust literature but the relationship between trust and culture has remained unclear. First of all, on the one hand it has widely been argued that the same values are required for trust, but on the other hand, trust has been found to develop between parties without shared values, too. Talcott Parsons (1951) has strongly argued that trust cannot develop unless individuals share common values. He rejected the idea that rational self-interest could become the basis of collective order, and instead argued that the concept of solidarity is placed at the centre of collective order. Parsons (1951) sees that the main characteristic of a legitimate societal community is solidarity identified with

institutionalised shared values. The primary function of this societal community is to define obligations of loyalty to the societal collectivity (Parsons 1971; Lane 1998). For Parsons (1969, 142) trust is “*the attitudinal ground—in affectively loyalty—for the acceptance of solidarity relationship*”. This means suspension of self-interest in favour of collectivity-orientation. This perspective on trust is based on an expectation on the part of the trustor that if the trustee is in a position of power, he will meet his social obligation and exercise responsibility. Parsons (1969) sees that the solidarity community exercises a social control function, and assumes common values and norms based on kinship familiarity or common background and interest (Lane 1998).

Trust relationships would be rare in society if common values were required for trust between parties, and furthermore, empirical studies do not support Parsons’ arguments (Lane 1998). There is evidence that trust can be built even between people from different cultural backgrounds or between individuals who share no values beyond their narrow business goals. Lorenz (1988) indicates that ties of friendship between buyers and suppliers are rare. A solidarity community would also be impossible in many cross-border inter-organisational relations (Lane 1998). Neither does Parsons’ perspective of trust include gradual step-by-step construction of trust between individuals, or organisations who start out with very imperfect knowledge/experience of each other (Luhmann 1979; Zucker 1986; Lorenz 1988; Gambetta 1988; Sabel 1992; Lane 1998).

In business-life, the role of value-based trust has remained unclear. On the other hand, efforts have been made to develop frameworks of value-based trust, without showing, however, how value-based trust develops between partners. Barney & Hansen (1994), for example, have developed a notion of ‘strong-form trust’. This form of trust “*reflects the values, principles, and standards that partners bring to an exchange*” (Barney & Hansen 1994, 179). Although they admit, however, the difficulty of developing this form of trust, they do not in their paper discuss how this kind of trust relationship is established between parties, so it remains unclear how value-based trust develops in business relationships. On the other hand, it has been argued that character-based trust founded on common values facilitates trust and directs our behaviour. Zucker (1986) has developed a widely cited concept of character-based trust. She argues that this type of trust is dependent on common values which are based on social similarity because a trustor and a trustee belong to the same group or community. These same values can be based on familiarity, common religion or ethnic status, something that creates common ground between a trustor and a trustee. It has been argued that these shared expectations facilitate transactions by reducing time in specific exchange negotiations (Neu 1991). Specific characteristics including values

can also guide our behaviour when making generalisations about individuals who have certain characteristics. These characteristics provide us with “typifications” (Schutz 1967) or person-in-situation scripts (Lurigio & Carroll 1985) that give us a correct or incorrect view on how individuals with certain characteristics will behave (Neu 1991). Despite the above theoretical studies, however, our knowledge of the relationship between values and trust is considerably insufficient.

Although we have limited knowledge of value-based trust, we have some knowledge of norms in business relationships. Cultural differences affect decisions concerning trust and behaviour in business relationships. In Asia it is important to avoid behaviour which might be interpreted as a sign of distrust (Sako 1992; Child 1998). Referring to China, however, Redding (1990) argues that the norms which require actors to trust each other are closely connected to rules of social inclusion and exclusion. Therefore, only in families or clans, which are based on long mutual ties, does the norm to trust apply, whereas almost the opposite applies in external relations. In contrast in Europe and America, social norms to trust seem weaker but more universal. In Europe and America, formal standards referred to in business relations are not experienced as a sign of distrust as can be seen in Asia (Bachmann 1998). Arighetti *et al.* (1997) claim that formal standards could even be seen as a facilitator of stability and co-operation in European business environments.

Empirical cultural trust research has concentrated on the national cultural level providing us with some insight into about how cultural differences impact on trusting relationships. Surprisingly, empirical research about the relationship between organisation culture and trust has not attracted scholars. When many studies have suggested the importance of trust in organisational efficiency and in relationships between and within organisations, acquiring knowledge of organisational culture and its impact on trust relationships in organisations is important. Additionally, when we have knowledge that national cultural differences affect trust in business exchanges, we can assume that national culture also affects trust in organisations, and acquiring knowledge of this would benefit our understanding of behaviour in organisations and performance within and between organisational relationships, for example, in multinational companies, cross-border mergers, acquisitions and joint ventures.

2.1.1.4 Trust at macro and micro level

The discussion about trust can be divided into macro and micro levels. At macro level, trust is based on institutional and systems trust, and, at micro level, trust is based on personal trustworthiness. Concerning institutional and systems trust, which can be regarded as macro level, theories are close to each other, differing mainly on the source of trust. When the sources of institutional trust are institutions, systems trust is trust or confidence in an abstract system.

It has been argued that institutional and systems trust have become more important in the twentieth century because of dramatically increased heterogeneity in background expectations. When organisational actors can no longer rely on past history or commonality of personal characteristics, they are required to rely on institutions as sources of trust. These social structures which institutionalise trust make trust part of “*the external world known in common*” (Zucker 1986, 63) which can be either person- or firm-specific such as a professional credentials or membership of an association. These can also be an intermediary mechanism such as insurance, legal/statutory rules, or an institution such as a bank “*which protect the interest of all parties to the exchange*” (Zucker 1986, 64). Firms, specific individuals and entire industries can deliberately produce institutional trust in order to guarantee that institutional mechanisms are socially legitimised to be effective, and they remain related to the underlying property signalled (Lane 1998). Firms can also deliberately join certain associations or adopt specific organisational practices, which can signal their willingness to conform to social or constitutive expectations (Dowling & Pfeffer 1974; Richardson 1987). These purposeful signals of institutional trustworthiness also have resulted in homogeneity of organisation (see, DiMaggio & Powell 1983).

Anyone who trusts in the stability and continuity of the system basically assumes that the system is functioning and places his trust in that function, not in people. Such trust is built on continual affirmative experiences of using the system. Trust in the system does not require specific built-in guarantees, but it is more difficult to control than trust in persons. Controlling the basis of systems trust requires more expert knowledge than people who trust in the system usually have. Thus, systems trust in many situations requires relying on experts using these systems (Luhmann 1979).

Systems and institutional trust are closely tied to interpersonal trust, both supporting each other. Knowledge of systems trust mechanisms shared with each other can overcome the need for information about the other party, thus supporting the establishment of trust (Luhmann 1979). Also interpersonal contacts help in establishing impersonal trust. Giddens (1990) argues that ‘expert systems’ such as air-traffic systems and legal systems, can generally be

trusted because they are large-scale abstract social systems that can generally be expected to function according to universal rules regardless of whether or not an individual actor is cheating for some reason. He does not, however, consider an individual actor totally irrelevant in terms of the object of trust. Individuals are important at the 'access points' of social 'expert systems'. They represent and regularly confirm the trustworthiness of the system. Face-to-face contacts with people at points of access help to absorb the risk. These contacts are important in the constitution of trust, but the interaction is not sufficient to produce systems trust (Giddens 1990; Bachmann 2001).

The strength of institutions and systems as guarantees of trust depends on the existence of institutions and systems and their weaknesses. When institutions are not strong enough to guarantee trust, other forms of trust are used to guarantee the trustworthiness of the partner. Bachmann (1998) suggests that individual calculation and social norms are linked to an environment, which lacks a strong institutional basis, while the existence of reliable institutions provides shared background of beliefs, allowing the generation of common habits and practices. An example of a high-trust system is Germany, which operates on the grounds of common understanding and shared frames of interpretation. Whereas China and India operate in low trust systems, where trust relations are based on calculative and normative mechanisms. Humprey's (1998) study of business relations in India also suggests that, as the Indian business system has very few institutional guarantors of goodwill and shared business value beliefs, the trustworthiness of a business partner must be monitored in order to establish a basic concept of trust. However, the stage of development of a society is not the only thing that affects the strength and weaknesses of the system trust mechanisms. In developed societies too, trust-to-systems-trust mechanisms can be weak as Arighetti *et al.* (1997) found when studying the Italian legal system.

At micro level, interpersonal relationships, propensity of trust and perceptions of the trustee affect decisions on trust. Personal characteristics and background experiences such as cultural and family background, personality types, education, demography and different development experiences (e.g., Hofstede 1980; Barber 1983; Zucker 1986) have considerable impact on decisions on trust since people differ in their propensity to trust. Propensity can be defined as a general willingness to trust others and it affects how much one trusts a trustee, prior to receiving information on that party. Some people can, for example, be observed repeatedly to trust in situations in which most would not think that trust were warranted and, in contrast, some do not trust in situations when circumstances support trust (Mayer *et al.* 1995).

Factors affecting perceived trustworthiness are commonly divided into the potential trustee's ability, benevolence and integrity (Mayer *et al.* 1995).

Ability as a source of trust means that the trustee has a group of skills, competencies, and characteristics that enable a party to have influence within some specific domain. Ability is domain-specific, meaning that a person can have high-quality skills in one area but can have little ability in another area, such as limited interpersonal skills. Trust is thus domain-specific (Zand 1972). Benevolence is the other component of personal trust. It means the extent to which the trustee is believed to do good for the trustee without egocentric profit motive. In the question of benevolence, the trustee has some attachment to the trustor and thus has a positive orientation toward the trustor. Mayer *et al.* (1995) compare the benevolence-based trust relationship to the relationship between a mentor and a protégé. The mentor wants to help a protégé even though the mentor is not required to be helpful and there is no extrinsic reward for the mentor. The third component of trustworthiness is integrity. When trust relies on integrity, the trustor has a perception that the trustee adheres to a set of principles that the trustor finds acceptable. McFall (1987) describes that both adherence to and acceptability of the principles are important. Adhering to principles defines personal integrity; these principles are not, however, necessarily acceptable to the trustor. Credible information about the trustee from other parties, consistency of the party's past actions, belief that the trustee has a strong sense of justice, and the extent to which the party's actions are congruent with his or her words all affect the degree to which the party is judged to have integrity. Integrity of all these three sources of trust has been regarded as most important at the beginning of the relationships and, as the relationship develops, the importance of benevolence grows (Mayer *et al.* 1995).

As with other trust perspectives, macro and micro level trust research also lacks empirical knowledge. For example, the above mentioned classification of trustworthiness has not been empirically tested and neither do we have knowledge of how contextual characteristics impact on decisions on trust and trustworthiness. At macro level we have some knowledge of how the robustness of national institutions and systems has implications for trust situations. Interestingly, macro level analysis has not been conducted in an organisational context, thus, we do not know how the robustness of organisational institutions and systems impact on trust relationships at organisational level. Another interesting research area would be a contextual analysis about connections between interpersonal and systems trust. Based on these previous studies, which were largely theoretical, we have a quite static view of trust. As we have knowledge of individual and organisational behaviour it makes us wonder whether trust is so static after all. Empirical analysis will also provide us with new insight into this area.

2.1.1.5 Trust in an organisational context

As stated at the beginning of this chapter, trust has mainly been discussed theoretically without connecting it to any particular context. We have, however, had some discussion on trust in an organisational context, where trust has an important role, when work in organisations often involves interdependence, and individuals are thus in many ways dependent on others to accomplish their personal and organisational goals (Mayer *et al.* 1995). The context also creates role expectations: individuals are expected to behave in a certain manner in a specific context and the context affects how one expects the other to behave (Goffman 1967), and impacts on decisions to trust. Previous discussion about trust in organisations can be divided into the effect of managers on trust at organisational level, organisational collectivity and trust, and organisational hierarchy and trust.

Managers influence trust at organisational level in several ways. First, decisions about rewarding and control systems make explicit the levels of trust and mistrust within departments and organisations (Creed & Miles 1996). Second, managers affect the level of trust in organisations using control of information flow, by deciding to share and not to share key information between or across organisational levels or units (Pfeffer 1992). Third, managers can increase or decrease opportunities for exchanges that could increase the level of trust, and could increase or decrease shared values in organisations impacting on the level of trust. Fourth, it has been suggested that managers' overall attitudes and behaviour affect initial expectations of trust within the organisation, which in turn have effects on organisational processes (Creed & Miles 1996).

Managerial philosophies also have considerable impact on the levels of trust in organisations. Managers' philosophies concerning what they follow in their actions determine expectations of people and thus shape trust in organisations. Managerial philosophies are statements about the nature of interactions and the possibility of reciprocity within the organisation. These philosophies state the norms and institutionalised attributes of people's values and abilities. These managerial philosophies reflect the ideological climate of the time (Bendix 1956; Miles & Creed 1995). For example, in the owner-managed entrepreneurial form of the 19th century, the owner exercised direct supervision and made all decisions, employees being considered extensions or agents of the owner's will. In this organisational form, trust had no clear impact on operating mechanisms, whereas in the network form common in the 1990's, on the other hand, it has been suggested that the requirement for trust is high. Trust is required for the low transaction costs that are needed for the responsiveness and efficiency of networks (Creed & Miles 1996). As trust is

considered central to the network form, there has been discussion among scholars and managers about establishing trust and maintaining it as normal and about expected managerial behaviour (Lorenz 1988; Miles & Snow 1994; Powell 1990).

Organisational collectivity and its effects on trust has been another discussed theme among scholars of trust at organisational level. Organisational collectivity affects decisions on trust made by organisational actors. Individuals tend to socially categorise when they feel part of a specific organisational group and feel similar to other individuals. This categorisation may make individuals presume that other members of that category will act in a similar fashion (Kramer *et al.* 1996). People tend to perceive members of their own social groups in relative positive terms. Members of one's own group are typically viewed, for example, as being more co-operative, more honest, and more trustworthy than members of other groups (Brewer 1979). Thus collectivity can result in engaging in trusting relationship with less need to verify, than when engaging in exchanges or transactions with other organisational members (Kramer *et al.* 1996).

Besides social categorisation, organisational collectivity affects decisions on trust by the social motives it fulfils. For individuals perceiving trust as a mechanism for affirming social identities and positive relationships with others, such affirmations are likely to be pleasurable and self-rewarding. For individuals who identify with an organisation and its members, public affirmations and displays of trust serve several important social motivations. First, they provide self-esteem and the feeling of importance of being part of the organisation. Second, acting as if one trusts other members at the group communicates respect and liking. It provides organisational members with the opportunity to communicate the symbolic importance of being a member of a group. Finally, public affirmations and displaying of trust affords individuals an opportunity to signal others the importance they assign to the preservation of the collective trust (Kramer *et al.* 1996).

Collectivity in an organisational context also affects how people evaluate organisational authorities and make collective decisions on trust. When people feel that they are part of the organisation and when they have developed a social bond with the group authority, they care more about the trustworthiness of organisational authorities (Tyler & Degoy 1996). Organisational members also make collective judgments and evaluations about their superiors' trustworthiness. Trustworthiness is judged and evaluated in terms of how evaluated members exhibit moral integrity in the sense of faithfully representing the organisational identity and related values in their decisions and actions (Shamir & Lapidot 2003).

Hierarchical position affects the dependence of individuals on trust in an organisation. For an individual at a lower level of hierarchy, trust is critical for various reasons as they are dependent on many tangible and intangible organisational resources. Tangible resources include such things as promotions, pay increases, coveted assignments, support staff, and everything else required for the performance of work. Trust is thus important for individual at the bottom as trust is closely linked to their expectations about the outcomes they are likely to obtain from the organisation over time. Individuals at the bottom are also dependent on intangible factors such as positive reinforcement, empathy, and social support. Trust is thus also important for individuals at the bottom since it is closely coupled with individuals' beliefs about the sort of interpersonal treatment from those who have control over them (Kramer 1996; Bies & Moag 1986; Tyler 1993; Tyler & Bies 1990; Tyler & Lind 1992). Individuals at the bottom do not have precise information about their status and standing in organisations, and often encounter considerable uncertainty about the quality of the outcomes they are receiving and also the fairness and integrity of those outcomes. Although people at the top are far from free from vulnerability and uncertainty, their vulnerability focuses on areas different to those of their subordinates. Their dependence on trust focuses on accomplishing the task for which they are responsible. Their accomplishment of tasks depends on whether their subordinates perform their work competently and fulfil their duties faithfully. Trust focuses on areas such as subordinates' competence, values and motivation (Kramer 1996).

Contextual organisational research into trust has mainly been only theoretical, thus there is considerable need for empirical research. The themes which could be assumed to be challenging for trust at organisational level, such as politics, organisational structure and process changes, have been ignored in previous research. Our knowledge about trust in the relationship between different organisational units is also limited. Besides attempting to address the research questions, this study also offers potential to fill some gaps in contextual organisational trust research. The empirical study regarding the corporate integration between two competing companies having overlaps in their operations is assumed to offer a good context to analyse the effects of organisation and national culture, politics, and process changes on personal and organisational level trust as well as to analyse the role of trust between different organisational units and in organisational hierarchy. This study also offers the opportunity to analyse the role and robustness of systems trust mechanisms in a changing organisational context.

2.1.2 The development of trust

Our knowledge of the development of trust is ambiguous. On the one hand, it has been argued that trust develops gradually over time and, on the other hand, it has been argued that trust can be strong initially without any personal contacts. More common is the gradual linear view of the development of trust. Interpersonal trust in business relations is rarely displayed spontaneously: on the contrary, it requires an extended period of experience. During this time, information about the potential partner is gathered either directly or through a reliable third party. Exchange partners gradually test whether the other is trustworthy (Lane 1998). The incremental expansion of trust entails that the object of trust and the level of risk are gradually increased (Ring & Van de Ven 1992). The process of building trust may be shortened if boundary-spanning individuals, who are in exchange relationships, have regular personal contacts (Bradach & Eccles 1989), if the auditing of exchange is accepted, and if unilateral investments (Barney & Hansen 1994) or pre-commitments are made (Sako 1998).

The gradual development of trust is based on the assumption of the relevance of increased information. As more information gradually accumulates and trust develops, a trustor is willing to take more risks. Using conceptual analysis, Tomkins (2001) produced a model based on the relationship between trust and information which describes well the gradual linear view of the development of trust. Tomkins' (2001) model is an inverse U-shape. During the early stages, there is less need for both trust and information, since commitments are lighter than they are later. When the relationship matures, there is a positive association between trust and information since trust itself cannot be increased without further information being given. As trust becomes established at a higher level in the later stages of the relationship, there is less need for information to sustain it. Therefore, there is a negative association between the need for information and trust during the later stages of the relationship.

Recent empirical studies indicate that there may be a high level of trust at the initial stage of a relationship (Berg *et al.* 1995; Kramer 1994), which challenges previous views of the gradual development of trust. By the encouragement of these empirical studies, McKnight *et al.* (1998) have developed several untested hypotheses based on findings of initial trust. Their hypotheses suggest that high initial trust can derive from personal characteristics and beliefs, institutional factors, categorisation process and illusion of control. Personal characteristics leading to initial trust are faith in humanity and a trusting stance. Authors suggest that in a new situation when no other specific information is available, faith in humanity — the belief that

others are typically well-meaning and reliable — will lead to trusting beliefs. A trusting stance also has the effect that one is intentionally willing to be dependent on another, regardless of the beliefs in the other. When a person looks from a stance of high trust, he will probably believe that things will turn out best if he depends on others, even if the other is not trustworthy. Authors suggest that personal beliefs also affect the forming of initial trust. When one believes that the other party is benevolent, competent, honest and predictable, one is likely to form a trusting intention toward that person.

McKnight *et al.* (1998) also suggest that institutional factors consisting of situational normality and structural assurances affect the forming of initial trust. If a person believes in situational normality, that helps him to feel comfortable enough rapidly to form a trusting intention toward the other party in that situation. The authors referred to a customer visiting a bank. A person entering a bank expects there to be safe and responsible customer service and, when he feels it, he is willing rapidly to form a trusting intention towards the representatives of the bank. Structural assurances also affect the forming of initial trust. If someone believes that structural assurances such as regulations, guarantees, contracts and promises provide secure contextual conditions, he is willing to form initial trust. Beliefs of structural assurances involved in the situation also affect forming initial trust in two main ways: first, believing that a situation is bound by safeguards enables one to believe that the individuals in the situation are trustworthy and, secondly, beliefs about the institutions will help to form trusting beliefs about the people who are involved in the institutions. Personal characteristics also affect trusting beliefs toward institutional factors. Authors suggest that people having faith in humanity and a trusting stance are more likely to have an initial belief in structural assurances.

Categorisation of new relationship partners also affects forming initial trust. McKnight *et al.* (1998) suggest that people in a new relationship use three types of categorisation processes: unit grouping, reputation categorisation and stereotyping. When someone categorises the other party in the same group as himself (unit grouping), it will enable him immediately to form trusting beliefs about the other party. The same occurs when someone categorises the other party as having a good reputation — it enables that person quickly to develop trusting beliefs towards that individual, even without first-hand knowledge. In positive stereotyping, one quickly forms positive trusting beliefs by taking them from the favourable category in which the person was placed.

Illusion of control also affects the forming of initial trust. People in uncertain situations will undertake small actions to try to assure themselves that things are under their personal control (Langer 1975). This will result in unrealistically inflated perceptions of personal control (Taylor & Brown

1988), or, in Langer (1975) terms, ‘illusion of control’. Upon meeting the other party, people may first take time immediately to try to gauge whether or not they can influence that person in some small way. One is likely to use token control efforts because one does not know from experience whether or not the other has the attributes needed to be considered trustworthy. After making such small control efforts, the individual may form an unjustifiably strong confidence that his categorisation of the other persons is correct and so strengthen other trusting beliefs (McKnight *et al.* 1998).

Gradual and initial views of the development of trust do not exclude each other, but both these perspectives supplement our premature understanding about the development of trust. In the latter view, the impact of different situational factors was considered, as were different theoretical perspectives regarding the initial development of trust, whereas Tomkins’ (2001) model was based on the gradual acquisition of information without considering situational factors and theoretical perspectives other than personal trust. To also consider systems, institutional and value and norm-based trust would give us important knowledge of the gradual development of trust. Neither the Tomkins’ (2001) model nor the hypotheses of McKnight *et al.* (1998), however, have been studied empirically. Therefore, we can only speculate about the development of trust, and we must also remember that when a limited amount of studies into trust in context have been conducted, we do not know how the context impacts on the development of trust. At this stage our knowledge regarding the development of trust is ambiguous and limited, and therefore we attempt to improve our knowledge in this empirical study.

2.2 Control

2.2.1 Forms of control

Control has been widely categorised into two approaches — external measure-based control and internal value-based control (e.g., Eisenhard 1985; Merchant 1985; Ouchi 1977, 1979). The first is called formal and objective control since it emphasises the establishment and utilisation of formal rules, procedures, and policies to monitor and reward performance. The second approach is called informal control, clan control, personnel or social control since it relies on the establishment of organisational norms, values, culture and internalisation of goals to encourage desirable behaviour and outcome. Formal control can be divided into two forms. Organisation can either monitor and measure the behaviour or the outcome of that behaviour. The first has been called behaviour control, bureaucracy control or action control and used to ensure

that the process is appropriate. The second one has been called outcome control, result control or market control and is used to rely on an accurate and reliable assessment of a member's performance (Ouchi 1977, 1979; Merchant 1985). It has been suggested that informal, social, personnel control is exercised when a specific task-related behaviour or output measure cannot be set. The focus is to develop shared values, beliefs and goals among members to reinforce appropriate behaviour. When members internalise organisational goals they are expected to commit and to organisational goals and be motivated to achieve them (Ouchi 1977, 1979; Merchant 1985).

The typology of dividing control into three modes has been widely accepted and used in literature (Eisenhardt 1985; Adler 2001), so it is justified also to use it in this research report. This research mainly leans on Merchant's (1985) typology result, action and personnel control and also uses his definition of control. "*Good control means that an informed person can be reasonably confident that no major, unpleasant surprises will occur*" (Merchant 1985, 10). The action control form, however, was found not to include all relevant elements that govern an individual's behaviour, and is therefore revised in this chapter to the form of administrative control. Additionally, this study uses the concept of social control instead of personnel control, since the social control concept is more common in this area of research.

2.2.2 Result control

Output/result control means that individuals are controlled by the results they achieve. The desired results can be defined either in financial or in non-financial terms. The implementation of result controls requires defining the parameters by which results are desired, such as earnings per share, product reliability, customer satisfaction; measuring performance by these parameters; and providing rewards to encourage the behaviour that will lead to those results. Result controls are the most common control mode at the middle and top levels of organisations. Using this type of control, top-level management can review and judge the effectiveness of the various organisational entities while leaving the actual execution of the operation to those held responsible for the performance (Merchant 1985, 17-19).

Result controls are feasible when knowledge exists as to what results are desirable, when the desired result areas can be controlled (at least to some extent) by the individual(s) whose actions are being influenced, and when the controllable results areas can be measured effectively. Knowledge of results is typically high at top management level and at low levels of organisation, but not at middle-levels. At middle levels, there can be trade-off situations such as

quality versus costs, thus it is critical for result control to succeed in providing information of desired performance, to give guidance as to how the key trade-offs should be made. The second condition that is necessary for result control to work is that the person whose behaviour is controlled must be able to affect the desired result. Result measurement is useful only to the extent that it provides information about actions that were taken. When the result area is totally uncontrollable, the measures tell nothing about what actions are taken. Partial controllability means that measures were distorted, and distortion makes it difficult to judge whether or not good actions were taken. Normally numerous uncontrollable factors affect measures used to evaluate managerial performance and they hinder judging managers' effectiveness (Merchant 1985, 19-23).

The third important factor is ability to measure controllable results effectively. The measure should evoke the correct behaviour in order to be a good measure. To evoke the correct behavioural result, measures should be congruent with true organisational objectives — precise, objective, timely, and understandable. Incongruence in performance measures means work is not being done towards organisational goals. Poor precision causes risks in evaluating performance and will also mean that neither managers nor subordinates place confidence in measures. Objectivity in measures means freedom for bias. Objectivity can be increased by using persons independent of the process to conduct actual measuring in order to get verification of the measurement from independent persons such as auditors. Timeliness is also important in result control for two reasons. If measures are late, it is not possible to fix the problem. Second, rewards or punishments lose their motivational impacts if they are delayed for a significant length of time. Understandability is also important for two reasons. Individuals need to understand for what they are to be held accountable and what they must do to influence the measure (Merchant 1985, 24-27).

Result controls have advantages of being effective control tools even when knowledge as to what actions are desirable is lacking. Using this control mechanism, people's behaviour can be influenced even when they enjoy significant autonomy. Result controls are often inexpensive since they can directly be related to management control such as financial reporting, tax reporting or strategy formulation. Result controls are particularly effective in addressing motivational problems: individuals are induced to behave in a way that will maximise their chances of producing the results that their organisation desires, as these results will maximise their own rewards. Result controls are also effective in communicating to individuals what is expected from them, thus alleviating the potential problem of lack of direction (Merchant 1985, 19, 129).

Result control also has disadvantages and problems. Result measures are often poor indicators of whether good actions are taken, since measures failed to meet the quality of one or more of the good measures presented above, or because the individual measured had little influence on the factors which affected to the measure. The second disadvantage is that the result targets are asked to perform two competing control functions: motivation to achieve and communication of what is expected of different entities. The first one is best for targets which are challenging but achievable, while the second one is best for targets which are slightly conservative to make sure that they are achieved (Merchant 1985, 129).

Result controls have problems since they may encourage gamesmanship and cause negative attitudes. Major forms of gamesmanship are the creation of slack in resources and data manipulation. Individuals create slack for tactical reasons in order to keep the control system from hurting them. Slack has both positive and negative effects. Slack is only positive when it reduces manager tension and increases resiliency to change. The negative side of slack is that it can create inefficient allocation of resources and consequently inferior operating performance. Slack can also result in distortion of information which can make it difficult to separate operating performance from the consumption of excess resources. Furthermore, slack and data manipulation can have a serious impact on result control. Data manipulation has two main forms: falsification and smoothing. Falsification simply means reporting erroneous data, and smoothing affects the time period in which the control indicator appears. Smoothing can be accomplished by reporting facts selectively, making estimates of future uncertain events or choosing an appropriate measurement method. Negative attitudes towards result controls are likely to appear when persons being controlled are not committed to the goals defined in control systems. Lack of commitment can arise when individuals consider goals to be too difficult, not meaningful, not controllable, unwise, illegal, or unethical. Negative feelings can be diminished by allowing individuals to participate in setting their own goals (Merchant 1985, 78-80, 83-84).

2.2.3 Administrative control

First, this subchapter introduces the elements of Merchant's (1985) action control form. Second, this subchapter develops the concept of administrative control to include a higher level of control forms, which Merchant's (1985) action control form does not include. Action control is used to ensure that individuals perform beneficial actions and do not perform actions that are

known to be harmful to the organisation. This control form is tightly focused on the behaviour of the individuals. Merchant (1985) divides action control into four basic forms: behavioural constraints, preaction reviews, action accountability and redundancy. Behavioural constraints are used to make it impossible or at least difficult for people to do things that should not be done. Behaviour can be constrained physically and administrative. Physical constraints involve locks on desks, computer passwords, and limits on access to certain areas. Administrative constraints limit a certain person's ability to perform all or a portion of specific acts. A common form of administrative control is centralisation which means removing some decision-making autonomy from lower-level individuals. Another common form of administrative control is separation of duties, which involves dividing up the tasks necessary for the accomplishment of certain sensitive duties (Merchant 1985, 29-31).

Preaction reviews are another central form of action control. Preaction reviews involve observing the work and plans of the subordinates before the activity is complete, and making adjustments when necessary. Preaction reviews involve both formal and informal forms. In formal reviews managers are given specific limits to their decision-making and, before investments or other types of expenses are made, they need to get approval for their plans. Reviews are also conducted as part of the organisational planning and budgeting process, when managers present and get approval for their next year's budget. Informal reviews are actions such as hallway chats or phone calls between superiors and subordinates, and are also an important part of the organisational control system (Merchant 1985, 31).

Action accountability and sustaining the redundancy of resources are also important parts of action control. Action accountability involves holding employees accountable for their action. When this form of control is implemented, it is required to define what actions are acceptable or unacceptable, tracking what happens and rewarding or punishing deviations from the defined limits. The forms of accountability controls are work rules, policies and procedures, contract provisions, or company codes of conduct. These can either be in a written form or communicated orally. In some areas such as law, medical care and auditing, holding actors accountable for actions (by requiring such things as peer reviews) can bring to light undesired actions which cannot be plainly delineated in advance. Sustaining redundancy involves assigning more people or machines to a task than is theoretically necessary to increase the probability that a task will be accomplished (Merchant 1985, 31-33).

Challenges in action control relate to knowledge of desired and undesired actions and to the ability to make desirable actions to occur or prevent

undesirable actions from occurring. Knowledge of desirable actions is critical but often very difficult to obtain, particularly in areas of highly complex and uncertain environments. The challenges to ensure that desired actions are undertaken vary depending on the action control mode. In the behavioural constraints area, challenges relate to restricting action: more restrictive constraints provide better control, but the costs are usually higher and also have more negative side effects. Preaction reviews are usually feasible. The only limitation in this control mode is the time available for a person who understands what actions are feasible. The use of redundancy is usually limited to very specific, low-level tasks. At higher levels, assigning more than one person to the same task would cause conflicts and frustration. The analysis of feasibility of action accountability controls is problematic since not all actions can be tracked. When tracking is done, it can also cause manipulation and resistance (Merchant 1985, 33-36).

Action control is effective in directing managerial attention to the actions within the firm. These control forms tend to lead to documentation of the knowledge of what is best for the organisation. These documents are an efficient way to transfer the accumulation of knowledge to the persons who are performing actions. Formed policies and procedures are efficient ways to aid organisational co-ordination since they reduce the amount of inter-organisational co-ordination flow to achieve co-ordinated effort. Action controls have several problem areas. First, they are desirable only for highly routinised jobs. Second, most forms of action controls discourage creativity, innovation and adaptation. Most people tend to react to action controls by developing their habits around rules, and so cease to think how processes could be improved and become resistant to change. Creative and independent people in particular are not happy operating under action controls. Action controls are also difficult and costly to adapt to changing environments. Action controls become especially costly when actions controlled require professional judgement (Merchant 1985, 127-128).

When we consider the above-mentioned elements of action control — the control form used to ensure that individuals perform beneficial actions and do not perform actions that are known to be harmful to the organisation — we notice that Merchant (1985), in his action control form, has focused on very close control. Merchant (1985) presented behavioural constraints, preaction reviews, action accountability and redundancy, which all are important forms of control. He does not, however, take into account higher levels of control forms such as corporate governance and organisational structure, which also have an important impact on the behaviour of individuals. Instead of forming a fourth form of control, this study chooses to use an administrative control concept, which includes both action-type of control and those above

mentioned higher-level control forms. This administrative control concept is further developed in this study, and its role in corporate control is analysed in Chapter 5.2.2.

2.2.4 Social control

The third control mechanism is the social control form, which Merchant (1985) calls personnel control. In this research, this form of control is called social control as this is a much more common concept for this form of control. This form of control is based on the premise that individuals do, by themselves, what is best for the organisation, either because they are self-directed or because they are influenced by social pressure. Managers try to tap into and encourage these two forces in order to evoke individuals to work for organisational goals. The first, individual self-control, is a self-directive force that pushes most persons to want to do good work. It is based on the assumption that individuals have internal motivation, such as deriving self-satisfaction from doing a good job, and seeing the organisation succeed. Thus, Merchant (1985) argues that this control form involves some degree of trust that individuals know and do what is best for the organisation. The second social control form is the pressure exerted by groups to align individuals to work according to group values and norms.⁴ Social pressure may evolve spontaneously in work groups, or may be imposed by superiors forming particular groups and encouraging a certain type of organisational culture. Social pressure may also be exerted from the bottom up as superiors are pressured into meeting subordinates' expectations (Merchant 1985, 39-40).

Managers can in five ways encourage and facilitate self-control and social pressure: by selection and placement, training, cultural control, group-based rewards, and providing necessary resources. Selecting the right individual to do a particular job increases the probability that the job will be done properly. Selection and placement are sometimes the most important elements in firms' control systems. Assigning individuals to certain work groups can also be a good way to affect social pressure. Persons lacking direction and having motivational problems and personal limitations can be encouraged by the members of the work groups to which they are assigned. Training is also a common way to help employees to do a good job. Training can provide useful information about a task and also provide motivational effects for performing

⁴ Merchant (1985) himself distinguishes between personnel control, self-control and social control. He sees social pressure as being the same as social control.

a task better. Managers can also build common values to encourage self-control in their organisation (Merchant 1985, 40-41). Peters & Waterman (1982) argue that their research found that the stronger the culture, the less need there was for policy manuals and organisation charts. Organisational culture unifies the way organisational actors process information and react to their environment, resulting in a higher level of behavioural predictability (Trice & Beyer 1993). Self- and social pressure can also be facilitated by using group-based rewards. These rewards act as a communicative form for what is expected and help share the wealth that has been created. A final way to make individuals do good work is to make sure that they have sufficient resources. These include information, supplies, staff support, and transfer of information among organisational entities. As social control relies on the fact that people in particular roles are considered to understand what is required, are capable of performing well, and are motivated to perform well without additional rewards or punishments, it involves the risk of relying only on a person's capability and goodwill. Therefore, social control alone is rarely sufficient to guide an organisation. Result or administrative control or both are required to supplement social control in governing the organisation (Merchant 1985, 43, 126-127).

2.3 Perspectives of the relationship between trust and control

2.3.1 Introduction

The wide range of new organisational forms such as alliances, joint ventures and also increased use of sub-contracting has attracted scholars to consider both the role of control forms and trust in both inter-company and also intra-company operations. One central theme in these studies has been the relationship between trust and control. These studies have brought to light considerably contradictory views of the relationship. On one hand, trust is itself regarded as a control mechanism; on the other hand, it has been suggested that the relationship is complementary, meaning the more trust, the less need for control; thirdly, the relationship has been regarded to be supplementary, meaning that an increase in control does not necessitate a decrease in trust, and finally, the relationship between trust and control has been regarded to be intertwined, meaning that trust and control are tied together. These contradictory views which, despite several extensive conceptual pieces and a few empirical studies, have not been solved, motivate us to build an integrative view of the relationship in order to help to solve current contradictions.

In this section, the previous discussion on the relationship between trust and control is reviewed, the conceptual relationship between trust and control is clarified, and, finally, an integrative view of the relationship is established by connecting all perspectives of the relationship together and by categorising previous studies using the refined version of Merchant's (1985) control forms. This categorisation is used later on in the fifth chapter. In that chapter, empirical findings are connected together with our previous knowledge to build a contextual integrative view of the relationship between trust and control.

2.3.2 Trust as a control mechanism

The first perspective of the relationship between trust and control is to see trust as a control mechanism. In new organisation forms in particular, it can be seen that old formal control systems are not enough — there is a need for trust, which has been suggested to be a necessary control tool (Sydow 1998; Sheppard & Tuchinsky 1996). Moreover, it has been argued that social mechanisms related to trust strongly influence the behaviour of individuals. According to Sohn (1994), social knowledge which means ability to understand and predict other people's behaviour is a substitute for formal control mechanisms.

This perspective regards trust functionally equivalent control mechanism besides markets and hierarchies, which has resulted in efforts to modify transaction cost theory. For example, Bradach & Eccles (1989) argue that the risk of opportunism is not always present in transactions. They assert that trust can be an efficient control mechanism, when exchange partners share common values and norms that have grown out of a long process of association, and when economic relations are embedded in the personal relationships of friendship. This view, however, has some ambiguity regarding the conclusions concerning value- and norm-based trust, according to which the same values and norms alone are not enough to establish trust, and different values and norms do not hinder creating trust.

Economists in particular and some sociologists share doubts about whether trust is a control mechanism. They argue that trust can never, even in principle, become a stable and dominant mechanism. They, however, see that trust would lower agency costs and improve the effectiveness of hierarchy, but the vulnerability of trust does not allow it to be upgraded to a dominating mechanism. According to economic theory, trust is a public good and the spontaneous working of the market mechanism (if it were the dominating one) would cause a large free-rider problem and, as a result, fail to produce an

optimal amount of trust. For trust to be a dominating control mechanism, people would have to have a propensity for altruism that coexists and competes with the propensity for egoism (Adler 2001; Ring & Van de Ven 1992).

The other problem with trust is that it has its dark side: trust can fail because it can make betrayal profitable (Granovetter 1985). Trust also has another dark side: trust can also lead to disappointment, since its success can prove to be dysfunctional, as it is often argued that trust-based institutions are exclusivist and elitist, especially when the source of trust is shared norms or familiarity. When trust is based on familiarity or norms and trust becomes the dominating mechanism, companies can come to look like pre-modern “clans” with the associated traditionalistic domination, and, whether or not this comes in autocratic or paternalistic form, such organisations become inefficient (Adler 2001). Trust within teams, for example, can lead to complacency and poor performance in innovative tasks (Kim 1997). Trust-based relationships in inter-firm collaboration can hamper the creation of the new collaboration contacts required to promote the learning and innovation necessary to sustain competitiveness (Kern 1998). Trust-based governance can also prevent keeping ties with extra-network partners that could provide a safety net for unexpected or random fluctuations, and result in feelings of obligation, causing a company to become a “relief organization” for the other firms in its network (Uzzi 1997).

The inefficiency and risk of trust as a dominating form suggests that result or administrative control needs to supplement trust. In his study of the New York women’s clothing industry, Uzzi (1997) explains that the optimal network structure is to mix arm’s-length and embedded ties, which perform different functions. Trust-based relations enrich a network while arm’s-length ties reduce risks, insulation from market demands and new possibilities. Walzer (1999) describes the importance of balance between trust and hierarchy. Hierarchy is an important element in communitarians sensitive to the risks of closed communities. In specific organisations, low-trust bureaucratic hierarchy is a powerful lever for assuring equity and stability and, at a macro-societal level, a healthy society needs a combination of community and hierarchy in the form of government and law.

The distinction between social control and trust has not been clear in many previous studies. Often, the same norms or community have been seen as the same as trust-based governance. Social control or clan control, however, is based on social pressure or self-control, not on trust. The distinction between trust and control is very clear. In the broadest sense, trust is expectations of another’s behaviour that does not mean regulation, monitoring, punishing, or anything else that impacts on people’s behaviour. Previous studies show that

relying only on trust can result in risks and inefficiency in governing an organisation and, trust must be supplemented with either result or administrative control or even both. Since previous studies have often confused trust and social or clan control, neither do these studies provide strong support for social or clan control as a single efficient control mechanism. That theme, however, does not come within the scope of this study. Trust has not been shown to be a control mechanism but, as argued here, and as will also be argued in other perspectives of the relationship, it is a mechanism which operates closely with control.

2.3.3 Complementary view

The second view is that trust and control are complementary: the more there is trust, the less need there is for control, and vice-versa (e.g., Inkpen & Currall 1997; Leifer & Mills 1996). In this view, trust is not seen as a control mechanism itself but as a substitute for a control. As Leifer & Mill (1996, 129) argue “*while trust might be seen as a reason not to use objective controls, trust is not, in and of itself, a control mechanism.*” Trust is seen as a positive attitude about the motivation of another not to influence and affect one’s behaviour. Trust involves believing that others will serve the trustor’s best interests, even in the absence of control. In this perspective, trust and control are seen as completely different mechanisms to create confidence. When there is a possibility fully to trust a partner, there is no need to control. Control is needed only when sufficient trust is not present (Das & Teng 1998). In this view, it is also seen that building trust and control is costly, so there is an investment decision to be made. Investment in control systems is costly, and monitoring needs a continuous flow of resources (Simons 1991). Neither is trust free-of-charge: establishing it is a planned activity that consumes considerable organisational resources over time (Das & Teng 1998). Creed & Mills (1996) explain that one has to consider the costs of control systems, the costs of failing to reach a minimal level of trust and the costs of developing trust.

According to this complementary view, trust and control are seen as different sides of the same analytical coin, and they suit different kinds of working environments: one extreme is the zero-trust organisational structure, in which discretionary work content and behavioural autonomy are totally excluded, as opposed to the other extreme, the total-trust structure (Fox 1974). The implication is that there cannot be considerable amounts of control and trust at the same time: increasing the level of trust means decreasing the level of control. This has its merits; if there is complete control there is no need for

trust because there is no behavioural uncertainty. Control literature states that control decreases trust. Argyris (1952) argues that behind the control system are assumptions that the superior does not believe in his subordinates. This creates defensive and reserved behaviour. The answer for these problems could be in organisational development: providing training to create a more open and trusting environment.

Trust is not necessarily needed in transactions, and confidence in another party can only be created using control. For example, detailed contracts have been seen to create efficient exchange relationships. When a situation is highly structured and easily monitored, people do not need to develop trust (Macaulay 1963). The use of costly sanctions enables one to believe that another is trustworthy when sanctions exceed any potential benefits from opportunistic behaviour (Ring & Van de Ven 1992). As discussed earlier in the Chapter 2.1.1.2, there is wide disagreement whether this kind of calculative behaviour has anything to do with trust. These sanctions foster co-operation, but the reason for this co-operation can occur for other reasons than trust, for example, coercion or fear of loss.

As far as management philosophy is concerned, trust and control have been seen as opposite ways of governing. Autonomy is seen as signalling trust, and control in contrast is seen as signalling mistrust (Misztal 1996, 102-156; Leadbeater 2000, 156-166). In studies of organisations and work, trust is seen as the opposite and an alternative to Taylorist and Fordist systems of control (Fox 1974; Ritzer 1993; Hirst & Zeitlin 1991). Whereas control relies on methods and systems of close supervision or direct control, trust is understood to rely on more democratic styles of leadership, or philosophies of managing that engage the relative autonomy of the employee (Friedman 1977).

As trust and control are seen as opposites, they are also seen as signalling different attitudes towards one's partner. It is thought that strict controls and positive expectations of another's behaviour are in conflict with each other. When control forms signal the absence of trust, they can hamper its emergence as, for example, limiting the degree of interdependence that develops between parties (Rousseau *et al.* 1998) or hampering fluency of exchange relationships in organisations, as Macaulay (1963, 64) argues "*carefully planned (contracts) may create undesirable exchange relationships between business units... Such planning indicates a lack of trust and blunts the demands of friendship, turning a cooperative venture into an antagonistic horse trade.*"

Control system changes can negatively affect sustaining and establishing trust. The effort to sharpen an organisation can decrease community spirit. Restructuring, for example, does not necessarily encourage individuals to engage in teamwork. Structural changes to improve hierarchical planning often require that result efforts be moderated, and they can hamper the

stability implied by strong trust. These forms can also be mutually supportive depending on their design and implementation. Using employee participation is one way to link community and hierarchical control form so that they are supplements rather than substitutes (Adler 2001; Adler *et al.* 1999). Control system changes can also create negative feelings and establish a distrusting environment in organisations. In Johansson's & Baldvinsdottir's (2003) study, the change of control style to one that was more formal and gave more responsibility to employees in an organic organisation, which has been used to more informal control systems, led to distrust in the management. The new formal control systems created lack of trust when the members of the organisation were surprised and not willing to accept the new accountability demands. They also felt that management was withholding information from them, and that the producer of the information was not fully competent. When it was decided publicly to announce the performance of all individual actors without consulting the subordinates, distrust in the management continued to increase resulting in some resignations.

Not all evidence from trust research, however, supports the restricted complementary approach. Increasing or using control does not necessarily lead to lowering the level of trust. Control can be exerted in such a way that it does not arouse any negative feelings, or it may even help to establish trust. Institutionalised control such as quality control is depersonalised, and so it is accepted as a normal activity and is not experienced as personal distrust (Luhmann 1979). Control may also increase trust. According to Gould & Campbell (1987), a subordinate with a history of meeting targets earns the confidence of his or her superior. Secondly, superiors' reactions to deviations create their reputations either for softness or toughness, and also reveal how they understand their business. If the business appraisal is non-adversarial, concentrating on improvement rather than on finding fault with past performance, it will build up confidence in the superior. Thirdly, the control process creates an opportunity for clear personal feedback. Thus, the use of control mechanisms can support establishing interpersonal trust.

According to the above discussion, we have reasons to believe that the restricted complementary approach to the relationship between trust and control does not give us the complete view of the relationship. There seem to be situations when trust and control limit the existence of the other, or the existence of one of them is enough for co-ordination, but they also seem to support each other.

2.3.4 Supplementary view

According to the third perspective, the relationship between trust and control is supplementary, meaning that increasing trust does not necessitate decreasing control: the two support each other. When there is trust there is no need for control, but in contrast to the complementary approach, trust and control jointly and independently contribute to the level of confidence in partner cooperation, which may vary greatly between different partners. Higher levels of trust do not automatically dictate the lowering of the control level, and vice-versa. A partner in a relationship may, if necessary, seek to change both trust and control simultaneously and, in a parallel fashion, without any zero-sum complementary constraints. Trust in this supplementary view entails positive expectations about the partner suggesting that unpleasant outcomes are less likely and, at the same time, control is influencing the partner so that undesirable outcomes are less likely. The extensive use of control systems, however, indicates a lack of belief in oneself and in one's competence, thereby resulting in damage to relational trust (Das & Teng 1998, 2001).

Control can create situations when trust and control need to support one another. Result control can lead to a situation in which individuals or companies compete with each other. In that case, trust needs to be created in other ways in order to support such things as knowledge sharing. Eccles (1985, 279) argues in his study that the most effective transfer pricing scheme aimed at facilitating sharing across divisional boundaries is rational trust. Divisional managers under rational trust have confidence in the ability of top management to evaluate and reward performance fairly. They count on two measures: first, the judicious use of quantitative measures of sub-unit performance, and second, the enlightened use of subjective measures of sub-unit managers' contributions to total company performance, although this contribution would hurt their own performance. Empirical studies are consistent with Eccles' arguments, showing that subjective measures result in better resource-sharing among divisional managers (e.g., Gupta & Govindrajana 1986; Salter 1973). These evaluations both assess and require trust compared to more traditional approaches, which rely on quantitative, market-based formulae or hierarchical criteria (Adler 2001). In fact, increased knowledge-intensity appears to encourage a trend towards trust in inter-divisional relations. This is also one reason why the titles of chief technology officer and chief knowledge officer have been created. These positions have a broad range of responsibility for building cross-divisional knowledge and sharing, but they typically have no authority. Therefore, they rely on trust in their attempts to build more trust (Adler 2001; Adler & Ferdows 1992; Earl & Scott 1999).

The mix of control and trust is seen as an efficient way to co-ordinate activities. Becoming dependent on a single supplier, for example, in Toyota is rarely allowed. Therefore, Toyota uses market mechanisms to maintain competition between at least two suppliers for non-commodity inputs, and it always makes sure that suppliers are aware of this power. Despite this appearance of power, relationships can hardly be anonymous, spot-market transactions carried out at arm's length. Comprehensive documents specifying detailed product requirements and management processes are embodied in them. The relationship does not merely remain at formal level but these hierarchical documents are embedded within a long-term, high-trust, mutual commitment relationship (Adler 2001).

Formal control forms, result and administrative control, have not been seen as efficient in creating community spirit, innovation and sharing. Therefore, these must be supplemented with trust in environments where facilitating knowledge and sharing is important. Knowledge development, whether it involves coming up with new concepts in the research lab, new products in R&D centre, or process refinement suggestions on the shop floor, depends on employee commitment and on collaborative teamwork for which trust is a critical precondition (Bromiley & Cummings 1995). It has been argued that sharing of knowledge depends equally critically on a sense of shared destiny, which both depends and engenders a sense of mutual trust (Nahapiet & Ghoshal 1998). Knowledge-intensive companies in particular have attempted to create a high level of community and trust by providing their employees with both material and immaterial expressions (Collins & Porras 1994).

Trust is seen as crucial both in high-commitment vertical relationships between employees and management, and in collaborative horizontal relations between specialist groups. After many decades of research into the role of informal organisation in innovation, community in the form of 'communities of practice' (Wenger 1998) is recognised as the organisational principle most effective in generating and sharing new knowledge (Adler 2001). In inter-company relationships in particular when firms need innovation and knowledge inputs from their partner company to be not only standardised commodities, no combination of strong hierarchical control and market discipline can guarantee as high-level a performance as trust-based community (Cooper & Slagmulder 2004; Uzzi 1997) suggesting the appropriate balance between control and trust.

Trust is seen as necessary to support control although it is possible to use extensive control systems since they do not necessarily lead to a positive outcome without trust. More control mechanisms do not necessarily lead to a higher level of control as Merchant (1985, 2) problematises "*more control do not necessarily give more control, but reasons why this occurs are not clear.*"

Due to negative consequences of control such as operating delays, behavioural displacement, gamesmanship and negative attitudes, implementing control does not necessarily lead to effective impacts on one's behaviour. Das & Teng (1998) suggest trust to be a moderator between control mechanisms and the achieved level of control and, according to Goold & Quinn (1990, 54), "[T]rust is a prime prerequisite of effective control" since a certain level of trust is needed for implementation of control mechanisms. Mutual trust is required if goals are to be agreed upon, and to engender the confidence that results achieved will be interpreted with judgement and good sense.

Trust is seen to facilitate the use of control mechanisms. Das & Teng (2001) argue that trust reduces the level of resistance and brings harmony to the controller-controlled relationship. The absence of trust means that partners will question the motive and competence of the controlling partners. We also have empirical evidence about situations where trust has helped the implementation of formal control mechanisms. Langfield-Smith & Smith (2003) found in their study that trust between partners facilitated developing control systems. At the first stage of the relationship, the control level was low as formal control systems were complex to implement because of difficulties in task programmability and output measurability. Trust was important to ensure control and to allow operations to proceed in the absence of tightly specified rules. Authors also found that the development of more rigid performance expectations and contract specifications might even have strengthened trust between parties. Besides facilitating the use of control mechanisms, trust also allows flexibility in governance. Cooper & Slagmulder (2004) found in their study that, in a very close family-type of supplier relationship, trust enabled parties to share openly information, build common targets and to co-operate beyond contracts. This flexible limitedly-contractual governance structure involving a considerable amount of trust was found effective for both parties to act bilaterally in maximising joint return.

Trust and control mechanisms can support the development of each other as a relationship progresses. In his case study on the strategic alliance between a buyer and supplier for the supply and joint innovation of railway safety equipment, Dekker (2004) found that trust, which developed between parties that were negotiating a buyer-supplier alliance contract, allowed the other party to take risks and reveal its cost structure and profit margins to its partner, even when no contracts had been concluded. This risk-taking behaviour nurtured trust, speeded up negotiations and the design of the alliance. He also found that the alliance companies developed a highly structured governance structure in order to help achieve goals, not due to lack of mutual trust. The alliance parties felt that transparency in achieving the results was an important basis for their trusting relationships. Formal control mechanisms supported

transparency and thus a trusting relationship. Additionally, despite the use of extensive governance structures, the high level of goodwill trust indeed seemed to moderate the use of formal control mechanisms to cope with hazards in transactions. The parties believed that formal control systems added to the quality of their relationship instead of detracting from it. Control can support establishing trust even in distrust situations. In a situation of distrust, a person who produces control information can establish trust in an organisation when he himself is trusted. Johansson & Baldvinsdottir (2003) argue that the possibility of creating trust in accounting figures is intertwined with the trust the accountant/accounting department has established among employees. In the absence of trust between the evaluator and the evaluated, the accountant can compensate for the lack of trust by providing objective reliable figures.

It has been widely discussed that formal controls, administrative control and result control may decrease trust, since employment of strict rules and objectives means that members do not have independence to make decisions on their own issues, and the use of these control mechanisms can create an atmosphere of distrust (see, e.g., Das & Teng 2001). We have, however, empirical evidence in which formal control systems are in fact used to develop trust. When studying the budgetary process, Grönhaug & Ims (1991) found that it was used to facilitate the creation of trust. An important part of the budgetary process was continuous interaction, exchanges of information and beliefs and 'idle talk', which all targeted the renewal of organisational trust and commitment. The main emphasis on building trust through control systems, however, has been put to social control mechanisms which also have features of hierarchical control forms. The use of social mechanisms such as joint projects, joint development of governance, interaction and attempts to eliminate social roadblocks have been regarded as important in establishing trust between parties. Social interaction has been shown to build mutual understanding, joint targets and goodwill, which have established trust between parties (Langfield-Smith & Smith 2003; Dekker 2004). Previous studies, however, do not provide us with evidence of the same values, norms and social pressure which have been regarded as important elements of social control discussed in Chapter 2.2.4.

As trust is seen to support the use of control, we also have evidence that formal control supports the existence of trust. The absence of control mechanisms can also lead to a decreased level of trust. The non-existence of the intra-company regulation of consistent employee treatment and the autocratic nature of the Hungarian government resulted in a low-trust relationship between supervisors and subordinates in Hungarian companies. In the U.S. companies studied, human resource practices were harmonised (e.g. performance reviews and compensation) and governmental legal regulation

was consistent, which resulted in a situation where, in U.S. companies, the level-of-trust relationship between supervisors and subordinates was considerable higher than in Hungarian ones under communism (Pearce *et al.* 2000). Formal control systems can also help to solve internal trust-related problems. Chenhall & Langfield-Smith (2003) found in their study that a new gain-sharing system solved internal problems in a company which was operating at break-even level. The company was suffering from low performance, partly because of the following internal reasons: low employee morale, poor co-operation between employees and management, and lack of congruence between employee work expectations and the goals of the organisation. The internal problems were solved by introducing gain-sharing system, which was implemented in a co-operation between employees and management.

Institutional control systems and social networks can play an important role in supporting the sustaining and developing of trust in inter-company relationships. Hagen & Choe (1998) argue that, in Japan, both institutional and societal controls govern behaviour, and act as a basis for supporting the development and sustaining of trust. Contractual institutions, such as a subcontractor grading and dual vendor policy, function as sanctioning mechanisms, which give the buyer assurance against defection by the supplier. Co-operation is supported with social sanctions such as ostracism, which can result from inappropriate behaviour. The reputation of a firm is effectively shared through formal and social networks among incumbents in the industry. The trustworthiness of the firm is appreciated not only by its current but also by a larger number of prospective partners. This increases the return on being trustworthy, since being regarded as a confident partner is important for surviving in competition. As social sanctions are important, they can be viewed as a profit-maximising incentive to act in a spirit of goodwill and trust.

The supplementary perspective provided us with important insight into how trust and control need and support each other, and so substantially augmented our knowledge of the relationship compared to the restricted complementary approach. Even the supplementary perspective, however, has not taken account of all aspects of the relationship. The next perspective describes the intertwined nature of the relationship between trust and control.

2.3.5 Intertwined view

Rather than viewing control and trust as distinct concepts, they can be seen as intertwined. Although practices and relationships appear to be based upon trust rather than control, there is often an implicit reliance on systematic

controls such as education, professional socialisation and self-disciplining protocols (Knights *et al.* 2001). Trust and control are entwined even in a close supervision situation. In the direct employee contract, trust is invested in contractual obligations being honoured and wages being paid at the end of the week (Luhmann 1979). This type of trust is vested in the reliability of established practices and institutions (Ezzamel & Willmott 1992). Thus, system controls designed principally for managers can also provide employees with a considerable degree of predictability and security. Employees, for example, can place their trust in time and motion studies and in technological monitoring systems perceived as sources of objective auditable information. Systems are viewed as being more trustworthy than other methods and “*protection against unfair work distribution of accusations of dereliction*” (Mason *et al.* 1999, 14; Bloomfield & Coombs 1992).

As the personal interaction is no longer the main or most important means of trust production, institutional mechanisms have become most significant sources of trust. Individuals have become ‘access points’ or interfaces between various abstract systems (Giddens 1990). Institutional trust is supplementary between person and system. To remain trusted, an institution needs continual reproduction of trust through interpersonal relations. A reputation for trust at institutional level facilitates the reproduction process. When people are ‘access points’ of institutional trust, it makes it difficult to disentangle interpersonal and institutional trust. Buying and working with a company entails both interpersonal and institutional dimensions of both trust and control (Knights *et al.* 2001).

Trust and control are intertwined at many levels of society and technology. It can be argued that, in social systems which are based on low institutional regulation, power is more often chosen as the dominant mechanism to co-ordinate expectations and relationships between individuals and organisations. In the circumstances of a strong and coherent institutional framework where trust is fabricated on an institutional basis, for example, in the form of system trust, the risk of betrayal is very low. Under these conditions, system trust is likely to be the primary social co-ordinating mechanism. Power is not, however, absent in this case — it appears as a form of system power, in a form of law, powerful trade associations and rigid forms of hierarchy. These de-personalised forms of power can mass-produce trust and can be seen as the precondition rather than an alternative to system trust (Bachmann 2001). The symbiotic relationship between trust and control can also be seen in a ‘virtual era’. Trust in financial institutions depends upon trust in the technological systems they use, and, at the same time, trust in these technologies depends upon trust in the institutions, which operate with them (Knights *et al.* 2001). Trust and control are entwined at organisational level, irrespective of the

organisation form. In a bureaucratic organisation, trust is installed in organisational routines and these create predictability and reliability. In fact, in bureaucratic organisations, it is a question of avoiding the need for trust. In post-bureaucratic organisations, global values, standards and ethics offer predictability, and, although not organisation-specific, they render individuals controlled and controllable, predictable and trustworthy (Grey & Garsten 2001).

2.3.6 Establishing an integrative view of the relationship

Despite the considerable amount of discussion about the relationship between trust and control, no comprehensive effort has been made to establish an integrative view of the relationship. Discussion has mainly focused on arguing whether the relationship is complementary, supplementary or whether trust itself is a control mechanism (see, e.g., Das & Teng 1998)⁵. In order to build the integrative view of the relationship, we need separately to analyse the relationship between different control forms and trust, since all control forms seem to have diverse relationships with trust. Next we will combine our current knowledge of the relationship, dividing the discussion between result, administrative and social control and their relationship with trust.

First we analyse the relationship between result control and trust. The basic belief inherent in this control form is that this type of control signals distrust and is a substitute for trust. The review of the literature, however, showed us that the relationship is not that limited; in fact, the relationship between result control and trust contains many different dimensions. The relationship between trust and result control does not only have complementary characteristics, since result control and trust support each others in many different ways. First of all, it has been argued that establishing a functional result control system needs some level of trust, since measures and targets need to be agreed upon and confidence established that the parties are competent and the results achieved will be interpreted with judgement and good sense (Goold & Quinn 1990). Result control itself can also establish trust between the controller and the controlled. The evaluation process of the result control form gives possibilities for the evaluator and the evaluated to

⁵ Dekker (2004) made a conceptual effort to integrate complementary and supplementary perspectives, but he did not discuss about the intertwined perspective. He argued that the relationship between trust and control might not be linear in the relationship with a partner. In his empirical study he found that trust and control supported each other both at the beginning and during the relationship, and he did not combine his empirical findings to his conceptual thinking.

familiarise themselves with each other and give clear feedback. The reactions from both sides to the deviations in the evaluation process can also create confidence to the other (Goold & Campbell 1987). Furthermore, it has been argued that the target-setting and budgeting process can be used to establish trust in the organisation, as it gives possibilities for participation, open discussion and, in that way, shares beliefs and information (Grønhaug & Ims 1991). Systems controls designed principally for managers can also provide a degree of predictability and security for employees in the trustworthiness of the company (Mason *et al.* 1999; Bloomfield & Coombs 1992). Moreover, tight result controls do not necessarily limit establishing trust. The use of both trust and result control enhances competition and power, but also supports developing intensive relations. Existence of both makes the relationship flexible but also cost-effective. The use of only trust in supplier relationships would threaten efficiency and violate other potential partners (Adler 2001; Uzzi 1997; Kern 1998).

Result control, however, has features which can decrease and limit the existence of trust. Result control may limit the existence of trust because of the targets given and internal competition. Additionally, tight results do not necessarily encourage either innovation or community. These situations have emphasised subjective evaluations to decrease internal competition and facilitate sharing (e.g., Gupta & Govindrajana 1986; Salter 1973) and specific bonuses to enhance knowledge sharing and encourage innovation and commitment (Bromiley & Cummings 1995; Collins & Porras 1994).

Result controls can both violate the harmony in the organisation and create harmony in a confused situation. Johansson & Baldvinsdottir (2003) found that the implementation of tight result controls in an organisation which had been used to a clan type of control created serious organisational problems. On the contrary, we have evidence that result control, in the form of a new incentive programme, can solve organisational problems. Chenhall & Langfield-Smith (2003) found in their study that a new gain-sharing scheme improved poor employee morale, poor co-operation between managers and employees, lack of congruence in goals, and eventually increased trust in the organisation.

Result control has a multi-dimensional relationship with trust when it can both facilitate and violate the existence of trust. Our knowledge of the relationship between trust and result control is, however, inadequate. Although we now notice these different features of the relationship, we have a limited understanding of how organisational factors such as culture and politics affect the relationship. Additionally, we noticed in this section that the relationship can also be intertwined; we have, however, only limited knowledge of how this intertwined relationship affects behaviour in organisations and how

organisational factors affect the intertwined relationship. Studies about the intertwined relationship would also benefit our understanding about systems and institutional trust, as we noticed in Chapter 2.1. that systems and institutional trust have not been studied in an organisational context. Especially interesting would be findings about the fragility and robustness of trust and control in their intertwined relationship.

Secondly we analyse the relationship between the administrative-type of control and trust. Neither this control mechanism has a simple one-dimensional relationship with trust. The basic view of administrative control is that it signals distrust and limits establishing trust. Strict control systems and positive expectations of another's behaviour are seen to be in conflict with each other (Rousseau *et al.* 1998). When autonomy is seen as signalling trust, control is seen as signalling mistrust (Misztal 1996; Leadbeater 2000). Hierarchy, however, can be necessary for trust in an organisation. It has been found that in an organisation where rules and practices of work legislation were not implemented, trust did not appear between superiors and subordinates (Pearce *et al.* 2000). A combination of hierarchy and trust is also seen as a powerful lever for assuring equity and stability and a basis for healthy society, which requires a combination of community and hierarchy in the form of government and law (Walzer 1999).

The requirement for both trust and administrative-type of control in exchange is dependent on the contract situation. Whilst some contracts and situations can be so structured that hierarchy is enough to govern the situation (Macaulay 1963), in more complex situations the existence of hierarchy alone may limit the efficiency of co-operation. In a close co-operation relationship, a limitedly-contractual governance structure involving a considerable amount of trust is found to be effective for parties in maximising their joint return (Cooper & Slagmulder 2004). Trust can also be helpful in establishing and supporting administrative-type of control. Besides the fact that trust speeds up the establishment of relationships that strict rules and practices could hinder, it also supports the building of the administrative-type of control mechanisms and the governing of the relationship between parties. Establishing strict rules and control mechanisms can also even strengthen existing trust relationships, building transparency and clarifying expectations of the partner (Dekker 2004; Langfield-Smith & Smith 2003).

Administrative-type of control is not seen as an efficient way to create the community, innovation and sharing, which is crucial to a knowledge-intensive environment in both vertical relationships between employees and management and horizontal relations between specialist groups (Wenger 1998). This type of control is not regarded as efficient to guarantee high-level performance in a trust-based community (e.g., Creed & Miles 1996). In

situations where both hierarchy and trust are needed, attempts are made to establish trust despite hierarchy. A knowledge-intensive organisation can create positions such as knowledge officer to facilitate knowledge sharing and trust (Adler & Ferdows 1992; Earl & Scott 1999). Besides an innovative organisational environment, organisational changes also create challenges for administrative-type of control. Efforts to sharpen organisation can decrease community as restructuring, for example, does not necessarily encourage individuals to engage in teamwork. Structural changes can also hamper the stability implied by strong trust (Adler 2001; Adler *et al.* 1999).

Some forms of administrative control, such as quality control, are depersonalised institutional control forms, which are not regarded in organisations as manifestations of personal suspicion and lack of trust. Besides being an organisational control form, quality control is also a source of trust for customers in the products of that company (Luhmann 1979). We tend to regard companies having, for example, ISO standards as more reliable companies than those that do not have them, although these control mechanisms are not necessary functional and, as external persons, we cannot evaluate their reliability.

Administrative control has a multi-dimensional relationship with trust, as it can support and violate the existence of trust. Previous research has been on a quite general level, and therefore, we have only limited knowledge of how organisational factors impact on the relationship. As in the result control area, findings about the intertwined relationship between administrative control and trust would also be interesting. We have some knowledge of depersonalised forms of administrative control, but we do not have knowledge of how these intertwined trust and control relationships impact on behaviour in organisations, and how organisational factors affect the robustness and fragility of trust and control in their intertwined relationship.

Thirdly, we analyse the relationship between trust and social control. In some studies, social control has been regarded as being the same as trust-based governance (e.g., Dekker 2004), which has complicated drawing a line between trust and social control. Trust and social control are not synonyms. In the broadest sense, trust is expectations of another's behaviour that does not mean regulation, monitoring, punishing, or anything else that impacts on people's behaviour, whereas social control is based on social pressure or self-control. Trust itself is not strong enough to govern relationships. For trust to be a dominating control mechanism, people would have to have a propensity for altruism (Adler 2001; Ring & Van de Ven 1992). Trust as a main governance mechanism has also been found to be inefficient, and is thus required to supplement either with result or administrative control, because trust-based organisations have been found to be exclusivist and elitist (Kim

1997), and, in inter-company relationships, trust-based governance can lead to discrimination against new potential suppliers when trusted ones have been relied upon. Balancing trust-based governance with result control can maintain the benefits of trust and avoid the rigidity associated with exclusive reliance on trust (Uzzi 1997; Kern 1998).

Social control mechanisms have been regarded as efficient in building trust. Meetings and social networks have been seen as important in creating community and trusting bonds. These mechanisms have been found to build mutual understanding, joint problem solving, information sharing and goodwill (Langfield-Smith & Smith 2003; Dekker 2004). Besides internal organisational control mechanisms, global values, norms and standards also affect behaviour in organisations creating trust in these organisations when they affect the predictability of people's behaviour. People can be expected to behave according to specific institutionalised norms, although companies' codes of conduct do not determine a certain type of behaviour (Grey & Garsten 2001). Social control can also appear in the form of institutional control based on, for example, subcontract grading which creates pressures for trustworthy behaviour in inter-company relationships (Hagen & Choe 1998).

Social control has been regarded as efficient for building trust, but it has remained questionable how robust a control mechanism it is. Previous studies have not touched on the main forms of social controls in an organisational context such as self-control and social pressure, and have focused mainly on social interaction with the partner. Social control has also been studied on a quite general level only, thus we have no specific knowledge of organisational factors, which could have impacts on the use and efficiency of social control to build and maintain trust. It is also a little ambiguous whether some social control mechanisms mentioned in previous studies are really social control mechanisms, or are they administrative-type of control mechanisms involving emphasis on social interaction. Joint projects, joint development of governance, interaction and attempts to eliminate social roadblocks have been regarded in previous studies as social control mechanisms which, in fact, also seem to involve administrative-type of control features. Finally, the intertwined relationship between social controls and trust has not been studied in an organisational context, which is also an interesting topic of research.

To sum up, the contradictions of the relationship between trust and control can be regarded as having been solved when we acknowledge that trust is not a control mechanism and the relationship can have complementary, supplementary and intertwined characteristics. We must, however, understand that each of the three control mechanisms distinguished in this study has its own relationship with trust. Our knowledge of the relationship is still rather inadequate when previous studies have only analysed in a limited way the

effects of organisational factors on the relationship and how the relationship impacts on behaviour in organisations. Additionally, the interplay between trust and control has not been analysed, which would provide us with interesting findings about trust, control and their impacts on behaviour in organisations. Findings about the intertwined relationship between trust and control would also benefit our understanding regarding systems and institutional trust in an organisational context. This study focuses on analysing each control mechanism and on their relationship with trust in changing organisational contexts, aiming to provide further knowledge to fill the above-mentioned gaps.

2.4 Summary

Trust has been regarded as being of considerable importance in society when it, for example, enables co-operation, reduces transaction costs and promotes adaptive organisational forms. During the last decade, interest in trust has grown rapidly, as trust has been perceived as being more important in today's society than previously. Such changes as new organisational forms, evolution of technology, increased knowledge intensity and increased reliance on teams have increased the importance of trust in daily life. Despite this growing academic and practical interest in trust, our knowledge of it is inadequate, especially because trust has only been studied in context in a limited way.

At the beginning of this Chapter, trust was defined as confidence in positive expectation outcomes in terms of behaviour, processes, performance or any issues in which actors relate to each other under circumstances of uncertainty. This definition includes two common features of trust — uncertainty and expectations of the conduct of another. The discussion in Chapter 2.1. focused on our current knowledge and lack of knowledge of trust, and the discussion was divided into a calculative and transaction economics perspective on trust, trust and culture, trust at macro and micro level and trust in an organisational context.

The calculation and transaction cost economics perspective on trust treats individuals as rational actors, capable of excluding trust and social ties from exchange situations. Although rational calculation sometimes exists in our decisions to trust, social ties are, however, often included in exchange situations. Trust is also an important part of governing organisations, and so is centrally involved in organisational exchange situations. When trust is also involved in transaction mechanisms themselves, we can easily conclude that calculation and transaction cost economics do not provide us with a true picture of trust in context.

The relationship between trust and culture has remained unclear despite a considerable amount of research. For example, on one hand the importance of the same values in order to establish trust between parties has been emphasised and, on the other hand, evidence has been provided that the same values are not required for trusting relationships. Culture, however, impacts on our trust, such as in Asia, for example, when it is important not to behave in a way, which could be interpreted as distrust, and, in America and Europe, formal standards can be seen as a facilitator of stability and co-operation. Cultural studies have focused on a national level, but knowledge of organisational culture and its impacts on decisions to trust and on establishing trust relationships is inadequate.

Trust discussion can be divided into macro and micro levels. At macro level, sources of trust can be divided into institutional and systems trust. When the sources of institutional trust are institutions, systems trust is trust in abstract systems. The importance of institutional and systems trust has grown in society because of increased heterogeneity in background expectations. The strength of institutions and systems as guarantees of trust depends on the existence of them and their weaknesses. At micro level, the propensity to trust and perceptions of the trustee affect decisions on trust. As personal characteristics and background experiences have been regarded as important in people's propensity to trust, perceived trustworthiness has been classified as the potential trustee's ability, benevolence and integrity. Empirical research is also needed at macro and micro level, for example, in order to acquire knowledge of institutional and systems trust in an organisational context and contextual impacts on individuals' decisions to trust.

Trust has been regarded as important in an organisational context when work in organisations often requires interdependence, and thus individuals are often dependent on each other in order to accomplish their tasks. In an organisational context the role of managers is important in sustaining and establishing trust. Managers' behaviour, attitudes and decisions regarding information sharing, organisational exchanges, rewarding and control systems can either increase or decrease trust in an organisational context. The organisational context also affects individuals' decisions to trust. The context can affect decisions to categorise people in a favourable way, and thus result in easily establishing trust in organisational actors. The context can also lead individuals to make collective decisions about trust, for example, to evaluate together the trustworthiness of their superior. Hierarchical position in organisations affects individuals' dependence on trust. Whilst individuals at lower levels are dependent on individuals at top levels concerning many intangible and tangible resources, individuals at the top are dependent on subordinates' willingness and competence to perform their tasks faithfully.

Organisational studies have also mainly only been theoretical, and thus our empirical knowledge is lacking in such important areas as how politics, organisational structure and organisational changes affect trust at organisational level.

The development of trust is also an interesting and ambiguous topic of research. On the one hand, it has been argued that trust develops gradually over time and, on the other hand, it has been argued that trust can initially be strong without any personal contacts. The gradual development of the trust perspective lies in the assumption that when more information is gathered, a trustor is willing to take more risks. Empirical findings of initial trust have encouraged developing hypotheses that personal characteristics and beliefs, institutional factors, categorisation processes and the illusion of control can result in initial trust. Although these perspectives seem contradictory they can also be regarded as supplementing views of the development of trust. These different perspectives of the development of trust presented in Chapter 2.1.2, however, have not been studied empirically, thus our knowledge of the development of trust is inadequate. We also need to remind ourselves that contextual characteristics, which could be assumed to have important effects on decisions to trust and trust relationships, have not been comprehensively analysed in either of the trust development perspectives presented above.

Control can be divided into external measurement-based control and internal value-based control. The first formal-type of control can be further divided into formal monitoring and measuring behaviour or the outcome of that behaviour. In this study, these formal control forms are called result and administrative control. The latter control form was developed from Merchant's (1985) action control form, which was found to focus on very close control and observed not cover all elements used to governing the behaviour of individuals. It was therefore decided to revise the action control form to the form of administrative control, and thus also include higher levels of control forms such as corporate governance and organisational structure. The informal type of control is exercised when specific task-related behaviour or an output measure cannot be set. The focus in this social control is to develop shared values, beliefs, social pressure and self-control to reinforce appropriate behaviour.

The wide expansion of new organisational forms has increased interest in the relationship between trust and control. Despite considerable amount of discussion, four considerably contradictory views of the relationship have been stated. Although trust has been widely regarded as a control mechanism, no evidence is given that trust itself governs our behaviour in order to fulfil features of an efficient control mechanism. Instead trust-based mechanisms are regarded as inefficient and elitist, and the use of only trust-based mechanisms

has resulted in poor performance. Three other competing perspectives of the relationship were shown, which, in fact, describe different features of the relationship: the relationship can have complementary, supplementary and intertwined characteristics. Besides acknowledging these different dimensions of the relationship, it is important to understand that each of three control forms has its own unique relationship with trust. Although we solved the relationship puzzle in this conceptual discussion, we noticed that our understanding of the relationship is quite limited. Previous studies have only analysed in a limited way the effect of organisational factors on the relationship and how the relationship affects behaviour in organisations, and have neglected the interplay between trust and control in the relationship and how this interplay affects its context. Thus, it is justified to focus this study on changing organisational contexts, so that it may be possible to fill in the above-mentioned gaps in research.

3 TRUST, CONTROL AND CORPORATE INTEGRATION: A LITERATURE ANALYSIS

3.1 Acquisition and integration doctrine

3.1.1 Introduction

Europe and US have experienced waves of mergers in recent decades, which have transformed industries and affected the careers of millions (Bleeke *et al.* 1990; Golbe & White 1988; Madrick 1987; Magnet 1984). The amount of cross-border acquisitions in particular has grown considerably during recent times. Over 40 % of mergers and acquisitions completed between 1999 and 2000 involved firms headquartered in two different countries (Hitt *et al.* 2001a, b). Increasing globalisation and the dismantling of political barriers have heightened both opportunities and pressures to engage in cross-border mergers and acquisitions (Hitt 2000; Hitt *et al.* 1998a, b).

Besides a growing amount of merger and acquisition activity in business life, the amount of scholarly research has also increased. Our theoretical understanding of what accounts for success or failure in M&As is, however, considerably limited. This section reviews our current knowledge of different aspects of M&As, highlighting gaps in our theoretical knowledge. Previous discussion was categorised into culture, people and process perspectives, which represent three major themes in previous research. Later in Chapter 4, we compare the findings of this study to previous research, and use this reviewed material for refining and strengthening frameworks built, in an exploratory manner.⁶

The main question related to mergers and acquisitions is whether they enhance performance. Despite a considerable amount of research, there is no consensus on this issue. While some researchers have shown that corporate combinations are unsuccessful (e.g., King *et al.* 2004; Datta *et al.* 1992), other researchers, however, have found that corporate combinations enhance performance (e.g., Lubatkin 1987; Seth 1990; Chatterjee 1986). Many of these

⁶ This study uses the following concepts: the acquirer/the acquiring refers to the company which acquires/acquired another one, the acquired refer to the company which is bought, and the merged company means the combined company.

acquisition and merger performance studies are based on either accounting-based measures or stock returns that are subject to significant error (see also e.g., Haspelagh & Jemison 1991; King *et al.* 2004; Shrivastava 1986). In fact, stock return studies have mainly studied whether an announced acquisition or merger creates an abnormal return for acquired and acquirer company shareholders during a period 5-50 days after the announcement. Thus, these studies measure expectations of acquisition or merger performance, not achieved value, since hardly any integration process is completed within a period of 5-50 days after the announcement. In accounting-based measure studies, problems relate to identifying only acquisition- or merger-related factors. This same problem also occurs in long-period stock performance studies. The success rate of mergers and acquisitions has also been studied using other research methods, and findings from these studies strongly support the negative view of mergers and acquisition operations. Hunt (1990) used qualitative research methods, finding that half of mergers and acquisitions fail, and Porter (1987), seeing the actions of prestigious U.S. companies, came to even more pessimistic conclusions. Although we have rather ambiguous findings regarding the success rate of mergers and acquisitions, it is not wrong to argue that mergers and acquisitions are problematic operations and fail rather often.

Acquisition performance studies have focused on a “strategic fit” or relatedness in the outcome of M&As results. Eventually, the results of these studies indicate the importance of the integration process in M&A performance. Salter & Weinhold (1979) and Lubatkin (1983) have argued that related acquisitions should perform better than unrelated ones, since they offer greater synergic benefits arising from economics of scale and scope. Furthermore, related acquisitions offer possibilities for transferring core skills across merging companies. Empirical studies have not, however, provided the expected support for the “strategic fit” hypothesis. Lubatkin (1987) observed that horizontal acquisitions did not outperform vertical or conglomerate ones, which lends support to the argument of Jemison & Sitkin (1986) that the importance of strategic fit is not sufficient for superior performance in acquisition. Strategic fit only promises the existence of synergies, whilst the integration process realises the achievement of synergies, depending on how the new organisation is managed after the deal is closed (Datta 1991; Hunt 1990; Schweiger *et al.* 1987). The importance of integration in acquisition success is also supported by the evidence of Ravenscraft & Scherer (1987) who found that the profitability of target firms on average actually declined after acquisition, suggesting that difficulties in implementation play a critical role in determining the eventual performance of an acquisition.

Although in strategy research the importance of corporate integration has been recognised, merger and acquisition performance studies have mainly regarded the integration process as undifferentiated and unimportant, with the result that knowledge of factors regarding the achievement of benefits of mergers and acquisitions is unclear. This study focuses on the analysis of these factors, and the M&A performance is defined in terms of synergy realisation and business performance during the integration process, which also avoids the above-mentioned problems related to research using stock-based and accounting-based measures (cf. Larsson & Finkelstein 1999).⁷ The focus on the integration process and the use of a case method to find factors affecting the outcome of corporate integration⁸ response also call for the use of new methods to find factors affecting M&A performance, which studies using stock-market data and accounting-based measures have not been able to explain (see King *et al.* 2004).⁹

Motives for mergers and acquisitions define the need for integration. Value in M&As can derive from various sources such as (Larsson & Finkelstein 1999):

- financial synergies from coinsurance and risk diversification (Lubatkin 1983; Seth 1990)
- managerial synergies from adapting complementary competencies or replacing untalented managers (Davis & Stout 1992; Lorsch & Allen 1973)
- synergies coming from deceitful market and purchasing power (Caves & Porter 1977; Chatterjee 1986; Scherer 1980)
- complementary synergies such as different products, market access, or know-how that fit with and enhance one and another (Hitt *et al.* 1993)

⁷ In their integrative study of mergers and acquisitions, Larsson & Finkelstein (1999) developed the measure concept of synergy realisation, given the problems of accounting-based and event study measures. The synergy realisation measure, however, does not necessarily give a total picture of the effects of acquisition or merger on the combined company. The business consequences of acquisitions and mergers, as will be discussed further, can also considerably affect the performance of the merged company. Therefore, in this study, M&A performance is defined both in terms of synergy realisation and business performance during integration.

⁸ In terms of the selected measures for M&A performance, the outcome of corporate integration and M&A performance can be regarded as synonyms in this study.

⁹ In fact, the selected measure for M&A performance itself requires a new method in this field. Larsson & Finkelstein (1999) point out that the synergy realisation measure is less “objective” and precise than stock-market and accounting-based measures of M&A performance. The same challenges are also faced in terms of evaluating business performance. Larsson & Finkelstein (1999) argue that the synergy realisation measure requires longitudinal collection of rich idiographic case material, thus, the iterative-grounded theory case method applied in this study is suitable both in terms of selected measure for M&A performance and in terms of responding to the call for new methods for finding factors explaining M&A successes and failures.

- operational synergies in manufacturing, administration, marketing and R&D accomplished through economies of scale (Bain 1959; Lloyd 1976), vertical economies (Chandler 1977; Harrigan 1984; Williamson 1975), and economies of scope (Seth 1990)

In related acquisitions, synergies expected in the form of operating efficiencies and economies of scale, and a high level of integration might be feasible (Porter 1985; Salter & Weinhold 1979), whereas in unrelated acquisitions motivated by a desire to improve price per earnings ratio or sales growth, the level of integration could be little, involving no sharing of resources (Shrivastava 1986).

The level of integration does not necessarily correlate with the relationship between the merging parties and autonomy of the acquired company. Even acquisitions followed by low integration are often under very close control and scrutiny. This can take the form of increased reporting, frequent visits by acquiring management, and fundamental changes being required by the acquired firm in their management priorities (Datta 1991). Even when the acquired company is operationally autonomous the management team is likely to comply with strategic planning, financial reporting and budgeting requirements, which can lead to considerable pressure to conform to the buyer's practices (Schweiger & Weber 1989), and the acquired management team is also forced to negotiate decisions that they had previously full authority to make and look to the buyer for approval (Haspelagh & Jemison 1991). Thus, low-level integration does not mean minor integration challenges; on the contrary; it can result in facing many of the same challenges that are faced in an acquisition followed by high-level integration.

3.1.2 Culture perspective

The cultural compatibility between the merging parties and the cultural integration process have been regarded as an important factor in M&A performance (e.g., Datta 1991; Cartwright & Cooper 1995; Chatterjee *et al.* 1992; Buono & Bowditch 1989; Sales & Mirvis 1984; Nahavandi & Malekzadeh 1988; Olie 1990); contrary evidence, however, of the importance of cultural matters in M&As also exists. Weber & Schweiger (1992) classify the consequences of top management culture clashes in mergers and acquisitions, and characterise them as leading to stress, distrust, and annoyance on the part of the acquired team working with the acquiring team. It has also been argued that cultural clashes cause negative attitudes on the part of the acquired team towards the acquiring organisation and towards co-operation with the top management team. Stress and negative attitudes caused

by cultural clashes are said to reduce the commitment of the acquired managers to successful integration between the merging companies. It has been argued that different management styles between the merging companies eventually result in conflicts, difficulties in achieving operational synergies, market share shrinkages and poor performance (Datta 1991).

It has been expressed that cultural problems in acquisitions can be considerable, as acquiring companies have the power to change the name of the acquired company, as well as its formal structure, top management team, operations, and reward structure. It has been argued that the imposition of the acquirer's own beliefs, assumptions and values on the acquired company are felt to be the sign of a general disregard for the legitimacy of the acquired firm's culture and are predictably resented and resisted (Cartwright and Cooper 1992, 1993).

A low level of integration and operational autonomy does not necessarily result in the avoidance of cultural integration or change. The motivation to acquire stems usually from the buyer's belief that it can utilise the acquired company's physical and human capital more efficiently than the acquired company itself. Therefore, even in conglomerate acquisitions acquired companies will not necessarily sustain their autonomy and avoid cultural change (Sales & Mirvis 1984). Acquiring companies, however, can also acknowledge high cultural differences and allow acquired companies to sustain a significant level of autonomy in an effort to avoid cultural clashes, but the achievement of targeted synergies is put at risk (Weber *et al.* 1996).

As noted at the beginning of this Chapter, the amount of cross-border acquisitions has grown during lasting recent decades, which has also directed researchers' attention on multicultural integration. The interest in cross-border acquisitions is natural since they may speed up new market access and promote globalisation synergies (Forsgren 1989; Olie 1990). Cross-border acquisitions involve several additional challenges compared to domestic acquisitions. Variations in national culture, customer preferences, business practices, and institutional forces such as government regulations, can hinder acquiring firms from fully realising their strategic objectives. Additionally, uncertainty and information asymmetry in foreign markets make it difficult for firms to adjust and learn from the local market and the target firm (Kogut & Singh 1988; Shimizu *et al.* 2004; Zaheer 1995). Furthermore, geographic distance as well as legal, financial and country differences between the merged parties can impede the interaction and co-ordination needed to realise synergies (Lindgren 1982; Marks & Mirvis 1993).

National culture is tied in many ways to cross-border acquisitions. Fears of changes, emotions of anger and other negative emotions can easily lead to cultural confrontation. People also tend to work their anger off by blaming

cultural differences. Prior experiences and beliefs of the acquired and acquirer companies' national culture influence people's minds and tend to result in cultural stereotyping. These stereotyping processes have affected preconceptions and co-operation with the other party. National culture is also present in organisational politics, as attempts have been made to use cultural differences as acceptable reasons for unsuccessful integrations (Vaara 1999).

As culture appears in many different ways in cross-border acquisitions, it is not surprising that cultural clashes relating to performance problems in cross-border acquisitions have been a widely discussed but controversial topic. On the one hand, it has been argued that cross-cultural differences can potentially exacerbate cultural clashes that promote problems (Krug & Nigh 2001). On the other hand, however, it has been argued that cross-cultural differences are better understood than domestic cultural differences. In international mergers, people expect differences and changes and are therefore less likely to resist merger-related changes (Weber *et al.* 1996). Additionally, Very *et al.* (1997) did not find particularly important differences between national and cross-border mergers. They, in fact, found that cross-border mergers were not associated with higher levels of cultural difficulties, performance problems and autonomy removals.

Neither has support for more problematic cultural clashes and performance problems in cross-border M&As been found in case study surveys (Larsson & Finkelstein 1999; Larsson & Lubatkin 2001). Larsson & Finkelstein (1999) found that employee resistance is marginally lower in cross-border acquisitions. They suggest that in cross-border acquisitions, the potential for combination is less threatening than in domestic M&As, which more often involve overlapping functions. Their other suggestion is that cultural differences are more sensitively considered in cross-border integrations than when merging domestic companies. The findings of Larsson & Lubatkin (2001) do not support cross-cultural clashes in mergers and acquisitions. They found that acculturation was not more complicated in cross-border than in domestic acquisitions: the success of acculturation is dependent on the amount of social control mechanisms used to support integration.

Although cultural problems have been discussed widely in previous research, a theme that has not been thoroughly explored is how culture really impacts on the outcome of integration. It seems that culture has been used as an aggregate explanatory factor for failures in M&As when more specific evidence of failing M&As has not been found. The following studies support the sceptical view on culture as the main explanatory factor in M&As.

Cultural compatibility has not been seen as necessary for good M&A performance. Very *et al.* (1997) argue that cultural differences may not be negatively anticipated by acquired company managers. Acquired company

managers may even perceive the buying company culture to be better than the acquired company culture. They may regard the acquiring company as a prestige firm, a world wide leader, a firm that commands the respect of a local community and/or a firm with a reputation of being excellently managed. Thus, authors argue that perceived cultural compatibility and relative standing mean more than actual cultural compatibility. They found that when managers from the acquired company perceived an acquiring company culture as favourable, performance improved. On the other hand, when the acquired company managers perceived the acquiring company culture as incompatible, the performance started to deteriorate. Additionally, when the acquired company managers accustomed to a high level of autonomy experienced a loss of autonomy, their performance deteriorated. Authors suggest that this is result of status deflation, intervening effects. When an acquiring company imposes its own solutions on the key decision areas of the acquired company, it sends a definite signal to the acquired company management team that their insight is not respected or trusted. Authors further argue that cultural clashes are an overstated phenomenon and evidence of them comes from business reports and case studies biased towards reporting M&As that fail.

The article of Buono *et al.* (1985) is one of the most cited cultural integration study into M&As, but findings in that paper do not support the fact that culture was the main contributor to the outcome of the integration. Authors focusing on their longitudinal case study on cultural differences between the merging banks, comprehensively describe the whole integration process, and allow readers to draw their own conclusions concerning factors that impact on the outcome of the integration process. Instead of integration difficulties related to cultural differences, readers find out about problems related to lack of proper integration planning and poor integration execution that resulted in hostility, distorted perceptions and confusion. Integration problems were increased by faulty information related to job security which resulted in continual distrust in the new leadership and organisation.

Culture has not been convincingly argued to be the main explanatory factor, even in cross-border M&As, and not many comprehensive studies about cross-border integrations have even been carried out. The main study of international mergers focusing on cultures is Olie's (1994), but in his field study of three Dutch and German mergers, culture was not the main reason for the performance problems. The main problems were caused by organisational parity, which was sustained in order to maintain the bi-nationality of the merged company. Preservation of the two organisations led to a dual organisational structure and lack of organisational cohesion. This organisational parity also resulted in sub-optimised decision-making and internal conflicts. For example, board members felt greater attachment to their

home structures than to the overall organisation, the marketing department sold only their own products and not those produced by the merged partner, and the merged parties did not communicate with each other. Olie (1994) also found some culture-related problems in one of the three cases that led to tensions in the merged organisations. These cultural problems related to differences in decision-making style. The Dutch company was described as very congenial and informal. Its leadership was based on participative management rather than autocratic decision-making. The German partner tended to emphasise blue-print organisation and practiced autocratic management, in which it was not used to questioning the policy of superiors. These cultural contradictions meant that positive attitudes towards the merger gradually turned into frustration and disappointment, but they were not the main reasons for the performance problems.

When we comprehensively analyse the role of culture in M&As, we do not find anything to support the predominant view that culture is the central contributory factor to M&A performance. Culture is involved in many different ways in M&As, but cultural differences or other culture-related problems do not seem to explain failures in M&As. Culture, however, cannot be completely ignored in M&As, but cultural clashes as the main reasons for the deterioration of M&A performance are an overstated phenomenon. Probably the role of culture is better understood when other factors which impact on M&A performance are uncovered.

3.1.3 People perspective

People as a contributing factor in M&A performance have been another widely discussed topic in previous literature. Discussion has concentrated on people's perceptions about the merger, managers' departures, management of the merged company and equality in appointments. Although the theme of people in M&As has been widely discussed from many different perspectives, our knowledge of this theme is rather fragmented and narrow.

As in many cultural studies, several studies relating to managers and employees have also reported negative perceptions of the acquired company members towards the acquirer companies. Psychological studies have reported that in organisational transitions, for example, acquisitions may create severe stress or other mental problems among organisational members that can have a negative effect on their performance, even six months to four years after the transition (Asford 1988; Cooper & Payne 1988; Cartwright & Cooper 1993). The amount of stress has been reported to be contingent on the compatibility or perceived compatibility of merger partners (Schweiger *et al.* 1987). Besides

stress, mergers have been reported to cause reduced employee commitment and productivity, increased dissatisfaction, high turnover of managers, leadership and power struggles, and a general rise in dysfunctional behaviour (e.g. absenteeism, tardiness, sabotage) (Buono & Bowditch 1989; Schweiger *et al.* 1987). It has been argued that there will be a greater initial conflict and resistance to change within bitterly fought takeovers, particularly if the issue has mobilised the entire workforce (Turney 1987) than exists in voluntary mergers or acquisitions, because the feeling of defeat and powerlessness is not so evident (Mirvis 1985). Although arguments such as stress, dysfunctional behaviour and increased dissatisfaction are considerably popular in business news, anecdotal studies, student books and some academic journal articles, it has not been shown that these factors play a significant role in the outcome of corporate integration.

Managers' departures from acquired companies are relatively common, and affect the outcome of M&A performance. Voluntary turnover of executives from acquired companies has been reported to be as high as 75 % during the first three years (Unger 1986; Walsh 1988). There is evidence that managers who have the best performance record are those who depart soonest after the acquisition. Especially if the acquirer is performing poorly prior the acquisition, talented managers are first to leave. Ironically, if the acquired company is performing poorly, managers are not so likely to depart, because they may not be able to find employment opportunities elsewhere (Walsh 1988; Walsh & Ellwood 1991). Cannella & Hambrick (1993) found that the acquired executive departure has negative implications for subsequent performance. They argue that the reason for the negative impact on performance is the loss of substantive experience that may not easily be recovered. They continue by arguing that symbolic effects of the loss of established leaders are very unsettling to organisational members as well as to external stakeholders, and they state that executive continuity may be a key determinant of the eventual performance outcome. Lindgren's (1982) study also found that the symbolic importance of departures of key persons is considerable. He found that when one or more key persons left the acquired company either immediately after the acquisition or after a period, it led to a more or less open disapproval of the acquisition or the manner in which it was conducted, in the acquired company. Cannella & Hambrick (1993) found that the more senior position these managers were in, the more harmful was their departure. The most surprising finding was that the departure of managers was most harmful in poorly performing companies. They argue, however, that this only applies when managers are not responsible for the earlier performance of the acquired company.

The reasons for voluntary departures of managers include the fact that opportunities for advancement to top management positions were weakened and that managers in the acquired company often questioned the overseas owner's understanding of local conditions and the level of their commitment (Lindgren 1982). It is thus not surprising that executives of firms acquired by foreign organisations are more likely to leave than those acquired by domestic ones (Krug & Hegarty 2001). The most important reason for voluntary departures is the removal of autonomy and diminishing status (Cannella & Hambrick 1993). Diminishing status and loss of autonomy can also considerably affect the motivation of the remaining managers, reducing their commitment to work, which can result in behaving in belligerent ways that ultimately lead to involuntary departures (Very *et al.* 1997).

Management resources have also been widely discussed in previous literature. In his study, Kitching (1967) argues that success in acquisition depends on the availability of change managers. Potential synergy does not guarantee realised benefits — change managers are needed to execute them. He also emphasises the managerial talent needed in the integration process. The availability of skilled managers may, however, be limited in corporations, and managers may carry out integration in addition to their own work, having problems with limited resources (see, e.g., Lindgren 1982; Santala 1996; Granlund 1998). Besides managerial resource problems, managers' illusion of control has also been seen to impact negatively on integration processes. Kitching (1967) argues that managers make a common mistake in underestimating management time needed; managers often incorrectly believe that relatively small acquired companies' problems need less time to solve than problems in bigger companies. Moreover, the acquirer company managers overestimate their ability to complete the integration and cope with the range of outcomes, which are under their personal control in the acquired company (Duhaime & Schwenk 1985).

Previous literature has also widely discussed challenges in forming new management in the merged company. Attention has been paid to the difficulty in balancing loyalty to one's own people with the merits of other managers and equality in distribution. Equal distribution provides learning and understanding, and is symbolic in the sense that it conveys to the employees that members of both organisations will be treated fairly and with respect (Ivancevich *et al.* 1987). Equality however, discriminates against merit (Schweiger *et al.* 1992). Furthermore, equality in position allocation may prolong the integration process, as, sooner or later, positions have to be reallocated to more efficient personnel. Neither does equality take into consideration selecting people who can co-operate as a team (Meyer 2001). Forming a functional management team has been regarded as important for the

outcome of integration. The right chemistry between the acquirer and the acquired company managers has been considered important for smooth post-acquisition integration. Different ways of working and giving the wrong roles to the acquired company managers has led to considerable problems in the post-acquisition process, and hindered the achievement of synergies (Callahan 1986). Normally allocation of functions and positions is expected to be dependent on power differential (Halvorsen 1984). Common indicators of power differential are relative size and whether the combination is merger or acquisition (Haspelagh & Jemison 1991; Olie 1994).

Although people-related studies seem to overstate the role of sabotage and other dysfunctional behaviour in integration, M&As involve several significant people-related challenges such as management resources and departures, and forming a co-operative management team. As these previous studies have been fragmented and mainly narrowly focusing only on one particular theme, we have no integrative knowledge regarding how all these different challenges in integration relate to each other. Attention in this research area should be given to process-oriented case studies, which could provide us with the integrative knowledge of individual-related challenges and their performance impacts at different stages and organisational levels of the M&A process.

3.1.4 Process perspective

Acquisition and integration process have received limited attention in M&A literature, although it has been suggested as an important factor in M&A performance (Jemison & Sitkin 1986). Most of our knowledge is based on conceptual, anecdotal and managerial studies and books, whereas empirical academic literature is relatively limited in this area.

It has been argued that lack of systematic planning and thorough attention paid to potential difficulties in integration is a common problem in M&A failures. The desire to complete transactions quickly often leads to incomplete analysis (Jemison & Sitkin 1986; Kitzhing 1967). Additionally, organisational considerations often play a very limited role in merger and acquisition decisions (Hirsh 1987; Robino & DeMeuse 1985; Schweiger & Ivancevich 1985). Human resource issues in particular are easily ignored in the due-diligence process, where financial and legal issues taken more into account (British Institute of Management 1986). Not necessarily even comprehensive differences in working methods and culture are noticed before the integration process (Greenwood *et al.* 1994). Despite the fact that planning does not

improve the predictability of acquisition, studies show that it indicates a better success rate (Cash & Revie 1971; Lingren 1982).

The complexity of the acquisition process challenges integration process planning. Over-reliance on the services of investment bankers, who tend to de-emphasise issues related to organisational fit, can result in inadequate analysis of the target. It is not that investment bankers believe that qualitative organisational issues are less important, but often recommendations based on quantitative data are easier to defend if legally challenged (Haspelagh & Jemison 1987). Moreover, acquisition negotiations are often sensitive, thus controversial issues such as management styles and values are typically avoided during pre-acquisition and negotiation phases (Datta 1991).

Sensitivity is likely to appear during the integration process since the post-acquisition process is expected to involve a complex and interactive mutual adjustment process between the acquirer and the acquired, but change is almost always one-sided, occurring primarily in the acquired firm, since the acquiring company is likely to impose its own styles and systems of management when it thinks they are superior, although the level of integration is low (e.g., Buono & Bowditch 1989; Datta 1991; Jones 1985a, b, 1986; Jemison & Sitkin 1986). Depending on the sensitivity of the integration process, changes in the acquired company are challenging. There are contradictory views about whether changes should be made in the early stage of integration or later. The following factors favour early changes: the climate for change is better, the momentum of the business must be maintained and it will be costly to delay the changes. On the other hand, there are factors, which are against early changes: the cost of making decisions is too high, more facts are needed to make a decision and any decision made now may have to be revised later (Searby 1969, 12). Managerial and consultant literature typically favours early changes, arguing that the integration planning process should not last more than 100 days. It has been argued that keeping the integration planning process within 100 days creates a sense of urgency, challenge and excitement, moving attention on action and away from politics and mixed feelings (Ashkenas *et al.* 1998). Although many companies follow the advice of consultants, there are also exceptions. In Birkinshaw *et al.* (2000) study, slow integration was explained by a fear of retention of managers, a hostile takeover which caused great anticipation, and parallel development projects, which may have been delayed if a fast integration had been executed.

It has been suggested that the outcome of integration is dependent on the relationship between the acquirer and the acquired. Jemison & Sitkin (1986) suggest that fundamental competencies and capabilities of the subsidiary may be dismissed by a parent company — even if these competencies and capabilities were what initially attracted the parent firm. Reasons for these

dismissals are defensiveness on the part of the acquired company and the arrogance on the part of the acquirer. Defensiveness from the acquired side may lead to a situation where, although the acquirer would be willing to help, the acquired may be afraid to admit what they do not know for fear of reprisal. The arrogance of the acquirer company is likely to lead to the presumption that the acquirer company style, values, beliefs, and practices are superior to those of the acquired, and thus they should be imposed on it. Political and financial reasons, however, have resulted in the acquired companies being left untouched. Good financial performance in the acquired units has impeded operational integration when the group managers found it difficult to justify changes in units that were performing well, and so were likely to avoid risking their performance (Vaara 1999).

Communication has been seen as important in the integration process. Several studies have argued that providing realistic information about the potential effects of acquisition ensures much more stable levels of commitment, satisfaction, trust, and performance than when less open information is given. Accurate and honest information about what may be anticipated during a merger is likely to be the foundation for emergent psychological contract of the combined entity (see, e.g., Buono & Bowditch 1989; Schweiger & DeNisi 1987). On the other hand, unrealistic information and the breaking of promises will lead to continuous distrust in the new entity (Buono *et al.* 1985). It has also been argued that conflicts and communication problems may reduce the necessary devotion of the acquired company's managers and employees to the implementation of the post-acquisition integration process (Schweiger & DeNisi 1991), and incomplete information has led to rumours directing attention away from work (Ashkanasy & Holmes 1995; Granlund 1998). Additional communication challenges come from the size of the merged company. The organisation may grow through acquisitions to become so large that people are not aware who knows what and, therefore, a special information flow analysis is needed (Cross *et al.* 2001).

Organisational structural arrangements and the size difference between the merging parties have been found to cause problems in the integration process. Kitching (1967) found that size mismatch between an acquirer and an acquired is one factor, which may lead to an acquisition failure. When an acquired company is especially small compared to an acquirer, it needs special management skills to develop the plans for integrating it into the parent. Size differences can create problems, for example, in adjusting an acquired company's business logic in line with the acquirer, and, in some cases, the small size of the acquired has meant that no-one at headquarters is really interested in it. Additionally, Kitching (1967) found that, in 81% of failures in

acquisitions, organisational structure was changed. These organisational structure changes may create confusion at the subsidiary level and a lack of knowledge at the parent company level.

In physical integration involving consolidation of production technologies, R&D projects, plants, equipment and real estate assets, important factors contributing to the outcome of the M&A are the success of redeployment of redundant assets, and the sharing and exploitation of mutual assets. Sharing and exploitation of mutual assets does not occur without concerted efforts. Specific action plans are required such as co-operation on marketing efforts, co-ordination of production schedules, and combining financial power (Shrivastava 1986). Resources, however, are often inadequate because of lack of communication and short-term pressures for profitability (Arnold 1983).

Managerial and consultant literature have emphasised the importance of a well-functioning transition management and a special structure in the co-ordination of the integration process. It has been suggested that the acquired company members should be committed to the integration process, thereby taking them along to the transition management and integration task forces. The role and character of an integration manager has been regarded particularly as important to the success of the integration process (Haspelagh & Jemison 1991; Ashkenas *et al.* 1998). It has been argued that acquisitions create vulnerability both inside and outside the merged company. In order to minimise problems in performance during the transition period, it has been suggested that explicit attention be paid to daily business, for example, raising performance standards. The swift announcement of a new management structure, key roles and other career-affecting matters have also been regarded as important in minimising organisational uncertainty. Managerial and consultant literature has also pointed out the trade-off between tangible and intangible costs in rationalisation programmes. Rationalisation of assets or integration of functions may diminish entrepreneurial drive, managerial attention or employee enthusiasm. Other integration process-related problems include resistance to change, divided loyalties, blurred roles and responsibilities, unclear reporting relationships, communication tangles, power shifts, job insecurity, unusually high employee turnover, policy and procedure changes and infighting. It has been argued that early signs of success positively affect the merger and future of the company when employees see that the merger was a good thing (Haspelagh & Jemison 1991; Pritchett & Pound 1998).

Mutual understanding and transfer of capabilities in creating value in M&As has also been regarded as important in managerial literature. Haspelagh & Jemison (1991) have identified five factors which are a precondition for the right atmosphere in the capability transfer. First, a

reciprocal understanding of each firm's organisation and culture, second, a willingness of people in both companies to work together after the acquisition, third, the capacity to transfer and receive capabilities, fourth, discretionary resources to help foster the atmosphere needed to support the transfer, fifth, a cause-effect understanding of the benefits expected from the acquisition. Authors hold that the key to success in integration is a development of mutual credibility between the merging companies, which enables effective integration.

Although the importance of acquisition and integration process in the M&A performance has been widely acknowledged, academic knowledge in this area is limited. Jemison & Sitkin (1986) have made the only thorough study of important factors at different stages of the M&A process, but their framework has not been empirically tested. Our empirical academic knowledge of process factors lies mainly in studies dealing with culture and people. Both Buono *et al.* (1985) and Olie (1994) in their thorough descriptions illustrate how faulty planning and execution of integration leads to hostility, mixed feelings and confusion. Olie's (1994) study also demonstrated how organisational structural choices can result in a lack of integration, sub-optimised decision-making and internal conflicts. People-related studies presented evidence of resource problems, lack of attention, difficulties in forming a new management team, the reduced commitment of the remaining managers, and difficulties created by the departure of managers. All these challenges suggest a problematic integration process, but evidence is from fragmented studies, so how all these factors relate to each other is not known.

Larsson & Finkelstein (1999) have tried to respond to the need for integrative study in the M&A area, but many important themes remained open. They combined human resource management, strategic, finance, economics, and organisational theory perspectives in their case-survey study. They found that combination potential, organisational integration and employee resistance are related to synergy realisation. Their findings suggest that the integration process is important for the M&A performance especially when combination potential is high. They argue that this might partly explain why related acquisitions do not always succeed better than unrelated ones (Lubatkin 1987). Their results support previously stated arguments that companies tend to underemphasise the importance of the integration process to M&A success (Haspelagh & Jemison 1991; Lubatkin 1983; Shrivastava 1986), finding that in 40 % of cases where combination potential was high, organisational integration was low. Although Larsson's & Finkelstein's (1999) study is exceptional in combining different perspectives, and it confirms many previous less convincingly stated findings, their study leaves many questions open. The authors leave other researchers to answer questions concerning

what happens inside organisational integration, in other words, what are the factors influencing success and failure in achieving synergies. They also consider synergy realisation as a good measure to evaluate acquisition success and do not analyse the business consequences of acquisition. The business consequences of acquisitions can, in fact, be assumed to have at least as important an effect on acquisition outcome as synergy realisation. Therefore, in this study M&A performance was defined in terms of synergy realisation and business performance during integration. To sum up, we can conclude that the integration process is critical to acquisition success, since the benefits of mergers and acquisitions are actually realised in that process, but despite an extensive amount of research, the integration process is still quite a mysterious phenomenon, in other words, the question that attracts us most — what affects M&A performance — has not been answered.

Previous studies indicate that the integration process tends to create employee resistance, organisational tensions appear in the integration process, co-operation between parties is required for fluent sharing and achieving synergies, resources and management attention are limited, and organisational arrangements are important for synergy realisation. All these factors support the idea that trust and control could be important to the success of the integration process — the factors which have been neglected in previous M&A process and performance studies. Although trust and control have not attracted M&A researchers, we have some findings about them which we will analyse in next section.

3.2 Trust and control in corporate integration

3.2.1 Control in integration

3.2.1.1 Result control

Result-type of control has only been discussed in a few previous accounting studies, which have mainly focused on whether acquirers are willing to implement their systems in acquired companies, what kind of challenges exist in implementing systems in acquired companies, and what kind of problems exist in managing acquired companies after an acquisition. Next we review previous discussion and, at the end of this section, shortly present a few gaps in our knowledge.

The management of acquired companies is regarded as challenging during the post-acquisition period, as acquirers tend not to have a full picture of acquired companies before completing the integration. Achieving a

comprehensive picture of the acquired can be laborious since financial figures between companies are not likely to be comparable before integrating the financial reporting systems. Therefore, establishing a common language between the parties in the form of accounting has been regarded as important in order to provide grounds for managing and integrating acquired companies (Jones 1985a, 1986; Granlund 2003).

Prior studies indicate that financial control over acquired companies tends to be implemented quickly. In most cases, the implementation of control systems in acquired companies has also meant increased intensity of result control in the form of weekly or monthly reporting. Control systems are not only implemented to provide monitoring of the acquired company, but also to assist in the integration process, delegate authority, motivate and provide communication (Jones 1985a).

In most cases acquirers implement their own systems in acquired companies, driven by the desire to achieve conformity of reporting throughout the group. In Jones (1985a, b) survey, about 80 % of companies implemented group procedures in the acquired companies and allowed no deviations. Both Granlund (2003) and Jones (1985a, b) argue that when the acquired company is smaller than the acquirer, it then seems evident that the acquired company starts to operate with the acquirer's systems, whereas, when the acquired is bigger than the acquirer, the best practice selection is more considered. In small exceptions, acquirers can also choose to implement the acquired company system over the whole group.

Although acquirers in most cases implement their systems quite quickly in the acquired and, at the same time increase the intensity of financial control, management of acquired companies and implementing systems can also face serious challenges, which delay the integration process. In Granlund's (2003) study, problems due to lack of resources and ambiguity of goals hampered managing and integrating the acquired company. Accountants and managers had limited resources for integration work and were confused about what systems and in what way they should integrate and develop, thus, delaying considerably the accounting integration process. His study also described that the acquired was managed for short periods on a "hands-on-deck" principle, not based on any financial control systems. The lack of comparability of financial figures and trust in the acquired company led the acquirer managers to use other information sources or even intuition during the radical re-engineering process.

Integration of the same systems in both companies tends to be important, not only because it establishes a common language, but also as it guarantees fluency of operations. In Granlund's (2003) study, accountants used so much of their resources to make the figures from two financial systems comparable,

that this started to disturb their normal activities. Their reports started to suffer from lack of accuracy and correctness, and they were not able to provide ad hoc analyses to guide the integration process and strategic planning.

Although the majority of acquirers tend to implement their complete systems in the acquired, in some cases, deviations from group practices are allowed. Jones (1985b) examined the conformity of group practices more deeply and noticed that the reasons for deviations from group practices were: revisions of controls for the enlarged group, preservation of the autonomy of operating companies, provision of information on competitors and decision-making, and the maintenance of responsiveness to a fast-moving environment. All of these were individual cases, however, and the reasons behind preserving existing systems varied from a conglomerate lacking experience in an acquired company's business, to persuasion by an acquired company's management.

Implementation of the new system in the acquired company has caused several difficulties at different stages of the integration process. Systems changes have typically been problematic given the shortage of managers, difficulties with the style of management, personal clashes, the absence of planning and the expense of integration. Integration problems in management accounting systems have also included group accounting procedures that curtail a responsive and intuitive style of management, as well as the over-formalisation of procedures for budgeting capital expenditure and planning. There have also been problems related to the changing rhythm of control, reduction in quality, and the sophistication and duplication of information (Jones 1985b). New reporting procedures implemented in acquired units may differ a great deal from the procedures that employees are accustomed to, and may therefore direct attention away from actually running the business. Moreover, resistance to change can be embedded so strongly in some individual managers, that they have to be replaced before any changes can be implemented (Jones 1986).

Organisational differences can be so considerable that implementation of the budgeting and planning procedure can totally confuse acquired companies. Texas Instruments faced several problems when it attempted to implement its sophisticated systems in its acquired company, Metals and Chemicals Inc., which was rather loosely run. This implementation effort caused several problems including a drop in performance, resistance from M&C personnel to adopt new procedures, lack of input data and a benchmark to make the budgeting system work in the new setting, and a tendency to subvert long-term goals of the organisation to show improvements in the short term. In order to get the budgeting and planning system to work, TI had to restructure several departments at M&C, implement a new information and reward system, change motivational techniques and change key personnel to initiate the new

system. It took several years to stabilise the system, and when it did, its performance was still far from optimal (Christensen *et al.* 1982).

To conclude, the use of result control, implementing acquirers systems in acquired companies, and getting the acquired company accustomed to a new result control system involves several challenges. As previous studies have focused on the challenges of accounting systems in corporate integrations, we are lacking an integrative study of the use and role of result control in a wider corporate integration context. Answering questions such as how result control is used in operational integration, what performance evaluation challenges are faced during the integration period and what kind of challenges operational integration creates for result control systems, connects result control to the wider organisational integration process, providing us with information about the importance of result control in the outcome of corporate integration.

3.2.1.2 Administrative control

Previous literature has paid more attention to the administrative type of control in corporate integration than to the result type of control. Whereas result control has mainly only attracted accounting scholars, administrative control in corporate integrations has also fascinated organisation researchers. Previous discussion on administrative control has covered many fields, from the implementation of administrative control practices in acquired companies and the use administrative controls to change acquired companies, to the illusion of control and the effects of organisational parity. This, however, leaves us with several unanswered questions relating to the role of administrative control in M&A performance. Next we review previous discussion and, at the end of this section, briefly present some gaps in our knowledge.

All previous research supports the notion that administrative control is used in order to move power from the hands of managers in the acquired company to those in the acquiring company, implementing capital expenditure control mechanisms, giving less important roles for existing managers and using budget mechanisms (Jones 1985a, b; Roberts 1990; Granlund 2003). Capital expenditure control mechanisms are typically implemented quickly to take the power from the acquired company managers. Acquirers tend not to trust acquired companies and feel that they need to be “policed”. Fears of acquirers are not unreasonable when companies which have had delays in implementing capital expenditure procedures in acquired companies have sometimes faced serious problems (Jones 1985a).

Besides limiting the power of the acquired company managers, administrative control is also used to change acquired companies’

organisational culture, as well as for teaching purposes. Long-range plans, budget approval and capitalised expenditure serve to define a parent company's expectations, in addition to limiting the freedom and power of senior executives in an acquired unit. Some acquirers use long-range planning as a means of inculcating some norms and beliefs that derive from the parent company (Jones 1985a).

Accommodation of new rules and procedures can be difficult and hamper organisational efficiency. Managers may not be willing to adjust to their new roles in which they may have less power and responsibility, and to accommodate new rules and procedures. Implementing new rules and procedures can even require organisational culture change that supports new control systems. Besides managers having difficulty in accommodating their less important role, acquired company employees have also had difficulties in adjusting to new control systems. Control system changes have resulted in the lowering of employee morale when employees have had difficulties in adjusting to new leadership styles and control procedures. Control system changes also have caused personal conflicts and led to power games, which in turn slows down the pace of change and also damages employee morale (Jones 1986). Different decision-making modes and cultures between merging parties have also led to clashes, hampering the integration process (Granlund 2003). Control systems changes are not, however, necessarily associated negatively in acquired companies. Some acquirers have introduced a participative and open style of management, which can be greatly welcomed by managers and staff (Jones 1985a).

Administrative and organisation structural choices to provide effective organisational functioning are important for the outcome of integration. As well as can creating confusion and lack of knowledge in the merged company (Kitzhing 1967), organisational structural changes can also prevent the achievement of any synergies targeted in the acquisition. In Olie's (1994) study, already reviewed once in the cultural section, the decision to maintain organisational parity for national reasons in three German and Dutch mergers that were studied, hampered the achievement of targeted synergies. This organisational parity led to sub-optimised decision-making, infighting, and failure to benefit from merger advantages until the state of parity was abolished.

Illusion of control is an important administrative control problem in corporate integrations. Many acquirers tend to overestimate their skills and ability to control the acquired company. As a result of this illusion, they do not organise the acquired company effectively, and they make poor structural and administrative decisions leading to shortcomings in acquisition performance (Duhaimé & Schwenk 1985). These findings support the views of interviewed

managers who have stated the lack of and complexity of control to be major problems in corporate integration (Kitzging 1967).

To conclude, decisions related to administrative control, its effective implementation and use in acquired companies is challenging and important to the outcome of integration. As previous studies have mainly focused on implementing rules and procedures in acquired companies, and only analysed effective organising of the merged company in a limited way, we have insufficient knowledge of how administrative control is used in the integration process, what challenges are related to administrative control in operational integration and how, for example, organisational politics and cultural tensions affect the use and efficiency of administrative control, and thus the achievement of targeted synergies. Answering these questions would help to build an integrative view of the role of administrative control in the outcome of corporate integration.

3.2.1.3 Social control

Previous research has only paid limited attention to the social type of control in corporate integrations. Managerial and some academic research have stressed the importance of social control: teamwork and common values, the absence of which creates problems (e.g., Shrivastava 1986; Buono & Bowditch 1989; Ivancevich *et al.* 1987), but not giving any comprehensive evidence about the role of them in governing corporate integration. In fact, we have only two studies which have analysed the role of social control in corporate integrations.

In his study, Roberts (1990) found a group using conferences to build up a common consciousness, to encourage employees to learn about the significance of their own and others' activities, and to integrate plans for the future. Furthermore, the conference technique was used to clarify targets, to foster unity between various units, and to institutionalise strategy and changes. Despite his comprehensive description of the conference mechanisms, he did not report on the impact of these social mechanisms on the outcome of the integration, nor how they impacted on the behaviour of the managers involved in these conferences.

Larsson & Lubatkin (2001) argue that social control mechanisms are central in achieving acculturation. They mention that these social control mechanisms include such things as introduction programmes, training, exchange visits, bonding retreats, celebrations and several social rituals when autonomy was allowed. When autonomy was restricted, then additional social mechanisms were needed such as transition teams, senior management involvement and

temporary social exchange/rotation. Their study did not discuss outcome impacts of the acquisitions, but, based on the results, it could be assumed that the use of social control mechanisms can have a positive impact on the outcome of the acquisition, as well as acculturation. When we take a deeper look at what they have called social control mechanisms we can, in fact, regard some of them as administrative control mechanisms. Social rituals and bonding retreats can surely be regarded as social control mechanisms, but such things as transition teams, training and senior management involvement can also be regarded as being related to administrative organising. When authors do not specify what they have meant with each of these issues, it remains open as to whether these are related to either administrative or social control. Administrative, result and social control, however, can be so closely related that, in the same control situation, there exists, for example, both social and administrative control mechanisms, which might explain why Larsson & Lubatkin (2001) regard transition teams and senior management involvement as social control mechanisms.

To conclude, social control can have at least two important roles in corporate integration: to build common consciousness when implementing strategic changes and to foster acculturation. As our knowledge is so limited regarding the role of social control in corporate integration, it is rather easy to suggest new avenues for research in this area. For example, it would be interesting to find out about the use and importance of social control at different organisational levels, whether organisational contextual matters such as organisational cultural clashes and politics affect the use of social control, and how social pressure is used to create additional accountability in corporate integration.

3.2.2 Trust in integration

Although previous integration studies have not focused on trust, there are some corporate integration studies where trust or issues related to trust have been mentioned. The previous discussion related to trust can be divided into three different categories: communication, co-operation between the merged parties, and organisational climate. Next previous studies are reviewed accordingly, and the end of the section discusses the gaps in our knowledge.

Communication is regarded as important in corporate integration and, on some occasions, it is also related to trust. Several previous studies have argued that providing realistic information in communicating about the potential effects of acquisition helps to maintain much more stable levels of commitment, satisfaction, trust and performance than when information is

withheld (Buono *et al.* 1985; Marks & Mirvis 1983). Some previous work suggests, however, that management should avoid communicating realistically with employees during mergers and acquisitions. It has been suggested that such communications alerts competitors or encourages employees to leave the organisation rather than endure painful changes (Jemison & Sitkin 1986; Marks & Mirvis 1986; Pritchett 1985; Schweiger *et al.* 1987, 1994). Additionally, ambiguous communication allows divergent interpretations to coexist, and is more effective in allowing diverse groups to work together. Open communication can also threaten the flexibility of managers to changes (Eisenberg & Witten 1989). Thus, it is important to find the right balance in communicating the effects of acquisitions.

Delivering official information is seen as important in stabilising acquired companies, as, if no clear communication is delivered, employees are likely to develop their own worst-case scenarios (Marks & Mirvis 1985). In uncertain situations when information is not available, employees seek other means of reducing uncertainty such as reliance on rumours and other informal communications (Napier *et al.* 1989). Incomplete information on acquisitions has created stress, rumours and confusion (see, e.g., Buono *et al.* 1985; Ashkanasy & Holmes 1995; Granlund 1998), and when rumours are not solved, they can lead to reduced employee commitment and trust (Ivancevich *et al.* 1987). In Granlund's (1998) study, the takeover caused tremendous rumours to circulate in the acquired company, hampering integration. Some people spent all their time at work going around offices, asking and telling about the latest rumours regarding who would go and who might stay. The expected lay-offs caused the relationship between the acquired and the acquirer to become almost a war, and some people even refused to negotiate with each other.

Accurate and honest information about what is likely to transpire following a merger is likely to be the foundation of an emergent psychological contract for the combined entity, whereas unrealistic information, linked to the breaking of promises, has led to continuous distrust in the new entity. Schweiger & DeNisi (1991) found evidence that job satisfaction, commitment, a company's perceived trustworthiness, honesty and caring and self-reported performance was higher in a merged unit where comprehensive information about the outcomes of the merger was given, compared to a merged unit where information was not given. Their findings, however, were not consistent concerning whether information given also had performance-related impacts. In Buono *et al.* (1985) study, the effects of untruthful information could be clearly seen. Several times, the directors of the merged company guaranteed that merger-related lay-offs would not be needed as long as employees performed well. After a while, however, considerable reductions were

announced resulting in widespread and profound general distrust of the new leadership and the newly formed organisation. This distrust also became part of the merged entity's organisational culture. Communication has also been important in order to raise common consciousness and to raise awareness of the differences between companies. Haspelagh & Jemison (1991) in their managerial book argue that successful acquirers bring all managers together to communicate concerning new targets and to learn about the importance of differences between the companies, in order to create a base for successful interaction between companies.

Trust is seen as important in fostering *co-operation* between parties in the integration process. Interaction between merged parties usually starts from integration planning negotiations. These negotiations can have a considerable impact on the co-operation at the later stages. In ultimate situations, the atmosphere in negotiations can be so tense that the deal is almost cancelled, and long-lasting bad blood between merging parties is created. In Marks & Mirvis (2000) study, considerable tensions were created between the acquired and the acquiring companies, as the company CEOs had different views on the 'merger-of-equals' approach. When the acquired company CEO assumed that both sides should have an equal say in integration decisions, the acquiring company CEO assumed it to mean that his side would have the final say, but that they would engage their counterpart to determine how best to implement decisions. As both CEOs prepared their teams based on their interpretations for the first integration meeting, long-lasting distrust was created between the parties.

Co-operation between managers in a combined company can be challenging, since the managers in the acquirer and the acquired companies may have different frames of reference, and it may take time before they completely understand each other. Accommodating different frames of reference may require the transfer of managers, building trust between managers, the development of homogeneous decision-making procedures, and the provision of consistent information to all managers through the development of standard management information systems. Shrivastava (1986) also emphasises that efficient communication and management need trusting relationships between colleagues and subordinates. Managers having limited information and no trust to their colleagues and subordinates can drag their feet even over simple issues. This may have considerable negative effects when acquirer company managers limit decision-making in the acquired company, or have disputes with acquired company managers, which limit their ability to manage the company. Continual interference of Exxon managers and organisational turf disputes with another Exxon subsidiary hindered the recently acquired unit's ability to develop products rapidly, and it started to

lose money. After several problems, Exxon ended up by selling off the unit (Shrivastava 1986).

A previous competitive situation between the merging parties can complicate the development of trusting relationships, and have hampering effects on the integration process. In his study of German and Dutch mergers, Olie (1994) found that, in one particular merger, the sales departments had a profound distrust of each other as they had competed strongly before the merger. This considerably complicated the merger since the integration of the sales departments was the main reason for the merger. Co-operation between the merging parties was also challenging because of the different sales strategies and national cultural backgrounds.

Co-operation between merging parties is seen as important in establishing trust between parties and in developing the merged company. Marks & Mirvis (2000) argue that, until parties get to know and trust each other, they will not reveal the details of their weak points to their new partners. They argue that sharing common problems and working together is essential for overcoming barriers between managers and their organisations.

The impact of acquisitions and integrations on the *organisational climate* can reflect on trusting relationships in the merged company. Although we mentioned in the integration review section that it seems that many merger-related cultural and mental problems are overstated, we now present arguments on what mergers can in worst-case scenarios mean for the organisational climate. It has been argued that merger-related stress has two kinds of effects. Either it causes mental health problems, which increase when cultural differences between merging companies are considerable (Cartwright & Cooper 1993), or stress causes anger and resentment toward an acquiring company, resulting in hostility, which can manifest itself in covert activity such as sabotaging work performance. Ivancevich *et al.* (1987) also reported that job losses as a result of a merger can lead to removal or sabotage of personal work files that are essential to the company. Many studies have also suggested that mergers increase the prevalence of low employee morale, unproductive behaviour, acts of sabotage and petty theft, and increase labour turnover, and absenteeism, strike and accident rates (Meeks 1977; Sinetar 1981; Altendorf 1986). When the merged company faces the above-mentioned challenges, trusting relationships between the merged parties are not likely to develop.

Organisational climate also faces challenges as parties in mergers tend to be suspicious of each other and future outcomes of mergers. Ashkanasy & Holmes (1995) reported in their study the suspicion between two merged auditing companies, which was detrimental to the organisational climate and created feelings of distrust that hampered the execution of the integration

process. Operative integration problems also reflect on the organisational climate. In the Buono *et al.* (1985) study, organisational climate worsened considerably when communication was unclear, organisational differences seemed overwhelming, and the other partner was seen as a competitor. This resulted in the merging partner being regarded as an invader. The situation was not eased by the top managers who allowed uncertainty to prevail in the appointment of heads of combined functions, causing friction at operating levels between the merged departments.

The organisational climate can be affected by the way changes are planned and made in acquired companies, also potentially reflecting on trust between merged parties. Acquirers' arrogance toward the acquired —“we are smarter than you are since we bought you”— is suggested as a typical attitude (Jemison & Sitkin 1986) and not a very good foundation for the organisational climate and the establishment of trusting relationships. Also the speed and intensity shown by acquirers in the integration process can have a negative impact on organisational climate and trust. It has been suggested that acquiring companies trying to integrate acquired companies too quickly and insensitively, risk losing trust and the respect of the remaining employees. Ashkenas *et al.* (1998) reporting General Electric Finance integration methodology argue that GE avoids problems in cultural differences and trusting relationships, emphasising social mechanisms and using a long integration period during which respect is shown to previous company culture and cultural differences are acknowledged.

An appropriate organisational climate is regarded as important in the transfer of capabilities between merging parties. The list of necessary elements for an appropriate capability transfer atmosphere developed by Haspelagh & Jemison (1991), already presented once in the integration process perspective section, consists of factors closely related to trust. It has been suggested that an appropriate atmosphere for capability transfer requires a reciprocal understanding of both companies' organisation and culture, a willingness of people in both companies to work together, the capacity to transfer and receive capability, discretionary resources to help to foster the atmosphere needed to support the transfer, and lastly a cause-effect understanding of the benefits expected from the acquisition. Authors emphasise that the key to success in capability transfer is to establish mutual credibility between merging companies.

To conclude, trust seems an important facilitating mechanism in corporate integration but exact findings regarding its importance and role have not been reported. It has been suggested that lack of trust hampers co-operation, creates confusion and hinders the achieving of synergies, but exact organisational consequences have not been described. Previous studies have not analysed

how trust is established, but have given good descriptions of how it is divided into parts and becomes institutionalised distrust in the new entity. In order to acquire a true picture of the importance of trust in corporate integration, we must analyse its role in the business consequences of acquisitions and mergers, and in the achievement of synergic benefits. Analysing trust at different organisational levels and in different organisational activities could also provide us with knowledge of the relationship between trust and culture, calculative characteristics of trust, and systems and institutional trust. As previous studies give us an impression about the importance of trust in corporate integration and many issues which can threaten it, it would also be interesting to find out how integration is conducted in an environment where trust does not exist.

3.2.3 The relationship between trust and control in integration

The relationship between trust and control has not been looked at in previous corporate integration studies; we have, however, a few observations concerning the relationship. These previous studies mainly give us an impression of the relationship as having complementary characteristics: the increased use of control in corporate integration is a result of lack of trust and can further decrease the level of trust between merging parties. We also have some evidence and suggestions, however, of supplementary characteristics of the relationship, in which lack of control has resulted in lack of trust and the use of administrative control is suggested in order to develop trust between merging parties.

Previous studies contain only one direct comment on the relationship between trust and control. At the beginning of his research paper, Jones (1985a) speculated that the implementation of controls in acquired companies immediately after acquisition can scarcely be conducive to the creation of trust and can have negative impacts on the outcome of an acquisition. He did not, however, return to this theme in later parts of his paper, instead widely discussing control system integrations between merging partners. He found, however, that one reason for quick implementation of a control system in acquired companies is a lack of trust, but did not discuss how the implementation of control systems impacted on trust between the parties.

Granlund's (2003) study supports the view of Jones (1985a) that acquirers tend not to trust acquired companies. Instead of describing how the acquirer implements its policies in the acquired, his study gives us evidence of the complexity of control, when the acquired company systems are not used due to lack of comparability of figures and lack of trust. The acquired company

was managed for short periods relying on a 'hands-on-deck' approach, intuition and information sources other than formal accounting systems. Granlund (2003) also discusses about a tense climate between the parties, but does not describe how a potential lack of trust otherwise affected corporate integration, apart from saying that the acquirer did not use financial control information for short periods.

The conceptual study of Jemison & Sitkin (1986) also makes suggestions about the complementary characteristics of the relationship between trust and control in post-acquisition integration. They suggest that the reactions of parent and subsidiary managers can often result in a cycle of escalating conflict, leading to further distrust and polarisation of preconceived attitudes about the other party. They argue that parent company executives, in order to regain a sense of control, may impose rigorous or standardised performance expectations and milestones on new subsidiaries. When performance requirements are not achieved, parent firm managers may react as if their fears of weak or incompetent subsidiary management have been confirmed. On the other hand, subsidiary managers may vehemently defend their autonomy against the parent's request, fuelling the parent's perceived need for increased control and intervention. As the cycle of conflicts continues, subsidiary managers may see this as a confirmation of their worst fears of a hostile takeover. Thus, the cycle of increasing control and decreasing trust continues hampering the co-operation between parties.

The study of Marks & Mirvis (2000) also gives us a notion of the complementary characteristics of the trust and control relationship in corporate integration. Although their study does not exactly focus on controlling, it describes how divergent views of the governance of the integration process can result in a decreasing level of trust. In their study different views of the 'merger-of-equals' approach between the merging parties considerably affected the integration process. As the acquirer felt that the 'merger-of-equals' approach meant that it could act almost as a conqueror, but the acquired thought it meant that the merging companies would truly be equal, the conflict in these views resulted in long-lasting distrust between the parties and hampered the integration process.

In addition to the above evidence and suggestions of the complementary characteristics of the relationship, we have some evidence and suggestions in which trust and control support and need each other in corporate integration. Marks & Mirvis (2000) suggest a transition structure to be helpful for creating co-operation and establishing trusting relationships. They argue that trusting relationships are needed for open and honest communication between parties. Without trusting relationships parties are not willing to reveal their weaknesses to each other. When a transition structure can be regarded as an

administrative control form, authors, in fact, suggest using control mechanisms to support the development of trust in integration. Authors discussed this topic only conceptually, but the theme also seems worth discovering empirically.

Buono *et al.* (1985) study gives a description of the supplementary relationship in which lack of control also creates lack of trust. In their study, lack of functioning administrative control resulted in lack of trust in the merged company. In the merger of two banks, assignments were not clearly issued, accountability in the integration process was not created, communication channels were unclear, appointments were made late and led to internal speculation and competition, rumours were continuous and the other party was seen as an enemy. Besides hampering the integration process, these problems meant that no trusting relationships were established between the parties. Although authors suggest that cultural differences were the main reasons for integration difficulties, the main problems turned out to be unorganised transition management.

When we look at trust, control and their relationship based on previous studies, it starts to seem that they could be missing links concerning the outcome of corporate integration. Organisational climate, co-operation and sharing, which are regarded as important in achieving synergies, seem to be related to trust, whereas co-ordination, accountability and giving direction to the merged company are related to the use and efficiency of control mechanisms, which are important both in current business operations and in the integration process. Together trust and control, and the relationship between the two, seem to affect organisational balance, implementation of integration processes, and managing the merged company, which all are important factors in corporate acquisitions. Nevertheless, evidence of the impact of trust, control and their relationship to the outcome of corporate integration, only exists in a limited sense.

To be able to answer the question of the importance of the relationship between trust and control in corporate integration requires analysis of how the relationship affects business and achieving synergies in corporate integration at different stages of the integration process and at different organisational levels. The broad approach for analysing corporate integration could provide possibilities, not only to analyse all three control forms and their relationship with trust, but also to capture the intertwined relationship between trust and control, something of which previous corporate integration studies have not given any description. Corporate integration involving politics, cultural elements, tensions and uncertainty also offers good grounds to develop our limited theoretical knowledge of the relationship in an organisational context.

3.3 Summary

Mergers and acquisitions are an increasingly common but complex phenomenon in business life. In particular, the amount of cross-border acquisitions, which are regarded as creating additional challenges for the integration process, has grown substantially lasting recent decades. Despite the substantial amount of mergers and acquisitions carried out in business life, however, and the considerable amount of scholarly research, we have only an ambiguous and limited understanding of what accounts for failure and success in M&As. The studies focusing on M&A performance have mainly been statistical studies using stock-market data and accounting-based measures, which are subject to significant error. In these studies, the integration process, which is central to the outcome of M&A, since the benefits of M&A should be realised in that process, has been regarded as undifferentiated and unimportant. This study focuses on the analysis of M&A performance through the integration process. This study defined M&A performance in terms of synergy realisation and business performance during integration. The case approach selected for analysing M&A performance responds to the need for new methods of studying factors affecting M&A performance, which studies using stock-market data and accounting-based measures have not been able to explain. The previous discussion in this study was divided into culture, people and process perspectives of corporate integration.

Culture has been a central topic in M&A studies, but the findings have been contradictory and confusing. On one hand, cultural clashes have been regarded as a crucial factor in the failures of acquisitions and, on the other hand, cultural compatibility has not been seen as being so meaningful. Findings from the extensive case studies focusing on culture either in a national or in cross-border context give the picture that culture has a limited role in the total outcome of M&A. Culture is in many ways involved in corporate integrations, but its role as a central contributor is overstated. The reason for the overstated role of culture in previous research seems to be that researchers easily use culture as an aggregate explanation for all problems and/or they do not search for other possible explanations for integration problems.

People-focused research can be divided into people's perceptions about mergers and acquisitions, managers' departures, management of the merged company and equality of appointments. Although many reports, managerial books and research journals have discussed the dysfunctional perceptions of acquired employees regarding M&As, no clear evidence such as sabotage has been presented. Thus, along with previously stated cultural clashes, dysfunctional behaviour also seems an overstated phenomenon. Departures of managers have been regarded as common and especially challenging for

poorly performing companies. The challenges of managing merging companies include lack of resources and illusion of control, whereas as far as appointments are concerned, difficulties include loyalty to one's own people against the merits of other potential managers and equality in distribution.

The integration process has received limited attention in scholarly research. Challenges in the integration process are related to the complexity of acquisition, which makes planning difficult, the sensitivity and political elements of the integration process, which hamper the implementation of integration plans, and the establishment of a functional organisational structure for the merged company. It has been suggested to apply special emphasis in the integration process to communication in order to avoid uncertainty and confusion, and for the transition structure to secure a well-functioning and co-ordinated integration process. Despite previous efforts, our knowledge is fragmented, limited, and a little ambiguous and, to an excessive extent, our knowledge is based on conceptual research and managerial reports and books. Therefore, we are not able to answer the question of what accounts for success and failure in corporate integration. One central reason for the lack of integrative knowledge is that we do not have frameworks for researching corporate integration.

Control in corporate integrations has not been a very attractive topic for researchers, although its role seems important in co-ordinating and creating accountability in integration. Prior studies regarding result control have described the challenges of using accounting systems after acquisition, implementation of accounting systems in acquired companies and the difficulties faced by acquired companies to accommodate new systems. Although these previous result control studies provide us with a comprehensive picture of accounting systems integration, several gaps have remained regarding how result control is connected to the wider integration context. In other words, questions such as how result control is used in operational integration, how operational integration affects result control, and how performance evaluation is affected during integration have remained unanswered.

Administrative control has received more attention in previous integration studies than result control. Previous administrative control studies have noted that acquirers reduce the power of acquired managers, use administrative control to change the acquired company culture, and inculcate the acquirers' norms and expectations, often causing difficulties for acquired companies to accommodate new rules and procedures. Previous administrative control-related studies have also reported the importance of organisational structural choices for effective organisational functioning, and the tendency of acquirers to lapse into the illusion of control. Although these prior studies have

connected administrative control to a wider integration context, they have left us with several unanswered themes, such as how administrative control is used in operational integration, how operational integration affects administrative control, and how such contextual matters as culture and politics affect the use and efficiency of administrative control in the integration process.

Social control has only received marginal attention in previous integration studies. There are only two studies describing social control in corporate integration to build common consciousness when implementing strategies and to foster acculturation. The use of social control, however, in facilitating acculturation also involves a little ambiguity, as Larsson & Lubatkin (2001) have included transition teams and senior management involvement in their social control concept, which could be regarded as central elements of administrative control. As social control has only been studied to a limited degree in corporate integration, there are many unanswered questions such as what is the use and importance of social control at different organisational levels, do contextual matters such as politics and cultural tensions affect social control, and how social pressure is used in corporate integration.

Although previous researchers have not focused on trust in corporate integration, we have some evidence and references to trust, which can be divided into discussion concerning communication, co-operation between the merged parties and organisational climate. Communication has been regarded as important in corporate integration in order to provide stable levels of commitment, trust and satisfaction. Accurate and honest information are seen to be the base of an emergent psychological foundation for the combined entity, whereas untruthful information can cause institutionalised distrust in the new entity. Communication has also been regarded as important in integration, in order to raise common consciousness and learn about the differences of the merging companies, and in order to provide a solid basis for interaction between the parties. Trust has also been regarded as important in fostering co-operation between parties, which can face challenges when the parties have a different frame of reference and/or have been competitors before the merger. Trust has been regarded as important for co-operation, since, without it, the parties are not willing to reveal their weak points to their new partners. Organisational climate can have a key impact on a trusting relationship in the merged company. If the merger creates such negative feelings and organisational consequences such as anger, resentment, increased labour turnover and low employee morale, there is no fruitful basis upon which to develop trusting relationships. It has been suggested that creating a trustful organisational climate is to facilitate the transfer of capabilities between the merging parties that can be hampered by the attitude of the acquirer. An arrogant attitude from the acquirer of —“we are smarter than you

are since we bought you”— is regarded as typical and not fruitful for creating a good organisational climate in which to establish trust. Trust seems important in corporate integration, although specific evidence of its importance and role have not been reported. In order to answer the question regarding the importance of trust in corporate integration, we must analyse its role in the business consequences of acquisitions and mergers, and in the achievement of synergic benefits.

The relationship between trust and control has not attracted integration researchers, but there are some references to it and evidence of it in corporate integration. Previous studies mainly highlight the complementary characteristics of the relationship: it is felt that acquired companies need to be policed, the systems of the acquired are not necessarily to be trusted, the reactions of the parent and subsidiary to each other's behaviour in integration may have the potential to cause escalating distrust. We also have some evidence, however, about the supplementary characteristics of the relationship: administrative control is seen as helpful in establishing trust between the parties, and lack of administrative control to create lack of trust. Based on previous studies, trust and control could be the missing links in the outcome of corporate integration, as the relationship seems to affect organisational balance, implementation of integration processes and managing the merged company. Nevertheless, a comprehensive empirical study is required, which analyses how the relationship between trust and control affects business and achieving synergies at different organisational levels, in order to determine the importance of the relationship in the outcome of corporate integration.

4 TRUST, CONTROL AND CORPORATE INTEGRATION: AN EMPIRICAL ANALYSIS AND DEVELOPMENT OF THEORETICAL FRAMEWORKS

4.1 Introduction to the empirical section and presentation of case companies

Prior research as described in the previous Chapter has not identified what accounts for success and failure in M&A, and does not offer frameworks¹⁰ for researching corporate integration. Since previous research has not identified critical factors at different levels of the integration process, it is necessary for this research to identify them, in order to be able to answer the question regarding the importance of trust and control in corporate integration. Moreover, as previous research also involves a level of ambiguity concerning factors affecting corporate integration, it seems that this study should be started from an open standpoint. This study also attempts to answer the question regarding the relationship and interplay between trust and control. This area is also full of ambiguity and a lack of framework, which also suggests the need to conduct empirically-driven research. In order to find answers for the importance of trust and control in corporate integration and the relationship and interplay between trust and control, we need to conduct a broad empirical study to analyse integration at different organisational levels, and to deal with many trust and control relationships. Therefore, it was decided to adopt the iterative grounded-theory approach for this study, to analyse the global integration process from many different important angles.

¹⁰ One integration framework is worth mentioning. Shrivastava (1986) has classified integration into three different levels: procedural, physical, and managerial and socio-cultural. He, however, has not classified critical outcome factors into these different integration levels. In his integration level framework, the socio-cultural phase is separated from physical and procedural integration and, in this study as in many previous ones, that has been perceived to be an important part of all integration processes. Furthermore, the separation of physical integration from procedural, and managerial and socio-cultural integration processes is not considered functional in this study. This study shows that the developed operational framework highlights how a physical integration process such as a relocation of factory involves different procedural, and managerial and socio-cultural integration elements. Separating these three integration levels from each other does not give thorough pictures, which are important outcome factors, for example, in the relocation of a factory.

The structure of this empirical part of the study is as follows. After the presentation of case companies, there is a description of the process by which a company located in Finland eventually acquired a global company from Holland twice its size. The integration processes between two global companies from four aspects are then described in the form of five mini-cases. These integration aspects emerged from this empirical study when it was found that corporate integration involves different features in different organisational and functional areas. The four dimensions of the integration framework are governance, procedural, networking and operational integration. *The governance integration* involves directing the company, managing the integration process and making high-profile decisions related to investments, divestments, corporate names, logos and location. *Networking* involves searching and establishing synergies in cross-selling, joint business projects, benchmarking and sharing information between business units. *Procedural integration* consists of harmonisation and integrating procedures such as accounting, internal regulation, information systems, human resources, and incentives. This study focuses on the integration, harmonisation and conducting of accounting during integration. The last integration aspect, *operational*, is described from two different perspectives: the first is integration between three units from the acquirer side and two units from the acquired side and, the second is integration between two competing units. Operational integration involves organising management, sales and production, such as sales-force integration, the relocation of machines, and organising back-office functions. After describing each integration aspect process, the critical factors in the integration aspect are classified and the importance of trust and control in these critical outcome factors is discussed. These findings are connected to previous discussion, and an attempt is made to build an integrative integration framework of these critical factors, which affect business performance and the achieving of synergies at each integration aspect.

Trust and control relationship findings from different integration aspects are gathered together in Chapter 5 and are linked to previous knowledge in order to build an integrative view of the relationship in an organisational context. This section also increases our knowledge of the development of trust by classifying factors impacting on the development of trust in trust and control relationship. The section concerning control not only discusses contextual factors that affect the use and efficiency of three control forms, but also further develops the concept of administrative control, and, finally, the section concerning trust discusses contextual factors affecting different forms of trust and develops the concept of climate of trust.

The acquirer company is one of the largest Finnish listed companies. At the time of the acquisition, it operated in more than 30 countries. At that time, it still consisted of two separate divisions, but it had already made a decision to sell one and to concentrate on the division, which the acquisition concerned. During the last two centuries prior to the acquisition, the company had made a long journey from a diversified to a specialised company. This strategic change was made by carrying out almost 200 acquisitions and divestments. At the time, when the intent for the acquisition became clear, the company had looked at further possibilities to strengthen the division concerned. Only a year before this acquisition, the company had acquired a company of considerable size, and, having recently made dozens of other acquisitions, it was not fully integrated. The headquarters of the company has always been in Finland, but the divisional headquarters had been abroad for a long time. Only just before the acquisition, the divisional headquarters were closed and all functions were centralised at group headquarters in Finland. Although the company was in many ways one of the most international companies in Finland, in terms, for example, of percentage of turnover coming abroad, the executive committee of the company consisted only of Finnish members.

The acquired Dutch company was founded in the early 1900s and consisted of two extremely loosely related divisions, which we shall call divisions P and S. The size of the divisions was similar. Division S was the original business, and had grown through green-field investments. Division P, which was operating in a similar business to that on which the acquirer was intending to focus, had belonged to the group for only two decades, and had grown through acquisitions. That part of the company had not been fully integrated into the group. The older parts of division P had adopted some parts of the acquired company culture, but newly acquired companies had their own culture. The acquired company had an entrepreneurial background and had been listed only a few years before the acquisition. The acquired was even more international than the acquirer, operating in more than 40 countries and comprising considerably more than a hundred companies. The board¹¹ of the company consisted of executives from different nationalities.

¹¹ The governance of the acquired company consisted of two legal bodies: the board and supervisory board. The board consisted of top executives of the company whereas the supervisory board consisted of representatives of the main shareholders.

4.2 Acquisition process

Negotiations between the merging companies began one-and-a-half years before closing the deal. At the time, consolidation of competitors, suppliers and customers had already begun, which had pressurised both merging companies into growing. Customers had started to prefer companies, which offered the capability for global tenders, and thus local and small companies were not regarded as being able to survive in global competition. These consolidation pressures had led both companies to search for potential acquisition targets. The main driving force for these acquisition negotiations from the acquired side was management change. The new manager promoted to the board came up with the idea of strengthening the business in the area of division P. After looking for potential companies as targets of the acquisition or alliance partners, the acquiring company was noticed. The acquired company contacted the acquiring company to have an informal discussion of the potential to acquire some parts of that company or to ally in some business areas.

During these initial contacts between the merging companies, the acquiring company was still a conglomerate consisting of two separate divisions. The company was known more for its other division, and public perception was that it did not focus on the division the acquired company was interested in. The company had proclaimed a vision to become number one in one of its businesses, when the current CEO was appointed a decade before the first contacts between the merging companies. After this statement, the company had divested several of its businesses and at this moment had decided to concentrate only on the division the acquired company was interested in. Therefore, the acquiring company had been searching potential acquisition targets, and had in fact considered the potential of the acquired company, but no initiatives had been made before the visit from the acquired company.

Two representatives from the acquired company came to see the top management from the acquiring company. They were surprised at the knowledge the acquiring company CEO had about their company, and that the acquiring company planned to focus on the business in which they were both operating. They were told that the business they were interested in was not for a sale but they were offered the other division, which they were naturally not interested in. Both companies noticed that they were complementing each other and it would be rational to join forces. It was decided to continue negotiations.

After the first contacts, negotiations mainly continued between the CEOs. The acquired company CEO was enthusiastic to acquire the acquiring company. He had made a relatively big deal a few years before, when the

company acquired a relatively large business group for its division P, and he was willing to make another big acquisition during his career. The acquiring company CEO continued arguing that their company was not for a sale and, even if it was, the acquired company would not have enough money. A merger between companies was neither realistic since their values on the capital markets were quite different. The acquirer was much more valuable than the acquired. The acquired company had been listed for only a few years before the merger, and the time the acquired had spent on the stock exchange had not contributed to its value. It had an owner who not only owned more than half the shares and was more interested in dividends than in the share price, but who also acted as the supervisory board. The liquidity of the shares and interest in them had not been high.

The acquired company CEO realised that he would not have a lead in these negotiations but agreed to continue negotiations. He was not interested in selling his company, but he had the potential to cash in on the process. The board of the acquired company had a relatively large amount of stock options. Since the value of the company was quite low, the opportunity to earn through options was high. He agreed to the plan that representatives from both companies would make a study of a combination of the companies.

The study of the combination showed that integration between the companies offered both savings synergies and new prospects for both companies, widening the existing product range and current geographical spread. The main synergies were in the area of division P. The integration would offer only some administrative synergies between the acquiring company and division S. This study strengthened the view on both sides that integration would be a rational decision and there were no major overlaps between the companies except naturally in headquarter functions. The geographical and product areas were in many respects complementary. In some European areas as well as in the US, the companies were operating in same areas in the same kind of business.

Negotiations were not facilitated by the integration study. Neither the acquired company CEO nor the supervisory board were willing to sell the company. The supervisory board postponed the negotiations and had other strategies to consider. The acquired company tried to acquire another company but lost the bid. The board of the company became frustrated, because the supervisory board had not given clear guidelines on how to proceed in the negotiations. The board were suggesting such things as a management buy-out to the supervisory board. The CEO from the acquired side asked the acquirer company CEO to be more aggressive. Finally, the acquired CEO made public that negotiations were ongoing between the companies and the stock price jumped. The option-selling window was open at the time, and the board from

the acquired company side sold their options without first informing the supervisory board. After selling the options, the CEO from the acquired company was again strongly against the acquisition, but he was fired due to conflicts with the supervisory board. Negotiations were then easier to carry out as the new acting CEO was not against the acquisition, and, finally, after some negotiations and a raising of the bid, the supervisory board supported the offer.

The acquisition process involved tensions relating to cultures and difference in sizes. The acquired company was twice the size of the acquiring company, and had a long history of growing both organically and through acquisitions. At many levels of the acquired company organisation, it was felt that the acquisition should have occurred the other way round. Cultural factors related to both national and company culture. The acquired company had a very strong company culture, especially on the division S side. It also had a strong national cultural background, which particularly affected headquarter functions and division S. Division P did not have as strong a cultural background, as it had been acquired in recent decades, but some parts of it had the same national and company cultural background as the rest of the acquired company.

The emotions among management and the expected tensions later on affected the acquisition process. The acquisition was negotiated and communicated as a merger, although it was a takeover based a hostile bid. The main shareholders from the acquirer and the acquired side agreed to have an equal amount of shares in the combined company and were granted the right to appoint an equal number of people to the board of the combined company. The name of the combined company was formed with elements from both companies, and the executive board consisted of an equal number of directors from both companies. The executive board¹² formed consisted of a CEO and CFO who both came from the acquirer side and three divisional presidents: one who continued leading division S and two (one from the acquirer and one from the acquired side) who managed divisions formed around division P and the acquirer company business. Under these two divisional presidents was a matrix organisation divided into geographical areas and product technology categories (which were lead by category directors). The appointed integration director who came from the acquired side also joined the executive board. Additionally, it was decided to preserve both headquarters, and a number of concessions were made in favour of the acquired company managers in order to get approval for the deal.

¹² In the merged company, the executive board is called the executive committee. This study uses both concepts. The reason for using these two concepts is to highlight the difference between the board and executive board but also to bring to light the terminology used in the merged company.

Tensions in the acquisition process also affected nominations for the group vice president level. These nominations had been decided before concluding the deal. The acquired side's acting CEO had an emotional attitude toward the nominations, which meant that outside evaluators could not be used to find the right persons for the top positions. Both companies suggested their managers for key positions and some tensions arose. In some instances, the acquirer company used its dominant position to push its trusted managers into key positions. The merger approach also became evident in these appointments as, since the acquired company was bigger, it got more managers into group vice president level. As the acquirer company lacked knowledge about the acquired's managers, some appointments were made based on trust in the partner's assurances of their managers' capabilities.

A competitive situation and rules for listed companies affected the amount of available information, which the companies could share before closing the deal. This meant that the complete situation in the acquired company was not known before the deal was closed. External advisers were used during the acquisition process to build up a picture of the acquisition target. Personal contacts with the acquired company directors also played an important role in establishing confidence in the acquired company. The aim was always to negotiate off-the-record, in order to promote confidence that issues in the company were in good shape. It was relied upon that if the acquired side had any major issues, the board members should know them and inform the acquirer. This confidence was established during the negotiations. Although there was resistance to the acquisition, some board members supported the merger. The relationships between these members were developed to such an extent that they promoted confidence that the acquired company was as it seemed in the files.

The competitive situation between the acquired and the acquiring company and the structure of the acquired company made the due diligence process difficult. The company was decentralised, consisting of several strategic business units, which were, for example, quite free independently to carry out their own strategies and law suits. This meant that there was not much information available at headquarters. Additionally, the company was still wary of the fact that the integration may not occur. This resulted in due diligence being extremely strict. The material was nice to know and nice to show, but was of limited help in this operation. Although due diligence was limited, managers who conducted it became confident to a certain extent that no major surprises would occur.

Due to the difficulties caused by the extremely large deal and the expected tensions in the integration process, external advisers were employed to support the integration process. The integration process planning had already started

several months before the deal was concluded. It included building an integration structure, which was based on the methodology of an outside adviser and on an analysis of the potential synergies and investments. Furthermore, all nominations were relatively clear before the deal was announced. Although a considerable amount of tension arose in negotiations due to the reluctance of the acquired company, attempts were made to establish some confidence between the partners during the negotiations. Nevertheless, although the negotiations included discussion of how things were conducted in the acquiring company, one major surprise occurred in the deal which concerned the corporate governance. This surprise was the key issue, which caused one of the biggest problems at group level integration.

4.3 Governance integration

4.3.1 Governance integration process

4.3.1.1 Initial feelings and establishing the integration process

The acquisition was a big surprise for both companies, excluding the managers involved in the acquisition process, and it created some confusion in both companies. People in both companies had been involved in many acquisitions and were aware of the consolidation process within the industry. Such an acquisition or a merger, however, was expected neither in the acquired nor the acquirer company. The communication of the acquisition as a 'merger of equals' also created some confusion in both companies. This communication form was necessary in order to complete the acquisition and to commit the acquired company to the integration process. This communication form, however, resulted in managers outside the core management team being uncertain of which company was the leader in the process, and this created additional speculation at the beginning of the integration.

Being acquired was a bitter pill for the acquired company to swallow, especially as the acquirer was smaller and from a small country. This clearly impacted on how the acquired company personnel reacted to the acquisition. Naturally headquarters personnel and managers from division S reacted strongest to the news. Neither was the merger news welcomed with open arms in division P. Emotions were dominating everything, and the positive sides of the acquisition were not seen.

Some people who are not with us any longer say it is all shit and don't want to have it. Why? It is terrible such a small company took over us,

such a big company. That could be actually what you could hear [...] that was very short-sighted. Accidentally it was purely emotional and there was no reason. I think gradually people who are still here see by merging we are in a better situation in a global network which is probably unique. There is nobody else with such a wide product range with such a product portfolio in [the name of] business and such a global network. I think that is something that people realise now. Through these integration teams people gradually realised it is not so bad as it looked in the beginning in a normal process. You've got to know that people are not idiots, that's the way for something more. (a group vice president from the acquired company division P)

A problematic acquisition process and expected difficulties due to the culture and size of the acquired company reflected on the approach in the integration process. These acquisition difficulties and the expected integration problems meant that the integration was communicated and also approached as a 'merger of equals'. This meant that the integration process could not be conducted in an old way, by just implementing the policies and procedures of the acquirer company, as the company had done in all its previous acquisitions.

The integration process was prepared before completing the deal by conducting a study of synergies and potential investments in various areas.¹³ This study formed both a basis for the integration process as well as a business plan for the newly formed company. The study was made together with top management from both sides of the new company. This study evaluated preliminary asset allocations, back-office consolidations, sales force integrations and cross-selling opportunities, as well as new investments in different geographical areas. This study formed the guidelines for the whole integration process, and acted as a basis for establishing accountabilities for various integration areas.

In order to decrease conflicts and to ensure a fluent integration process, it was decided to have a special integration management structure to govern the integration process. Consultants were chosen to bring structure and additional resources to the process. They were also seen as important as outside facilitators in order to avoid partiality, nationalism and 'us against them' conflicts.

All other acquisitions we have made we have tried to handle on our own. But this was such a big case that we expected that there are going to be many conflicts and it was seen as important that there is an

¹³ The transaction was closed at the beginning of October. The planning for integration was launched during the summer. The first major formal integration meeting took place at the end of October.

outside facilitator which keeps all things together. (a group vice president from the acquirer)

Consultants brought their integration process methodology formalities. Integration consisted of a specific process and functional structure. The process structure consisted of various integration meetings and specific milestones, which created process accountability. The functional structure consisted of a steering committee, which involved consultants, the integration director from the acquired company who was a member of the executive committee, group vice-president from the acquirer and about twenty task forces with different regional or functional responsibilities. This structure created functional accountability. The task of the steering committee was to facilitate the integration process. This was done by ensuring that task forces progressed, solving roadblocks in the integration teams, and ensuring that all synergies were defined and formal documents properly filled in. Various integration teams consisted of members from both companies, and the manager of the integration team was normally a leader of that current activity, for example a regional director of that current integration area. Each integration team had a sponsor who was an executive committee member responsible for providing resources and support in problem areas. Integration task forces also had a support person who was a steering committee member, responsible of taking care of the functionality of the task force work.

Expected tensions in the process impacted on the forming of the integration functions. Both the integration director and consultants were selected on the basis that commitment would be shown from both sides, and that they would not create a feeling of bias. The integration director was chosen from the acquired side, so that he could try to commit the acquired side to this structure. He was also seen as suitable because he favoured the acquisition and was not expected to have any specific personal agenda, since he was due to retire after the formal integration process.

It was a tactical move that at first [the name of the integration director] regarded positively this merger. He had a positive attitude that it is reasonable to make and second because [the name of the acquirer] was a buyer in a way, although it was externally done as a merger, [the acquirer] bought [the acquired]. So [the name of CEO] wanted a balance that would get more actively to the structure of this deal. [the name of the integration director] was a very charismatic active communicative good leader and it was seen that he could contribute this to atmosphere making this merger. It was also so he could very quickly build credibility in [the acquirer] and he had a strong credibility in [the acquired], not so strong in [the division S] because he came from the side of [division P]. (a group vice president)

The consultants were also selected on the basis that their backgrounds would not cause any national tensions between the companies. One of the consultants was a Finn based in Finland, one was Dutch based in Holland and one was from Iran. The consultants' role was not only important in introducing the integration methodology, but they also provided important resources for facilitating the integration, supporting impartiality and providing social support in a tense environment. The consultants' role involved not only guaranteeing the functionality of the integration, but also providing input for specific integration projects such as establishing global sourcing functions. They also offered help in the social integration process. Individuals having difficulties in dealing with tension were able to talk with consultants and enlist their help in handling difficult situations.

The integration structure and preliminary integration plans were prepared before concluding the deal. Through this structure and the involvement of outside facilitators, there was confidence that expected tensions and conflicts in the huge integration process could be managed. These outside facilitators also acted as an impartial link to the CEO, giving him confidence in the functionality of the integration process.

4.3.1.2 Managing the integration process

The integration process started immediately after completing the deal, and almost all key persons were bundled into the process, which involved tight functional and process accountabilities. During the following months, it was required to screen synergies and establish savings and additional sales plans with specific milestones. Before finishing the formal integration process, all plans had to be completed, and regional and functional organisations, accountable for executing these plans, had to be formed. The implementation of some minor integration projects had already started during the formal planning period. Committing key personnel to the integration process not only involved them in the integration work, but also directed their attention away from not worrying about the future. Attempts were also made to limit additional speculation and uncertainty by communicating that, if all work was positively carried out, there would be no need for senior management lay-offs.

In a way the issue [uncertainty] was partly handled [...] that almost all people were bundled to integration work and about twenty integration teams [were formed] which thought that or that issue. And that certainly kept individuals committed and there was enormous hurry which keeps [you] committed. If there is time to think, then faith is shaken and if there is all the time horrible hurry, then you start to work

and not to wonder 'ok who is next to be swept away'. (a group vice president from the acquirer)

The first big integration meeting involved making a special effort to establish social relationships between merging partners and develop a healthy basis for the integration work. This integration kick-off meeting was held in Rome, based on the old adage 'All roads lead to Rome'. The vision of the new company was presented as were preliminary integration plans, but much time was devoted to social interaction and familiarisation between the companies. Presentations and discussions involved presenting the culture and the 'modus operandi' of the merging companies.

We wanted everyone to come to the impartial place, Rome, where all cultures combine. There was a sort of philosophic cultural issue. [...] the programme was built around the culture. There were asked presentations from the acquired [...] what were their real values not what were written but what they really experienced [...] what were the values of the acquirer company. Then we compared how much we have in common and there was discussion and we learnt to know each other's culture and way of acting [...] In workshops mixed teams told early findings and there were discussed very much. There were normal presentations of the business and new products and new technology and hard facts but the main part was concentrated on culture and the way of management. (a group vice president from the acquirer)

Cultural differences were discussed widely in small teams, and they also became evident later in the management of the company. A pleasant atmosphere was created in Rome although the merged company was clearly divided, and some competitiveness between the merging companies was noticed in the presentations of the participants, when they introduced their companies, units and functions. Tensions and differences noted between the executive committee members also created some discussion among participants.

Uncertainty grew during the integration process, when it was clear that the organisational form first announced is not ready, and that many changes would be made to achieve synergies. The formal integration process involved elements, which meant that individuals in the task forces could develop plans which might mean changing their position in the organisation or even kicking themselves out. Feelings during the integration are described by one task force leader.

At that time the organisation was not ready when we were meeting first time. So a number of people were knowing that probably I will be

redundant. I mean the people did not know that of course, we do not know and that was sure for all of us. [...] the process was so that we they were making a number of integration teams. Fifteen or twenty people were sitting in more than one team, and when that was ready after some months then the new picture should be ready. That meant of course some of the people who were sitting there could be sacking themselves if they say I am suggesting we are making one unit instead of two. He was sitting in one and could be made redundant. I mean that is also probably what you are paid for. You must be so objective that is the best solution even if it takes some of your own people or even yourself. Of course the people who were nominated as task force leaders they had a feeling, yeah, the big bosses have been looking I would not be a leader of a task force if I am going to be kicked out. [...]] of course you had the feeling that when I am sitting here I then am a little bit more safe than the rest but nobody is safe of course...

The formal integration methodology introduced by the consultants provided several control mechanisms, which created accountability in areas of tension and uncertain organisation. This widely used and accepted integration methodology provided confidence in the outcome of the integration in both organisations, although there were uncertainty, disagreements and tension regarding the operating methods and the integration processes. Confidence was provided by impartial facilitators, a transparent integration format and a tight accountability-creating process.

Commitment and accountability to the integration projects were established by using formal presentations in the progress review meetings. These presentations shared information on the ongoing integration projects, and allowed individuals publicly to comment on the projects and to co-ordinate overlapping projects. Presentations were also a formal social control mechanism: they made the task forces accountable and also tested the task force leaders.

We went to this [formal presentation system]. Each guy presented his sheet and that was the formal aspect. This idea of the whole integration process is to give a formal aspect of the presentation and the task force, etc. You know who it gives the pressure and responsibility to each task force and to his own team and our integration team to follow these targets. So because it is presented formally everybody hears, and of course it is also to know each other and to see little bit how they present themselves. I mean all these presentations also are a way to test people when they present themselves [...] at the end if you don't reach your target I mean everybody points at you so, yes, it is a little bit a way of putting pressure. (an executive committee member)

Commitment and accountability was also created by using the iteration method in integration savings and additional sales planning processes. The target in this bottom-up process was to encourage commitment to the integration plans. Using the iteration process, a minimum of the allocated level of planned synergies was set as task force targets. These iteration calculations were based on the business plan made before signing the deal. Synergy calculations in the business plan represented the level of synergies, which had been promised to shareholders. These targeted numbers were tightly adhered to during the integration planning period.

The review and iteration process involved both the level of targets and the ways of conducting the plans. The suggestions of the task forces were screened by the steering committee, which sent the plans back if they were not happy with them. The plans involved different suggestions on how integration benefits could be achieved and in what timescale they could be completed. Synergy target calculations and milestones usually went through some iteration rounds before they were accepted and presented in the review meetings. The expected synergy benefit line was revealed during the iteration process and additional pressure was given if task forces suggested something below the expected level. When the steering committee had accepted the plans, they were presented in executive committee meetings and in the review integration meetings. The development of the task forces and their plans were evaluated in the executive committee and in the integration meetings. Whereas the business plan was made on a very top-down basis, the integration process planning with milestones was done on a very bottom-up basis. This was done to commit people to the integration benefits. The progress of task forces was very tightly analysed in order to keep the process running.

The review meetings provided a forum not only to apply social pressure to progress, but also to make joint decisions and share information. Task force leaders participated in these meetings and brought the feedback with them to their task force. These meetings also gave transparency to the integration process and an open communication channel in the organisation. Meetings were also used to keep excitement running.

Those meetings are first of all to get to know each other, to keep the excitement running, to keep the people informed so it was information meetings and also it was important that people had the feeling that we are on track, we are going forward. After then of course lot of things happened in the mean time. A lot of information was given from those task forces [...] how task forces are going on. So you could come back to your own unit and say yeah yeah yeah, sales synergies are working well in France, it looked ok in Italy, there is this task force here in

purchasing, they are on track, here we have a small problem. (a task force leader)

The progress of the task forces was followed using a separate synergy reporting procedure. This reporting format involved both synergy and restructuring costs and progress review of integration projects. Since the budgeting had already been made, these synergy savings could not have been included in the budgeting procedure, since task forces started making their first integration plans at about the same time as their yearly budgets were being presented. Interim reporting was done on a monthly basis. Some specific integration plans were connected to individual managers' incentive plans.

Task forces were also controlled interactively during the integration process. The role of the steering committee was to co-ordinate the integration process, push the task forces and help them to overcome problems. The steering committee visited task force meetings and made interventions when it seemed that the task forces were not progressing.

Our task in this steering committee was to facilitate that these task forces actively worked together. [...] every task force had one key support person who made sure that this task force progressed in their work. It was more that they had identified these potential synergies and that it was documented [...]. This structure worked according to the basic model that they held meetings and we sat there in these task force meetings for a while so that we got an understanding of how they work together. If they hit their head against the wall we got to open that seam. It was that sort of active interaction.

Different opinions and power games made the integration work challenging. Co-operation between the companies was also made challenging as task forces involved managers from different companies who held different views on future direction. In one task force, for example, the acquired company manager acted offensively towards the organisational change, and refused to allow his subordinates to work with the task force leader. He also refused permission for the task force leader to visit factories and for him to be given any information. Because there was disagreement about organisational change at higher organisational level, no specific guidelines were given to solve problems in that task force. Heavy concessions made in the merger negotiations made resistance easier, since, if you had worked in the acquired company over a certain number of years and were of a certain age, you would receive generous compensation, even if you went to work for another company.

The active integration planning process work lasted a bit over three months, and during that time, it was required to complete integration plans and the schedule for the implementation phase. Despite existing tensions, the use of several control mechanisms pushed task forces to conduct plans that exceeded initial synergy targets. Once these plans were accepted, integration continued into the execution phase. During the integration planning phase, the operational side was rather stable since no major integration projects had yet begun, and all that had happened was that some small factories were immediately closed. The execution phase gave rise to challenges in the operational aspect, which will be discussed later.

The accountability of integration targets remained after the completion of the formal integration by giving the accounting department the responsibility to follow the interim reporting. This synergy reporting was part of normal monthly reporting during the first year. Then the integration targets were introduced into the following year's budget. The synergy budget made managers accountable for the integration targets. Setting specific milestones made the progress of the regional and functional integration teams controllable. Budgets and integration plans were stored in the accounting department and this department followed their execution, since it also allocated restructuring provision.

It was [a directing effect] because of all those who were operating in areas where overlapping technologies were, and Oceania is a good example of that. Everybody got to think about how to remove costs. They need to consider and commit to specific issues, they need to deliver benefits, not just talk for example about the progress of their integration plan, their budgets and outcomes. It was dealt with in group discussions that you did this and this project where it is seen that here was allocated this amount of administrative costs. (a group level manager)

To sum up, the formal integration process can be regarded as having been successful in the case company. The 'merger of equals' approach and the integration methodology provided by consultants facilitated co-operation between parties despite existing tensions. In fact, different forms of control mechanisms forced attention to be directed towards screening integration savings and additional sales. Some cultural and political tensions hampered co-operation in task forces, but in the main, task forces completed their integration plans properly. The formal integration process is, however, only one part of the integration — the planning stage. The execution of the integration is the main part, as is directing the company during the integration process.

4.3.1.3 Managing the group during the integration

This merger brought together companies from different national and corporate cultures. This created several challenges, especially in the field of governance, which were reflected both in the management of the group and in the conducting the integration. The main cultural difference which hampered the relationship between the directors was corporate governance. The governance style caused considerable tension in the trust and control relationship between the acquirer and the acquired. This was also the main difficulty in governance integration and in the whole integration process at group level. The governance at the acquired company consisted of two legal bodies: the board and the supervisory board. The responsibility of the board was to manage and select courses of action in the interests of the company, whereas the role of the supervisory board was to give long-term guidance in the interests of the shareholders. The board members from the acquired company were surprised to find that they ended up on the executive board, where the role of the CEO was very strong and stated in law, but in Finland there is no legal role for the executive board. The board members from the acquired company had expected that the structure of the merged company would also consist of a board and supervisory board. They were not prepared for the corporate governance change and managers at different levels of the acquired company felt that they had been betrayed. They had seen the process as the negotiation of a merger, and yet the chosen governance style gave a much more significant role to the acquirer company's CEO than the acquired company managers regarded as proper in a 'merger of equals'. As the governance style in the acquired company was based on its national legislation, and also reflected its corporate culture, the changes in the governance style were difficult for the acquired company to accept.

Additionally, the role of the board was very strong in the country where the acquired company comes from, and many decisions which these managers were used to conducting collectively in the acquired company were now decided by the CEO or presented by the CEO to the boards of directors. The main problems in this style of governance were that the acquired company managers were used to discussing and making collective decisions. They knew very well the business situation in areas of responsibility other than their own, whereas, in the acquirer company, managers were relatively independent in their areas of responsibility and the CEO had an extremely independent role.

The planned formal cultural integration campaign was postponed and, for several years, cultural integration was a merely a matter for discussion, conducted at the kick-off meeting and in the cultural identity campaign (the logo, name and layout etc.), and there were many reasons for this. First, the

style of the acquirer was rather modest. The lively campaign and TV presentations suggested by consultants would not have suited the style of the company. Second, the organisation was not ready. The division S was soon decided to be sold.

It was better to keep a lower profile as we would have needed to eat our words about this division [S] if we had talked with high profile. Quite many saw that they were allowed to keep their name and logo for business reasons. It was just a more radical decision that now we sell.
(a group vice president from the acquirer company)

Third, the major reason for the lack of cultural integration was the battle in the executive committee and a considerable amount of resistance in the acquired company. Thus, cultural integration was limited merely to the identity campaign of integrating names and logos (which also raised tensions), and, working together and launching an integration newsletter. This integration newsletter ‘Tango’, the idea of which was that ‘it takes two to tango’ representing the ‘merger of equals’ approach, delivered to all employees was also established both to inform and to try to maintain excitement about the integration.

The largest fights in the executive committee were related to the logo of the combined company. In a meeting where the executive committee members from the acquired side presented slides of their ideas regarding the logo (which had already been on the agenda for some time) for the merged company, the CEO of the merged company suddenly announced that he had already decided that the logo of the acquirer would be the logo of the merged company. This decision to use the logo of the acquirer as the logo of the merged company was very difficult for most of the acquired company executive committee members to swallow, since it did not seem to depict the ‘merger of equals approach’. The style, in which the decision was made, however, was the biggest source of pain in this issue for the acquired company executive committee members, since it represented a style of governance that was the antithesis of what they were used to. The acquired company executive committee members were used to a more consensus-orientated decision-making style, whereas the style of the acquirer, which became the style of the merged company, was much more centralised, decisive and less discursive. The acquired company executive members were used to expressing their opinions very strongly on their board, despite the fact that their CEO also had very strong personality. To those on the acquired side, it seemed that the style

of the acquirer was that the CEO made the decisions and his men merely nodded their heads.¹⁴

Tensions at the executive committee level did not only focus on cultural issues but also on roles and personal relations creating politics during integration. There were strong disagreements relating to the roles. One acquired company member in the executive committee was not happy with his tasks and the structure of the company. He would like to have had another role, which the CEO was not willing to give him, and he became frustrated. Personal relations between individuals also created situations, which hampered the development of unity during integration. Frustration led to the acquired company director not being committed to integration projects and he let his dissatisfaction be seen. This also resulted in his not being committed to building unity, and the organisation under him did not get support to deliver integration projects, with the result that, in some areas, projects did not progress as planned.

Politics at the executive committee revolved around organisational structures, divestments and acquisitions, and created conflicts that did not help in making control of the company easier and developing trust between the parties. Conflicts and tensions slowed the decision-making time and hampered the creation of unity at the executive committee level. Tensions and divergent views of the future direction at the executive committee level spread to lower levels of organisation causing speculation.

[Conflicts at the executive committee level] *they [...] caused is the start of speculation on what kind of decisions and views will win, and it is not a good situation for business unit manager that these kind of conflicts are perceived, and I know there were these kinds of situations...* (an executive committee member)

Lack of trust and unity at the executive committee level also started to spread to lower levels of the organisation causing not only confusion and speculation but also hampering the development of unity and trust at lower levels of organisation. The executive committee members were regarded as having an important role in setting a good example and demonstrating values

¹⁴ The importance of the logo to the acquired company and their difficulty in accepting this acquisition can be seen in that fact that, when the merged company CEO was making a speech at the acquired company headquarters a few months after completing the deal, pins showing the logo were distributed to people at headquarters. Some people took them and loyally attached them to their chests, some made the sign of the cross and refused to take it and others attached it to their chests up-side-down. The headquarters personnel, however, mainly represent the old part of the acquired company, not division P, which had been less strongly attached to the old acquired company culture.

of unity to their own subordinates, instead of showing frustration and lack of commitment, which hindered the progress of the integration.

First it [trust] starts to trickle downwards in the organisation. At first if the executive committee shows mutual trust and respect, it shows in their subordinates and from there, it trickles down, or up if there is lack of trust [...] the whole organisation under this kind of person and then results or changes do not go fast enough and it means that culture doesn't change any values if they are not taken in the way that has been agreed... (a group vice president from the acquirer company)

Control was helped in the sense that the acquired company had made their budget before the acquisition without any thoughts regarding the acquisition. Their budgets were converted to the acquirer's format and presented to the executive committee members. The budgetary and strategy process in the merged company was, however, very different and difficult for the former acquired company SBU directors, who were mainly appointed to group vice-president positions. As SBU directors they were strongly involved in creating strategies, which had been very much a bottom-up process in the acquired company. In the merged company, however, they faced very different treatment. In the acquirer, most strategic processes started from the CEO and the executive committee level and these previous SBU directors had only limited involvement if any in creating strategies — they were give the role of carrying out strategic orders. This change was obviously noticed in their first budget presentation: when SBU directors from the acquired company had previously been used to discussing and getting approval for their plans, discussion in the merged company budget presentations was mostly 'yes' or 'no' decision-making. Some former SBU directors did not like their reduced autonomy and the merged company decision-making style at all and decided to leave.

Besides highlighting the differences in decision-making style, budget presentations gave concrete evidence of a lack of unity and trusting relationships between the merging companies. One strategic business unit had negotiated an acquisition. During the acquisition process, the acquirer had given approval to the acquired to continue negotiations. When the issue was raised in budget presentations after the merger, however, the acquirer company directors argued that they had not given and would not give permission to continue negotiations. By that time, negotiations had gone so far that only price had not been decided. This caused a considerable fight between the parties and did reflect the lack of unity in the executive committee in a very concrete way to lower level managers.

It was decided to form a matrix of the organisational structure in order to support integration between the companies. This organisation form enabled integration of different production categories, establishing key account management and networking, which is discussed in next section. This organisation form also led to the creation of the same policies and procedures working with the same customers. Although this structure was seen as a necessity for the integration, it also created many conflicts. First, the acquired company managers, previous SBU managers, had to get used to a reduced level of independence. Second, they were used to working in a simple line management culture, and had difficulties in adapting to the matrix culture. Third, the matrix created tensions in both merging companies between category managers and business units. Business units were profit-line responsible and category managers were responsible for the development of their own category. Business units were more willing to focus on creating profit in their own unit than supporting a category strategy. These issues are discussed more in the later parts of the thesis.

Structural changes and a focus on the integration activities made the controllability of business activities a real challenge. This resulted in the level of control becoming looser. When structures changed, for example, units became bigger, sales forces were integrated or manufacturing was moved to other locations, managers at group level did not have as good a picture of the situation in the business units as they did before the integration. Despite these controllability problems, overall business results developed nicely after the acquisition.

The integration process creates uncertainty in every sense, it creates a situation that you don't know what the effects on the company will be, and with every change we look worse in comparison [...] it gets worse, it creates these grey areas so that if, in some country, business is integrated it gives different figures than last year and this figure can then be compared to last year's only to a certain extent and when there isn't comparability [...] we see the business grow but we don't know whether it was a good or bad performance [...] it makes control looser.
(a group-level manager)

As the top group is involved in other activities there's a risk that [...] explanations are given more leeway, and this sort of integration project that means that the corporation integrates may mean that we have bad information for a while [...] getting the right information quickly, that can be a challenge. (a group-level manager)

Looser control at group level was also noticed at the business units. Before the merger, the management of the business units felt that headquarters had

accurate knowledge of their units, but the merger, which more than doubled the size of the acquirer company and which moulded units into a new form, meant that it took some time for headquarters to acquire a total overview of the company. As the merger kept headquarters busy with integration activities and the increased size meant that less individual attention could be paid to business units than had been before, business units saw and heard less from headquarters and felt that their issues were not being examined in as great detail as before and that explanations for performance were being more easily accepted. Furthermore, the integration became accepted as an excuse for problems, which was welcomed by units having problems in their performance.

Structural changes, including all kinds of changes based on synergy projects in some business areas, concealed the poor development of business. In some areas, achieving synergies in relocations, integration of sales forces and closing factories did show positive development in the profit line. The change of trend in the profit line created positive feelings towards the development in problem areas that concealed the fact that business had not necessarily developed — the positive trend in the profit line had only developed due to restructuring, and once synergy benefits were no longer being enjoyed, the true picture of the business was revealed. Structural changes due to integration also meant that many managers were not known by the executive committee members, since they were equally appointed from both companies. Presentations played a considerable part in evaluations of the managers' performance and their prospects. Good, convincing presentations were the keys to sustaining confidence in unfamiliar managers, and this gave them breathing space, even if their general performance was lacking.

Cultural unity started to develop when it was decided to sell division S and the executive committee members from the acquired side left. In fact, once division S was sold, all old executive committee members from the acquired side had already left.¹⁵ This resulted in the disappearance of a considerable amount of cultural problems. The cultural differences between division P and the acquirer company were not so great. Division P had not totally been integrated into the acquired company, and not all its parts had the strong national background of the acquired. Some parts did but the managers of those

¹⁵ The last executive committee member from the acquired side resigned from the executive committee when the sale of division S was decided upon. He continued leading division S until it was sold. The new executive committee consisted of one member from the acquired side and five members from the acquirer side. The structure of the company was also changed so that three executive committee members started to lead different geographical areas. These geographical areas still continued in the matrix organisation. The original headquarters of the acquired was sold during the execution of the implementation plans and before the sale of division S.

parts left the company either voluntarily or involuntarily. The cultural integration process was launched more than four years after the integration, once working together had sufficiently smoothed out differences between the merged parties for the acquired company not to express resistance to the cultural campaign. In the beginning, resistance to the cultural campaign (which includes a stage where every manager shows a video presentation of the CEO talking about the values of the acquirer company and how to progress according to the company values to his subordinates) would have been strong.

I have done that [the cultural campaign] with my managers. Now that we have come to this process there is nothing crazy or fun in it. People say let's do that, that's how we should progress. That to be done at the beginning people would have said 'nonsense'. This shows that progress worked because it was done and it was not easy. It was quite easy to show successes — people like to work in a team [...] guys try to say what they think is right, now we have worked together we have developed a new culture [...] what we have now is a new [culture] [...] is not the same as [name of the acquirer] had before, that is true I think people see and respect it. That's why it is easy for them to accept, they would have fought against it [the cultural campaign] five years ago... (a director from the acquired company)

Since the integration projects, more attention has been paid to internal development, including the above-mentioned cultural project. Several additional rationalisation projects have also been made to improve efficiency. In many positions, managers have voluntarily and involuntarily left, and not only on the side of the acquired. The change in the discussion and strategy process has been welcomed by the acquired side. Discussion is no longer a 'yes' or 'no' decision-making process, and acquired company managers who felt that their role was diminishing, have rediscovered ways to influence the strategy process. These changes also had positive effects, creating unity and trust between the parties.

4.3.2 Critical factors and the importance of trust and control in governance integration

Governance integration, including structuring the merged company, directing the integration process and managing the merged company is definitely an important part of the outcome of M&A. Previous research has touched on governance integration activities, but built quite a fragmented and confusing picture of it. Therefore, in this section we attempt to build an integrative view

regarding what the critical factors are in governance integration, and what the importance of trust and control is in it. This case offered a good basis for analysing governance integration challenges: the acquisition was based on a hostile bid and created tensions between the parties, companies were competitors in many areas, corporate and national cultures were different, the acquired was twice the size of the acquirer, and the companies had overlaps and complementariness in all continents. When we evaluate this governance integration in terms of the M&A performance measures, we notice that, despite all the tensions and problems in the process, this governance integration can be regarded as fairly successful, since the merged company management was quite stable, business performance was maintained and, overall, the task forces were able to create plans for synergies, which exceeded targets that were publicly announced prior to the acquisition.

Whereas previous studies have emphasised the compatibility of corporate cultures in the outcome of corporate integration, this study highlights the importance of the hard factors of internal processes, control, structures, resources, politics, but also the importance of trust to stabilise a merged company, support co-operation and facilitate fluency of operations. Whereas previous integration studies have mainly given a view of complementary characteristics in the trust and control relationship (the use of control diminishes trust, and control is used since is not trusted to an acquired), this study also highlights the fact that trust and control support each other in many ways, which is also important to the outcome of governance integration.

Based on this empirical case study, critical factors in governance integration can be divided into accountability, structures, resources, politics and culture. These critical factors and their sub-categories are shown Table 1.

Table 1 Critical factors, trust and control in governance integration

Critical factors	Control	Trust & control relationship
Accountability Integration accountability	Administrative control - task forces, steering committee and review meetings to build process and functional accountability Result control - reporting structure to track and review synergies Social control - to build common consciousness and to create social pressure	Administrative control - structures to facilitate familiarising and build first contacts to establish trust
Structures Organisational structure	Administrative control - structures to support integration of activities, business, and to hinder confusion and internal conflicts	Administrative control - structural choices can boost or hamper the development of trust
Transition structure	Administrative control - to create transparency, certainty, impartiality and to co-ordinate	Administrative control - structures to build trust in a process and a company
Clarifying tensions		Administrative control - tensions and departures related to diminishing and changing role of managers
Challenges in financial control	Result control - lack of comparability and slow reactions to business problems	Result control - presentations and appearance of managers having important role to establish and sustain trustworthiness
Resources Business attention	Result control - lack of comparability, attention and resources hamper control and give leeway	
Project and management resources	Administrative control - to provide knowledge, planning, monitoring and development resources	

Politics Appointments-related	Administrative control - balance in appointments and challenges of management to co-operate	Administrative control - divergent views and tensions to decrease the level of control and trust - trusted managers tended to be appointed and requirement to rely on trust in appointments on acquired side
	Project-related Administrative control - tensions, concessions and lack of motivation to hamper controllability	Administrative control - divergent views, infighting and lack of commitment to decrease control and hamper trust - the importance of approach in merger in sustaining and establishing trust and control
Culture Governance style		Administrative control - national and corporate culture differences affect challenges to co-operate, efficiency of control and establishment of trust
	Acculturation	Social control - tensions and lack of trust hamper the use of control to facilitate acculturation and trust

We see from the above table that critical factors are tied to control and/or the relationship between trust and control, and both trust and control play an important role in the outcome of governance integration. Next we discuss these critical factors more deeply and the importance of trust and control in governance integration.

Accountability in the governance integration process is critical for achieving integration targets. *Integration accountability* has two important functions in M&A performance. First, it directs attention on the integration process, and secondly, it familiarises key people with each other. Previous research has shown that integration accountability is not an obvious issue in the integration process, although integration is required for achieving synergies between merging companies. Managers have tended to underestimate the importance of the integration process and the problems of planning in M&A activities, and paid insufficient attention to the integration process (see, e.g., Kitzhing 1967; Jemison & Sitkin 1986; Granlund 2003). This study highlights how integration accountability not only boosts the

integration process but also decreases internal conflicts and supports the establishment of trust.

Integration accountability can be created using all three control forms, as was done in this case. *Administrative control* has the most central role, since it involves several mechanisms useful for steering the integration process. Administrative control was used in the following successful way to create integration accountability in the case company. The business plan conducted before closing the deal, consisting of synergy analysis and new business prospects, formed the basis for the integration work and the targeted estimation of achievable synergies. The integration teams, however, formed and made responsible for either regional areas or specific functions such as accounting, sourcing or key account management, were relatively free, within specific time schedules, to screen synergies and develop implementation plans for executing these synergies. The bottom-up process was used not only to commit the task forces to their plans, but also to challenge them to use their local knowledge and expertise. Through the iteration rounds, the task force plans were matched at least to the expected synergy target level, and the task forces were directed to carry out the projects that were regarded as important in the business plan, but were missing from their synergy plans. The task force committed all key managers to the integration, keeping them extremely busy, and was also important in limiting the time they were able to spend worrying about the future. It was widely acknowledged that the structure, which had been announced was not final, and several positions would be reconsidered. Thus tight schedules and constant progress reporting decreased speculation and directed attention to integration work. These study findings support the consultancy literature in which it is widely suggested that the duration of the integration planning process should be kept to less than 100 days in order to focus attention on the integration process work, and prevent attention wandering to politics and mixed feelings (Ashkenas *et al.* 1998). Administrative control also involved close monitoring, which was used in addition to reviewing plans and commenting on them publicly at large conferences. Steering committee members visited task force meetings in order to check how well teams were working together, facilitated the flow of information between teams, tried to solve road blocks and, in difficult situations, suggested a change of task force members and leaders.

Administrative control has an important role to play in the area of integration accountability, besides creating accountability to motivate people and familiarise them with each other. Large conferences were used in this case to share information about the progress and plans, and to allow people to get to know each other. Together with task force work, these meetings offered the first contacts between the companies for the development of trusting

relationships. In this study, however, the atmosphere was at first not conducive to the development of trust because of tension resulting from differences in company size and culture, and contradictory views and conflicts at the executive committee level, which filtered down to lower levels.

In addition to administrative control, *result control* mechanisms also play an important role in creating integration accountability. In this case, the reporting format, which had been created for tracking synergies and reviewing progress in screening synergies and new business prospects, created accountability for task forces. After the integration planning period, this reporting sustained accountability, and directed discussion towards agreed integration projects. Accountability was also strengthened by linking some synergy targets to managers' performance appraisals.

Finally, *social control* also plays an important role in facilitating integration accountability. The main form of social control in integration accountability is conferences. In this case, conferences were used to strengthen accountability by making task force managers present their integration plans and progress. By introducing this formal aspect, task force managers were made publicly accountable for their integration projects. Besides this social pressure, these presentations were used to test how managers present themselves, and they were also important in familiarising people with each other. Social control mechanisms can also be used in conferences to build a common consciousness and thus strengthen accountability (see, Roberts 1990).

In different ways, **structures** have an effect on the outcome of M&A in governance integration. First, functional organisational structure must be established in order to provide support for achieving synergies; secondly, efficient transition structure is important for facilitating the integration process; thirdly, structural changes impact on managers' roles, creating possible tensions, which must be clarified for the proper management of the merged company and, fourthly, structural changes challenge financial control in the merged company.

Establishing a *functional organisational* structure is important for achieving synergies between merged organisations, but creates challenges in organising *administrative control*. Organisational structural issues have hampered several M&A processes. In Olie's (1994) study, national cultural reasons led to the preservation of organisational parity between the merging companies, which had a negative effect on achieving synergies. The merging companies continued operating individually, causing sub-optimised decision-making, internal conflicts and lack of communication between each other. The clarity of structural relationships between the acquirer and acquired have also been found to be important. It has been argued that a mismatch in structure between the acquirer and acquired companies and confusing reporting lines

between them, have resulted in failures in acquisitions (Kitching 1967). In this case problems were also created with the organisational structure when the established matrix organisation form created confusion and tensions, and did not support the importance of cross-selling in synergy targets. These organisational structure problems are discussed further in the network integration process.

Organisational structural choices also have an important impact on *trust* between merging companies. Efficient management of the acquired company requires trust and not the dragging of feet on all issues, which can ultimately lead to total confusion in its operations and the departure of the management (Shrivastava 1986). Organisational structural choices can also boost familiarisation, and facilitate the development of trusting relationships, as occurred in the case company. The established matrix structure, which was later abandoned due to inefficiency, in addition to being important during early stages in facilitating cross-selling, promoting knowledge-sharing in the merged company and developing key account management, played an important part in familiarising key people with each other, and thus helping to create trusting relationships. Thus, an organisational structure, which is not economically the best, can serve other important functions in the integration of companies.

Besides the establishment of a functional organisational structure, ***efficient transition structure*** is also an important element in the governance integration process, focusing mainly on the area of *administrative control*. Problems in the integration processes have related to lack of proper management in integration, unclear targets and hostility between parties, which have negative implications both for integration and business attention (Buono *et al.* 1985; Granlund 2003). In this case, the main problems in this area were avoided by using transition management. The transition structure plays an important role in co-ordinating the integration process, allocating responsibility to specific teams, communicating the purposes of the process, creating transparency in the process and directing attention away from uncertainty and politics towards integration activities. In this case, due to size differences and expected conflicts, the decision was made to take on impartial consultants to assist in the process who, in fact, also played an important role as facilitators and representatives of impartiality in the political process.

Transition structure impacts on trust and control relationships. Lack of a proper transition structure has resulted in considerable conflicts and distrust between parties (see, Buono *et al.* 1985). It has been suggested that a proper transition structure makes it easier for the parties to learn about each other, and build the trust required for revealing weaknesses (Marks & Mirvis 2000). In this case, the transition structure played a central role in building trust in the

credibility of the process, and in helping the parties to operate and build trust in each other, despite existing conflicts. The selection of an integration director from the acquired side built commitment from that side, efforts to carry out the process built credibility in the success of the merger, meetings and task force work familiarised people with each other, and transparent structure and impartial facilitators not only built commitment and credibility in the process, but also directed attention away from politics and tensions towards integration activities.

The central challenge in the structural area of M&A operations is ***clarifying tensions related to reduced autonomy and other structural changes***. These changes have major implications in the area of *administrative control*. M&A operations typically result in taking power from acquired company managers, which causes negative feelings amongst such managers (e.g., Jones 1985a, b, 1986; Roberts 1990). Even in low integration, acquired company managers are usually forced to accommodate not only a reduced level of autonomy but also the practices of the acquiring company, and close scrutiny involving regular visits by acquiring company managers (e.g., Haspelagh & Jemison 1991; Datta 1991; Schweiger & Weber 1989). Structural changes and difficulties in adjusting to new roles have caused a resistance to change and resulted in voluntary and involuntary departures (Very *et al.* 1997). In this case, the acquired company managers, especially at SBU management level, had difficulties in adjusting to their reduced role and the new matrix structure. They had had a much greater influence in the acquired company, and had played a central role in building and executing strategies, whereas, in the acquirer, they had much less influence over strategy — their new roles were ordained from the top. In addition to this change in autonomy, the discussion culture also related to their changing roles, making them frustrated. Whereas they had previously been used to discussing strategy and other issues with top management, the style of the acquirer in making decisions with virtually no discussion was difficult for them to accept. These changes resulted in frustration, resistance to change and voluntary and involuntary departures, which in turn had negative implications for the integration process. Tensions relating to changing roles and reduced autonomy certainly did not make for a good breeding ground for the development of trust in the merged company.

Structural changes also create ***challenges in financial control*** at governance aspect, focusing on the area of *result control*. Structural changes such as closing and relocating machines, integration of sales organisations and back offices and changes in supplier relationships decrease comparability with previous years. In this case, it meant that top management was not continuously up-to-date about situations in business units, sometimes resulting in slow reactions to poor performance. When structural changes created

situations where top-level managers did not recognise exactly the difference between good and poor performance, the presentations and appearance of business unit and regional directors became more important than in normal circumstances. The role of budgetary and performance review presentations was also important, since many managers whose track record was not well-known, joined the merged company from the acquired one. Managers were able to create and sustain *trustworthiness* by giving good presentations and being able to explain reasons for deviations in performance. The role of trust in result control grew during these structural changes.

Resources are also important for M&A performance in governance integration in two areas: business attention and in the integration process and managerial resources areas. *Business attention* is easily hampered in big acquisitions, which require a considerable amount of integration. A considerable amount of integration activities lower the quality of *result control*. Integration activities such as relocations and integration of activities can easily change situations in business units, making it difficult to compare results with previous years. In this case, it lowered the quality of control when management was not continuously up-to-date regarding situations in business units. Business follow-up decreased and explanations for deviations became more easily accepted.

Process and management resources are also important for governance integration, focusing mainly on the area of *administrative control*. It has been reported that lack of systematic planning and thorough attention paid to acquisition and integration activities can lead to failures in M&As (Jemison & Sitkin 1986; Kitching 1967). Problems have also occurred when acquirer company managers overestimate their ability to affect activities in the acquired company (Duhaime & Schwenk 1985), and there is a lack of availability of talented managers to implement plans (Kitching 1967). The merger of complementary companies offers potential for sharing and using mutual assets. Special effort is required for such matters as co-ordination and using intangible and tangible assets to achieve synergies (Shrivastava 1986). Resources are often inadequate, however, because of a lack of communication and short-term pressures for profitability (Arnold 1983). Lack of proper management resources have led to a considerable amount of tensions, hostility and a dysfunctional integration process (see, Buono *et al.* 1985). Problems have also emerged in process and management resource areas, because of the departures of acquired managers. The departure of acquired executives causes both a loss of experience and also symbolic negative effects in the minds of stakeholders, and such a situation has been found to have further negative implications for the subsequent performance of the acquired company (Cannella & Hambrick 1993).

Companies do not necessarily have knowledge and resources for managing the integration process inside their own company, so they need to acquire resources from outside. The acquirer company in this case had conducted more than 100 acquisitions on its own during recent decades, but did not have resources for managing this huge process. The methodology and resources provided by consultants were critical for the process and the above-mentioned problems did not occur in governance integration. Resources were required for providing methodology for co-ordinating the process, governing different task forces, providing input for integration activities such as for establishing global sourcing and for reporting tasks. The methodology provided by consultants was already set up before closing the deal, making it possible to start planning the integration process before completing the acquisition, and thus launching the integration immediately after closing the deal.

Politics has an important impact on the outcome of M&A activities. Politics appears in two main categories in governance integration: appointments-related and process-related. *Appointments-related* politics has a considerable impact on *administrative control* in governance aspect. Politics depends on the approach of the merger process and power differential between companies (see also Halvorsen 1984). In this case, difficulties at the negotiation stage required the use of the management selection approach in appointing managers to the merged company. The merger approach also affected equal distribution on the executive committee, and lower management level. Both parties tried to appoint their trusted persons to important positions, creating tensions between the parties. The acquirer company was required to rely on *trust* relating to the appointment of managers from the acquired side, as they had a limited knowledge of their track record. The difficulty of balancing loyalty to one's own with equality in distribution has been raised in prior literature. Although it has been argued that equal distribution provides learning, understanding and respect for the acquired (Ivancevich *et al.* 1987), it discriminates against merit, prolongs the integration process, and does not take into consideration who can co-operate as a team, what the correct roles are for managers, and whether managers can work in different environments (Schweiger *et al.* 1992; Meyer 2001; Callahan 1986). Unhappiness about roles from those in the acquired company, different working ways between the companies, and tensions related to the integration process meant that the equal distribution used in the executive committee did not create unity and *trusting* relationships between the parties. Tensions and disagreements slowed decision-making and were also reflected at lower levels of management, increasing speculation and confusion.

Politics also appears as *process-related*, having negative impacts on both *trust* and *administrative control*. Different views related to the acquisition

process regarding the combination process, have caused tensions between parties (Marks & Mirvis 2000). Lack of proper integration management also creates politics in the integration process. Hostility, confusion, mixed feelings, lack of co-operation and profound distrust in the merged company are signals of lack of proper administrative control, resulting in a considerable amount of politics (see, Buono *et al.* 1985). In the worst cases, politics results in fighting, which directs attention away from managing the business (see, Granlund 2003).

The approach that the acquirer takes to the acquired has a considerable impact on the level of politics. In this case, the 'merger of equals' approach decreased the level of politics, and increased commitment from the acquired-side managers, who were not enthusiastic about the acquisition. In fact, this 'merger of equals' approach was required in order to carry out the acquisition and receive commitment from the reluctant partner. This 'merger of equals' approach was demonstrated by the appointment of the integration director from the acquired side, introducing impartial consultants into the process and using a policy of 'equal appointments'. The transition methodology used also influenced the political landscape, directing attention towards integration processes.

Financial benefits given to acquired company managers influence process-related politics as shown in this case. Concessions given to the acquired company managers were considerable, granting a high rate of severance pay, to those with a long career in the company and over a certain age. High severance pay gave them the opportunity to resist change without being afraid of losing salary. In some cases, the acquirer company directors waited for a long time to see if managers with a good financial package would become more favourable towards the merged company. The problem of financial motivation is also faced when entrepreneurs, having sold their company, become so rich that they do not need to work anymore (see, Jones 1986).

Culture is a controversial topic in M&A literature. On one hand, it has been regarded as the main explanation for the outcome of M&A activities, and on the other hand, empirical evidence gives the impression that culture is a considerably overstated matter in M&A literature, as discussed in the conceptual part of this study. Cultural factors, however, can have a significant effect on the outcome of M&A as far as fluency of the integration process is concerned, but culture is only one contributory factor among many others, and not the main one, as has been suggested in many previous studies. Culture has an impact in governance aspect, as part of governance style and the acculturation process.

Governance style differences affect the fluency of *administrative control* in the integration process. Different decision-making styles have resulted in

conflicts and frustrations in domestic acquisitions (Granlund 2003) and also in cross-border acquisitions (Olie 1994). Differences in governance style, however, have not necessarily been received negatively — a more open and participative style of management has been taken positively in acquired companies (Jones 1985a). Problems with differences in governance style can have a considerable impact on the fluency of the integration and management of the company, resulting in a lack of *trust* and unity. The difference in governance style depends on both national culture and company culture. In this case, governance style problems culminated in a different decision-making culture and different corporate governance between the merging companies. The acquired company directors were surprised about the governance, which reduced the importance of their role, and they had difficulties in adjusting to the new style, causing conflicts, slowed decision-making, reducing support for the integration process and hampering the creation of unity and trust, which was also reflected at lower levels of the organisation.

The *acculturation* process also has an important effect on the fluency of the integration process, being reflected in *administrative* and *social control* forms. Social control mechanisms such as introduction programmes, training, cross-visits, bonding retreats and parties have been found to be important in acculturation when the acquired company has been permitted some autonomy. When its autonomy is restricted, then transition teams, senior management involvement and temporary personnel exchange/rotation is required (Larsson & Lubatkin 2001). These latter mechanisms can in fact at least partly be regarded as administrative control mechanisms. This case shows, however, that cultural tensions can be so considerable that they limit using control mechanisms in the acculturation process. Cultural differences, tensions and lack of trust at top management level hampered the implementation of a formal cultural programme, and acculturation occurred without any specific effort in the course of time. Acculturation was facilitated by voluntary and involuntary departures and divesting a division, which was strongly bound to the acquired company culture. In the case company, a cultural campaign, which would have been resisted at the time of the merger, was implemented four years later, once all those who strongly opposed the acquisition had left the company. Fluency of integration can thus be aided by not using control mechanisms to support formal acculturation.

To sum up, based on the above discussion, we argue that the factors affecting M&A performance in governance integration are accountability, structures, resources, politics and culture. Additionally, we state that, because control and/or the relationship between trust and control are strongly connected to the critical factors in governance integration, trust and control are

not only explanatory factors in governance integration, but also the missing links that combine fragmented findings from previous studies and new findings in this research, with the outcome in governance integration. Finally, we conclude that the outcome of governance integration depends on the effective use of control mechanisms in governing integration, monitoring business performance, building the new entity and tackling challenges related to politics and the ability to establish co-operative relationships between the parties.

4.4 Networking

4.4.1 Establishing networks in the merged company

The building of networks was started in the formal integration process. Networking is defined here as having co-operation, sharing, joint projects and trade within a group between different units. Both companies were large, together operating about a hundred manufacturing and sales units in more than thirty countries.¹⁶ As the merging companies operated in many locations and in different manufacturing technologies, the strong positions of different manufacturing technologies were targeted for leverage, either geographically or with specific customers, in order to strengthen the position of other technologies in weak areas. The possibilities for synergies were also seen, to be achieved by sharing best practices, establishing cross-selling and building relationships for joint business projects.

In the formal integration process, an integration task force was built, which looked for opportunities in the sales side between two technologies: how they could help each other by sharing customer contacts and developing joint projects. The merged company had four main types of technologies, and these two were thought to have potential for the greatest synergies, since they had the same kind of customers who could also need the products, which the other technology manufactured. These two manufacturing technologies were different, and offered products for large customers. The acquired company had both technologies, but the acquirer had only operated in one. There had not, however, been much co-operation between the different technologies, as the acquired company had organised SBUs according to manufacturing technologies. Personnel working with the different technologies had had

¹⁶ Networking is only considered between the acquirer and division P of the acquired. Division S was sold quite soon after closing the deal and there would not have been any synergies of note in the network area between division S and the other parts of the merged company.

quarterly meetings together, but there had not been a continuous search for synergies.

The accountability created in the formal integration process pushed the task force to search for additional sales opportunities and joint business opportunities. The task force leader took sales managers from various sites to screen opportunities and to discuss joint business possibilities. The task force members evaluated possibilities to offer their products to large customers, in which the other company had good contacts. They found a considerable amount of additional sales possibilities, for which they were made publicly accountable. Accountability created in the integration, however, was insufficient for creating fluent co-operation in networking. There was also a need to develop trust between networking parties.

Business units were exposed to risks when they built relationships with other business units in order to give contacts to their major customers. Both companies consisted of a massive amount of business units, which had both manufacturing and sales activities. The independence of these units was relatively great within the limits of group strategy and budgets. The business units sold their products to customers, both locally and abroad. They had contacts with companies operating worldwide, which could represent a major part of their sales. They noticed the risk involved in introducing a sister company to a very good customer, when they had no previous knowledge of that sister unit's performance and methods of working. They acknowledged that they could damage themselves if the sister unit did not perform well, and used other working practices such as giving more discount and longer payment times.

Let's say [...] you introduce your biggest customer for whom you are responsible worldwide. You introduce to him a daughter company who can supply [a certain other product] and you are not sure if this daughter can supply super standard super costs super quality. Then it's of course negative for you if they don't do it. So you will be a little bit careful so as not to hurt yourself. It is not only plusses for them, it can also be a little bit negative if we don't live up to the standard. They are used to, for example, or we are coming in and giving bigger rebates could also be so. [A sales manager] has made a system with them saying, you have to pay me within ten days, and then we are coming in and without knowing saying yeah 30 days. Of course [a worldwide customer] [cough and says] 'interesting 30 days' and goes to [the sales manager] and say 'I want 30 days per me'. 'No, says [the sales manager], it is not possible, we only have a 10-day principle in this company', or the other way around, it is of course much easier. So it is not without risk also for the [certain company] people to give on their

good customers because they can't control what we are doing to them.
(a business unit managing director)

Trust was developed gradually in the meetings between representatives from different technologies. The information given between parties grew as contacts improved. The only thing that could be controlled was the information given and recommendations made to customers. At the beginning when sister units were introduced to good customers, some business units were not exact when giving delivery times; for example, they might promise delivery to customers of products from a sister unit within 16 weeks, when the sister unit had promised their sister unit they could deliver in 12 weeks. This was to allow a safety net to units who were introducing sister units, in advance of their knowing the sister unit's real performance.

There was a clear need to be careful with introducing sister units to customers, since problems that customers might face with sister units, would reflect on the whole group, and especially on the main contact person for that customer. Although business units were careful in introducing sister units to their customers and drawing a clear line between different business units, difficulties did occur. Establishing co-operation between the merging companies suffered in such cases as when one business unit did not perform as was promised, thus causing considerable problems for the main contact person. This made many business units careful and reserved when co-operating with their sister units.

The central problem for creating sales area synergies and new business opportunities was lack of specific rewards in networking. At first clear targets and rewards for joint projects were not set, and neither were sales persons to act as door-openers for other technologies, although clear integration targets were set at the top level. Creating synergies between technologies were set very low on the scale of sales persons' incentives. The key people who could act as door-openers and to introduce customers to sister companies did not gain from these activities. This meant that people who could have made a move in this process concentrated more on selling their own products than looking for synergies between different technologies.

I think that we as a group missed some of the opportunities because I think those people who could give, who could move that process, they had no, it sounds bad, incentive. I mean, it was not given high priority in their incentive, so to speak, or their target for next year. It was so, yeah you should earn, you have turnover, you should earn your money and so on. And then of course the target number seven is you should increase synergies between the [technologies]. What we shouldn't

forget is that people who should move this process forward, they were not having any benefit on this one. (a business unit managing director)

Established contacts in the integration projects benefited both technologies, despite existing accountability problems. Meetings were held regularly between the technologies, in which they reviewed their progress and discussed customer contacts and changes. Meetings brought up joint product and sales approaches, which were rather successful. A combination package of two products was introduced, of which one was produced by one technology and the other was developed by the other technology.

[A sales guy] was discussing a project with [a world wide company] and then [the other technology noticed their opportunity] we can supply this one here. If you suggest to [a world wide company] you can produce this [...] here [...] and price is so, and so we gave a full package to them. And that was one of the successful stories and one of the positive ones yeah. It always boils down to people. People have the interest and intent to work together and they will do, then results will also be good. (a business group management team member)

Another big problem in achieving synergies and new business opportunities was the lack of a joint sales approach for selling both products. The lack of a joint approach meant that the knowledge did not necessarily exist for selling products from the different technologies. Learning about different products took time and individuals, who were involved in one technology, did not necessarily have any knowledge regarding the other. Nevertheless, the joint approach would not necessarily have developed many synergies, as, within a customer company, contact persons could vary between different technologies, meaning that a good relationship in one technology did not necessarily benefit the sales people of another.

Besides trying to achieve networking in order to widen business prospects between technologies, attempts were made to establish networking with the purpose of facilitating the sharing information about customers, technical issues and of promoting cross-selling. Sharing information about customer preferences helped when approaching customers with different products, as well as learning about their expectations. In the technical area, the merger broadened knowledge of manufacturing, new product development and best practices.

Hierarchical structures were important in facilitating networking. Structures were seen as necessary for building networks and establishing trusting relationships between parties. Networking began at the top level in the formal integration process, but, in order to introduce people at lower level, other

structures needed to be built. It was known that units would rarely contact their sister units if they had not met them before. Regular meetings, such as general manager meetings, were set up to provide communication between key persons.

The first thing you have to know is your colleagues, not only by phone you have to get into contact to colleagues. You have to work together, you have to drink beer together and, if I know somebody, afterwards it is not problem to make a phone call and say hey hello in Australia, what about that customer, I have this information, is that right? You have that information, for example, if I know someone personally afterwards it is not a problem to have a phone call videoconference or whatever. If you start with a phone call and video conferences, then the speed of agreeing is not so good. So contacts and building up a positive network is very very important. (a business unit managing director)

Formal structures were required to establish contacts and possibilities for developing trusting relationships. Formal structures, however, can only facilitate the creation of networks, since functional networking relies on having and using informal contacts. Therefore, trust-based binding relationships must be established in order to provide functional networking.

It's both [formal and informal networking]. [You need] a formal network and formal reporting system in order for the informal system to grow. In the end, it is informal network. Somebody who has a new problem picks up the phone and calls his colleague in Sweden, saying, you have similar machines, have you also had this problem? Or somebody having a big customer complaining about a certain subject calls his colleague [and asks], did you ever have that with the same customer? And it is important that people talk to each other, yes, and you can't impose that [...] If you never ever have [met], the chances that you will call by telephone are minimum. (an executive committee member)

One area of networking, which was encouraged at group level, was operational benchmarking. In order to provide co-ordination and communication in this area, a common language had to be established. The key performance indicators, KPI measures, were introduced to provide a common language. They also created some comparability between the units.

KPI measures are primarily the tool box, a tool by which we can discuss and build and create corrective actions. [...] they are an exceptionally good tool for talking the same language. We talk about measures and need to have one common measure box. Because if one unit is measuring in one way and the other unit in another, we would

not be comparable so that we could talk about the same issues. We do not have same issues but the measures do make us a little bit similar, put the units on the same line and then of course we measure in the same way and then we build this networking and bring the units closer... (a group level manager)

The problem with KPI measures was that, at first, they were not harmonised. This meant that accountability was not created in the units. Although it was widely known that the units were different, for example, they had different machines and different production technologies, the variation in these measures was so considerable at the beginning, that the units could easily argue that the units were in no way comparable due to lack of harmonisation in measures. This reduced the accountability of KPIs and meant that the units were not comparing their activities with their sister units. KPIs, however, provided trends and communication between group level and the units. Trends were analysed, and when something urgent was seen, questions were raised. The group also made it easier for units to compare activities, although such issues were usually avoided by explaining that measures were not comparable.

Operational benchmarking supported not only the provision of a common language with KPIs, but also the creation of formal structures. Technological teams were centrally established, which concentrated on sharing information and discussing about new products and new production technologies. These teams also established informal relationships between the team members. In the manufacturing area, these informal relationships were useful for getting help when machines were broken or being transferred.

Structures were also needed to support operational continuous benchmarking. Whilst the technological teams were focusing discussion on new products and technologies, operational development had remained the responsibility of individual units. The effort for continuous networking had not been made, mainly due to a long history of acquisitions and time spent on rationalisation programmes. Although the units were willing and interested in benchmarking, they did not have any tools for them. There was a lack of formal structures for enabling benchmarking and the development of relationships for sharing.

I think the catalyst is that group level got to set up structure and can do that. Don't get me wrong I can make phone call to anyone on my level on group and say I am going to come and see you [...]. I want some of your time to ask some questions. I can do that, there is nothing other than time, and I might get a strange response, on the basis, why you want to come. Yeah I want to look. Don't you have anything else to do?

You know you must have a lot of time if you are going to come on basis to have a look around without any specific objective. There is no framework for me to do that on a regular basis, I have to take that initiative myself. A couple of times I've gone to the States and do that on the back with other reasons for visit. What I have done I have said I ok I gone there because there is a piece of equipment. I go there and see then what they do and ask a few questions. I have done some of that work already but we miss out, as we don't get enough cross-fertilisation within units. That is a shame because [the combined company] individually has a lot of capability and experience but there is very little sharing, and a reason for that is because of the culture. Because of barriers and you don't get rid of barriers unless you get people to meet more frequently, [...] build up relationships, build up social understanding. You know, a better understanding of different people on different sites, you don't feel bad about phoning someone and [saying], look I want to come up to your site [because] I saw while I was there last time. I want to bring one of my guys I want to have a look, is that ok? I wouldn't do that at the moment, because I feel that is almost inviting yourself to someone's house without being invited first, you know. (an operations unit director)

Although on the one hand, the need for structures for sharing and benchmarking is evident, on the other hand, any additional information sharing and help from the sister units operating in the same field of technology is restricted. The main barrier to networking and sharing information is the fierce competition between the units operating in the same field of technology. At the time of integration, major machine relocation was underway, and some sites were being closed. The situation did not improve after integration, meaning there still existed a need to cut costs by closing units and relocating machines. The competitive situation between the units actually increased considerably a few years after the integration when the organisational structure was changed. Sales and operations organisations have been separated from each other in business units, resulting in a situation where all manufacturing units compete with each other regarding all sales tenders. This means that less information, resources and help are given than is required, especially in manufacturing area. This has also caused additional closeness between units.

[...] I think one of the big things now is that all units compete with each other. So I am competing with every other unit within [the merged company] in business. If I can make cheaper than any other [the merged company] site then sales organisation will buy from me. So again from my business perspective, from sales preservation perspective, why I would share ideas with you when I could lose business, I could loose livelihood because if you get better than I do,

they buy from you instead of me. And I have to make redundancy and end smaller operations, I even might lose my job so I think that is the one of the areas that [the merged company] has to tackle. I understand absolutely this strategy of lowest cost producer yeah but I think we have to move together as lowest cost producer rather than competing against ourselves for business. (an operations unit director)

This competitive situation between units means that group structures are required to sustain and to establish relationships between units. These structures are needed to overcome this competition and to legitimise a helpful attitude between units. Without the central organisation, the units would rarely share any information. This fierce competition in fact hampers the existence of any functional network in operations area in which information is willingly and continuously shared, although contacts are available and the key persons have built relationships with each other. Contacts and sharing occurs in case of urgency, and sometimes facilitation is required at group level.

I wouldn't call that network. There is case by case support from one site to another. It is certain factories have expertise with certain machinery in [the name of city], there is lot of [the name of] machines for example. So they also went to [P] to help and assist in running [the name of] machines. In [S] you have very high competence in [the name of] machines so there is still one standing in [K] one in [R] one in [B]. It is really a help or a need for help [is seen] then usually somebody from another factory if it is urgent would call to [S], can you send somebody, or somebody from headquarters would call to one factory to support the other. The real network is constant exchange or improvement of ideas. That is not the case because there is also the idea of competition. Every factory wants to gain as much volume as possible and bigger machines to occupy and employ people. If all of the hints and tricks are revealed to other sites, there is loss of internal competitiveness. (a business group management team member)

The fear in helping also relates to lack of resources in organisations. All units are forced to become lean. Help of other units would mean losing key resources for a while, and even totally, if they were recruited by other units. This existing risk means that units in a competitive situation are not encouraged to be open to sharing and helping, especially where their fierce competitors are concerned. Attempts are made to solve this problem by establishing structures that assist in the building of informal relationships, which could encourage sharing and help. The main engine behind sharing, however, is group-based pressure. This group pressure is also a legitimising factor for both sides — both for asking for and giving help, when such help is questioned on either side.

The central reason for this organisational change, abandoning the matrix structure and separating sales and operations organisations into their own operating units, was poor cross-selling. In the new organisation, on an annual basis, the sales units make the operations units, which are now only cost centres, compete with each other, over sales agreements. It was believed that this new organisational structure would solve problems in the cross-selling area, which was regarded as one of the main areas of synergy and new business opportunities in the merged company, as the product portfolio, customer contacts and geographical coverage widened considerably due to the merger.

The prior matrix organisational structures hampered achieving these synergies and creating new business prospects, although the matrix structure was made in order to facilitate integration. The matrix organisation was built in order to integrate units and to offer a wider product range. This organisational structure was not a big success, although it helped to integrate policies, product ranges and facilitate communication. The structure also involved conflicts between the units and the category managers. This matrix structure was built over business units, but it did not have a clear impact on strategies and operations in the units. The category managers in this matrix structure had responsibility to develop the business, but they did not have direct profit responsibility and involvement in the business. When the business units were measured based on their EBIT level, the efforts to widen the product portfolio in the business units depended on the business units' decision-making. The business units decided upon their own product portfolio and cross-selling activities, depending on their impact on their EBIT level. In many situations, selling sister units' products would have hurt the EBIT level in the business units, since it would have been necessary to share profit between two units.

The other factor affecting cross-selling was transfer pricing. The company used both 'cost plus' and 'sales price minus'-based transfer pricing methods. The 'cost plus' method encouraged cheating in inter-company pricing because of the EBIT level target. The target was 10 % for both selling and manufacturing companies, so receiving less than 10 % in inter-company business would hurt the EBIT level. Cheating was possible since inter-company business was not controlled, although the merged company had clear rules about how standard costing should be done. Costing methods, however, varied in all units, and they were changed in inter-company business situations in order to gain more profit than had been agreed in company policies. It was well-known that cheating was occurring in the company, and everyone trusted each other to cheat as much as possible. This limited inter-company business,

as concentration was centred on selling one's own manufactured products. The situation is described by a manager from headquarters.

In network sales work in the past, everyone cheated each other although we had strict rules how it should be done [...]. There were strict rules but nobody feared them. All cheated each other in order to benefit. They had profit responsibility, they were not growing and willing to support anybody else. Same was with buying company, they had to make 10 % EBIT margin. If I buy from you I make only five so that is not going to help my business. Forget it, I'll sell my own stuff.

Although units were accountable for cross-selling integration targets, they avoided it by presenting good or acceptable figures in general. They were not pushed to engage in cross-selling if they were otherwise meeting their performance targets. The additional problem in cross-selling was that the units were, in some cases, not interested in serving their sister units, knowing the benefit of the inter-company business to be low. This lack of interest was seen in long response times in questions regarding products, delivery times and sample deliveries. In addition, the time taken by the business units to serve their sisters' inter-company customers was longer and of low priority. This also limited the general interest in inter-company business in the merged company.

Company and business unit cultures also affected networking. Both companies had grown through acquisitions and consisted of dozens of business units. The merging companies had not integrated business units that were working according to similar methods, and local practices and cultures were dominant. The approach to networking was dependent on the management team and the business unit culture. Speedy responses in cross-selling and extensive sharing of information about new products within the group were not common for all units. In the technical area too, the attitude of the business unit management team affected how open the business units were to share information and to allow people to visit their factory. Sometimes different languages also appeared as a barrier when activities were discussed at shop-floor level.

The development of networking is ongoing in the merged company. Besides launching the new organisational structure the primary ideas of which were to create more sales, the company has made efforts in internal development. An ERP-solution has been created, which was principally made to support the new organisational structure and to create transparency in such areas as costing and warehousing. Transparent costing is required in order to see the true standard costs in operations units. On the technical side, a new organisational function was created, namely, operations vice-presidents

responsible for managing operations units. Their task is to harmonise, benchmark and develop these units. They facilitate the exchange of information and compare practices between the units, even attempting to reveal business units' manufacturing secrets to their competing sister units. Networking is thus now made compulsory using formal structures.

4.4.2 Critical factors and the importance of trust and control in networking

Through effective networking, which means using complementary assets, knowledge, contacts and geographical coverage, more business and a more effective organisation are created, and thus a considerable amount of synergies in M&A are achieved. Despite its obvious importance, networking has not been discussed in previous M&A literature. This merger raised many different perspectives of networking as great possibilities existed to create value for the merged company. The merger provided better geographical coverage, an enlarged product portfolio, an increased number of manufacturing technologies and knowledge, and plenty of new customer contacts. Networking, however, involves many challenges relating to how to organise the merged company to facilitate sharing, joint business opportunities and to promote cross-selling. One central challenge lies in the relationship between trust and control — trust is needed in networking but control mechanisms can easily hamper its existence, when, for example, units are competing with each other, but the use of control mechanisms can also facilitate trust and help to overcome barriers in a competition situation that highlights the importance of the trust and control relationship in the outcome of networking. The above-mentioned challenges faced in the case company hampered the achievement of the full benefits of networking during the initial years. Given the magnitude of this merger, however, it can be regarded as natural that achieving optimal — if any company has optimal — networking, takes time. Several changes described at the end of the mini-case showed that the merged company had included networking on its agenda.

Based on this empirical study, we can categorise critical factors in networking into accountability, structures, resources and culture.¹⁷ Critical factors and the importance of trust and control are presented in Table 2.

¹⁷ One could wonder why politics is not a critical factor in networking. The term networking is, in many circumstances, associated with lobbying or other political activity. In this study networking means creating value for the merged company through the use of complementary physical and knowledge assets. In this case, political activity was not found to have a significant effect on establishing or managing networking. Networking involved many tensions in the merged company, but they were explained by other critical factors.

Table 2 Critical factors, trust and control in networking

Critical factors	Control	Trust & control relationship
Accountability	Administrative control - task forces to screen synergies and joint projects	Administrative control - structures to establish contacts and provide opportunities to establish trust
Network sales	Result control - measures to strive for synergies and joint projects	
Sharing and benchmarking	Result control - comparable measures and group attention to facilitate benchmarking	Result control - competitive situation decreases trust and sharing
Structures	Administrative control - business structures to support internal sales and joint projects	Administrative control - business structures to support familiarising and trust
Business structures	Result measures - measures and transparent costing to support network activities along with business structures	
Relationship structures		Administrative control - group-based structures necessary to facilitate and support sharing and to overcome boundaries in competitive environment
Resources		Administrative control - group resources required for building and sustaining relationships
Relationship building		
Sharing and benchmarking		Administrative control - group effort required to facilitate and support sharing - limited business unit resources and competition between units hamper sharing
Culture	Administrative control - group and BU culture and experience affect co-operation in networking	
Networking culture		

We see from the above table that critical factors are tied to the relationship between trust and control and/or control, and that both trust and control play an important role in the outcome of integration. Next we discuss more deeply these critical factors and the importance of trust and control in networking.

Accountability in networking area can be divided into two areas: network sales to create cross-selling accountability and sharing, and benchmarking accountability to use knowledge assets to build a more effective organisation. In *network sales* accountability, the use of both administrative and result control is important. *Administrative control* was used in the case company in two ways to promote network sales. First, in the formal integration, task forces were formed to screen synergies in sales areas such as cross-selling opportunities, creating joint projects and reviewing customer contacts, which could be useful for the partner company. After screening and searching for these synergies, the progress of task forces was continuously followed. Besides making the managers accountable for network sales, administrative control was used to familiarise key people with each other between the merging companies. Familiarising was important in order to build the necessary level of *trust*. Accountability for network sales was not enough to start joint projects and to share customer relationships. The requirement also existed to establish confidence in the performance of partners, because of risks in co-operation. Trust between the parties was gradually established in the meetings, which were also beneficial for finding new joint business project opportunities. In some cases, however, risks were realised when sister units were introduced to good customers, and this harmed the relationship between the introducer and the customer.

Result control measures also play an important role in establishing network sales accountability. They must be modified in order to support network activities. In this case, it was noticed that the sales personnel did not have much motivation to introduce their customers to their sister units and to start joint projects, resulting in lost opportunities when network activities were of low priority in their performance appraisals.

In *sharing and benchmarking accountability result control* measures also play an important role. Benchmarking between units requires comparable information and comprehensive knowledge of units' activities. In this case, benchmarking accountability was limited until measures were developed and knowledge of units' activities was established at group level. Lack of standardisation and a common language hampered accountability in benchmarking, as units used the lack of standardisation as an excuse for avoiding comparability. Fierce competition between units also affects sharing and benchmarking. In this case, it was clearly noticed how fear of losing competitive advantage or even entire operations created a closed atmosphere

between units and decreased their willingness to share hints and secrets with their sisters.

Structures are also of considerable importance in networking performance. The influence of structures in the networking area can be divided into two categories: business structures and relationship structures. **Business structures** play a central role in networking since they direct network sales activities. Both *administrative* and *result control* affect the efficiency of business structures. In this case, the matrix structure that was created, supported the establishment of knowledge of the company-wide product range and technical capabilities, and it familiarised key people in the merging companies with each other, but the structure also involved conflicts, which hampered network sales. The category managers, whose interest was to extend the product portfolio and facilitate cross-selling, did not have direct profit responsibility and involvement in the business. When the business units were measured based on their EBIT level, the efforts to extend the product portfolio in the business units were dependent on the business units' decision-making. In many situations, cross-selling would have hurt the EBIT level in the business units, since profit would have to have been shared between two units. Additionally, the EBIT target encouraged cheating in transfer pricing, which was possible when costing was not transparent and transfer pricing practices were not controlled. Due to the above problems in the case company, the business model was changed four years after the merger in order to create growth in network sales.

Relationship structures are also important for supporting network activities. *Administrative control* plays an important role in creating and sustaining relationships structures. Structures must be established to familiarise key people with each other and to sustain their relationships in merging companies. In the case company, administrative structures were used to familiarise people with each other and to build trusting relationships from the beginning of the integration process. The key people familiarised themselves with each other in task forces and at conferences. Later the technology teams were formed and managing director meetings held, which were also important for building relationships. These structures were required to build the first contacts between people necessary to establish the basis for informal communication and trust. Without these structures and contacts, interaction between people would have been much less. These structures are also important to sustain these relationships — without continuous feeding, relationships wither. Continuous networking, however, relies on informal contacts, which the group structures can only facilitate.

Relationship structures are also necessary to overcome continuous competition between business units and to facilitate sharing. In the case

company, the group was required to build structures and sometimes act as backup to ensure sharing and help between competing units. The group structures legitimised the sister units to ask help from and to provide help for their sisters. Although continuous competition existed between the units, the meetings and co-operation during the time facilitated relationships between the units, to the extent that group involvement was not necessary in all cases of help being sought or provided between sister units.

Internal development and the use of group-wide assets require **resources** for networking. Resources can be categorised into attention on developing relationship structures, and attention on benchmarking and sharing. Both these categories are tied to *administrative control*. **Attention on developing relationship structures** during integration can easily be limited when all resources are tied only to integration process activities. Attention is especially required for developing lower-level relationships when key people tend to meet in integration conferences and task forces. In this case, resources were considerably tied to integration processes, and attention to developing lower-level relationships was begun a few years after integration. Nevertheless, relationships built at higher levels also fed lower-level relationships when, for example, two business unit managing directors met each other, and it was then also easier to develop contacts between the sales or the operations managers in these units. **Attention on benchmarking and sharing** also requires resources at group level. Just as with attention on developing relationship structures, however, benchmarking and sharing also suffer easily during the integration period. Besides building accountability and structures to support benchmarking and sharing, the group is required to develop tools for conducting these activities. In this case, limited resources during the integration prolonged internal development, and efforts to push this area forward were not made until a few years after the integration. An additional challenge for benchmarking and sharing was provided by the situation in the business units. In this case, it was noticed how limited resources and competition at business unit level were limiting willingness for sharing and created a closed atmosphere. The units were required to be lean, and helping sisters would mean losing key resources for a while, and perhaps forever if staff were eventually recruited elsewhere. In an extreme situation, sharing and revealing secrets could risk the loss of competitive advantage and rationalisation of the whole business unit.

Culture also affects networking. These cultural factors can be categorised as **networking culture**. Fluency of networking depends on how units have adapted elements of networking to their culture. These cultural factors can be classified under *administrative control*. In this case, the merging companies had not totally integrated their business units, which had mostly been acquired

in recent decades. This lack of integration not only increased cultural differences, but also enlarged differences between business units regarding their attitude towards networking. Additionally, the acquired company had organised its business according to technologies, resulting in a situation where not all its units had experience in cross-selling. The main cultural factor affecting networking, however, is the business unit management team. Their attitude affects how open and willing the units are for networking, for example, what is the reaction to questions from sister units, to helping other units and to allowing people to visit the factory. At shop-floor level, language difference can also be a cultural barrier to networking.

To sum up, based on the above discussion, we argue that the factors affecting M&A performance in networking are accountability, resources, structures and culture. These critical factors were found to be strongly connected to trust and control, which leads us to conclude that trust and control are explanatory factors in the outcome of networking. Finally, we state that the outcome of networking depends on the effective use of control systems to facilitate sharing, joint business projects and to promote cross-selling and the ability to tackle continuous competition between the units.

4.5 Procedural integration

4.5.1 Procedural integration process

Procedural integration involves integration and harmonisation of procedures between the merging companies. This study focuses on the accounting side, since this side is most involved in all procedures within companies, as far as control of the merged company is concerned. This procedural integration described cannot be characterised as a typical procedural integration process. In most cases, the acquirer acquires companies smaller than itself, or separate parts of big companies such as business groups or divisions. In this case, the acquired company was a public company and twice the size of the acquirer. Whereas, in acquisitions of smaller companies, the procedures of the acquirer company have typically been implemented, this larger target required a different approach to the integration process. The other unusual feature in this merger was that the acquired company had a more experienced group accounting function. Although the acquirer had been a public company for longer, it had only been in its current form for a limited period. The acquirer had been a conglomerate consisting of several divisions, which had conducted their own management and financial reporting, and the group had only collected financial accounting numbers to put into one format. Only just

before the acquisition, divisional headquarters had been closed and the headquarter functions centralised. Then the acquirer group accounting function took on a considerably wider role. The acquired had operated within its own structure for several years, and so had time to develop and integrate its accounting procedures.

Preparation for this acquisition had started few months before its completion, and was important since the size of the acquired company created challenges for this integration. It was required to plan beforehand how the acquired company would be consolidated into the new entity. When the acquired company consisted of about 100 companies, the normal integration procedure — implementing the systems of the acquirer at the acquired — was not used. This integration required establishing several task forces containing representatives from both companies.

The acquisition was not well-received among the headquarters personnel of the acquired company, which adversely affected the integration process. The acquired company accountants were angry about the acquisition and let their feelings to be known. They had difficulty in accepting that a small company from a small country should come and acquire them, when they were twice its size, and had longer traditions in the industry, especially when it evidently meant the loss of their accounting function.

The main message was that how a young Finnish company can come here and peck at us [...] they should have had a perfect accounting function there, and then all responsibilities were dissolved, it wasn't easy. (a group level manager)

The acquired company group accountants played an important role in the transition period and their co-operation was required. Despite their reservations and lack of enthusiasm, the accountants wanted to conduct their work properly, while they still worked for the company. Attempts were made to guarantee co-operation by identifying key people and giving them a bonus for positive work. Some problems were caused, by the number of people leaving the acquired company being considerable. It was not planned to cut staff during the integration process, but it was widely known that not all people would have a job in the acquired side in the future. The speed and amount of people leaving increased challenges in the integration process and caused a sense of urgency. Departures caused problems, especially as the financial statements were under preparation. Some accountants still helped with group adjustments, which were quite considerable and not completely documented in the acquired company, despite working elsewhere.

Accounting tasks were divided between the acquired and the acquirer companies, concentrating all critical tasks on the acquirer headquarters. The acquired company was given the responsibility of sub-consolidating its business units and continuing to give business support to its directors. This sub-consolidation continued for six months until the new reporting format was complete. During this time, three reports were produced in different formats: one for the units from the acquired company, one for the units from the acquirer company and one in which both companies were somehow put together. The picture of both companies separately was well received but the combined picture was lacking in detail in such aspects as in countries where units were integrated or they manufactured using the same technology. On the other hand, not much restructuring was conducted during the first six months, which helped to sustain knowledge of the entity. After six months, all reporting was concentrated on the acquiring headquarters and all the units were required to report in the same format.

The accounting task force was given the responsibility of integrating accounting policies, transfer pricing and cost accounting, and building a new reporting application. The task force included persons from both companies, but it was clear that the acquiring company was the dominant one, since the reporting was planned to satisfy its national legislation, and the main headquarters and all the important functions were located there. Although the acquirer was the dominant one, the 'merger of equals' approach was still applied. Best practices were sought from both companies, when the task force compared company practices and wrote new manuals. New accounting measures were intentionally chosen to be new for both companies in order not to favour either company.

The integration work caused a considerable amount of additional work at the acquirer company headquarters, since, apart from their normal reporting work, they needed to write new manuals and build up new common procedures. During this time, business managers at group level needing ad hoc reports were required either to contact business units or wait six months. The increased workload, the large quantity of integration work and the fact that the acquired consisted of 100 companies, also lowered the quality of accounting analysis. During the integration period, the group accounting function was only "*a reporting generator*" and analysis work remained for other people, as the group accounting function had no resources for that. Analysts looked at reports only to see if they made sense, and if there was something strange, they tried to sort it out, but did not do any actual analysis. The main thing was to guarantee that financial accounting was correct. Management accounting, which was of lower priority, was mainly attempted to synchronise in some

smart way. If it succeeded, the group accountants felt that they were going in the right direction.

Although the group accounting function did not have the resources to familiarise itself and concentrate on controlling the acquired units, they were still quite confident. They based their confidence on due diligence, discussions with auditors and representatives from the acquired company, and their knowledge of company manuals. Based on this, the group accounting function had formed a view that the acquired company was highly controlled in terms of what procedures were followed.

The culture of the acquirer company affected how the acquired company was approached. The approach of the acquirer company dictated that they act with basic trust until something occurred, which required a different approach. They did not usually place a controller at acquired units, and were used to going along with local forces until the unit showed that there was a need for a change. The following statement describes the approach of the acquirer.

We buy and we always start from the assumption that basic trust exists, and if over time we find out that our belief was wrong then we start to fix it. The basic trust is that they are professionals who were there before the acquisition and after it. The basic training, reports and progress go forward and we want to see based on that does it work. (a group level manager)

A tense situation and lack of resources in fact required the use of the appreciative approach in this case. The group accounting function felt that they could not have gone to the acquired company and all its units with the aim of checking all material: they acted on basic trust. It would have caused an enormous amount of tension, and resources were already fully used for basic duties and integration projects.

[...] it is a starting point that there is basic trust, it cannot be acted on in another way. If there should be sent somebody every time to check all issues, there wouldn't be any co-operation. I would say that our approach is first the basic belief that there is trust, and we believe that they will also believe so in the end. And they believe the same for their own sake, that what we start. [...] If we had started by saying that this is [the acquirer] way of doing things, and it is the only way to operate and we don't have trust — show us everything. That would have caused enormous friction with very self-conscious Europeans, especially with Dutch. We needed to take into consideration when we approached them that they were bigger than us and they had a much longer experience of running a group [...] The most important thing which is perhaps reflected here is the old [the acquirer company] way of doing [...] starting with a humble attitude...(a group level manager)

The group accounting function was small in the acquirer company and did not have the resources to familiarise itself with the huge acquired company. At the time, the acquirer company did not have an internal revision function, so all familiarising was delegated to the business group controller function. Their role was described as follows by a group level manager.

They were kind of trusted persons we knew them well and they knew our procedures.

The idea of this “trusted” control function did not work as had been optimally planned, since these business group controllers had only limited resources for this function. They were, at the time, controllers of the biggest unit in the area, and had only a limited time to look after the other business units. They also had administrative responsibility for matters such as legal issues, since the units did not have their own legal experts.

Business group controllers sometimes faced challenges when trying to familiarise themselves with new business units. Business units varied concerning the openness of their information culture, and not all managers welcomed the business group controllers coming to investigate their unit. The business group controllers did not have direct responsibility over the business unit controllers, so they could not use authority when investigating units. Thus, familiarising themselves with the units was dependent on the openness of the unit controllers and management — in some cases, information was structured in a way that made it difficult to see beneath the surface. Business group controllers were also required to consider sensitivity factors when creating relationships with new business units. In order not to create tensions, investigations were, in some cases, limited, since imposing analysis could have been seen as negative, defensive or impolite. Thus, in some cases, although there was some desire to look more closely, there was rather a belief in what business unit management told them.

It was after some time noticed at the group level that the view of harmonised practices and tightly controlled accounting procedures was not the total picture of the acquired company. It was found that some units in the acquired company were following the procedures of their previous owner, not the practices of the acquired company, but deviations from group practices were not new for the acquirer company. As the acquirer company consisted of several recently bought companies, its procedures had not yet been harmonised either; in fact, all in all, the acquired company was the more harmonised company.

The hectic period at the group accounting function resulted in focusing on daily reporting functions and integration work, not in increasing the level of

control in the merged company. Limited resources meant that they acted based on basic trust and evaluated the situation in the units based on their reporting documents. When the basic reports were in order, the state in the deviating units was not realised until something alarming was somehow found. In the course of time, not only incapable unit controllers were discovered in both the acquired and acquiring companies, but also behaviour that deviated from group procedures, strong resistance to the unification of practices, the storing of unsellable material in a warehouse and failure to collect sales receivables.

The relationships between the group and local controllers were created when the new reporting application was established. A training round was organised where all controllers from both companies familiarised themselves with each other and with the new reporting application. The training period built confidence in the way the local controllers conducted their work. This also built relationships between the group and local controllers so that it was easier to communicate with each other. Culture had an impact on the development of relationships with units and the adoption of the new reporting format. Resistance was low in countries where the acquired company was not easily identifiable. In strong European countries, however, the resistance was high and the acquirer company's young controllers were not respected. Resistance related to three issues. First, they were identified with the acquired company and did not welcome the new owner, second, they felt that the new reporting tool did not offer anything for them and the previous one was better, and third, they did not feel respect because of the words "*young graduates [from the acquirer group control function] teaching for experienced controllers how to report.*"

The new reporting tool that has been implemented caused problems at group level and increased work in the business units. Comparability was lacking since, when the system was launched, it included neither the last year's figures nor the budgets. The acquired company was used to using rolling figures to control performance, but this was now not possible since previous figures did not exist for several months in the system. The lack of detailed information and comparability meant that control of the audit trail was lost in some areas. The new application also caused a considerable amount of work in the business units. The need to restate their figures in a new format doubled their reporting work. The level of information decreased after launching the new format, and in fact when both companies were reporting in their own format, reporting had been more reliable. At the time of launching this reporting application, the sale of division S was announced. This caused people at the acquirer company headquarters to spend time working on the divestment. This directed attention away from control and developing the reporting application.

Although cultural tensions were evident in this acquisition creating tensions both at headquarters and in some business units, there were also cultural similarities between the companies, which decreased tensions in the integration process. Both the acquirer and the acquired company had faced similar challenges in internationalising their companies, and knew not to appear chauvinistic. When the acquired company's national culture was found to be reliable and based on a culture of plain-talking, this created confidence in the functions of the acquired company. It was felt that cultural difficulties would have been more difficult if the acquired company had come from other country, since ethics has been experienced to vary between cultures. The plain-talking culture also had its drawbacks in accounting integration, where communication sometimes involved sarcastic and negative comments.

Integration offered possibilities to develop the acquirer company group accounting function since it had only been in its current format for a few years. The acquired company had operated in the same format for many years, although it had been public for only a few years, but had had more time to develop and harmonise its practices. The development of the group function was done by sharing best practices. Manuals were widely sent for review so that business unit and group controllers were able to comment on them. The group controllers from the acquired side in particular gave helpful comments and suggestions, having begun their careers with the group and knowing how things were done there. Although at the acquired company headquarters accountants were bitter and sarcastic, the business group controllers at the acquired company were very helpful in developing accounting practices in the combined company.

After the intensive integration period, resources have still been focused on financial accounting and its development. The harmonisation of practices and the increase in the level of control have remained of lower priority. Several years after the integration, when the new organisational structure was launched, a harmonisation project began at the same time as the ERP integration that also brought costing and the development of business control functions onto the agenda.

4.5.2 Critical factors and the importance of trust and control in procedural integration

Procedural integration plays an important role in the outcome of M&A in two areas: first, to unify procedures in the merged company in order to provide harmonised practices and standardised information for control of the combined company, and, second, to establish and sustain up-to-date control during the integration process. Procedural integration issues have been discussed in previous accounting literature, focusing on the implementation of accounting systems in acquired companies but also providing us with evidence of how corporate integration disturbs accountants' normal duties, thus providing challenges for corporate control (Jones 1985a, b, 1986; Granlund 2003).¹⁸ Apart from classifying critical factors and the importance of trust and control in procedural integration, this study also contributes by providing evidence on the impact of organisational politics and culture on the use and efficiency of control in international mergers. This mini-case of procedural integration also describes how organisational context affects the robustness and the use of systems trust mechanisms.

Although this procedural integration cannot be regarded as typical, since the acquired was twice the size of the acquirer and consisted of about 100 companies, because of the magnitude of the merger, this was a good opportunity to examine critical factors and the importance of trust and control in procedural integration. When we analyse whether procedural integration is successful or a failure, we need to come back to the measure we gave to M&A performance: achieving synergies and business performance during integration. With regard to procedural integration, this begs the questions of whether procedural integration delivers expected synergies and how does procedural integration support business (includes meeting statutory requirements). The first concerns savings such as reduced headcount, and the second can be defined in terms of quality of reporting function (relevance, accuracy, timeliness of information etc.). This procedural integration brought synergies at the headquarters level when the headquarters accounting

¹⁸ The concept of procedural integration has been mentioned in Shrivastava's (1986) study. In a conceptual way, he discusses challenges and the importance of the harmonisation of procedures in merging companies. Therefore, the theme and concept of procedural integration is not totally new, which is contrary to all the other integration aspects presented in this study. In this study, however, the concept of procedural integration is much wider than that presented by Shrivastava. This study also includes in procedural integration the establishing and sustaining of up-to-date information for control during integration, and discusses the importance of social environment such as politics and culture in the procedural integration process. In studies other than Shrivastava's (1986), the concept of procedural integration has not been used, no attempt has been made to build a framework of related issues.

functions were centralised at the headquarters of the acquirer. With regard to second criteria, the acquirer headquarters performed well both in its reporting and integration tasks, although it had some problems in reporting and monitoring, and a reduced ability to deliver ad-hoc reports, but these can be regarded as natural given the magnitude of this merger. Within these terms, this procedural integration process can be regarded as successful.

When the procedural aspect is itself tied to corporate control, the discussion related to critical factors and the importance of trust and control should give answers to what factors affect the use and efficiency of corporate control during procedural integration. Based on this empirical study, we can categorise critical factors in procedural integration into accountability, resources, politics and culture. Critical factors and the importance of trust and control are presented in Table 3.

Table 3 Critical factors, trust and control in procedural integration

Critical factors	Control	Trust & control relationship
Accountability	Administrative control	
Policy and procedure	- to organise building accounting functions and benchmarking and harmonisation of procedures and practices	
Performance	Result control	
	- tensions, lack of comparability and implementation of new systems to hamper fluency and quality in control	
Resources	Result control	Result control
Financial review	- integration work to disturb normal duties and to decrease the level of analysis	- education given on new systems to build relationships and confidence on quality of reporting
	Administrative control	Administrative control
	- to provide resources for reviewing performance and familiarising acquired companies	- limited resources to result in acting based on systems trust
Knowledge	Administrative control	
	- criticalness to provide fluency of acquired operations and to use acquired knowledge to develop the merged operations	

Politics Process-related	Administrative control - tensions and departures to create challenges for control	Administrative control - tensions environment to require approaching with trusting attitude in order not to create more tensions
Defensiveness		Administrative control - resistance and tensions to limit familiarising to acquired units and to result in acting based on systems trust
Culture		Administrative control - company culture to affect the way of approaching an acquired - national culture to impact on beliefs of another and the use of control - strong identification with national and company cultures to create tension and hamper integration

In addition to the above table showing that several organisational factors impact on the use and efficiency of control, it also reveals that the relationship between trust and control significantly affects the procedural integration process. Next we discuss more deeply these critical factors and the importance of trust and control in procedural integration.

In two ways **accountability** is important to procedural integration: first, relating to policy and procedure integration, and, second, in maintaining performance accountability. In *policy and procedure accountability*, challenges relate to the *administrative control* area. When lack of accurate planning and organising creates confusion in procedural integration (Granlund 2003), proper administrative control is needed in order to avoid these problems and to organise the procedural integration process. In this case, planning before completing the deal provided guidelines for the integration process. Accountability was created by establishing timescales for specific projects such as comparing best practices, writing manuals and harmonisation of practices in which progress was reviewed. Clear plans and time schedules focused attention on the integration process. Bonuses arranged for the acquired company accounting function were important for facilitating their work, both in the area of policy and procedure, and in maintaining the area of performance accountability.

Maintaining performance accountability focuses on the area of *result control*. The integration process involves several critical steps in maintaining performance accountability. First, the acquired company accounting function not necessarily welcomes the acquisition and can act in a hostile way. Hostile feelings are understandable when procedural integration typically means rationalisation of the acquired's headquarter functions. In this case, bonuses for good work maintained a spirit of co-operation, but negative feelings openly created tensions between the parties. In order to provide fluency of operations, all critical functions were moved to the acquirer headquarters, which, at same time, increased negative feelings on the acquired side. The second challenge involves comparability of information when companies are operating with their own systems. In this case, the acquired company's accounting function continued sub-consolidation during the transition period and serving its units. A report was also put together, which tried to combine the financial affairs of both companies in one format which, however, did not give a comprehensive picture of the overall situation. The third challenge involves integration of a new reporting system into the merged company. In typical situations, the system of the acquirer is implemented in the acquired, but in large ones such as in this case, the reporting system change can involve the whole merged company. Implementation of a new system involves several challenges, which hamper the maintenance of performance accountability. Implementation of a new system can cause reduction in quality, lack of sophistication and duplication of information (Jones 1985b). The implementation of a new system can even confuse the whole acquired company, resulting in a drop in performance, resistance and lack of input data (Christensen *et al.* 1982). Although in this case only the Hyperion group reporting format was implemented, the same problems in quality of information were faced as in previous studies. The level of information decreased, and hiccups in reporting and audit trails occurred when, for several months, the system did not involve comparable figures from previous years. The lack of comparability lasted for several months due to lack of resources, which are discussed next.

Resources play an important role in the outcome of procedural integration. Resources can be categorised into two areas: financial review resources and knowledge resources. *Financial review resources* are related both to result and administrative control. In *result control*, challenges during the integration process relate to the time available to analyse and review the financial situation. The integration process, with all its tasks of writing manuals, building new reporting formats, comparing best practices and getting familiar with new units, challenges normal financial review tasks and easily disturbs other normal procedures (see, also Granlund 2003). In this case, the group accounting function operated only as a reporting generator, leaving the

analysis work to other people. They tried to survive the legal reporting requirement by giving higher priority to financial accounting and trying to synchronise management accounting in some reasonable way. As the resources were limited, the group accounting function was not able to conduct any ad hoc reports during the hectic first six months. Later, when the new reporting format was ready, efforts were made to teach business units using this reporting application. This teaching round, as well as building confidence in the reporting accuracy in the merged company units, also acted as a socialising element, introducing people to each other and helping interaction between the group and the units.

Administrative control is related to reviewing and getting familiar with the financial situation in the acquired company. Limited resources during the integration process hamper administrative control and thus familiarisation with the acquired units. In this case, limited resources at the group accounting function resulted in people acting based on systems trust in the business units: when reports were consistent and systematic, the units remained trustworthy. Limited resources resulted in solving problems situations case-by-case and not increasing the level of control. The main responsibility in this familiarisation task was delegated to the business group controllers, who, at the time, were the controllers of the biggest business unit, so only had limited time to familiarise themselves with the new business units. Their limited resources also resulted in their acting based on systems trust, in some cases: when units were showing consistency and no signs of trouble were made known, it was believed what was guaranteed and reported.

Knowledge resources are important in fluency and in developing the procedural function. Knowledge resources are related mainly to *administrative control*. The fluency of the accounting functions depends on the availability of accountants who are knowledgeable about the tasks. The risk in the integration process relates to departures from the acquired side, when they have only critical and not documented knowledge. In this case, some hiccups were created when the acquired accounting function emptied faster than was expected. As, however, the departing accountants were given generous bonuses, they were motivated to help in the group's financial adjustments even when working elsewhere.

Knowledge resources can be increased in M&A operations and should be used to develop operations. Previous accounting literature states that acquirers mainly tend to implement their own systems in acquired units and pay limited attention to sharing best practices (Jones 1985a, b; Granlund 2003). Thus, possible knowledge resources in acquired companies tend not to be used for developing the procedural function. In this case, the size and political atmosphere of the acquired side emphasised the use of its knowledge

resources. These knowledge resources gave valuable input to the integration of procedures in the merged company.

Politics affects the procedural integration process in two ways: process-related politics and defensiveness. *Process-related politics* hampers *administrative control*. Process-related politics is natural at the headquarters of acquired, when acquisition typically means rationalisation of the acquired companies' headquarter functions, and the moving of all important functions to the acquirers' headquarters. In this case, the acquired company had difficulty in accepting that they were bought by a much smaller company, and they let their frustration be known. These feelings had an impact on the fluency of operations, although they did not harm any critical ones. These strong feelings in the acquired company convinced the acquirer company's accounting department to approach the acquired in a trusting manner, in order not to create more tension.

Defensiveness also hampers *administrative control*. Acquired company units are not necessarily open to requests for familiarisation with their units, as was found in the case. In this case, some units felt that such requests were impolite. These tensions resulted in some business group controllers limiting their questions, and acting based on reports given, in order not to create more tension.

Culture also affects the procedural integration process, influencing the way that merging companies approach the relationship between each other. These cultural factors impact on the *administrative control* area. In this case, both company and national cultural affected the relationship between the merging companies. The company culture in the acquirer was to approach the acquired companies with a trusting attitude, respecting local forces until something exceptional occurred. This trusting approach was regarded as especially important in this acquisition in order to sustain decent co-operation between the parties, since the acquired company was bigger and had not accepted the acquisition very well. Additional tensions were created because the acquired company had a strong national and company culture, which especially in Europe, also had strong attachments to some business units. Although tensions were considerable, the acquirer felt that they would have been greater if the acquired had been from a stronger nation. The strong national culture background of the acquired was also viewed positively in this integration process, since the acquirer regarded the national culture of the acquired as reliable, plain-speaking and trustworthy. Based on this stereotyping, the acquirer had confidence that the promises of the acquired could be relied upon.

To sum up, based on the above discussion, we argue that the factors affecting M&A performance in procedural integration are accountability,

resources, politics and culture. These critical factors were found to be strongly connected to trust and control, which leads us to conclude that trust and control are explanatory factors in the outcome of procedural integration. We conclude that the outcome of procedural integration depends on the effective organising of control organisation, retention and the use of key resources and the ability to tackle organisational politics.

4.6 Operational integration

4.6.1 Integration process in a regional organisation

This section provides a story describing the integration process in a regional organisation. The integration process described is in one of the countries, which are the largest in terms of the combined company's European and global sales. This region was selected as it was expected that one of the biggest synergies in operational aspect in the whole integration could be achieved here. The integration in this country involved six sites, although it was decided to close one of the sites immediately after the acquisition. The acquired company had two sites in that country and the acquiring company at the moment of the integration four sites. The regional organisation employed about 1,600 people and the combined net sales of regional sites totalled about 170 million Euros. The acquirer company sites had been relatively tightly connected to each other, under one regional managing director, whereas the acquired company business units were standalone.

This regional integration created some uncertainty in the merged company, since synergies were the target in different organisational areas. Uncertainty was also evident since the level of performance in most of the sites was poor, which increased the demand for cost-cutting in the regional organisation. Redundancies were clearly expected as a result of this integration. The main integration benefits were expected to be achieved by closing one small site, relocating some machines, integrating sales forces and centralising administrative services.

The merger resulted in organisational changes in the regional organisation. The standalone units belonged to the acquired company and the acquiring company sites were all put under the country organisation. The existing acquiring company managing director was appointed as a deputy director and was given the responsibility of organising the integration process and leading administrative services. A director who was promoted to the position of regional managing director, came from the acquired company side and from another country. The organisation was structured so that four sites were led by

site directors. Another of the two units from the acquired side fought to remain as a standalone unit and was only loosely connected to the regional organisation. Its business unit managing director joined the regional management team but the unit was not integrated into the regional organisation in many other ways. For example, its sales organisation remained untouched whereas the other unit from the acquired side was totally integrated into the regional organisation. Sales were centralised at these other sites by forming three sales teams according to product technologies. Site directors were responsible for all matters at their site except sales — attempts were made to centralise administrative services at the sites, which is discussed later in this section. Three site directors, three sales directors, one operations director¹⁹, a business unit managing director and the deputy managing director/SSC director reported to the regional managing director and, together with him, formed the regional management team.

The accountability of the integration synergies was created by establishing a regional task force responsible for achieving synergy benefits. In the business plan, possibility of closing one site had already been evaluated, along with the relocation of some machines, integrating sales forces and conducting administrative centralisation. The regional task force was divided into several sub-task forces involving sales, administration, sourcing and a task force for completing relocations. The task forces were required to complete plans according to the formal integration process timescale, and the progress of these local task forces was evaluated on a monthly basis in the regional management team. As the new managing director came from another country, and had an incomplete knowledge of the organisation, the former managing director leading the integration process played an important role in conducting the integration process.

The challenges of this integration focused on conducting integration projects and managing the merged company. The synergy plans were established in a detailed manner within the given timescales and without much tension, but implementation of these plans created several integration and business problems. Many of these problems culminated in the structure of the regional organisation. The new management team structure consisting of all sales and site/operations directors, the administrative director and the managing director, was a place in which there were continual arguments between different parties, which hampered achieving synergies and business performance in the regional organisation. In the next part, the challenges faced

¹⁹ At the biggest site where the managing director and the deputy director were located, there was no site director. There was an operations director who was only responsible for manufacturing. He also belonged to the regional management team.

by this integration are divided into the areas of sales, administrative, operational and sales and operational relationship.

Sales area

Uncertainty was evident in the sales forces of both the acquired and the acquirer side, since there were clear overlaps with both companies selling products in similar technology areas. The main synergies would thus focus on reducing headcount. The new organisation was not announced immediately after completing the deal, and it took three months until the new structure was established. This created uncertainty over quite a long period, which it was believed adversely affected the performance of sales people. Accountability was difficult to sustain, as the effects of sales performance were only seen after a long period.

I think certainly some sales people left the field. You know those sales guys don't feel secure. It can make them think oh I better do my legal best to sell more, etc. or they can think decisions are already been taken, it doesn't matter what I do for next few months either it is too late for making difference, so wait and see what happens. [Although] you have demotivated sales people, you don't probably actually see the effects for another nine months, because business takes such a long time to develop in our region. You are missing the start of opportunities over sales for next few months. [...] I would say there was probably a high degree of old agency of sales force looking around what was going on rather than concentrating on sales. (a regional management team member)

During this periods of uncertainty, the need became evident for extensive leadership to sustain sales people's motivation. The sales directors held many meetings for their sales forces, and shared information about the current situation, trying to reassure their staff and keep them motivated. The sales directors themselves were not, however, conscious of their own situation during these three months, during which they needed to keep their sales forces concentrating on sales work.

Sales force integration involved favouritism, which resulted in a negative effect on the merged company performance. The acquired company consisted of two sales forces and two sales directors, and the acquirer company consisted of three sales forces and three sales directors. The representative of the acquired company, who was appointed managing director, modified three sales forces and appointed two sales directors from the acquired side and one from the acquirer side, thus blatantly favouring the acquired company. Another sales director who was dismissed, had extremely good customer contacts and valuable market knowledge. He would have agreed to work under

the appointed sales director, but the new managing director wanted to get rid of him. He ended up working for a competitor, and took many customers with him as well as his awareness about the merged company cost levels. Extensive effort was put into selling these sales structure changes to the customers, but some relationships were based on very good personal contacts, and the new sales directors were not able to build relationships that were as good as the previous sales director had.

Creating accountability in the new sales structure also faced problems. Problems were caused when the sales forces were taken away from the sites to a more divisional structure in which the sales force had less contact with the sites. Problems were especially caused on the site from the acquirer side, from which sales director had been removed. Besides sales director being removed, a considerable number of sales people were also dismissed. The sales director from the acquired side, who were given the main sales responsibility for that site, had difficulties in creating good relationships with the customers and in creating accountability for his sales team. The sales of this site were divided between sales people coming mainly from the unit of the acquired company. Since they were given accountability to handle only one or two accounts from this site, they were not as focused on selling these products as previous sales people had been. In fact, not all of them even visited the site. Problem also lay on the market side. These sales people were mainly serving their previous site, which was offering products on growing markets, whereas the problem site was manufacturing products for declining markets. The sales staff received their bonuses more easily by focusing on growing markets. Problems in the sales area reduced sales by about 40 % at this site, causing it serious problems.

Another factor causing problems on the sales side was a lack of formal training and motivation to participate in informal training on new products and markets. Although the sales areas were divided into three divisions according to customer markets, sales staffs were given a limited amount of training about their new responsibilities and new wider product range. Although some training was offered at the sites, not all sales people were motivated to get to know about their new products, as they preferred to serve their old accounts. This clearly hampered sales performance in the regional organisation.

Administration

During the integration a shared service centre was set up to harmonise and run administrative issues in the country organisation. Centralisation in the administrative area had already begun before this acquisition, when the biggest unit in the region took over other units in the country organisation. As the acquirer group grew, it started to delegate integration responsibilities to local organisations. The biggest unit in the region was given the responsibility of integrating local units in the area. It had introduced the same information

systems to all the acquirer side units in the country organisation before this acquisition. Some administrative functions had also been centralised at the largest site. It was decided to continue centralisation at the now-established shared service centre, and to reduce administrative costs at the sites.

Centralisation was seen as one way of gaining synergic benefits in integration. The problem in harmonisation practices among the sites and reducing administrative costs at the sites was the organisational structure. The production directors appointed to the site directors were now also responsible for administrative issues at the sites. The problem lay in two areas. First, these new site directors were not necessarily knowledgeable about the administrative areas they were managing. Second, they were keen to keep resources in their sites and not interested in paying shared service costs. The administrative people at the sites were not under the direct responsibility of the shared service director, so every time the SSC director wanted to make a change, he needed to talk with the site directors and persuade them to support the change.

The sites did not favour the centralisation of services. They were not enthusiastic about losing resources from their site. They also saw that many issues such as technical development were becoming more problematic, now that they were to be centralised than when they were locally based. The site directors felt the centralisation process meant that the largest site was trying to manage the other sites as if it were a country headquarters, when they regarded group headquarters as the only headquarters in the whole company.

Centralisation was a widely discussed topic in the management team but, due to contradictory views and lack of clear direction, centralisation stayed in limbo. When the shared service director tried to implement centralisation, the site directors tried to retain their people at their sites. The regional managing director did not have clear view of the centralisation, and tried to favour both the site directors and the shared service director. The situation was cut in the middle: some issues were centralised and some were left at the sites, with the result that not all necessary synergies were achieved in this area.

The country organisation had been delegated with responsibility of taking over the acquired company units. Both these sites had operated as standalone units. The other unit had loosely belonged to the Europe-wide organisation, which it had been decided would be wound up, connecting all these units to regional organisations. Another unit had reported directly to the acquired company headquarters. The latter was completely taken over.

The voluntary departure of the management team members and the prevailing view that the takeover was a merger, facilitated the integration process in the unit from the acquired company. Generous benefits were also given to departing directors, which also helped the fluency of the integration

process in the unit from the acquired company. The MD from the unit of the acquired company left voluntarily to lead another business unit in the merged group, and many other members of the management team also departed. The reason for their departure was the decreasing role of the unit, due to the fact that the site would no longer need the same level of management team, with decision-making and many administrative tasks being centralised in the regional management team. As two sales directors from the unit of the acquired company continued as sales directors in the country organisation, the unit from the acquired company experienced continuity and stability.

Challenges in integration focused on information systems and the performance of the unit from the acquired company. The unit situation was evaluated at the same time as the unit was taken over. The dominant regional management structure and limited resistance in the unit from the acquired company made familiarisation relatively easy. Several problems were noticed in the level of the procedures and in stock valuation. After the incumbent controller left the organisation, a new one outside the regional organisation was appointed to take control. The unit from the acquired company operated a different information system, which created a challenge for the control of the unit from the acquired company. An information link system was established to receive sales forecast information from the unit of the acquired company system. No other link existed, however, between the information systems, so the regional organisation was not up-to-date regarding the situation in the unit from the acquired company. Problems were also created due to tension between the site director and the shared service function.

The organisational structure created difficulties in the trust and control relationship between the shared service function and the local controller. The controller appointed to the acquired site was later found to be unqualified. His performance caused problems both for the shared service and at the site. The site director did not, however, want to dismiss him. Although the shared service director had a duty to harmonise and take care of administrative issues at the sites, he needed to continue the relationship with the incompetent controller whose performance was not trusted. This meant that extra time was required to supervise the tasks of the incompetent controller, in order to get a full picture of the situation at that site.

Operational

There was clear pressure to achieve synergies by consolidating manufacturing. Manufacturing consolidation was the major part of the plan to achieve synergies in the country organisation. The synergy plan involved integrating one small site into other sites by dividing its current manufacturing process between two other sites, and changing manufacturing processes at these two sites. These relocations caused huge problems, since the receiving

units were not sufficiently competent to run the manufacturing processes. The closed site had employed 25 people who concentrated on a high-value and highly complex manufacturing process. The receiving units were used to producing low-value and products of low complexity. The problem was that people at the closed site were not willing to transfer with the machines.

We are going shut [the name of the] factory, we are going to move [the name of production] up to [the name of the receiving factory] and to move [the name of the other production] down to [the name of the other receiving factory] because it was [the name of production] here and [the name of production] in [the name of the receiving unit]. OK, on paper that sounds OK. The [problem] issue was that basically our ability, our system, again our ability to use the system to control movements of stock to understand process. We had many people we lost in [the closed site] they all left, all of them. The person who understood the business and procedures we did not pay the money for her [...] to manage this issue. We were stupid saying we are not going to pay. (A regional management team member)

At the site where the machines were transferred to, cost pressures were so high that the people coming to train machine operators were operators themselves and not official trainers. A fear of double placements existed. When the skilled staff from the closed site left, the machine operators at the receiving site did not have the required knowledge of the manufacturing. The factory had been used to producing long runs and low-complexity products. They tried to use the same method for the new products. The same manufacturing method was not applicable and errors occurred in manufacturing. A regional management team member describes the situation and choices made in manufacturing.

What happened instead of transferring skills [...] they ran machines. So used instead of training people how to run the machines, they were transferred [here to run machines]. And because the volume of business was transferred, what happened is those people were used to actually run the machines. So when they finished running machines and left for redundancy, there weren't people coming through who had been trained to run these machines. Again that was because we were very nervous about doubling headcount, because then you've not only got to pay for people from [the closed site] to come down, you've also got to pay for the additional headcount. So that you can run machines and train as well what we believed we could do. That was a mistake thinking we could transfer the people and get them to run machines and get that level of knowledge much quicker than was possible. Yeah because we thought we saw pretty simple technology, we run [that type

of production] anyway, again it is not a new technology [...] [it was] a different type of business in level of service, levels of stocks. It had a level of flexibility with people working in different areas, and what they could do with those people and that got lost in a system, both [the receiving units], which were used to much bigger volumes rather than customised small volumes, suffered as consequences.

Problems also occurred when the manufacturing was divided between the two sites. The co-ordination function was given to the shared services. The shared service function was not, however, able to take care of the co-ordination function, so the sales organisation tried to take care of it. Such a function was new for the shared service, as there had been no need for co-ordination before the relocation when all products were manufactured at the same small plant.

Manufacturing problems were also caused at the other site to which manufacturing had been relocated from the site that had been closed. The problem was that the unit had never before manufactured such products, and was not familiar with the machines. The cultural difference between the receiving unit and the closed unit was considerable. Whereas the closed unit had been flexible and used to automatic production, the receiving unit used old manufacturing methods and was heavily unionised. People from the closed site were unwilling to transfer to the receiving site and resentment meant that they had no desire to help the receiving unit. The receiving unit met problems in running their new machines, and, because there was no co-ordination with the other receiving site, business took a downturn. Problems in manufacturing and the areas of co-ordination caused customers to move to more reliable products and manufacturers with shorter lead times. The profitable business started to drain away.

We had a crucial shortage in our service level for the whole summer. So we started losing business, our customers started moving more to reliable forms of practice, shorter lead time and more reliable products, and the point what was two and half years ago [x] million [...] business is probably now something like [1/6 x]. (a regional management team member)

Problems were caused when it was decided to relocate some machinery from an acquirer site to the acquired site. A potential for synergies had been identified, since the unit from the acquired company was manufacturing material used in the products manufactured with those relocated machines. This caused a major shock for the personnel from the unit of the acquirer company, as they had only received those machines one year before. These machines had been acquired by that unit to create growth, and a decent level

of business had already been developed with the machines. Losing the machines did not create a fruitful climate for help to be given in relocating the machines since their loss had direct effects on the headcount of the personnel.

Lack of capability to operate with the relocated machines hampered the achievement of synergies in this relocation. One argument in favour of the relocation was that the receiving unit said it could run the machines at a higher speed than the acquirer site had. Again problems were caused when personnel were given the opportunity to move with the machines but refused. Although some people transferred with the machines in order to help the receiving unit set them up, very little knowledge of running the machines was transferred. The relocation and start-up of the machines succeeded, but the machine operation was not successful. The receiving unit did not have enough capability and experience in running such machinery. They were used to running machines that did not require support and manufacturing maintenance. Since one argument in favour of the relocation had been that the unit from the acquired company would run the machines faster, the unit had a strong need to show that they were able to do that. This faster speed was indeed possible, as they were undertaking no maintenance work. At first, the performance was good, but problems occurred when machines had to be repaired due to skipped maintenance. This caused a cycle of high manufacturing speeds and broken machines, in which help was continuously needed from the unit engineers, who had lost the machines themselves and now had to spend their time repair the relocated machines.

Bad manufacturing performance due to the manufacturing relocation meant that customers began to move to other manufacturers. Problems were caused for customers in terms of low quality and late deliveries. This meant that the potential possessed by these machines was wasted. At the time of relocation, competitors in the region did not have the same manufacturing capability. This weak situation encouraged competitors to enter the market to fill the gap customers were experiencing due to problems at this site.

Sales and operations relationship

Integration impacted on the business processes in the regional organisation. Even before the integration, the regional organisation had suffered from a poor sales and operations relationship. The major problem in this process was a lack of formality. The lack of formality in the relationship between these functions meant that both operated individually without any link to each other, causing serious problems in matching supply and demand. Lack of formality in the process meant that sales personnel did not share all information with the manufacturing side, made inaccurate sales forecasts and sometimes ended up selling unavailable capacity. As manufacturing was not receiving accurate orders or sales forecasts, it ended up producing the wrong items at the wrong

time. Lack of a proper sales and operation process meant that, in some weeks, manufacturing operated on overtime and, in other weeks, there was no manufacturing at all. This problematic process caused difficulties in satisfying customer needs and caused tension between the parties. A regional management team member describes the situation between sales and operations.

Sales unit did not pass the information to manufacturing and that caused big problems. There is no information. Sales guys said I do it my way, manufacturing says I didn't know you ordered that but I manufactured this. What happens is that people start blaming one and another...

Integration increased problems in this sales and operations process. In structural changes sales were centralised and taken away from the sites, causing less contact between the sites and sales. Changes on the sales side also in some ways meant that sales persons did not have proper knowledge of the manufacturing process of their new products. This decreased communication and lack of knowledge of manufacturing further increased problems in the sales and operations relationship. The parties had only a formal link at the regional management team meetings, but these meetings were not solving current problems and focusing on future situations; on the contrary, the parties were blaming each other about problems during last months. Lack of formality in the sales and operations process in fact increased difficulties in foreseeing problems, since there was no controllability and visibility, which could have helped to resolve things.

The lack of formality and mess in the process impacted on trust between the parties. Sales and operations were not confident in how the other party functioned. Integration further decreased the level of trust on the sales side, since the relocated machines increased problems in the receiving units. In some of the relocations the sales people had more knowledge of manufacturing process than the receiving manufacturing units. The lack of trust in the operations function meant that sales persons were required to spend extra time in guaranteeing the correctness of the production deliveries. The situation during the integration is described by the sales management side.

It was obviously difficult what you ended up doing. People who really cared about delivering products to customers, sales people [...] they have to get much more involved in speaking to planners, and in some cases even speaking to the purchasing department to make they were buying in the correct raw materials just to make sure that project was been managed properly. [...] Sales people got much more involved in a part of the business, that, if you had good planning and production

process and trusted what was to happening — they shouldn't have had to get involved in.

Tensions and the mess in the sales and operations process affected the sustaining of informal relationships between parties. When the sales side blamed operations people for poor manufacturing, the operations side blamed the sales side for inaccurate forecasts and lack of formality. These tensions reflected at their meetings. The operations and the sales people were supposed to have informal monthly meetings but the sales people did not necessarily show up at those meetings. The operations people thought that the sales people were not participating in the meetings because they did not want to explain why they had not met their sales forecasts. When the sales people did not participate in the meetings, the operations people felt that they were not receiving enough information from the customer side and efforts to build a more structured process failed due to lack of commitment from the sales side. The situation is described from the operations management side.

Their [sales people's] view was that they spend the time better on the road than they could in an office talking about how they could match supply and demand and that may be true. But certainly from operations perspective I do not believe that. They saw they would be interrogated about their forecasts once a month. If they had to explain why they did not achieve their forecast or what was wrong in their forecast, then they would come if they didn't have to explain. Then next month everyone forget about it because it moves on. Yeah so the sales team was not managed, simple as that. They were not managed, there was no structure to manage, so, although we had sales directors the fact was that they were all doing their own thing. They just wanted service the accounts yeah rather than structuring, formalising a business approach about how we can make it.

The continued problem in the relationship meant that the parties started to conduct each others' responsibilities. Not only had the sales staff begun to be more involved in manufacturing processes in order to guarantee the success of deliveries, the operations side also started to establish contacts with the customers in order to get their views about the products, since they did not trust in getting enough information via sales people.

Problems in the regional organisation finally ended restructuring. The integration changes resulted in decent development in the profit line during the first two years following the acquisition; these synergy benefits, however, concealed the poor situation in the regional organisation. In the end, the trend in the profit line turned clearly downwards, and well-made presentations no longer convinced top management. Radical restructuring was carried out in the

regional organisation, leading to the dismissal of the regional managing director, a pair of site directors and an unqualified controller, decreasing the headcount in many units and changing the sales management. The sales director, who had good customer relationships and who was removed when the new sales organisation was established, has been recruited back to the regional organisation. Business processes were also screened, and it was found that the sales and operations process was problematic. Outside consultants were taken on to build a new business model. The new model created strict guidelines on both sides, which brought visibility and controllability to the process. These guidelines built the relationship between the parties since problems in forecasting accuracy and the manufacturing process became solvable. Building this new model also started to develop trust between the parties.

4.6.2 Integration process between two business units

This section provides a story describing the integration process between two units, which were fierce competitors before the integration. The integration process described is in a country which is one of the most important countries in the merged company. Four units operate in the region: three of those units belonged to the acquired company and one was from the acquirer side. As one of these three units of the acquired company was located near the unit of the acquirer, operated with similar production technology and served the same customers, it became clear that synergies would be sought between these two units. As the units had been fierce competitors before the acquisition, the integration process offered many challenges. Synergies with the two other units of the acquired company were sought only from the network type of activities discussed earlier in this thesis. The unit of the acquirer employed about 500 people and its net sales were about 60 million Euros. The unit of the acquired employed about 400 people and its net sales were about 45 million Euros.

The merger was a surprise for both sides but taken positively by the unit of the acquirer company side. Both suppliers and customers had already started to consolidate in the region where the units from the acquirer and the acquired company operated, and these units were not major players between the suppliers and customers, with low bargaining power. This consolidation development had already started to impact on pricing so this merger was taken positively on the acquirer side as it was seen as strengthening the situation on markets, and giving more bargaining power.

Integration between these two units was conducted by deciding to appoint the managing director of the unit from the acquirer company to the position of business group managing director. His responsibilities were to manage his own unit and act as a superior for several other business unit managing directors including the unit of the acquired company, and to form a task force to evaluate and execute synergy processes between these two units. The managing director of the unit from the acquired company continued in his task but became responsible for reporting to the managing director of the unit from the acquirer company. The task force included members from both units, and their job was to seek synergies in organisational structure, back-office consolidation, purchasing, R&D and production areas. The main synergy areas were in the areas of back-office and sales forces.

Attempts were made to develop the relationship between the units in a friendly atmosphere, with the first meeting being held over dinner and wine-tasting without discussing synergies, although the acquired side was very worried about the integration. It soon became clear for the unit from the acquired company that the unit from the acquirer company was a driving force for synergy discussions, which caused uncertainty in the unit from the acquired company. Although the integration between the acquired and the acquirer company had been communicated as a merger, it was soon perceived in the unit from the acquired company as a takeover. The need for synergies was understood in the unit from the acquired company but, as it meant integrating back-office functions into the unit from the acquirer company and removing some sales people, these synergies were not welcomed in the unit from the acquired company. A management team member of the unit from the acquirer company describes the situation.

First small problems came up. We as [the unit from the acquirer company] management team went to [the unit from the acquired company] and said we want to talk about possibilities of integration and finding synergies, cost cutting. Of course you could feel, I remember well in this first meeting, that the word 'merger' clearly was not anymore believed by [the unit from the acquired company] people, because they felt there were people coming to [takeover]. They want to take the lead, they want to see how we work, they want [the acquirer company] to change our mode of work into [the acquirer company] mode of work. That was very obvious at that time and big challenge for us as a management team, [the acquirer company] how to manage these feelings which were based on these uncertainties.

Searching for synergies between the units caused resentment and the concealment of information in the unit from the acquired company. Some

people from that unit thought that they could remain in the unit by concealing information or revealing it only bit-by-bit. Also on the sales side was guaranteed that some sales contacts were based on very good personal relationships, but, under closer scrutiny, they were just normal business relationships. The atmosphere in the unit from the acquired company deteriorated over time as synergies were sought. The resentment and concealment of information is described by a management team member from the unit of the acquirer company.

[The unit from the acquired company] people became more and more nervous and the relationship was not very warm. It was quite cold because people wanted to defend their positions and jobs and their influence in decision-making, etc. as they could feel that [the acquirer company] was about to take more and more over. They were afraid and some of the key people left, not many surprisingly [...] and some others tried and succeeded to conceal information because, the more information they had on their side, the more protected they were of course...

Being taken over by the acquirer was not easy for the unit from the acquired company since they had been part of a very large global company before being acquired by the acquirer. They had been acting quite independently in the acquired company and now much smaller company than their previous owners was taking them over. It was said that they were still living in their glorious past rather than in the present day. These feelings could not have helped the relationship between these two units, causing tension and a very difficult integration process. Being integrated into the unit from the acquirer company and also the acquirer company was not easy for anyone in the unit from the acquired company. These feelings are described by a management team member from the unit of the acquirer company.

When [the acquired company] twice the size of [the acquirer] was merged in or acquired by [the acquirer company] then people don't understand the world so easily. They would have understood it the other way round. We are big, [the acquirer] is small, let's do the deal. [...] also I think one factor was that [unit from the acquired] had belonged to [the global company] the big [the global company], and you can still feel today that some colleagues still have the culture at the back of their minds. We have been a big, big, huge European even global company or at least part of that company [the global company] conglomerate. We were just bought by small [the acquirer] so that was something a lot of people had to fight in this whole story and it is not totally over.

Sales force integration was seen as one of the main areas where synergies could be achieved, but sensitive and structural factors hampered the achievement of synergies in these areas. The unit from the acquired company consisted of one sales force and the unit from the acquirer of two. The overlap was in the other sales force area, as the unit from the acquired company operated only in one technology. It was targeted to integrate these overlapping sales forces, but for defensive and sensitive reasons, such integration was postponed for five years. Both managing directors wanted to retain their sales managers, and there was also fear that integration would not necessarily lead to positive outcomes, since the units were rewarded based on their profit and loss statements. This meant that it was most economical to sell products from their own unit. Being a good seller of products from sister units would lower the EBIT percentage.

Sensitive factors affected creating an emergency solution in the sales force structure and sales work. Both sales managers in overlapping areas were kept, but the sales segments were divided in order to avoid visiting the same customers. This solution did not work very well. The same customers were visited in some cases by two sales men, and the offering of products from the other unit was not facilitated by the reward system. It was also noticed that the current situation was only temporary and that the sales forces would be integrated eventually, which meant that the sales managers acted to secure their positions and avoided communication with each other. In order to create cross-unit sales between the units a matrix structure was created. This structure did not, however, create much cross-unit sales, because, first, the unit EBIT was still the main driver and, secondly, negative feelings in the unit from the acquired company limited sales of products from the unit of the acquirer company.

Consolidation between the units offered a possibility to compare practices and relationships with the customers. This also offered the possibility to increase prices and get to know how customers had toyed with the previously competing units. Efficiencies and price levels were compared and best practices discussed. Although the integration gave the customers a chance to order a wider product range from a single company, it also had some downsides. Some customers noticed that integration made them fully reliable on a single supplier. This encouraged them to move part of their business to other suppliers.

Consolidation between the companies in the same regions and manufacturing technologies offered possibilities to consider manufacturing consolidation in the European area, which created a threat for the unit from the acquired company. In order to evaluate efficiency in manufacturing, an integration task force was established to evaluate possibilities to consolidate

manufacturing in the European area. One suggestion of this task force was to consolidate part of the unit from the acquired company into a unit, which was operating in another country. This suggestion was optional; it required that the unit where the unit from the acquired company would be relocated would become profitable the following year.

Consolidation of the units was then re-assessed since the unit earmarked for consolidation did not move into the black within the given timescale. This offered a new possibility for the unit from the acquired company. The unit under observation had been performing badly over recent years. It had been performing inefficiently, made unreliable deliveries and also had problems in manufacturing planning. Several management changes had been made, but this had not improved its performance. Just before the merger, the unit received a new factory, as it had complained that its bad performance was a result of its old factory. In the event, however, the new factory solved only a few of its performance problems. Many managers in the acquirer company had started to think of the problems of this unit as being unsolvable. When the performance of this problem unit did not become positive, analysis was made of other opportunities, and the decision was made to integrate the problem unit into the unit from the acquired company. Based on very optimistic calculations, the transfer was made to seem positive, although divergent views at various organisational levels existed regarding the capability of the unit from the acquired company to succeed in taking over the new production.

In the merged company, the problem unit was widely considered as a bad unit, which made the unit from the acquired company regard the relocation as unproblematic, although a considerable amount of the relocated manufacturing was totally new for them. In recent years, it had become widely acceptable to talk negatively about the problem unit. As the unit from the acquired company was not having difficulties in areas where the problem unit was performing badly, it also began to bad-mouth the unit, and believed that the relocation would be easy. The management from the unit of the acquirer company, as part of the relocation task force, tried to highlight areas of challenge in the relocated unit, but did not get a good response, since the unit from the acquired company considered these views almost as insults. The management from the unit of the acquirer company admits to being partly responsible for making the unit from the acquired company think that the problem unit would be easily taken over, because the management from the unit of the acquirer company had talked negatively about the problem unit.

[...] I think we are also a little bit part of [...] we are to be blamed also because in the group it was in [...] the last five years at that time [...] okay to talk negatively about [the problem unit]. Everybody was doing

what we were doing [...] in [the unit from the acquirer company], we were talking negative about [the problem unit] because it was shit. They are never earning any money, they are producing badly, there are too many people, they are slow and not planning well, and so everybody was doing that. Headquarters was doing what we were doing, and so was everybody else. [The unit from the acquired company] was doing that also of course, meaning we were partly to blame because when they took over [the badly performing unit] everybody had said that it is shit. [The unit from the acquired company] was saying of course we can do it better than [the problem unit]. [...] it is because everybody was saying that it is bad. That's why they were so pissed off with me. When I said can you do the planning they do, because we also have said that they are not very good in planning in [the problem unit], so they said how can he ask me if I can do the planning when they say that it is bad in [the problem unit] how can he wonder if we can do it, because we have never had problem with planning. No I said it is clear when you have frame orders in [x] million then you can decide yourself when you are producing. Of course you don't have [problems] and you have seven customers instead of 700, then that is clear that there is complication with this one here. Yeah okay so in a way we have helped them by accepting that [the problem unit] was bad and said so. They would of course never admit that they were not as good as [the problem unit]. (a management team member from the unit of the acquirer company)

This relocation caused major problems in the unit from the acquired company, since they were not capable of taking over the new relocated business. The unit from the acquired company welcomed the relocated manufacturing since they were in a difficult situation and losing their current business, but they were not prepared for all these new challenges. Half of the relocated business was totally new for the unit from the acquired company involving a totally different business planning model they were not familiar with. Another challenge was the size of the relocated factory. It consisted of about 200 people with net sales of about 25 million Euros and sixty machines, and only a few people transferred with the machines. The small amount of transferred people meant that the unit from the acquired company was required to recruit and educate people to run and take care of the machines.

A tense relationship between the units from the acquired and the acquirer company hampered the relocation process. The unit from the acquirer company was part of the relocation task force trying to help the unit from the acquired company. The unit from the acquired company was, however, willing to handle the relocation themselves without a big brother watching them over. Although the management from the unit of the acquirer warned the unit from the acquired company about the complexity of the relocated business, the unit

from the acquired company never took the advice. They in fact did not understand the need to change their current business operating model.

The major problem in this relocation was the difference in business operation systems. The unit from the acquired company was used to producing long runs and frame orders for small amount of customers. They always produced from an order and were not required use stocks. Their current planning could have fitted on an A4 sheet, whereas the production technology they received meant complicated sales forecasting and constantly changing customer needs. Problems were also caused when production planners did not transfer with the machines.

Problems in the relocation increased when the back-office consolidation was conducted at the same time as machines were being transferred. Back-office consolidation was expected to bring a considerable amount of synergies involving integration of accounting and IT, with the relocation of back-office functions to the unit from the acquirer company. The unit from the acquired company did not welcome this integration, as it meant a reduction in the number of their staff and the loss of power over their own books. Additionally, they were not enthusiastic about the accounting IT system change because they had quite recently upgraded the IT system at their unit. The new IT system meant a step backwards for them. The previous system was easier to use and had a graphic interface, whereas the new one did not include a data warehouse nor a graphic interface. This integration confused the relocation, as people were being made redundant at the same time as there was a need for people to support IT integration. The atmosphere was not good in the unit from the acquired company, and much manual work was needed to move information from the problem unit into the system of the unit from the acquired company, and then further to the system of the unit from the acquirer company. A lot of information was lost and several mistakes were made. Furthermore, the information in the problem unit had not been correct, so mistakes were transferred to the unit from the acquired company. The problem unit had thirty year's experience of manufacturing those products, so it was able to manufacture them correctly, despite incorrect and misleading data. When the unit from the acquired company, however, tried to manufacture according to these same erroneous guidelines, problems were caused. The situation in the unit from the acquired company is described by a manager from headquarters.

The increased complexity meant that the manufacturing of the existing products which they had produced was also made more complicated. Sometimes there was not enough [material], there was not the right [material], then there was not the right people, and, when there was

people and [material], then the machine didn't work and when the machine worked then there was not people or there was not [material] [...] and of course there was not the ability to use the machines [...] there were some problems in machines of course, they were second-hand and not new, it was a clear lack of workmanship both in repairing and in running.

Problems in the systems caused difficulties in steering the business operations and in the evaluation of the performance in the unit from the acquired company. As a result of incorrect data in the systems of the unit from the acquired company, there were many surprises at the end of month when the books were closed, when results were not what had been expected. As the figures did not match, extra effort was required every month to determine the real financial situation. The situation was very frustrating for both units and made evaluation of operational efficiency extremely difficult. This meant that there was no knowledge of production costs, meaning that sales people did not know what profit they were making, and operations people could not track their efficiency, and knowledge of the true financial situation was not up-to-date. With this being a continuous situation, business in the unit from the acquired company was steered largely on a gut feeling.

Major problems were created in the unit from the acquired company through lack of ability to adapt to the new business operating model. Problems were increased when current systems knowledge was lost when the controller from the unit of the acquired left. The controller of the unit from the acquirer company was also appointed to manage the financial function at the unit of the acquired company. The controller from the unit of the acquired company was offered a deal whereby he would receive four years' part-time salary for two years' work but he decided to leave immediately. The unit from the acquired company was left with a system only the controller really understood, and which was operating in its previous environment, not in the new complicated environment. The previous environment needed a properly working system, and, when the integration of systems was started, it was noticed that the existing systems were not able to support the new situation. Lack of proper systems and inability properly to carry out production caused a cycle of destruction in the unit from the acquired company. The situation is described by an acquirer company management team member.

If you have problems in production, you need to have certain management tools to analyse the problems and fix them. These were not there and people responsible were not capable of solving problems. The biggest problem was in information flow so there was poor information from sales to production planning about future demand. There was a

very poor production planning system, everything had been built around the old existing structure, and when the structure was changed, the whole semi-manual system did not work any longer. And thirdly there was big problem in production execution, and all these problems together had a killing [impact]. On top of that, due to those problems, customers were let down — we couldn't deliver or we delivered poor quality. So we lost volume and this increased the cost problem and increased the pressure and still there was no information co-ordination between sales, production planning and production, and there was a kind of cycle of ever decreasing volumes and ever growing costs.

The unit from the acquired company had difficulty in realising the need for changing its current business operating system, which hampered the solving of existing problems. The unit from the acquired company had worked properly in an environment where there was no need for strict business systems — on a blackboard, they had written each day's manufacturing, and they had three different standard costs based on different master data. The new complicated production system required systems to work efficiently and data to be in a proper shape. It took time to impress upon the unit from the acquired company — which believed that it could survive in the way it had before — the importance of having proper data and of cost-consciousness. Besides creating cost-consciousness, it took time to clean up the master data, which also required recruiting additional resources.

Back-office consolidation offered possibilities for the unit from the acquirer company to familiarise itself with the financial situation in the unit from the acquired company. Before this consolidation, the unit from the acquirer company did not have the possibility comprehensively to control the unit from the acquired company — it had acted based on trust. The business unit was showing decent figures, and proceeding according to budget. The situation in the unit from the acquired company was not easy to get to know, as the controller was sitting on the information. He was described as being very talented with numbers. Additionally, the atmosphere between the units was sensitive, so an intensive check would have caused more problems in the relationship. Therefore, trust was placed in the assurances the unit from the acquired company had given about its situation. The situation in the unit from the acquired company was, however, not as good as had been painted. They had been able to build up quite considerable reserves in past years by overbooking and collecting rent from sister units. The magnitude of these reserves was considerable, and had made it possible for them to show decent figures although the situation was actually poor.

The atmosphere between the units worsened with time, as the problems increased in the unit from the acquired company. The unit from the acquirer

company felt that the unit from the acquired company was not being honest with it. To a certain extent, they were showing a co-operative attitude at the internal management meetings between the units but, internally, in their own unit, they were spreading rumours that the unit from the acquirer company wanted to “kill them”. They also hinted that the reason why the figures of the acquired company seemed so bad, was because the unit from the acquirer company was making them up. The reserves were not known at the lower levels of the unit from the acquired company, so when they were found and released, the total picture of the situation with all the problems in the production and sales areas was not very beautiful. The relationship between the units is described by a management team member from the unit of the acquirer company.

They felt they were under pressure that we wanted to kill them but that was not true. I mean that was the feeling they had. And they were making that atmosphere with their lobbying style. They were building that atmosphere internally in [the unit from the acquired company]. [The unit from the acquirer company] want to kill us. [The unit from the acquirer company] want to have our ownership. They want to take us out and make our figures bad. I mean that was how it was going, [although] [the MD from unit of the acquired company] was never saying anything like that. I mean that was how it was told at internal meetings and then sent further down in organisation making our life of course never easy.

The atmosphere between the units made co-operation difficult and hampered integration projects. The acquirer company was familiar with the business operating model to which the acquirer was required to change, but the unit from the acquired company wanted to solve its problems on its own. Tensions even meant that a group level person was sometimes required to act as a mediator between the units in order to advise people in the unit from the acquired company, since advice directly from the unit of the acquirer company would not have been heeded. Tensions also hindered the completion of the integration processes, as, for example, consolidation of purchasing would not have been accepted by the unit from the acquired company, although it was in the integration list.

The sales side problems increased with time in the unit from the acquired company, and, according to a sales manager from the unit of the acquirer company, the relocation was sold to customers on the basis that “*the gates of the heaven will be opened*”. The customers were having difficulties with the problem unit, but attempts were made to reassure them by saying that the relocation would eventually solve all problems. The gates, however, were not

opened, and some customers were lost due because they did not look positively at the relocation of the factory to another country. As the problems with the relocation increased, the customers reacted by changing to other suppliers.

Administrational organisation in the unit from the acquired company also caused tensions and problems between the units. The person who was responsible for the sales in the unit from the acquired company was also responsible for purchasing and planning. Half of the relocated factory consisted of manufacturing in which the unit from the acquired company only acted as a production unit. The unit from the acquirer company was taking care of the sales of these products. Because the sales manager of the unit from the acquired company was accountable only for his own sales lines, he preferred the production of his own products and, in a bottleneck situation, placed a much lower priority on the manufacturing of products being sold by the unit from the acquirer company. The unit from the acquirer company suffered from this situation and this created additional tensions between the units. There were negotiations between the units relating to this sales manager and his responsibilities, but he did not want to resign his position and he got support from his boss. Eventually he left purchasing and planning positions to concentrate on sales.

Additional tensions between the units were created by the administrative organisation of the regional management. A manager from the acquired company side was appointed to the position of regional director. He became the boss of both unit managers. The managing director from the unit of the acquired company sometimes took the liberty of reporting directly to the regional director, going over the head of the managing director from the unit of the acquirer company. The regional director also gave support to the management from the unit of the acquired company, as he had a good relationship with them, having worked previously in that unit. This made the management of the unit from the acquired company more difficult, and meant that the speed of change in the unit was not carried out as quickly as it would have been, if they had not got support from the regional director.

Eventually problems in the unit from the acquired company became so considerable, that the managing director from the unit of the acquirer company, who, in his position of business group managing director, was also responsible for the performance of the unit from the acquired company, could not stand it anymore. The regional director, who had originally come from the acquired side, started to support the managing director from the unit of the acquirer company, once he noticed that problems were growing. After several nasty discussions between the units' managing directors, the managing director from the unit of the acquirer company decided to make several

reorganisation plans in the unit from the acquired company with support from group management. Several restructuring plans were carried out but problems continued in the unit. All the incumbent management team from the unit of the acquired company have now gone or been forced to go, and the complex production has been relocated to the other country. After several restructuring projects, it has been decided to close the entire unit from the acquired company.

4.6.3 Critical factors and the importance of trust and control in operational integration

Operational integration includes back-office, production, sales force integration and structural changes. This operational integration is definitely the most important integration aspect in the outcome of corporate integration when merging companies are having overlaps. Even if the merged company forms a clear and outstanding strategy and invents huge synergy plans, and even if the formal integration planning process succeeds, the implementation of operational integration plans still determines the outcome of the integration. The impacts of operational integration can be clearly seen in the profit line, since the operational integration is the main interface with customers. Consequently, we cannot regard achieved synergies as the only measure of the outcome of integration; we must also analyse the effects of integration on business performance.

Although operational integration is remarkably important to the outcome of M&A, it has not been understood in previous literature and our knowledge of it has been considerably limited. Previous studies concerning issues related to operational integration have discussed employee reactions such as stress and uncertainty, the importance of cultural compatibility, management accounting systems implementation and also nationalism, which has created political sensitivities and favouritism. In order to increase our understanding of factors affecting M&A performance in operational integration, this study took the integrative view of to analysing two operational integration processes.

Neither operational integration process described in this study can be regarded as successful. Both the regional integration and the integration between the two units faced considerable problems in the relocation processes, sales force integration, administration consolidation and co-operation, and all this led to loss of customers and decreasing operational efficiency. Synergies were achieved when some sites were closed and the numbers of sales and administration staff were reduced, but the business consequences of the changes were far from optimal. Several years after completing the deal, the

integration process can still be regarded as ongoing in these two countries, as several closures and relocation processes were still underway as this writing was being completed. Despite the poor performance of these two operational integration processes, these two mini-cases offered a good basis for classifying what the critical factors are in operational integration and what the importance of trust and control is in operational integration.

Based on this empirical case study, critical factors in operational integration can be divided into accountability, structures, resources, politics and culture. These critical factors and their sub-categories are shown in Table 4.

Table 4 Critical factors, trust and control in operational integration

Critical factors	Control	Trust & control relationship
Accountability	Administrative & result control	
Integration accountability	<ul style="list-style-type: none"> - local task forces to screen synergies and implement plans which progress reviewed - the challenge of short versus long-term focus and tradeoffs between intangible and tangible assets in synergy projects 	
Business accountability	Result control <ul style="list-style-type: none"> - uncertainty and changes to take focus away from business - care in sales accountability changes in order not to damage business 	
Structures	Administrative control	Administrative control
Synergy realisation	<ul style="list-style-type: none"> - to organise organisational structure to support synergy realisation 	<ul style="list-style-type: none"> - organisational structures can sustain and result in tensions, lack of trust and hamper control
Business structure	Administrative control <ul style="list-style-type: none"> - to organise structures to support fluent operations and to avoid sub-optimisation 	Administrative control <ul style="list-style-type: none"> - inefficient structures and conflicting roles can sustain and result in tensions, lack of trust and hamper control

Resources Operative resources	Administrative control - co-ordinate resources in relocation and other restructuring projects	
	Procedural resources	Result control - lack of resources to cause delays and problems in implementation and disturb normal duties and can eventually damage business
Politics Co-operation	Administrative control - resistance to change and uncertainty to hamper control	Administrative control - lack of accepting authority and protectionism to create lack of trust and hamper control
	Favouritism	Administrative control - favouritism to result in removing competent people and hampering organisation structural changes
Culture Governance style	Administrative control - accommodation to new governance style to create challenges for control and co-operation	
	Operative culture	Administrative control - operative culture required to acknowledge when relocating business

We see from the above table that critical factors are tied to control and/or the relationship between trust and control and both trust and control play an important role in the outcome of operational integration. Next we discuss more deeply the critical factors and the importance of trust and control in operational integration.

Accountability in operational integration is important for the outcome in the form of integration accountability and business accountability. **Integration accountability** is important in operational aspect in order to create attention on screening and achieving synergies. The governance dimension is responsible for creating pressures for operational aspect synergy projects. In this case, the formal integration project involving both *administrative control* and *result control* mechanisms made business groups responsible for screening and achieving synergies. Heads of operational integration processes were made accountable for their integration synergy plans and definite progress. They

presented their plans and progress at formal meetings and reported their progress on a monthly basis. These managers formed their local task forces in order to seek synergies and implement integration projects. Progress in these local projects was screened at monthly management team meetings. These arrangements directed attention locally in screening and achieving synergies.

Integration accountability also involves challenges in short-term versus long-term focus. In this case, high synergy pressures led to savings in wrong areas. In manufacturing integration, money was saved from training when trying to avoid double occupancy in production. This saving, however, meant that once trained people stopped running the machines after the transition period, nobody had been trained to run the relocated machines. Lack of trained people in running the machines caused a considerable amount of difficulties in manufacturing and resulted in the loss of customers. Attempts were also made to save money by not paying enough to get planners to transfer with the machines. Planning problems resulted in a considerable amount of difficulties in production areas. Thus, these short term synergy savings caused a considerable amount of negative synergies in the long term. Integration accountability can also result in difficulty in evaluating the trade-off between tangible and intangible assets. Rationalisation of assets may diminish entrepreneurial drive, employee enthusiasm and managerial attention, resulting in negative synergies (see, Haspelagh & Jemison 1991).

Business accountability is also important in M&A activities. The integration process creates several challenges in business accountability, concentrating mainly on the *result control* area. In this case, it was found that the periods of uncertainty regarding the establishment of sales organisations created difficulties in sustaining the accountability of the sales people, who rather waited for news of their future than concentrated on sales work. During this periods of uncertainty, some negative outcome effects were caused. Forming a new organisation also creates challenges in business accountability. In this case, organising the new sales accountability areas in the regional organisation led to problems in the result control area. Almost all the sales people working with one site were removed and accountabilities were transferred to other sales people. These sales people were not interested in taking care of a few new accounts from that site, as these products were in a declining market. They preferred to concentrate on selling their current accounts on growing markets where they received their bonuses more easily.

Structures have an important impact on the outcome of operational integration in two ways: how structures support synergy realisation and how effective business structures are. *Administrative control* plays a central role in forming **structures supporting synergy realisation**. In this case, the regional organisational structures were hampering achieving synergies on the

administrative side, as there was a structural conflict between the sites and the SSC structure. The sites wanted to keep their resources for themselves, not liking the centralisation idea. Although the SSC was responsible for administrative co-ordination, it did not have direct authority over sites' administrative personnel. The SSC was required to convince site directors to take costs away from the sites. The centralisation and removal of costs did not fully succeed due to resistance from site directors. The fact that one site had an incapable controller also caused trust and control problems. Because the site director wanted to retain him, the SSC was required to operate with that controller, although they knew he was incompetent.

Administrative control also plays a central role in forming **effective business structures**. In the integration process, particularly when business is being relocated and rationalisation programmes are being executed, it is required to pay attention to the establishment of effective business structures. In this case, changes due to relocations and organisational structures hampered efficiency in business operations. The sales and operation business process was not functioning properly, as it had no formal structure. This lack of structure meant that both parties were operating individually, with no formal links with each other. The sales structure changes increased problems, as the sales people, with their new accountabilities, did not necessarily have proper knowledge of manufacturing. Informal contacts also decreased because of the changes in sales forces. The relocations also caused problems, since the operations people did not have a proper knowledge of new production processes, causing extra work for sales people who wanted to take care of customer deliveries. Tensions and problems in the process caused a lack of trust between parties, resulting in lack of communication, fights and each performing the duties of the other. The operations people started to have direct contact with customers and the sales people to monitor production processes. The lack of a proper sales and operations structure caused inefficiency and shortcomings in business processes.

Conflicting structures also hamper the efficiency of business structures. In the integration process of two business units, conflicting business structures hampered not only business but also the co-operation between the business units. Because of the relocation, the unit from the acquired company was tasked with manufacturing of some products that the unit from the acquirer company was selling. As the sales manager in the unit from the acquired company was also responsible for planning and purchasing, in bottleneck situations he was able to favour the manufacturing of his own products, causing problems for the business of the unit from the acquirer company. This favouritism was natural as he only gained money from his own sales but it was harmful for the relationship between the units.

Resources are critical in operational integration, affecting the outcome of M&As in two ways. Operational integration resources can be categorised into operative resources and procedural resources. *Operative resource* challenges focus on the *administrative control* area and especially appear in reorganisation of manufacturing. This study clearly presents the criticalness of operative resources in relocations — problems were faced in all of them, and the biggest one caused a catastrophe. Difficulties were faced because receiving units did not have the capability to plan production and/or run machines properly. The reasons for lack of capability were that the receiving units did not necessarily understand the differences between current and forthcoming production and/or the whole business process, people in many cases did not transfer with the machines, there was a short-sighted unwillingness to pay for training or to get people to transfer. In the biggest relocation, operative resource problems reflected on the whole business unit, damaging its overall performance.

Procedural resources focus mainly on the *result control* area, involving challenges in systems changes in operational integration. Whereas previous research has discussed procedural resources concerning the implementation of accounting systems and difficulties in using systems (Jones 1985a, b, 1986; Granlund 2003), this study finds that procedural problems in the operational aspect are easily reflected in the entire business process, thus, lack of procedural resources can result in a considerable damaging effect on the whole business. In this case, the relocation process in business unit integration resulted in disastrous effects, which were reflected in the whole business process, mainly because the receiving unit people did not have the required knowledge of the business planning system, lack of resources hampered information systems implementation, data was lost in the transfer from one to another information system, people were mentally weak because some of their colleagues were made redundant during the information system implementation, many relocation projects were ongoing at the same time and the whole unit was not ready for the new business model. As a result, serious difficulties were faced in steering the business: there existed no functioning business operating system, no manufacturing cost information and no up-to-date knowledge of monthly profit and losses.

Politics in operational aspect affects the outcome of M&As in two ways: co-operation between the parties and bias towards one's own side both having major effects on the *administrative control* area. *Co-operation* between parties plays a central role in the fluency of the integration process and in achieving synergies. Although many previous M&A writings have emphasised negative employee reactions concerning integration, they have not provided comprehensive evidence of how these reactions really contribute to M&A

performance in operational integration, other than problems in implementation, and the use of accounting systems can eventually result in control system spiralling out of control (Jones 1986). In this case, co-operation politics was found to be related to lack of the acceptance of authority, uncertainty on one's own situation and protectionism. Considerable problems were created in business unit integration when the unit from the acquired company did not accept the authority of the unit from the acquirer company. Tensions and lack of trust were created between the units, even resulting in the need to call upon the services of a group-level mediator to facilitate the passing of advice from the unit from the acquirer company to the unit from the acquired company. The problem was not only the attitude of the unit from the acquired company also that the unit from the acquirer company sometimes used an over-dominant tone when approaching the unit from the acquired company, which naturally did not help the relationship between the units. Uncertainty in one's own situation was present in the sales force integration, when the sales people tried to make themselves valuable by concealing information and falsifying the truth, which hampered the fluency of integration. Protectionism hampered familiarisation with the unit from the acquired company business situation, as the controller sat on information and, far from being open to questions, even took them as insults. When attempts were made to limit additional tensions, actions were taken based on information given. As a result of this protectionism, the unit's financial situation and concealed reserves were not found until the accounting systems had been integrated.

Favouritism is another central form of politics. Favouritism appears as favouring and supporting the managers from one's own side. In this case, favouritism occurred in the selection of sales directors in the regional organisation from the acquired side, and the consequent redundancy of the very valuable sales director from the acquirer side. After his dismissal, he went to work for a competitor, taking his main customers with him, as well as knowledge of the merged company product cost levels. This sales director, with his contacts and knowledge, was the main reason for the loss of 40 % of business in one site in the regional organisation.

Supporting the managers from one's own side resulted in tensions, lack of a climate of trust and the hampering of the integration process between the two business units. As both units supported their sales managers and wanted to retain them, it was not possible to integrate their sales forces. As a result of these politics meanderings, some customers were visited by two sales people from the same company. The unclear situation in this sales force integration also limited co-operation between the sales managers. Favouritism by the regional director towards the unit from the acquired company created

additional tensions between the business units. The regional director supported the unit from the acquired company and allowed the unit managing director to report to him directly, making control of the unit from the acquired company more difficult and creating tensions between the unit managing directors.

Nationalism has also created favouritism. In his study of the merger of Dutch and German aircraft companies, Olie (1994) states that when a single marketing department was established in Amsterdam, staffed mainly with Dutch people, the marketing department staff regarded every minute that they spent marketing German aircraft as being at the expense of their own aircraft, and this hampered the sales of German aeroplanes.

Culture affects operational integration in two ways: governance style and operative culture both have effects on *administrative control*. **Governance style** affects operational integration when organisations face difficulties in adjusting to the new governance style. Mismatches between the governance style of the agent for change and the acquired organisation have resulted in serious problems and unsuccessful projects for change. Additionally, continuously difficult governance style changes have damaged employee morale, causing problems in the accommodation of new styles (Jones 1986). In this case, the governance style did not have a serious impact on operational integration. In the regional organisation, the new style of the managing director and his lack of direction in such things as centralisation issues, caused frustration but did not significantly affect integration. In the integration between the two business units, some problems were a result of the style of the unit from the acquirer company had in approaching the unit from the acquired company, but as the units still had their own management teams and managing directors, the governance style did not considerably affect this integration. The other critical factors had much more importance in these two integrations than the governance style used.

Operative culture has a considerable impact on operational integration when production is relocated. In this case, problems were faced when business was relocated to a considerably different operative culture. Problems were faced when the receiving units were not necessarily used to taking care of machines as intensively as was required, the existing planning culture was not suitable for the relocated business, there were difficulties in adjusting to the new planning culture, and there was insufficient flexibility in working methods, which would have been required for new production to succeed. Difficulties were also faced when the current systems and culture were in conflict with the new thinking required.

To sum up, based on the above discussion we argue that the factors affecting M&A performance in operational integration are accountability, resources, structures, politics and culture. These critical factors were found to

be strongly connected to trust and control, which leads us to conclude that trust and control are explanatory factors in the outcome of operational integration. Finally, we conclude that the outcome of operational integration depends on the effective use of control systems in governing the merged organisation during the integration, organising business and organisational structures to support synergy realisation and business performance, co-ordination of re-organisation processes, and tackling challenges related to favouritism, tensions and cultural differences.

5 TRUST, CONTROL AND THEIR RELATIONSHIP: ESTABLISHING AND REFINING THEORIES

5.1 The interplay between trust and control in an organisational context

5.1.1 Introduction

This section first develops our knowledge of the relationship and interplay between trust and control in an organisational context. In the conceptual part of this study, an integrative view of the relationship was built, acknowledging that the relationship has complementary, supplementary and intertwined dimensions. Many questions were, however, raised concerning the relationship in its context since many previous studies have been conceptual and the empirical studies have given limited attention to contextual factors affecting the relationship. Questions regarding, for example, how organisational factors such as culture and politics affect the interplay between trust and control, and especially the robustness and fragility of the intertwined trust and control relationship were raised in the end of the integrative trust and control section in Chapter 2.3.

Using the empirically-driven research approach, focus was targeted on analysing factors impacting on the relationship in order to build the integrative view of the relationship in its context. This empirical study offered a considerable amount of different dimensions to the relationship, and built knowledge of contextual effects on the relationship that have been lacking in previous research. The empirical study revealed that the contextual factors, accountability, structures, resources, politics and culture have a central impact on the relationship. These contextual factors explain the interplay between trust and control. Based on these contextual factors, the following categorisation of the relationship between trust and control is established, which also answers the above-mentioned questions. The following discussion is divided according to different control forms, which have been observed to have different relationships with trust. The joint effects of control forms and their relationship with trust are also discussed in the following section.

Secondly, this section establishes a classification for the development of trust in the relationship between trust and control. Our previous knowledge about the development of trust in the relationship is based on ambiguous views of the development of trust, and the fragmented views of the relationship between trust and control. When we consider the development of trust in the relationship from the perspectives of conceptual-based frameworks, we can only assume two alternatives: control is either strongly used until trust is gradually developed (Tomkins 2001), or trust is initially so strong that control is not used (McKnight *et al.* 1998). After analysing previous studies regarding the relationship between trust and control and conducting the empirical study, however, the development of trust in the relationship was observed to be a considerably more multidimensional phenomenon. This section demonstrates that trust develops in six different ways in the relationship between trust and control.

5.1.2 Administrative control and trust

The relationship between administrative control and trust was observed to be very complex in the conceptual part, when the integrative analysis of previous studies was made. Existence of administrative control was found to have both negative and positive effects on trust. For example, the existence of consistent administrative procedures has been found to have a positive impact on the trust relationship between parties, whereas lack of consistent procedures has a negative impact (Pearce *et al.* 2000). On the other hand, it has been argued that administrative control creates bureaucracy, limiting innovativeness and community (Bromiley & Cummings 1995). Administrative control types of structures, however, are seen as necessary for a healthy society in which stability and equity require a combination of community and hierarchy (Walzer 1999). What makes the relationship even more complex, the effects of trust on control have been found to vary. For example, trust makes it possible to start co-operation in risky situations despite the absence of governmental mechanisms (Dekker 2004), and existing trust between parties can even be strengthened by establishing strict control mechanisms (Langfield-Smith & Smith 2003). Previous studies have brought to light many different dimensions of the relationship; they have, however, left unclear the factors impacting on the relationship.

In order to better understand the relationship between administrative control and trust, we need to understand factors impacting on the relationship. In this section, we categorise contextual factors, based on the factors, which, in the empirical and conceptual part of the study, have been found to have an impact

on the relationship. Accountability, structures, politics, culture and resources were found to affect the relationship and the interplay between administrative control and trust. The impacts of these contextual factors are shown in Table 5.

Table 5 Contextual factors and the relationship between administrative control and trust

Accountability	Mechanisms facilitating accountability can simultaneously promote trust and control
Structures	Lack of proper structures in change processes can hamper the development of trust and decrease controllability Conflicting and inefficient structures result in sustaining continual distrust and hampering control Structures are important elements of administrative control in promoting trust
Politics	Politics can create lack of trust and hamper control Politics impacts on the stance of trust and control
Culture	Control culture confrontations can create lack of trust Culture impacts on the stance of trust and control
Resources	Resources impact on the robustness of systems trust Resources affect building and using control mechanisms to enhance trust

Accountability. Accountability mechanisms can simultaneously promote trust and control. A good example of accountability mechanisms simultaneously promoting trust and control comes from the formal transition management in the governance integration aspect. The transition structure represented a systems trust mechanism, which provided controllability for the complex process and both built confidence in the outcome of the integration and facilitated trust between the parties. Transaction structure mechanisms including task force work, conferences, presentations and continuous reporting created process and functional accountability, which forced the parties to direct attention from politics to integration work and made the whole process controllable. These accountability mechanisms also played an important role in building confidence in the outcome of the integration and in helping the parties to get to know each other.

Structures have an impact on the relationship in three ways: they can hamper establishing trust and controllability, they can result in sustaining lack of trust and controllability and they can be important elements in promoting trust.

Lack of proper structures in change processes can hamper the development of trust and create difficulties in control.

Structures are important elements in governing change processes in order to sustain controllability and a climate of trust among people. When these projects for change involve people from other organisations, it is also important to have structures, which offer possibilities to develop trust between people from different organisations. When these types of structures do not exist, the consequences can be damaging. The case study of Buono *et al.* (1985) offers an example of a change process where lack of structures resulted in lack of controllability and trust. In the merger of two banks, there was no formal structure to govern the integration process, which hampered controllability of the process, did not allow the parties to get to know each other, and made room for internal politics, speculation, frustration and the development of hostility towards the other party.

Conflicting and inefficient structures can result in continual distrust between parties and can hamper control.

Organisation and business process structures can result in continual distrust between parties and hamper controllability. The regional integration process (Chapter 4.6.1) offers examples of organisation and business structures creating distrust and lack of controllability.

In the regional organisation, the organisational structure resulted in a continual relationship of distrust. The regional organisation developed a shared service centre in order to centralise services and decrease costs at the sites. The matrix structure created problems in this centralisation development and also in governing back-office functions at the sites, as the site directors still continued managing the back-office function at their own sites. A problematic trust and control relationship occurred between one site controller and the SSC function. The controller employed to the site was later found to be unqualified and his performance created problems both for the site and the SSC function. The site director did not, however, want to dismiss him, although he was advised to do so. Therefore, the SSC function which was responsible for accounting and other back-office functions in the regional organisation was required to continue its relationship with this incompetent controller whose performance was not trusted. In order to be confident about the situation at the site, the SSC function was required to spend more time controlling the controller which did not, however, resolve the issue.

The sales and operations relationship in the regional organisation was problematic, as there was no formal structure in the process. This lack of structure meant that both parties were operating individually, with no formal links with each other. This lack of formality in the process meant a lack of visibility and controllability. The only formal link between the functions was at the regional management team level, but current problems were not being solved; on the contrary, the parties fought and blamed each other for problems over recent months. Tensions and problems in the process caused a lack of trust between the parties, resulting in decreasing communication between them and increasing arguments. The continued problem in the relationship meant that the parties started to carry out each others' responsibilities, as they did not trust that the other party would perform their own duties properly. Some sales people who were concerned about customer deliveries started to get more involved in the operations process, and the operations side started to be in more contact with customers, to find out their views about the products.

Structures are important elements of administrative control in promoting trust.

Structures are important elements in promoting trust as they encourage people to get to know each other and interact with each other. Networking dimension offers examples of the importance of administrative control structures in promoting trust. The task forces created in the formal integration process were important for facilitating the inter-personal familiarisation process. In the sales area, the structures brought people from different technologies together to discuss sharing customer information, joint projects and the possibilities of sister units helping each other to build contacts with one another's good customers. Without these structures, the parties would have had more difficulty in building contacts and trust — trust was required on the sales side, accountability of network sales was insufficient to get the units to share their customer contacts and start joint projects. Trust was developed gradually between the parties when they sat together and got to know each other and their methods of working. These meetings also brought up new opportunities to work together. The structures provided by administrative control were also important in other areas of networking. Without the group-built structures, the informal relationships required for sharing information and helping each other would not have been developed. These structures were also required to feed these relationships, since, without continuous effort from the group to facilitate contacts already existing, relationships deteriorate. Through these informal relationships, information about customers was shared, help was requested concerning machine breakdowns and cross-selling opportunities were discussed.

Structures are important in overcoming barriers to the development of trust. In a networking dimension, the need was seen for administrative control structures in order to facilitate help and sharing between the competing units. In this competitive situation, the units were unwilling to share their secrets and hints and use resources to help their competing sister units. The group structures forced the units to help each other and to provide assistance to the other when help was requested from either side. Not all secrets and hints were revealed, however, in such cases as providing help with starting new machines and repairing broken ones. Over time, interaction between the units in these situations and getting acquainted with sister units through the group structures developed relationships to a level of trust necessary for sister units to be able to ask for and receive help without direct contacts from the group level. Nevertheless, domination from group level was the main driving forces behind this process.

Structures can also facilitate trust between organisations and individuals in the form of individuals appointed to specific tasks. Adler & Ferdows (1992) discuss the role of knowledge officers, stating that their task involves establishing trust and sharing between organisations. The role of these knowledge officers is also based on trust, as they have no authority over business managers.

Politics also considerably affects the relationship between administrative control and trust in two ways: it can create lack of trust hampering control, or it can impact on the stance of trust and control, concerning how the other party is approached.

Politics can create lack of trust and hamper control.

Politics, in such forms as lack of acceptance of authority, resistance to change and favouritism, easily hampers the execution of control and the development of trust between the parties. This study provides examples of politics hampering the development of trust and control at the business unit level. In the integration process between two business units (Chapter 4.6.2), politics appearing in many different forms resulted in serious trust and control problems. Problems were created between the units when the unit from the acquired company had difficulties in accepting the acquisition and its subsequent decreased role. The logic of seeking synergies in back-office, purchasing and sales areas was understood, but when the time for implementation came, the unit from the acquired company was unwilling to implement them. The back-office consolidation meant the loss of the unit's own accounting function and sales force integration meant the loss of some sales positions. Integration difficulties did not help the relationship between the parties. When a business unit with dozens of different machines was relocated to the unit from the acquired company, its business operations were

made much more complex. The unit from the acquired company was not familiar with these new production and business processes. The acquirer was familiar with these business processes, but advice from the acquirer was not easily accepted, as tension was already high between the units. A group-level mediator was even sometimes required to facilitate the passing of advice from the unit from the acquirer company to the acquired. Back-office consolidation conducted at the same time as the relocation increased confusion in the new and existing business processes, as some data was lost in the transfer from one to another system. The unit from the acquired company blamed the unit from the acquirer from these information systems integration problems. Tensions rose to such an extent that rumours began circulating in the unit from the acquired company that the unit from the acquirer wanted to “kill” it, which did not make governing and assisting the unit from the acquired company easy for the unit from the acquirer company.

Favouritism complicates trust and control relationships. In this business unit integration, favouritism further complicated the relationship between the units from the acquirer and the acquired company. A regional director was appointed who became the boss for both the units from acquirer and acquired company. The regional director supported the unit from the acquired company, because he had worked there and was a friend to many management team members. The regional director let the managing director from unit of the acquired company report directly to him, making the situation difficult for the director from the unit of the acquirer company.

Politics impacts on the stance of trust and control.

The expected and existing political atmosphere can result in the selection of a more trusting rather than a controlling approach, in order to decrease the level of politics and avoid increasing tension. This approach was seen in the governance integration process. The tensions occurring during the acquisition process and expected in the integration because of the considerable size of the acquired, resulted in choosing a ‘merger of equals’ approach. The ‘merger of equals’ approach meant the appointment of an equal number of directors to the management board from each side. Because of its larger size, the acquired side provided more managers at group vice-presidential level, and, within both companies, the acquisition was communicated as a merger. A director from the acquired side was also appointed to lead the integration process, with managers taken equally from both sides to the task forces, and external consultants were used as facilitators to signal impartiality and transparency. This ‘merger of equals’ approach was important, since the acquisition had not been welcomed by the acquired company, but this approach committed its members to the integration process and helped to develop quite decent relationships between the merging companies, although the acquired managers

were, at many organisational levels, uncertain and frustrated about the acquisition. The ‘merger of equals’ approach, however, showed respect and built a foundation for establishing trust, thus also helping to control the integration process.

Culture has a considerable impact on trust and control relationships. Culture impacts on the relationships at two levels: it can create a lack of trust and it can impact on the stance of trust and control.

Control culture confrontations can create a lack of trust.

Difficulties in adjusting to a control style resulted in trust and control problems in the governance integration process. The directors who joined the executive committee from the acquired company side were board members of the acquired company. In the corporate governance of the acquired company, the management consisted of two legal bodies: the board and supervisory board, whereas, in the merged company, these board members ended up on the management board which had no legal standing. These directors from the acquired company had been used to communally discussing and deciding upon issues, which were now decided by the CEO or presented by the CEO to the board of the merged company. Additionally, the role and style of the CEO was much stronger in the acquirer company than they were used to in the acquired company. These cultural control style contradictions resulted in tensions, frustrations, a lack of unity and were an impediment to control. The lack of unity at management board level also spread to the lower levels of the organisation, causing speculation, lack of unity and confusion.

A change of control culture can also result in a lack of trust. Johansson & Baldvinsdottir (2003) studied an expert organisation, whose members perceived it as a family, and which had long relied on social control mechanisms. Control change towards more formal mechanisms using more administrative mechanisms and result control measures, led to a lack of trust, frustration and confusion, eventually resulting in some voluntary departures.

Culture impacts on the stance of control and trust.

Company culture affects the stance of control and trust. The procedural integration process showed how company culture, cultural confrontations and stereotyping affected the stance of trust and control. The acquirer company possessed a culture of approaching acquired companies with an attitude of trust. They had a culture of trust: when they acquired companies, they always relied on local forces and did not place their controllers at acquired units. They explained this culture as their national background, saying that a company from a small country cannot act with a chauvinist attitude, and good co-operation cannot be fostered, if a controller is constantly being sent to govern business unit managing directors. This same attitude was also used in this acquisition; in fact, it was felt necessary due to cultural confrontations. The

acquirer company members felt that approaching the acquired company with an attitude of control would have caused a considerable amount of tension. Personnel at the acquired headquarters and some parts of the units located in Europe were strongly attached to the national and company culture of the acquired. For many such people, it was difficult to accept that a small company from a small country was acquiring them, as they were twice the size of their conqueror. These feelings were openly shown at the headquarters of the acquired. Therefore, the trusting attitude that the acquirer was used to showing was felt to be necessary in order to facilitate co-operation and avoid creating more tension between the merging companies, especially when the acquired was twice its size. Stereotyping also affects the stance of control and trust. The members at the accounting department at the acquirer stereotyped the national culture of the acquired company as trustworthy based on previous experiences. This stereotyping made them confident about the acquired company accountants' performance and attitude, and this affected the stance of trust and control.

Resources have a considerable impact on the relationship between administrative control and trust. Resources impact at two levels: the magnitude of resources affects systems trust robustness, and the possibilities of building and using control mechanisms to enhance trust.

Resources impact on the robustness of systems trust.

The magnitude of resources affects how robust or vulnerable systems trust mechanisms are. This was seen in the procedural integration process. The integration process, with all its tasks such as benchmarking, harmonisation and manual writing, limited resources available for analysis and control. This meant that the robustness of systems trust decreased — the trustworthiness of the units were dependent on how consistent and systematic their reports were, when time for analysis and control was really limited. The limited resources prevented increasing the level of control. The impacts of limited resources also affected lower levels of the control chain. The task of familiarisation with acquired units was given to “trusted persons” who acted as business group controllers. As, however, there were controllers of the biggest business units, they had limited time to familiarise themselves with other business units. They also mainly acted based on systems trust — how consistent and systematic a picture was painted by the units.

Resources affect building and using control mechanisms to enhance trust.

The magnitude of resources affects possibilities to build and use administrative control to facilitate the creation of trust. The importance of the availability of resources in building and enhancing trust was seen in networking. Resources were tied to integration activities during the integration

process, limiting resources available for building structures to facilitate the creation of trust. Operations area networking suffered during the integration and, after some time of completing integration activities, roles were established for group operations vice-presidents, giving them the responsibility of facilitating the sharing and benchmarking between sites. They thus played a central role in facilitating trust between individuals.

5.1.3 Result control and trust

The relationship between result control and trust is also very complex. Existence of result control can both limit and promote trust. Result measures can create a competitive environment as, for example, in this case, limiting the existence of trust and hampering sharing (see also Eccles 1992; Adler 2001). Result measures can, however, be required for the establishment of trust since, as in this case, it was found that a lack of incentives in networking limited both the development of trusting relationships and network sales. Result measures can also promote trust when incentives to share are given (Bromiley & Cummings 1995; Collins & Porras 1994; Salter 1973; Gupta & Govindrajana 1986). Besides creating trust to promote sharing and co-operation, result control can also be important in facilitating trust by establishing stability and security for employees (Mason *et al.* 1999; Bloomfield & Coombs 1992). The functionality of result control has a considerable impact on the level of trust in transactions. In this case, there was no trust in cross-selling when transfer pricing was not controlled and everybody was known to cheat as much as possible.

As in the administrative control section, previous studies relating to result control and its relationship with trust have also left unclear the factors impacting on the relationship. In order to better understand the relationship between result control and trust, we need to understand factors affecting the relationship. In this section, we categorise contextual factors, based on the factors found, in the empirical and conceptual part of the study, to have an effect on the relationship. Accountability, structures, politics, and resources were found to impact on the relationship and on the interplay between result

control and trust.²⁰ The impacts of these contextual factors are shown in Table 6.

Table 6 Contextual factors and the relationship between result control and trust

Accountability	Accountability mechanisms creating competition decrease the willingness to share
Structures	Structural changes hamper result control and create vulnerability to systems trust mechanisms
Politics	Implemented result control systems can lower politics and increase trust
Resources	Resources invested can promote trust and build confidence in control Lack of resources decreases the level of control and makes it more trust-based

Accountability. Accountability mechanisms creating competition decrease the willingness to share. In this case, the impact of these performance pressures and limited willingness for sharing were recognised in networking. The units manufacturing using the same technology were aware of pressures for consolidation, which made them compete with each other for their very livelihood. These pressures made these units lean, as they had no extra resources. Consequently, the units did not have much motivation to help their sister units, revealing their secrets and hints and lend their limited resources.

Structures. Structural changes can hamper result control and create vulnerability to systems trust mechanisms. Due to structural changes, the vulnerability of systems trust mechanisms, performance measurement system, was captured in the governance integration process. The integration process caused several structural changes such as the closing and relocating factories, the integration of sales organisations and supplier changes. These structural changes lowered comparability with previous years, meaning that, at group level, it was not recognised in every situation whether a business unit's performance was good or bad. The integration process was also accepted as a reason for explaining possible deviations in performance, which gave leeway to the business unit managers. Furthermore, new business units and new

²⁰ Culture is not on the list of factors affecting the relationship between result control and trust. This does not mean, however, that culture does not impact on the relationship. The example given in the previous section concerning culture affecting the stance of trust and control is related both to administrative and result control. As it was seen as being more related to administrative than result control, it was decided to present it in the previous section.

managers, who had joined the acquirer company, hampered result control, as the units and the track record of the new managers were not well known. Performance evaluation was more trust-based than in normal situations: managers' presentations and appearance meant more than they had done when comparability with previous years comprehensively existed.

Politics. Result control can reduce politic manoeuvring and increase trust. Implementing result control measures in an inefficient and politic organisation have helped to solve internal problems. Chenhall & Langfield-Smith (2003) found in their study that a new bonus system, solved internal problems in a company, which had been operating at break-even level. The company was suffering from low performance partly for the following internal reasons: low employee morale, poor co-operation between employees and management, and a lack of congruence between employee work expectations and the goals of the organisation. Introduction of a gain-sharing program, which was implemented together with employees and management, solved internal problems in the company and developed trust between employees and managers.

Resources have a considerable impact on result control and trust relationships. Resources impact on the relationship on two levels: invested resources can promote trust and confidence in control, and lack of resources decreases the level of control and makes it more trust-based.

Resources invested can promote trust and confidence in control.

Resources invested in familiarisation and training programmes can promote trust and increase confidence on the level of control. In the procedural integration process, resources were invested in such programmes when the new reporting application for the merged company was launched. This training round not only introduced the reporting application, but was also important in familiarising the group and unit controllers with each other. This training programme also helped people to get to know each other, facilitated communication between the units and the group, and also built confidence in the reporting skills of the business unit accountants and their willingness to work properly.

Lack of resources decrease the level of result control making it more trust-based.

Lack of resources decrease the level of result control and make it more trust-based. In this case, limited resources meant that group management was not necessarily up-to-date about situations in the business units, especially when structural changes made comparability with previous years' performance difficult. The reduced attention to business follow-up made explanations of deviations more easily accepted than previously. Appearance, explanations

and presentations had more importance during these times in building and sustaining trustworthiness, than they had had in normal situations.

5.1.4 Social control and joint impacts of control forms and their relationship with trust

Knowledge of the relationship between social control and trust is surprisingly limited. This limited knowledge is highlighted by the fact that social control and trust have, on many occasions, been regarded as the same as trust (see, e.g., Dekker 2004). Trust and social control are, however, quite different concepts, as discussed in Chapter 2.3., although it is argued that trust exists more in social control than in other control forms (see, e.g., Merchant 1985).

Trust-based control has not been regarded as an efficient governance mechanism. It has been argued that using only the same values and familiarity as governance mechanisms can lead to inefficiency, exclusion and exposure to vulnerability. Either result or administrative controls are required to support trust-based mechanisms (Adler 2001; Kim 1997; Uzzi 1997). Social control mechanisms are, however, efficient mechanisms to supplement other control and systems trust mechanisms. In this case, formal presentations were an important part of disseminating information and creating public accountability, thereby creating more confidence in the systems trust mechanism and the integration process. Social control mechanisms also support the use of formal control mechanisms and establish trust, giving possibilities for participation, open discussion and sharing values and information (Grønhaug & Ims 1991).

In this study, social control (social pressure, cultural control etc.) did not play as significant a role in the outcome of corporate integration as administrative and result control, and we found only one contextual factor, which affects the use and efficiency of social control. In this case, **culture** had a considerable impact on the relationship between trust and social control. Whereas social control has been regarded as important in acculturation in M&As (Larsson & Lubatkin 2001), this study showed that cultural confrontations reduced trust and the possibilities to use social control in acculturation. The main cultural contradictions were faced at the executive committee where the acquired company members experienced difficulties in adjusting to their new roles and the style of governance. Tensions were also faced when the acquired company, at different organisational levels, had difficulties in accepting that a small company from a small country had acquired a company twice its size and from a much more international country. These factors lowered the level of trust between the parties, and

hampered the use of social control mechanisms and the execution of the formal cultural integration campaign. Social events were more or less administrative arrangements, familiarising people with each other in order to facilitate co-operation and to support integration outcomes.

Joint impacts of administrative and result control in the relationship with trust.

Previous studies have not highlighted the joint impact of administrative and result control systems and their relationship with trust. In this case, there was evidence of two types of joint impact of administrative and result control in developing trusting relationships: first, structures provided by administrative control support the development of trusting relationships, with which result control measures interfere, and, second, the existence of result control measures provide joint pressures with administrative control structures for developing trust.

Administrative control can support the development of trusting relationships, with which result control measures interfere.

In networking situations were recognised, in which administrative control was required to create trusting relationships that result control hampered. Result controls led the business units into a competing situation, which hampered the development of trusting relationships. All business units manufacturing the same kind of products were competing with each other, and were under the threat of losing their machines. This discouraged the units from willingly sharing any secrets and advice. Administrative control was required to facilitate contacts between the units and to develop necessary trust between individuals. Using administrative control, specific technology teams and administrative positions were established to help the development of contacts between the units. Although the main administrative control form in helping the sister units was domination from group level, these different teams and meetings facilitated relationships to an extent that coercion at group level was not always necessary, and the sisters could often directly ask help from each other. Without these administrative control arrangements, help would not necessarily have been given.

Result control measures can provide joint support with administrative control structures for developing trust.

Result and administrative control supported each other in developing trusting relationships in networking area. Administrative control was used to create the specific task forces to seek sales area synergies between different technologies. These task forces developed contacts between sales people from different sites and built a basis for co-operation. Result control also encouraged the development of relationships in the form of the accountability of additional sales targets. Nevertheless, these sales targets alone would not

have been enough to start co-operation; there was also a need to develop some level of trust between the parties. The contacts developed in regular meetings between the parties arranged by administrative control gradually developed trust between the parties. Trust was required since introducing a sister unit to a good customer involved major risks. Although additional sales pressures facilitated contacts and regular meetings were kept, in this case, there should have been stronger support from the result control side to promote network sales and to build trusting contacts. The sales forces, which should have played a major role in introducing their sister units to their good customers and developing joint projects, were not given incentives to carry out these network activities, which limited their interest in networking. Regular meetings were, however, advantageous when the relationships between the parties developed and joint business projects were carried out, although some opportunities were lost due to lack of incentives.

5.1.5 The development of trust and the relationship between trust and control

This study shows that the development of trust and its relationship with control have many different dimensions. In the conceptual part of the study, we discussed the development of trust and demonstrated two supplementary views. Tomkins' (2001) model based on conceptual analysis describes well the gradual linear approach, which shows that control is used more at the early stages of the relationship and when the relationship matures, the need for control decreases. McKnight *et al.* (1998) described hypotheses of different situations when initial trust can be high. That discussion can be related to the trust and control relationship: when initial trust is high, control is not used to acquire information, as actions are made based on initial trust. Both these views of the development of trust are, however, conceptual, and not studied in empirical context. Therefore, our knowledge of the development of trust, especially in context, is ambiguous and limited. This study offered possibilities to look at the development of trust in context and its relationship with control, and we found the development of trust in its relationship with control to be much more complex and multidimensional than these conceptual studies have suggested.

This study found six different relationships between control and the development of trust:

- gradual development of trust
- existence of trust to strengthen control
- trust and control intertwined and developing each other
- tensions between control mechanisms in developing trust
- initial development of trust
- a forced imbalanced trust and control relationship

Although this study focused on the development of trust in the relationship between trust and control, we can conclude, based on these findings, that the development of trust is not only gradual and linear or initial. We can be forced to be in an imbalanced trust relationship and a trust development situation can be tense. Next we discuss these different relationships between control and the development of trust.

In the *gradual development of trust* category, control is used to support the gradual development of the relationship. The use of control does not necessarily stop when the relationship has been developed, and it can even be required in order to feed the relationship. In this case, an example of this type of relationship is networking. In networking, administrative structures were created to support the development of relationships between the parties and also to search for synergies. These structures brought people together to discuss and share information such as sales contacts and synergies. It was, however, required to develop trust before the relationships between the units became deeper. Information given to another party was controlled until decent trust in the other party had been developed. In some areas of networking, the feeding of the relationship was important. Although structures brought people together, without regular contacts the relationship deteriorated. Therefore, administrative structures were used to feed relationships, bringing people regularly together to meet each other in order to provide possibilities for establishing and sustaining informal relationships.

In *the existence of trust to strengthen control* category, existing trust between parties provides possibilities to strengthen control mechanisms in the relationship. In this category, trust comes before control, and control is established in order to strengthen trust and relationships at later stages. Examples of this category come from previous studies. In Dekker's (2004) study, strong trust had been developed between transaction partners, allowing the other to reveal its cost structure without any governmental mechanisms to ensure that it was safe to do so. Highly structured governance mechanisms were developed later on in the relationship in order to help the achievement of goals in that relationship, and to help sustain trust at later stages of the relationship. In the Langfield-Smith & Smith (2003) study, the developed trust

between parties was important for the fluency of the relationship. Governance mechanisms were almost absent at the beginning of the relationship, because of difficulties in task programmability and output measurability. Existing trust helped to develop governance mechanisms and strengthened trust between the parties.

In *the trust and control intertwined developing each other* category, trust and control are intertwined as a form of systems trust. When trust and control are intertwined in the form of systems trust, they can simultaneously develop each other. We have an example of this category from governance integration where the transition structure mechanisms acted as systems trust mechanisms. The transition structure was widely accepted and supported by both parties and involved several different control mechanisms. These control mechanisms, besides providing controllability for the integration process, involved trust-building mechanisms such as supporting interaction between parties, and the facilitation of transparency and impartiality. The whole transition structure, besides supporting governance and establishing relationships between the parties, also built trust in the success of the whole integration process.

In *the tensions between control mechanisms in developing trust* category, control mechanisms promote contradictory behaviour in trust relationships: typically result control promotes competition instead of mutual support, whereas administrative control is used to facilitate sharing between competing actors. We have an example of this category in networking. Result control measures and pressures led the units operating in the same production area to compete fiercely with each other. It was evidently clear that some units would be closed and several machinery relocations would be conducted. This fierce competition made the units unwilling to share information and help each other. In order to facilitate sharing and legitimise help, the group was required to use structures and domination. These structures facilitated the relationships between the units, so that, in urgent situations, it was possible to contact the sister units directly to ask for help. In some situations, the group was required to use power to make the business units to help their sisters with problems. These situations of help sometimes facilitated the creation of relationships, which resulted in informal networking and some level of trust.

In *the initial development of trust* category, trust is developed without the extensive support of control mechanisms. This study found that cultural matters affected the forming of initial trust. The acquirer had a culture of acting based on trust. They acted by always respecting local forces in acquisitions until something unusual occurred, and their culture was not dictated by placing their own controllers at the acquired units. This company culture led them to act based on trust in this acquisition too. Stereotyping also

supported the formation of initial trust in this acquisition. This finding thus supports the hypothesis regarding stereotyping resulting in initial trust stated by McKnight *et al.* (1998). The group accounting department had stereotyped the national culture of the acquired as reliable and trustworthy, having had previous positive experiences of people from that nation. This stereotyping made them confident in the performance and reliability of the acquired company accountants facilitating initial trust in this acquisition.

In *the forced imbalanced trust and control relationship* category, one is forced to be in a relationship in which there is neither robust trust nor control-based confidence in the other party. Four factors affect the forming of this type of forced relationship: structures, politics, cultural confrontations and resources. *Structures.* This study found that conflicting structures in the mini-case concerning regional organisation integration led to a forced imbalanced trust and control relationship between the SSC and a site controller. In the regional organisation the site directors were responsible for both manufacturing and administration of the site. During the integration, the SSC structure was established in order to centralise administration and remove administration costs from the individual sites. At the time, the SSC director was given the responsibility of managing administrative tasks both at the SSC and at the sites. In order to make any changes at the sites, however, he was required to get approval from the site directors. This problematic matrix structure resulted in a forced imbalanced trust and control relationship between the SSC and a site controller. Although the SSC found the site controller incompetent, they had to work with him, as the site director wanted to keep him, despite the wishes of the other organisation. The SSC was required to use extra effort to control the site controller, which still, however, did not resolve the imbalanced relationship.

Structures, in fact lack of structures, were influencing the forced imbalanced trust and control relationship in the sales and operations relationship in the mini-case concerning regional organisation. There was no formal link and process in the sales and operations relationship, which reduced controllability in that process. Both parties were operating on their own, having no formal link with each other's functions, which resulted in a considerable amount of operational problems and tensions: the sales function was not forecasting properly, and the operations function was not receiving forecasts and information about customers, and was not necessarily producing according to sales forecasts. These tensions also resulted in limited interaction between the parties, which hampered efforts made to develop the process. The only formal link between the parties was in the regional management team, in which the parties were blaming each other for their low performance in recent months. The only person who had a picture of the whole process was the

regional managing director, but he was not able to see problems in the business structure, which caused the parties continually to fight with each other. Eventually lack of mutual trust led the parties to begin carrying out each other's functions. The sales function started to get more involved with production, and the operations function started to have contact with customers.

Politics can also be a force in an imbalanced trust and control relationship. In this case, it was found that politics in the integration process forced the adoption of a trusting approach at group level, in order to avoid creating further tensions. At group level, this trusting attitude was shown in the 'merger of equals' approach and in the management selection approach towards appointments. Tensions in the acquisition process hampered the use of an outside evaluator to select managers to specific positions, but it was required using the management selection approach. As the acquired company was twice the size of the acquirer, more managers from the acquired side were appointed at group vice-president level. The backgrounds of the acquired company managers were not known, and thus it was necessary to rely on forced trust in the appointment of the acquired company managers.

Cultural confrontations can also force imbalanced trust and control relationships. In this case, cultural tensions were considerable on the acquired side, forcing the group accounting department to approach them with a trusting attitude. The acquired company experienced difficulties in being acquired by a company half its size from a small country, as it came from a much larger, more international country. The acquirer company accounting department felt that approaching the acquired with a control attitude would have increased already existing tensions.

Resources can also force an imbalanced trust and control relationship. In this case, limited resources existed in the procedural integration, both for analysis and familiarisation with the business units. These limited resources meant that actions were taken based on vulnerable systems trust — how consistent and systematic reports received from the units were — no deeper analysis was possible. It was acknowledged that more control would have been preferable, but limited resources allowed only quick solutions for problems that arose. Business group controllers with responsibility for familiarisation, also had limited resources, when, at the time, they were controllers of the largest business units and, in many cases, were also acting based on vulnerable forced systems trust regarding business units other than their own. In the governance dimension, limited resources also resulted in acting based on forced trust, especially when comparability became difficult due to many structural changes. The appearance and presentation of managers became more significant in sustaining and establishing trustworthiness, and deviations became more easily accepted than in normal situations.

5.2 Refining the frameworks of control and the theories of trust

5.2.1 Introduction

In previous literature, control has widely been divided into result/outcome control, action/behavioural control and personnel/clan/social control — frameworks, which have ignored important elements of organisational control. The basis of this previous categorisation in control frameworks is that organisations can either monitor and measure behaviour or outcomes of behaviour — sometimes organisations can do both at the same time. When neither of these two control forms is possible, or they need to be stronger, then personnel/clan/social control is used. Although the main idea of this categorisation is functional, these frameworks have not given attention to organisational context, different control situations at different organisational levels, and to other purposes of the action form of control, other than close monitoring. This section refines previous control forms, and discusses how context impacts on these three control forms, how different organisational levels have different forms of controls, and what other functions the action control form possesses, other than just restricting individual behaviour.

This section also refines existing theories of trust and develops a new concept of trust — a climate of trust. Previous trust research has mainly been acontextual, and contextual research on trust has been called for in order to raise our knowledge of how trust truly functions (Rousseau *et al.* 1998). This research provided several opportunities to study trust in a contextual environment. This section discusses the contextual impact on systems trust, value- and norm-based trust and personal trust. Finally, this section develops the climate of trust concept and discusses the contextual impact on a climate of trust, and how a climate of trust impacts on organisational action.

5.2.2 From action control to administrative control

In previous control frameworks action/behavioural control have been regarded as a control form, which is used when the behaviour of an individual can be monitored. In these previous frameworks, this control form has included close monitoring, rules, preaction reviews, restrictions and action accountability (Ouchi 1979; Merchant 1985). This classification gives a limited view of this control form in organisations, as it only concentrates on close individual monitoring, neglecting upper levels of organisational control such as corporate governance and business structures. These previous frameworks have also neglected unrestricting forms of this control — “positive” control forms —

organisational control arrangements, which facilitate interaction between individuals and are used, for example, to overcome competitive situations between business units. Besides these wider forms of this type of control, previous action/behavioural control frameworks have also neglected contextual factors. Culture, politics and resources have clear impacts on the use and effects of control. This section refines the previous action control framework, the action control form is revised to the administrative control form to include upper organisational level control forms and facilitative control forms. This section also discusses contextual factors, which impact on this type of control.

Governance is a central part of administrative control. It involves organisational structure, corporate governance and project structures. **Organisational structure** is a key element of administrative control. Organisational structure defines accountabilities, the allocation of power and reporting relationships. Organisational structure also determines the main interaction channels between individuals and the area where they act. As the organisational structure is an efficient control form, problems in the structure are also a strong indication of the behaviour of individuals and the whole organisational context. **Corporate governance** is another central element of administrative control. National legislation strongly affects corporate governance. Corporate governance determines the structure of the management of a company and the responsibilities and power of the upper level of management functions. Corporate governance determines the role and responsibilities of the CEO, management board, board and supervisory board. Corporate governance not only defines roles and responsibilities, but also strongly affects the style in which a company is managed, such as how collective the management board is, how strong an influence the CEO has in the company, and what the power relationship is between the CEO and chairman of the board. **Project structures** are other central administrative control elements in the governance of a company. When corporate governance and organisational structure define daily responsibilities and functions, project structures are used to create additional accountabilities for individuals and also to intervene in daily functions and routines. Project structures are used to create functional and process accountability, meaning that certain tasks must be conducted within certain time periods. In order to create such accountability, specific administrative structures are usually formed to control these accountabilities. These administrative functions can involve a steering committee to govern projects and task forces with specific project responsibilities. Besides a normal project reporting task force, accountabilities can be strengthened by making task forces present their achievements in

public. Project accountability can also be strengthened linking performance evaluation to project targets.

Business structures are a central part of administrative control. Business structures are important in directing individual behaviour and governing organisational action. Business structures are required to be efficient and functional in order to support organisational performance and to avoid conflicts, misguided behaviour such as sub-optimisation and the encouragement of behaviour which does not support organisational strategy. In this case, several cases were noticed where business structures hampered organisational efficiency. In the regional organisation, for example, the lack of existing business structures in the sales and operations relationship created inefficiency and conflicts, and resulted in the parties conducting each other's duties.

Facilitative functions and structures are an important part of administrative control. This can be regarded as 'positive' control, which previous action/ behavioural control literature has neglected. Besides limiting individuals' behaviour, giving them responsibilities and accountabilities and governing their action with structures, administrative control has the important function of facilitating the sharing of information, and supporting the establishment of co-operation and informal relationships. Administrative control plays an important role in creating structures which familiarise people with each other. For example, networking requires that individuals get to know each other. Without knowing each other, people from different organisational functions and business units would rarely communicate, ask help and start joint projects. Structures are not only required for familiarisation, they are also important to continually feed existing relationships in order to sustain established informal relationships.

Facilitative functions and structures are required to overcome competition between units. Many companies' business units are competing with each other, which hampers co-operation and sharing within the group. Therefore, administrative structures are required to facilitate information sharing and benchmarking. Administrative structures can be used to bring people from competing units to discuss matters and co-operate in development projects. These projects can result in sharing information, familiarisation with each other, benchmarking and giving help in urgent situations. Administrative structures are efficient in coercing sister units to help their competing units and in encouraging units having problems to visit their competing units and ask for help. Forms of administrative structures include positions such as operations officers and knowledge managers, whose task is to facilitate the exchange of information between units, and to benchmark them against each other. If these positions are appointed from central organs, these managers are

in dominating positions compared to business units, and this is necessary to benchmark them and to facilitate sharing.

Political factors significantly impact on the use and efficiency of administrative control. Politics, among other contextual factors, has been neglected in previous action/ behavioural control frameworks. Tensions in organisations have a significant impact on the use and efficiency of administrative control at various organisational levels. In the mini-case of the integration process between two business units, tensions hampered familiarisation with the unit from the acquired company, co-operation between the units and eventually the development of and the provision of help to the unit from the acquired company. Administrative control also suffers from disagreements and lack of unity, which, in this case, increased the decision-making time in the executive committee, and created speculation concerning the direction of the company at lower levels of the organisation.

Favouritism also hampers the efficiency of administrative control. Favouritism can appear in appointments, resulting in the bypassing of command-and-control lines, and showing bias towards one's own people and business, instead of demonstrating equality. In appointment situations, favouritism signals inequality and can result in damaging effects, such as in the regional organisation where the sales manager selection caused the loss of a considerable amount of business. In this case, bypassing lines of command-and-control, resulted in tensions, frustrations and hampered the management of the unit from the acquired company in business unit integration. In this process, favouritism and sub-optimisation in manufacturing also created problems.

Organisational changes are situations where political manoeuvrings tend to appear. Managers are not necessarily happy with their new roles and can show their frustration by resisting changes, and this tends to result in increasing organisational tension. Organisational changes also increase rumours and speculation, which also tends to increase tensions. Organisational changes can also increase protectionism when people try to make themselves important for the organisation. In the mini-case of the integration process between two business units, sales organisation changes made some sales people conceal information and bend the truth in order to keep their position in the new organisation, and this hampered the establishment of the new sales organisation.

Cultural factors also significantly impact on administrative control. These cultural elements can be divided into cultural differences and cultural approach to control. *Cultural differences* can result in hampering administrative control in mergers, acquisitions or merely when new employees join a company. Administrative control varies in companies, depending, for

example, on how collective management is, how much individuals have power in certain positions, and how fast decision-making is. Individuals being used to a different type of management can have difficulties in adjusting to the new style of management. Managers can also bring their own type of management with them to a company and, when the company has difficulties in adjusting to the new style, the efficiency of administrative control suffers.

Cultural differences can also hamper administrative control when business units have different operating cultures; for example, units can have different degrees of readiness for networking. In this case, it was found that operating culture influences how much units are willing to work in networking: that is to say, sharing information, cross-selling and allowing other people to visit their factory. Cultural differences must be acknowledged in administrative control when deciding on such things as relocations and investing in new business in business units. In this case, it was found that unit culture and previous business culture affects the readiness of units to adjust to relocated business and working with new machines. One site in the regional organisation had problems, as they were used to operating with machines that required no maintenance and flexibility and they then received machines requiring a high level of maintenance and flexibility. In the business unit integration process problems were created with the relocated business, which required flexibility, sophisticated planning systems and manufacturing according to sales forecasts. Since they were used to operating based only on orders, without high-level planning and not to keeping any stock, they ended up in chaos over the new business.

Culture also impacts on *approach in administrative control*. In this case, it was found that a company culture affects how administrative control is used at group level in the relationship between the group and business units. The acquirer company was used to approaching the acquired units from a trusting stance until something unusual occurred, and not placing its own controllers at the acquired units. Culture also impacts on administrative control in the form of stereotyping. In this case, it was found that the acquirer company had stereotyped the acquired company accountants as being reliable and trustworthy, based on previous experiences with that national culture. This stereotyping supported their trusting approach towards the acquired company.

Resource factors have several central contextual impacts on administrative control. Naturally existing resources affect the establishment and use of administrative control. Acquisitions and new recruitments can significantly improve the level of administrative control. In this case, it was found that the acquisition brought knowledge to the acquirer company about the development of the accounting function. It was also found that the fact that the planners did not transfer with the machines adversely affected administrative

control in the receiving units, which had no knowledge of planning systems and new business operations.

Administrative control plays a central role in allocation and taking care of resources. These resources include training, people, systems, knowledge and machines. Without sufficient resources, business operations do not run and administrative control itself is limited. In this case, it was found that badly organised administrative control resulted in chaos during several relocations, when insufficient resources were organised for the receiving units. Major problems occurred in handling the machines and adjusting to new systems and a new business operating model.

Resources also limit the establishment and use of administrative control. In many situations, administrative control means structures that require time and people to establish them. In this case, it was found that limited resources prolonged the establishment of networking when resources were focused on integration activities. Resources also limit the use of administrative control. In this case, resources were limited at group level, hampering familiarisation with the acquired units, and that task was mainly delegated to the business group controllers. At, at the time, they were also controllers of the biggest business units, they had limited time to familiarise themselves with the acquired units. Thus limited resources hampered the efficiency of administrative control in the whole control chain.

5.2.3 Refining result and social control frameworks

Previous result/output control frameworks have focused on the measurement, rewarding and selection of appropriate measures, and have ignored the importance of contextual factors, which have a considerable impact on the use and efficiency of result control. Organisational changes, resource factors and political factors have several effects on the use and efficiency of result control.

On several levels, **organisational changes** impact on the use and efficiency of result control. These factors can be categorised into periods of uncertainty, lack of comparability, changes in accountabilities, conflicts between measures and structures, and the use of guiding benefits. Organisational changes can result in *periods of uncertainty* in the organisation when sustaining accountability of people is difficult. Periods of uncertainty can shift focus directly from accountability areas to rumours and sitting around waiting for news. When routine tasks are run during the periods of uncertainty, extra effort put into activities can easily be lowered, especially when the performance is difficult to measure. In this case, it was found that sales persons were waiting for news of the future of the regional organisation during

the uncertain integration period, rather than concentrating on selling, and as their efficiency was difficult to measure in the short term, it was difficult to sustain their accountability during that time.

Organisational changes *lower comparability* of performance making result control vulnerable. Organisational changes including a considerable amount of restructuring such as back-office integration, sales force reduction and integration, relocation of machines and changes in supplier relationship make it difficult to compare results with previous years. This makes result control vulnerable in two ways: how comparable results are to previous years, and how much changes in results are caused by factors outside the influence of management. In this case, lack of comparability meant that social skills such as presentation skills and appearance played a greater role in evaluating performance at the group level.

Organisational changes create challenges in *changes of accountabilities*. In the change of accountabilities, contextual factors must also be considered, not only the change of result measures. When, for example, the accountabilities of sales persons are changed, their knowledge of products must also be considered, as well as training, the market situation, relationships between sales persons and their production unit, and how big a portion these new accountabilities comprise in their total accountabilities. In this case, it was found that lack of consideration of these contextual factors resulted in unsuccessful accountability changes. Acquired unit sales persons got one or two accounts from one acquiring company business unit, which was operating in decreasing markets. As these sales persons had already accounts for products in growing markets, which were more familiar to them, they concentrated on selling these products, and, in some cases, did not even try to familiarise themselves with these lower market products. Problems in this case were also created because of relocations, lack of training, and changes in organisational structure.

In organisational changes, it is required to consider *the relationship between organisational structure and measures*. When measures and structures conflict with each other, this hampers the achievement of organisational targets. Cross-selling is one good example of where organisational structures and measures are difficult to link with each other. In this case, the conflict between measures and structure for several years hindered the achievement of cross-selling targets, as units were measured based on their EBIT. In the merged company, transfer pricing was mainly based on standard costs, and problems were created because both selling and buying units wanted to achieve their EBIT target and possibilities existed for cheating in transfer pricing. Attempts were made to solve these problems later

on by dividing business units into sales units and manufacturing units, in which manufacturing units were only cost units.

In organisational changes, it is necessary to think of using *guiding benefits* to support attention to new accountabilities. Guiding benefits mean additional benefits used to focus attention on new accountabilities or relationships, which, in the short term, do not necessarily bring benefits for individual persons or a specific organisation, but, in the long term, can benefit the whole organisation. In this case, the importance of these guiding benefits was recognised in networking in which lack of guiding benefits hampered the creation of joint projects and the sharing of customer relationships. Sales persons, who were in possession of customer information and able to create joint projects, had network activities very low in their list of priorities in their incentive system, which did not encourage them to co-operate in networking.

Resource factors affect result control in many ways. These resource factors can be categorised as resources in monitoring, system change resources and result measures hampering the sharing of resources. *Lack of resources in monitoring* hamper result control in two ways: decreasing the time spent on familiarising and interventions, and lowering the level of analysis. In this case, lack of resources in result control resulted in the easier acceptance of deviations in business units' performance, as the top level managers had less time than normal to spend on familiarising themselves with business unit situations. In this case, the level of analysis also declined because of a lack of resources. Limited resources meant that accountants evaluated the trustworthiness of the business units based on how systematic and consistent their reports were, as they had no time to thoroughly analyse their results. Resources in monitoring also impact on how much accountants have time for ad hoc reporting and for development projects.

Resources play a critical role in *systems changes*. Appropriate systems are cornerstones of the functionality of result control. Systems changes are critical processes, and thus an appropriate amount and quality of resources are important for sustaining the functionality of result control during and after systems change. In this case, it was noticed that lack of qualified resources in systems changes resulted in long-term chaos in the unit from the acquired company during the integration between two business units. Resources are required not only in change processes, but also to train individuals to use systems in order to guarantee the appropriate use of those systems.

Result control impacts on resources and the *willingness to share* them. Result measures can create a competitive environment inside companies and impact on units' willingness to share their resources with their sister units. In this case, result measures made units leaner and created a competitive situation between units, reducing their willingness to share their knowledge and human

resources. Sharing resources and secrets could potentially result in losing a competitive edge to sister units, and also potentially lead to losing qualified personnel or machinery to other units, or even to the closure of the unit, if sister units started to perform better after learning new secrets. In order to overcome these barriers, it was required to use administrative control mechanisms discussed in a previous sub-chapter.

Political factors impact on the use and efficiency of result control. In procedural integration, it was noticed that business group controllers sometimes faced challenges in familiarising themselves with new business units. Not all business units were open and some were actually defensive and treated queries as insults. In order not to create further tension, actions were sometimes taken based on reports and guarantees given by the unit management, although a willingness existed to ask questions and carry out more analysis. Besides organisational defensiveness, politics also appears in the form of resistance to change, which hampers the implementation of result control systems (see, e.g., Jones 1986).

In previous frameworks, contextual impacts on **social control** have been ignored. Previous frameworks have based social control on the premise that individuals, on their own initiative, do what is best for the organisation, either because they are self-directed or because they are influenced by social pressures. Managers have been seen as being able to tap into and encourage forces that inspire individuals to work for organisational goals (e.g., Merchant 1985). In this merger, social control (social pressure, cultural control etc.) did not play as significant a role as administrative and result control had, and therefore we cannot say much about it, but some evidence of it was found, and contextual factors also considerably impacted on the use of social control as they did on result and administrative control. Although previous research has regarded social control as efficient in acculturation (Larsson & Lubatkin 2001), in this case, it was, however, found that cultural tensions can even hamper the use of social control in the acculturation process. The cultural differences between the merging partners at the group level regarding the corporate governance and the style of management, were so considerable that they hindered implementing a social control-based cultural campaign.

In previous frameworks, social control has been regarded as being based on self-directive behaviour or group pressures and the role of social control mechanisms creating financial accountability has not been discussed. Nevertheless, this and previous studies have found that social control mechanisms are effective in creating financial accountability. In Roberts' (1990) study social, control mechanisms in the form of conferences were used to clarify targets, foster unity between various business units and institutionalise strategy and changes. In this case, social control in the form of

conferences was an effective mechanism in creating public accountability for integration targets and testing managers on how they present themselves. Thus, not only administrative and result control but also social control mechanisms are effective in creating financial accountability.

5.2.4 Refining the theories of trust

The majority of trust research has been acontextual, and in order to increase our knowledge about how trust truly functions in its context, the conducting of contextual research has been encouraged (Rousseau *et al.* 1998). Sociological theories of trust provide insights into the role of trust in society, but do not support our understanding of how trust functions at organisational level, where contextual factors can considerably influence the behaviour of actors. Ignoring the main ground theories of trust, however, would lead to fragmented trust research that has in fact already happened in the field of trust. This section discusses the impact of contextual factors on trust, based on the findings of this study. Besides linking the findings of this study to existing sociological trust theories, a new concept of trust is also suggested — a climate of trust, which is seen as being useful for the organisational level of analysis.

Systems trust. In previous research it has been pointed out that strength and weaknesses of systems trust depend on the context and they impact on the use and reliability of systems trust mechanisms. For example, companies operating in low developed societies cannot necessarily rely on local institutions and systems when having exchange relationships with local companies (Bachmann 1998; Humprey 1998). Also in developed societies, however, belief in the reliability of systems can be low as found by Arrighetti *et al.* (1997), who studied the Italian legal system. This study found that contextual factors impact on the efficiency and use of systems trust mechanisms in an organisational context. These contextual factors can be classified into politics, resources and structures.

Politics has a central impact on the use and efficiency of systems trust mechanisms. As the corporate control system can be regarded as a systems trust mechanism, in the same way political issues hamper the efficiency and use of systems trust mechanisms as they do the use of control mechanisms. This study found that politics hamper the robustness of the systems trust chain, result control, as not all business units were open for questions and viewed some queries as insults. In order not to raise tensions, in some instances business group controllers relied more on business unit management and their reports than imposed analysis and questions.

Although politics hamper the use and efficiency of systems trust mechanisms, political manoeuvring can also be reduced by the use of systems trust mechanisms. Formal integration control mechanisms can also be regarded as systems trust mechanisms, an expert system, which is a concept introduced by consultants to provide controllability and confidence in integration. These system trust mechanisms reduced the role of organisational politics and built trust in the organisational situation. These mechanisms forced attention to be focused not on politics but on integration work, and they also created accountability, provided impartiality and allowed the parties to get to know each other. These systems trust mechanisms in this integration process also provided both parties with confidence in the success of the process.

Resources play an important role in the efficiency and use of systems trust mechanisms. In this case, the impact of resources on systems trust mechanisms was clearly seen in the procedural integration process. The responsibility of group accountants for the functionality of group reporting systems, the key system trust mechanism in group control, suffered from lack of resources. This lack of resources meant that they had limited time for analysis and were not able to increase the level of control in acquired business units. Business group controllers, to whom the control function was mainly delegated, were at the time controllers of the biggest business unit in the area, and had limited resources for familiarising themselves with the newly acquired business units. Limited resources thus hamper the robustness of systems trust mechanisms.

Structures impact on the robustness of systems trust mechanisms. In this case, the impact of structures on systems trust mechanisms were recognised in the governance integration aspect. The structural changes made in business units, such as back-office and sales force integration, the relocation of machines and changes in supplier relationships, hampered comparability to previous years. This lack of comparability made systems trust mechanisms vulnerable, with the result that deviations in performance were more easily accepted, and presentations played a greater role in judging the trustworthiness and capability of business unit and group managers.

Contextual factors also have a considerable impact on **personal trust** relationships and thus behaviour in organisations. In this case, two factors were classified, both of which impacted on personal trust relationships and on organisational action. These factors are politics and structures.

Politics has a considerable impact on personal trust relationships, which can have a serious effect on organisational action. In this case, politics in the form of favouritism impacted on personal trust relationships and had a considerable impact on organisational climate and action. Favouritism and bypassing

command-and-control lines created a considerable amount of tension and frustration at various organisational levels, hampering the development of trust relationships, the completion of integration projects and the establishment of organisational unity.

Structures also influence personal trust relationships and organisational action. In this case, the impact of structures on personal trust relationships was recognised in the mini-case of regional integration. The organisational structure forced the SSC function to lack trust in the site controller, as the site director wanted to keep this controller who was widely regarded as incompetent. In this matrix structure, SSC was responsible for business support functions, but the site directors had the final say concerning local administration resources, which made the SSC's role difficult, as it had to be in a relationship with the incompetent controller.

Value- and norm-based trust has been widely discussed in sociological literature, but our knowledge of values and norms in making decisions on trust is relatively limited. Overall it has remained unclear what the relationship between culture and trust is in organisational action. This study made an effort to clarify the role of culture in making decision on trust, and it was found that stereotyping and culture affect decisions on trust in organisations, thus, this study made the first efforts to discuss organisational value- and norm-based trust.

This study found **stereotyping** to affect making decisions on trust, thus, the study support the hypothesis made by McKnight *et al.* (1998) that stereotyping can lead to initial trust. In this case, the impact of stereotyping in the procedural integration was recognised. Group accountants had a tendency to apply national cultural stereotyping: they stereotyped some national cultures as reliable and others as less reliable. Based on previous positive experiences of the nationality of the acquired company, they regarded accountants from the acquired company as reliable and trustworthy. This stereotyping meant that the group accounting department relied on acquired company accountants' work ethic and reliability, and it also created confidence in the functions of the acquired company.

A **company culture-based attitude** has also affects decisions on trust. In this case, company culture affected decisions on trust in procedural integration. The acquirer company tended to approach acquired companies with a trusting attitude. It relied on local forces in acquired companies until something unusual occurred, and did not place its controllers at acquired companies. It also applied this culture-based trusting attitude in this case, respecting the acquired company and not approaching it with a control-based mentality. It believed that showing respect would result in the best solution, especially in this case where cultural tensions were evident.

This study develops a concept of a **climate of trust**, which is felt relevant for organisational trust research. In many areas, such as at group level and in the business unit integration processes, this study noticed that there was no unity, trust and co-operative atmosphere between the parties and existing trust theories did not explain these situations. The reasons for lack of trust in these cases were not always related to systems, institutions, value or norm-based trust or personal trustworthiness. In many cases, lack of trust was linked to organisational atmosphere and the lack of a climate of trust. This concept labels these phenomena and also explains behaviour in organisations. This climate of trust concept means a climate that involves reliability, trustworthiness and security in an organisation. This climate of trust concept differs from previous sociological trust theories, since the climate does not have any specific sources and objects of trust. This development of a climate of trust concept, however, also represents efforts to develop naïve trust theories to describe trusting situations in an organisational context that have been called for (see, Kramer 1996). This study found that politics and cultural factors have a considerable impact on a climate of trust, which in turn affects organisational action.

Politics has considerable effects on a climate of trust. In this case, the impact of politics on a climate of trust was recognised in the business unit integration. The managing director from the unit of the acquired company never accepted the authority of the managing director from the unit of the acquirer company. Additional tensions were created when the director from the unit of the acquired company went over the head of the director from the unit of the acquirer company, reporting directly to the regional director. Problems which hindered the development of a climate of trust between the units were also created when rumours began circulating in the unit from the acquired company that the unit from the acquirer company wanted to “*kill*” them. This lack of a climate of trust hampered the completion of integration projects, created problems in the relocation process and the development of the unit from the acquired company, and eventually these difficulties resulted in serious damage to business unit integration.

Culture also has considerable effects on a climate of trust. In this case, the impacts of culture on a climate of trust were recognised in the governance integration aspect. The acquired company directors had difficulties in adjusting to the acquirer’s governance culture, as they were used to a more collegial and discursive culture. Cultural contradictions created tensions, which were also reflected at lower levels of the organisation. A climate of trust and unity were not established between the parties, and this hampered the integration process and slowed decision-making. The lack of a climate of trust

also hindered the introduction of a formal cultural programme in the merged company.

6 CONCLUSIONS AND EVALUATION OF THE STUDY

6.1 Conclusions

This study addressed corporate integration, trust, control and their relationship. *First*, we discuss the contribution this study made to our understanding of corporate integration and M&A performance. Mergers and acquisitions are common in daily business and often reported as failures, but despite a substantial amount of research carried out in this field, the knowledge of what affects their successes and failures has been insufficient. Attempts have been made to explain the performance of M&A using stock-market and accounting-based measures, but studies using these measures and methods have not been able to explain M&A performance. These M&A performance studies have also regarded the integration process as unimportant. However, it is in fact central to M&A performance as the value in M&A is realised in that process.

Despite many integration studies, factors affecting synergy realisation and business performance in corporate integration have remained unclear. The integration challenges raised in previous studies lead one to believe that trust and control, the factors that have been almost totally neglected in previous integration studies, could be success factors in corporate integration, although the integration process itself has remained a relatively unclear phenomenon. The key reason for the limited knowledge of corporate integration is a lack of proper frameworks for researching and understanding the integration process.

Based on the above, the first research purpose was formulated, which was to analyse the importance of trust and control at different levels of corporate integration. In order to address the first research purpose, it was required first to determine the factors affecting the outcome of corporate integration, and then to analyse the importance of trust and control in these factors. The lack of frameworks and ambiguous knowledge concerning corporate integration resulted in the application of the iterative grounded theory method in this study. Analysis of previous M&A performance and integration literature resulted in M&A performance being seen as the same as the outcome of corporate integration. M&A performance in this study was defined in terms of synergy realisation and business performance during integration. Synergy realisation is a good measure of M&A performance, as the value in M&A is

dependent on achieved synergies. Besides synergy realisation, we must also evaluate the business consequences of M&A activities, and therefore the business performance during integration is another important measure for M&A performance.

The main result of this study is the four-dimensional integration framework, which not only provides an answer to what affects M&A performance, but can also act as a guide for scholars conducting research in this area, and be helpful for managers executing corporate integrations. The critical factors in each integration aspect, with few exceptions, are accountability, resources, structures, politics and culture. In each integration aspect, these critical factors were found to be strongly connected to control and/or the relationship between trust and control, which leads us to conclude that trust and control are explanatory factors in M&A performance.

These four aspects of corporate integration highlight the importance of different activities in M&A performance. In the governance aspect, the main challenges relate to governing the integration process, monitoring business performance, building the new entity, tackling politics, and the ability to create co-operative relationships between the parties. In the networking dimension, challenges concern the facilitation of sharing, building ground for joint business projects, creation of effective structures to promote cross-selling, and the ability to tackle continuous competition between the units. In procedural integration, the main challenges relate to the effective organisation of group functions to be able to provide up-to-date financial information and support harmonisation of procedures, in which the key resources of both the acquired and the acquirer company and the co-operation between them play a critical role. Finally, in the operational aspect, which, in many mergers and acquisitions, determines eventual success, challenges relate to governing the merged organisation during the integration, organising business and organisational structures to support synergy realisation and business performance, co-ordination of re-organisation processes, and tackling challenges related to favouritism, tensions and cultural differences.

Second, this study contributes to knowledge concerning the relationship between trust and control. The motivation to study this subject was the existing contradictory views regarding the relationship between trust and control. On one hand, trust is itself regarded as a control mechanism; on the other hand, it has been suggested that the relationship is complementary, meaning that the more trust there is, the less need for control; thirdly, the relationship has been regarded as supplementary, meaning that an increase of control does not mean a decrease in trust, and finally, the relationship between trust and control has been regarded as intertwined, meaning that trust and control are tied together. Despite these contradictory views, no effort has been

put into solving these contradictions and building an integrative view of the relationship. Additionally, previous studies have been mainly conceptual and limited empirical studies have not focused on analysing factors affecting the relationship. Based on above the second research purpose was formulated, which was to analyse the relationship and interplay between trust and control.

The contribution made to knowledge concerning the relationship between trust and control was the building of the integrative view of the relationship, showing how each control system has its own relationship with trust, and how the relationship between trust and control has complementary, supplementary and intertwined dimensions. Besides solving these contradictory views, this study categorised contextual factors (accountability, structures, politics, culture and resources), which explain the interplay between trust and control.

What do we learn from these findings? The main thing we learn is that not only are trust and control closely related to each other, but they are also strongly attached to their context, and cannot be treated acontextually, as has been done in previous research. The context determines whether trust and control are mutually supporting or decreasing and how intertwined they are.

Third, this research contributes to our knowledge of trust. We have had quite an ambiguous view of the development of trust: on one hand, the development of trust has been regarded as linear gradual and, on the other hand, it has been argued that trust can initially be high. The problem with research on trust has been that it has been acontextual and the development of trust has not been studied empirically. This study contributes to the development of trust demonstrating that, besides the fact that the development of trust can be gradual or trust can be initially high, the trust relationship can also be forced. Additionally, we learned that politics, culture, structures and resources affect the development of trust. Coming back to the relationship between trust and control, we learned that it can be an imbalanced forced relationship, control systems can be in conflict with each other hampering the development of trust, the use of control forms can be essential for developing trust and, when trust and control are intertwined, they develop each other. This study made efforts to strengthen the contextual knowledge of trust and also to meet the need for down-to-earth trust theories. This study discussed the impact of politics, culture and structures on previously acontextually-treated trust theories, giving a more authentic view of trust in organisations than had been given in previous conceptual research. This study also offers a new concept of trust, a climate of trust. This helps to describe behaviour and trust in organisational situations that previously-developed trust theories do not explain.

Fourth, this study contributes to our understanding of control by discussing the contextual impacts on control forms, and by refining current commonly

used control typology. It was noticed that the control typology consisting of action, result and social control did not describe all relevant aspects of organisational control. Therefore, the action control form was widened to administrative control, so that it also included corporate governance, organisational structures, business structures, and project control. Additionally, while this action-type of control has been regarded as a “negative” control form, in this refined typology, it was noticed that administrative control also has important “positive” functions: to facilitate relationships — build trust between the parties. The study also discussed how culture, politics, resources and structural changes affect the use and efficiency of control systems.

6.2 Evaluation of the study and further research possibilities

This research attempted to build a theory to help to understand why mergers and acquisitions fail and succeed, the importance of trust and control in corporate integration, and the relationship and interplay between trust and control. The final stage of this research process is to evaluate how this research succeeded in its task. Since I used iterative grounded theory methodology, it is convenient that I evaluate this research using criteria for good grounded theory. Good grounded theory, first, must have a close fit with the substantive area in which it is used, second, must be easily understandable for laymen trying to familiarise themselves with the field, third must be sufficiently general to be applicable to a multitude of diverse daily situations within the substantive area, and finally the substantive theory must enable the person who uses it to have enough control to make its application worth trying (Glaser & Strauss 1967).

The first criterion — fit — is passed over because the theories this study builds derive from empirically driven research. As is the manner of iterative grounded theory, previous research findings are also used to develop theories. The main use of previous empirical research has been to strengthen the categories built based on this case research, but in some cases, such as in the section on the relationship between control and the development of trust, one theoretical category was also developed based on previous empirical research. In every case, whether the empirical material derives from this case study or from previous research, the development of the theory is conducted in an inductive manner. All parts of the study use empirical material extensively to allow the reader to follow the theoretical reasoning.

I have attempted to approach the second criterion, understandability, by emphasising the manner of presentation of this research report. Apart from in

chapters 2.1 and 2.3, abstract terms that may be difficult for non-scholars are not used. I have attempted to write chapter 4, which is expected to be of greatest interest for non-scholars, in a manner which makes it easy to apply the theories built. Additionally, the tables in chapter 4 are also expected to help in the use of theoretical constructions. Chapter 5 also involves themes which are expected to be interesting for non-scholars, such as the refinement of control typology, discussion about contextual impacts on control forms, and the relationship between trust and control. Understanding the contextual factors affecting the relationship helps corporate managers to acknowledge the organisational conditions, which destroy the building of trust, and hamper the use and efficiency of control. These sections also attempt to avoid difficult abstract terms and emphasise the use of descriptive empirical material in order to make research constructions understandable. Chapters 2 and 3 serve the integrative research approach applied in this study to connect previous knowledge to the inductively-built theoretical constructions. These chapters also support high conceptual validity in this study.

The third criterion, generality, means that the theory built should be abstract enough to make it usable in multi-conditional, ever-changing daily situations. The theories built in the study: the four-dimensional integration framework, the relationship between trust and control and refinement of control and trust theories, are usable in very different situations although they derive from this single case study. The framework of different integration aspects applies to different corporate integrations, and these frameworks are easily modifiable if, for example, the corporate integration in question is small, then a mixture of governance and operational integration frameworks can be used to study or guide the integration process. I have also attempted to comprehensively describe trust, control and their relationship constructions built in this study, in order that they may be easily usable in different contextual situations.

The final, fourth criterion, control, means that persons using the theory should have control over the related phenomena. Glaser & Strauss (1967, 245) argue that “[T]he person who applies the theory must be enabled to understand and analyse ongoing situational realities, to produce and predict change in them, and to predict and control consequences both for the object of change and for other parts of the total situation that will be affected. As changes occur, his theory must allow him to be flexible in revising his tactics of application and in revising the theory if necessary.” The integration frameworks built in this study allow persons to understand the process of corporate integration and evaluate different usable tactics and their outcomes. During the integration, these frameworks also allow persons to evaluate reasons for different outcomes and use them to assist in changing their behaviour. The trust, control and the constructions of their relationship built in

this study also allow the understanding and predicting of the outcomes of certain behaviour in the use of control systems and in the relationship between the parties. To sum up, this study attempted to fulfil all the criteria of good grounded theory and make a comprehensive study of interesting and valuable research topics.

The subjects studied offer several further research possibilities. This was the first integrative corporate integration study, and the frameworks built offer guidance for further studies. I surely encourage scholars to use, refine and develop these frameworks or, in other ways, to conduct integrative research to deepen our understanding of factors affecting the outcome of corporate integration. Social control played only a minimal role in this study, and I would estimate that further studies about social control in companies where tensions between the merging parties are not as great, would find that social control has a stronger role. The area of trust offers many interesting research avenues, since contextual studies are rare and we are just starting to learn how trust truly functions. For example, the consequences of distrust in an organisational context or the relationship between culture and trust in a multicultural organisation seem attractive, at least for me. The relationship between trust and control has certainly not been totally uncovered. I am sure that studying the impact of the fragile intertwined relationship between trust and control and its impact on organisational context would offer many interesting theoretical findings. During the study, I also pointed out several gaps in our knowledge, which all I was not able to fill in this research.

REFERENCES

- Adler, P. S. (2001) Market, hierarchy, and trust: the knowledge economy and the future of capitalism, *Organization Science*, 12, 2, 215-234.
- Adler, P. S. & Ferdows, K. (1992) The chief technology officer: a new role for new challenges, in L. R. Gomez-Mejia & M. W. Lawless (eds.) *Advances in Global High-Technology Management and Executive Leadership in High Technology*, Vol. 2. JAI Press, Greenwich, CT.
- Adler, P. S. & Goldoftas, B. & Levine, D. I. (1999) Flexibility versus efficiency? A case study of model changeover in the Toyota production system, *Organization Science*, 10, 1, 43-68.
- Alterdorf, D. M. (1986) When cultures clash: a case study of the Texaco takeover of Getty Oil and the impacts of acculturation on the acquired firm. Unpublished doctoral dissertation, University of Southern California.
- Argyris, C. (1952) *The impact of budgets on people*, Controllership Foundation. New York.
- Arighetti, S. & Bachmann, R. & Deakin, S. (1997) Contract law, social norms and inter-firm cooperation, *Cambridge Journal of Economics*, 21, 2, 171-196.
- Arnold, J. (1983) Saving corporate marriages: 5 cases, *Mergers & Acquisitions*, Winter.
- Arrow, K. (1974) *The limits of organization*, Norton, New York.
- Ashford, S. J. (1988) Individual strategies for coping with stress during organizational transitions, *Journal of Applied Behavioural Science*, vol. 24, No. 119-36.
- Ashkenas, R. N. & DeMonaco, L. J. & Francis, S. (1998) Making the Deal Real: How GE Capital Integrates Acquisitions, *Harvard Business Review*, 165-178.
- Ashkanasy, N. M. & Holmes, S. (1995) Perceptions of Organizational Ideology Following Merger: A Longitudinal Study of Merging Accounting Firms. *Accounting, Organizations and Society* Vol. 20 No. 1, 19-34.
- A.T. Kearney (1999) Corporate Marriage: Blight or Bliss? A Monograph on Post-Merger Integration.
- Axelrod, R. (1984) *The evolution of cooperation*, Basic Books, New York.
- Bachmann, R. (1998) Conclusion: trust conceptual aspects of a complex phenomenon, in C. Lane & R. Bachmann (eds.) *Trust within and between organizations*, Oxford University Press, Oxford.

- Bachmann, R. (2001) Trust, power and control in trans-organizational relations, *Organization Studies*, 22, 2, 337-365.
- Bain, J. S. (1959) *Industrial Organization*, Wiley, New York.
- Barber, B. (1983) *The logic and limits of trust*, Rutgers University Press, New Brunswick, NJ.
- Barney, J. B. & Hansen, M. H. (1994) Trustworthiness as a source of competitive advantage, *Strategic Management Journal*, 15, 175-190.
- Bendix, R. (1956) *Work and authority in industry*, Harper & Row, New York.
- Berg, J. & Dickhaut, J. & McCabe, K. (1995) Trust, reciprocity, and social history, Unpublished working paper, University of Minnesota, Minneapolis.
- Bies, R. J. & Moag, J. (1986) Interactional justice: communication criteria of fairness, in R. J. Lewicki & B. H. Sheppard & M. H. Bazerman (eds.) *Research on negotiations in organizations*, Greenwich, CT: JAI.
- Birkinshaw, J. & Bresman, H. & Håkanson, L. (2000) Managing the Post-Acquisition Integration Process: How the Human Integration and Task Integration Processes Interact to Foster Value Creation, *Journal of Management Studies*, Vol. 37, No 3, 395-425.
- Blau, P. M. (1964) *Exchange and power in social life*, Rutgers University Press, New Brunswick, NJ.
- Bleeke, J. & Ernst, J. & Isono, J. & Weinberg, D. (1990) The new shape of cross-border mergers and acquisitions, *McKinsey Quarterly*, Spring, 91-105.
- Bloomfield, B. P. & Coombs, R. (1992) Information technology. Control and power: the centralization and decentralization debate revisited, *Journal of Management Studies*, 29, 4, 459-484.
- Bradach, J. L. & Eccles, R. G. (1989) Price, authority and trust: from ideal types to plural forms, *Annual Review of Sociology*, 15, 97-118.
- Brewer, M. B. (1979) In-group bias in the minimal intergroup situation: a cognitive-motivational analysis, *Psychological Bulletin*, 86, 307-324.
- British Institute of Management (1986) The management of acquisitions and mergers, Discussion Paper No. 8 Economics Department, September 1988.
- Bromiley, P. & Cummings, L. L. (1995) Transaction costs in organizations with trust, in R. J. Bies & R. J. Lewicki & B. L. Bies (eds.) *Research in Negotiations in Organizations*, JAI, Greenwich, CT.
- Buono, A. F. & Bowditch, J. L. (1989) *The Human Side of Mergers and Acquisitions*. Jossey-Bass Publishers. San Francisco.

- Buono, A. F. & Bowditch, J. I. & Lewis, J. W. (1985) When cultures collide: the anatomy of a merger, *Human Relations*, 38, 477-500.
- Callahan, J. P. (1986) Chemistry: how mismatched managements can kill a deal, *Mergers & Acquisitions*, 20, 4, 47-53.
- Cannella Jr A. A. & Hambrick D. C. (1993) Effects of Executive Departures on the Performance of Acquired Firms. *Strategic Management Journal*, Vol. 14, Special Issue, 137-152.
- Cartwright, S. & Cooper, C. L. (1992) *Mergers & Acquisitions: The Human Factors*, Butterworth-Heinemann, Oxford.
- Cartwright, S. & Cooper, C. L. (1993) The psychological impact of merger and acquisition on the individual: a study of building society managers, *Human Relations*, vol. 43, No. 3, 327-347.
- Cartwright, S. & Cooper, C. L. (1995) Organizational marriage: "hard" versus "soft" issues? *Personnel Review*, 24, 3, 32-42.
- Cash, W. H. & Revie, J. M. (1971) The Long Range Planner and Acquisition Planning, in R. F. Vancil (ed.) *Formal Planning Systems*, Harvard.
- Caves, R. E. & Porter; M. E. (1977) Entry barriers to mobility barriers: conjectural decisions and contrived deterrence to new competition, *Quarterly Journal of Economics*, 91, 241-261.
- Chandler, A. D. (1977) *The visible hand: the managerial revolution in American business*, Belknap Press, London, UK.
- Chatterjee, S. (1986) Types of synergy and economic value: the impact of acquisitions on merging and rival firms, *Strategic Management Journal*, 7, 119-140.
- Chatterjee, S. & Lubatkin, M. H. & Schweiger, D. M. & Weber, Y. (1992) Cultural differences and shareholder value: linking equity and human capital, *Strategic Management Journal*, 13, 319-334.
- Chenhall, R. H. & Langfield-Smith, K. (2003) Performance measurement and reward systems, trust and strategic change, *Journal of Management Accounting Research*, vol. 15, 117-143.
- Child, J. (1998) Trust and international strategic alliances: the case of Sino-foreign joint ventures, in C. Lane & R. Bachmann (eds.) *Trust within and between organizations*, Oxford University Press, Oxford.
- Christensen, C. R. & Andrews, K. & Bower, J. L. (1982) *Business Policy: Text and Cases*.
- Coleman, J. S. (1990) *The foundations of social theory*, Harvard University Press, Cambridge, Massachusetts.
- Collins, J. & Porras, J. I. (1994) *Build to last*, HarperCollins, New York.
- Cooper, C. L. & Payne, R. (1988) *Causes, coping and consequences of stress at work*, John Wiley & Sons, Chichester and New York.

- Cooper, R. & Slagmulder, R. (2004) Interorganizational cost management and relational context, *Accounting, Organizations and Society*, 29, 1, 1-26.
- Creed, W. E. D. & Miles, R. E. (1996) Trust in organizations: a conceptual framework linking organizational forms, managerial philosophies, and the opportunity costs of controls, in R. M. Kramer & T. R. Tyler (eds.) *Trust in organizations: frontiers of theory and research*, Sage, Thousand Oaks, CA.
- Cross, R. & Parker, A. & Prusak, L. & Borgatti, S. T. (2001) Knowing what we know: supporting knowledge creation and sharing in social networks, *Organization Dynamics*, 30, 2, 100-120.
- Das, T. K. & Teng, B-S. (1998) Between trust and control: developing confidence in partner cooperation in alliances, *Academy of Management Review*, 23, 3, 491-512.
- Das, T. K. & Teng, B-S. (2001) Trust, control, and risk in strategic alliances: an integrated framework, *Organization Studies*, 22, 2, 251-283.
- Dasgupta, P. (1988) Trust as commodity, in D. Gambetta (eds.) *Trust: Making and Breaking Cooperative Relations*, Blackwell, Oxford.
- Datta, D. K. (1991) Organizational Fit and Acquisition Performance: Effects of Post-Acquisition Integration. *Strategic Management Journal*, Vol. 12, 281-297.
- Datta, D. K. & Pinches, G. E. & Narayanan, V. K. (1992) Factors influencing wealth creation from mergers and acquisitions: a meta-analysis, *Strategic Management Journal*, 13, 1, 67-84.
- Davis, G. F. & Stout, S. K. (1992) Organization theory and the market for corporate control: a dynamic analysis of the characteristics of large takeover targets, 1980-1990, *Administrative Science Quarterly*, 37, 605-633.
- Dekker, H. C. (2004) Control of inter-organizational relationships: evidence on appropriation concerns and coordination requirements, *Accounting, Organizations and Society*, 29, 1, 27-49.
- Deutch, M. (1958) Trust and suspicion, *Journal of Conflict Resolution*, 2/4, 265-279.
- DiMaggio, P. J. & Powell, W. W. (1983) The iron cage revisited: institutional isomorphism and collective rationality in organisational fields, *American Sociological Review*, 147-160.
- Dowling, J. & Pfeffer, J. (1975) Organizational legitimacy: social values and organizational behaviour, *Pacific Sociological Review*, 122-136.
- Duhaime, I. M. & Schwenk, C. R. (1985) Conjectures on Cognitive simplification in Acquisition and Divestment Decision Making, *Academy of Management Review*, 10: 287-295.

- Earl, M. J. & Scott, I. A. (1999) What is a chief knowledge officer? *Sloan Management Review*, 40, 2, 29-38.
- Eccles, R. (1985) *The transfer pricing problem*, Lexington, MA.
- Eisenberg, E. M. & Witten, M. G. (1987) Reconsidering openness in organizational communication, *Academy of Management Review*, 12, 418-426.
- Eisenhardt, K. M. (1985) Control: organizational and economic approaches, *Management Science*, 31, 134-149.
- Erickson, E. H. (1963) *Childhood and society*, Segunda Edición, Nueva York, Norton.
- Ezzamel, M. & Willmott, H. (1992) Accounting and trust: some implications for management control, in T. Polesie & I. L. Johansson (eds.) *Responsibility and accounting: a mid-century production for Sten Jonsson*, Studentlitteratur, Lund.
- Forsgren, M. (1989) Foreign acquisitions: internalization or network interdependency? *Advances in International Marketing*, vol. 3, JAI, Press Greenwich, CT.
- Fox, A. (1974) *Beyond contract: work, power and trust relations*, Faber and Faber, London.
- Friedman, A. (1977) *Industry and labour: class struggle at work and monopoly capitalism*, Macmillan, London.
- Gambetta, D. (1988) *Trust: making and breaking cooperative relations*, Basil Blackwell, New York.
- Giddens, A. (1990) *The consequences of modernity*, Polity Press, Cambridge.
- Glaser, B. (1978) *Theoretical sensitivity*, Sociological Press, Mill Valley, CA.
- Glaser, B. (1992) *Basics of grounded theory analysis*, Sociology Press, Mill Valley, CA.
- Glaser, B. & Strauss, A. (1965) *The awareness of dying*, Aldine, Chicago.
- Glaser, B. & Strauss, A. (1967) *The discovery of grounded theory: strategies for qualitative research*, Aldine, New York.
- Glaser, B. & Strauss, A. (1968) *Time for dying*, Aldine, Chicago.
- Goffman, E. (1967) *The interaction ritual: essays in face-to-face behavior*, Chicago, Aldine.
- Golbe, D. L. & White, L. J. (1988) A time-series analysis of mergers and acquisitions in the U.S. economy, in A. J. Auerbach (ed.) *Corporate takeovers: causes and consequences*, University of Chicago Press, Chicago, IL.
- Goold, M. & Campbell, A. (1987) *Strategies and styles: the role of center in managing diversified corporations*, Basil Blackwell, Oxford.
- Goold, M. & Quinn, J. J. (1990) The paradox of strategic controls, *Strategic Management Journal*, 11, 43-57.

- Granlund, M. (1998) *The Challenge of Management Accounting Change. A Case Study of the Interplay between Management Accounting, Change and Stability*. Publications of the Turku School of Economics and Business Administration Series A-7 Turku.
- Granlund, M. (2003) Management accounting system integration in corporate mergers: a case study, *Accounting, Auditing and Accountability Journal*, 16, 2, 208-243.
- Granovetter, M. (1985) Economic action and social structure: a theory of embeddedness, *American Journal of Sociology*, 91, 481-510.
- Greenwood, R. & Hinings, C. R. & Brown, J. (1994) Merging Professional Service Firms. *Organization Science* 5, 239-257.
- Grey, C. & Garsten, C. (2001) Trust, control and post-bureaucracy, *Organizations Studies*, 22, 2, 229-250.
- Grønhaug, K. & Ims, K. O. J. (1991) Rhetoric and performance on the budgetary stage, *Scandinavian Journal of Management*, vol.7, 1, 3-15.
- Gupta, A. K. & Govindrajana, V. (1986) Resource sharing among SBUs: Strategic antecedents and administrative implications, *Academy of Management Review*, 29, 4, 695-714.
- Hagen, J. M. & Choe, S. (1998) Trust in Japanese interfirm relations: institutional sanctions matter, *Academy of Management Review*, 23, 3, 589-600.
- Halvorsen, K. (1984) Mergers Creating Inequalities, *Journal of Contemporary Research*, Vol. 25, 389-414.
- Harrigan, K. R. (1984) Formulating vertical integration strategies, *Academy of Management Review*, 9, 638-652.
- Haspelagh, P. & Jemison, D. B. (1991) *Managing Acquisitions*, The Free Press, New York.
- Hill, C. & Hitt, M. & Hoskisson, R. (1992) Cooperative vs. competitive structures in related and unrelated diversified firms, *Organization Science*, 3, 4, 501-521.
- Hirsch, P. (1987) *Pack your own parachute: how to survive mergers, acquisitions, and other corporate disasters*, Reading, MA, Addison-Wesley.
- Hirst, P. & Zeitlin, J. (1991) Flexible specialisation versus post-Fordism, *Economy and Society*, 20, 1-57.
- Hitt, M. A. (2000) The new frontier: transformation of management for the new millennium, *Organization Dynamics*, 28, 6-17.

- Hitt, M. A. & Harrison, J. S. & Ireland, R. D. & Best, A. (1993) Lifting the veil of success in mergers and acquisitions, Paper presented at Annual Meeting of the Strategic Management Society, Chicago, IL.
- Hitt, M. A. & Harrison, J. S. & Ireland, R. D. & Best, A. (1998a) Attributes of successful and unsuccessful acquisitions of U.S. firms, *British Journal of Management*, 9, 91-114.
- Hitt, M. A. & Keats, B. W. & DeMarie, S. M. (1998b) Navigating in the new competitive landscape: building strategic flexibility and competitive advantage in the 21st century, *Academic of Management Executive*, 12, 4, 22-42.
- Hitt, M. A. & Harrison, J. S. & Ireland, R. D. (2001a) *Mergers and acquisitions: a guide to creating value for stakeholders*, Oxford University Press, New York.
- Hitt, M. A. & Ireland, R. D. & Camp, S. M. & Sexton, D. L. (2001b) Strategic entrepreneurship: entrepreneurial strategies for creating wealth, *Strategic Management Journal*, 22 (special issue) 479-491.
- Hofstede, G. (1980) Motivation, leadership, and organization: do American theories apply abroad? *Organizational Dynamics*, 9, 1, 42-63.
- Humphrey, J. (1998) Trust and the transformation of supplier relations in Indian industry, in C. Lane & R. Bachmann (eds.) *Trust within and between organizations*, Oxford University Press, Oxford.
- Hunt, J. W. (1990) Changing pattern of acquisition behaviour in takeovers and the consequences for acquisition process, *Strategic Management Journal*, 11, 69-77.
- Inkpen, A. C. & Currall S. C. (1997) International joint venture trust: an empirical examination, in P. W. Beamish & J. P. Killing (eds.) *Cooperative strategies: Vol. I North American perspectives*, New Lexington press, San Francisco, CA.
- Ivancevich, J. M. & Schweiger, D. M. & Power, F. R. (1987) Strategies for managing human resources during mergers and acquisitions, *Human Resource Planning*, 10, 1, 19-35.
- Jemison, D. B. & Sitkin, S. B. (1986) Corporate Acquisitions: A Process Perspective. *Academy of Management Review*, 11 (1), 145-163.
- Johansson, I-L. & Baldvinsdottir, G. (2003) Accounting for trust: some empirical evidence, *Management Accounting Research*, vol. 14, 3, 219-234.
- Jones, C. S. (1985a) An Empirical Study of the Role of Management Accounting Systems Following Takeover or Merger, *Accounting, Organizations and Society*, vol. 10, No. 2, 177-200.

- Jones, C. S. (1985b) An Empirical Study of the Evidence for Contingency Theories of Management Systems in Conditions of Rapid Change, *Accounting, Organizations and Society*, vol. 10, 3, 303-328.
- Jones, C. S. (1986) Organizational Change and the Functioning of Accounting, *Journal of Business Finance & Accounting*, vol. 13, 3, 283-310.
- Jones, T. M. (1995) Instrumental stakeholder theory: a synthesis of ethics and economics, *Academy of Management Review*, 20, 404-437.
- Kern, H. (1998) Lack of trust, surfeit of trust: some causes of the innovation crisis in German industry, in C. Lane & R. Bachmann (eds.) *Trust within and between organizations*, Oxford University Press, Oxford.
- Kim, P. H. (1997) Working under the shadow of suspicion: the implications of trust and mistrust for information sharing in groups, Unpublished, University of Southern California, Los Angeles, CA.
- King, D. R. & Dalton, D. R. & Daily, C. M. & Covin, J. G. (2004) Meta-analyses of post-acquisition performance: indications and unidentified moderators, *Strategic Management Journal*, vol. 25, 2, 187-200.
- Kitzing, J. (1967) Why Do Mergers Miscarry? *Harvard Business Review*, November-December.
- Knights, D. & Noble, F. & Vurdubakis, T. & Willmott, H. (2001) Chasing shadows: control, virtuality and the production of trust, *Organization Studies*, 22, 2, 311-336.
- Kogut, B. & Singh, H. (1988) The effect of national culture on the choice of entry mode, *Journal of International Business Studies*, 19, 411-432.
- KPMG (2001) Mergers and Acquisitions: a Global Research Report.
- Kramer, R. M. (1994) The sinister attribution error: paranoid cognition and collective distrust in organizations, *Motivation and Emotion*, 18, 199-230.
- Kramer, R. M. (1996) Divergent realities and convergent disappointments in the hierarchic relation: trust and intuitive auditor at work, in R. M. Kramer & T. R. Tyler (eds.) *Trust in organizations*, Thousand Oaks, CA, Sage.
- Kramer, R. M. & Brewer, M. B. & Hanna, B. A. (1996) Collective trust and collective action, in R. M. Kramer & T. R. Tyler (eds.) *Trust in organizations: frontiers of theory and research*, Sage, Thousand Oaks, CA.

- Krug, J. A. & Hegarty, W. H. (2001) Research notes and commentaries: predicting who stays and leaves after an acquisition: a study of top managers in multinational firms, *Strategic Management Journal*, 22, 185-196.
- Krug, J. A. & Nigh, D. (2001) Executive perceptions in foreign and domestic acquisitions: an analysis of foreign ownership and its effects on executive fate, *Journal of World Business*, 36, 1, 85-105.
- Langer, E. J. (1975) The illusion of control, *Journal of Personality and Social Psychology*, 32, 311-328.
- Langfield-Smith, K. & Smith, D. (2003) Management control systems and trust in outsourcing relationships, *Management Accounting Research*, 14, 3, 281-307.
- Lane, C. (1998) Introduction: theories and issues in the study of trust, in C. Lane & R. Bachmann (eds.) *Trust within and between organizations*, Oxford University Press, Oxford.
- Larsson, R. & Finkelstein, S. (1999) Integrating strategic, organizational, and human resource perspectives on mergers and acquisitions: a case survey of synergy realization, *Organization Science*, vol. 10, 1, 1-26.
- Larsson, R. & Lubatkin, M. (2001) Achieving acculturation in mergers and acquisitions: an international case survey, *Human Relations*, vol. 54, 12, 1573-1607.
- Leadbeater, C. (2000) *Living on thin air: the new economy*, Penguin, Harmondsworth.
- Leifer, R. & Mills, P. K. (1996) An information processing approach for deciding upon control strategies and reducing control loss in emerging organizations, *Journal of Management*, 22, 113-137.
- Lewicki, R. J. & McAllister, D. J. & Bies, R. J. (1998) Trust and distrust: new relationships and realities, *Academy of Management Review*, 23, 3, 438-458.
- Lindgren U. (1982) *Foreign Acquisitions: Management of the Integration Process*. IIB. Stockholm.
- Lloyd, B. (1976) Economies of scale: a primer, *Mergers & Acquisitions*, 10, 4, 4-14.
- Lorenz, E. H. (1988) Neither friends nor strangers; informal networks in French industry, in D. Gambetta, *Trust: making and breaking cooperative relations*, Basil Blackwell, New York.
- Lorsch, J. W. & Allen, S. A. (1973) *Managing diversity and interdependence*, Division of Research, Graduate School of Business Administration, Harvard University, Boston, MA.

- Lubatkin, M. (1983) Mergers and the performance of the acquiring firm, *Academy of Management Review*, 8, 218-225.
- Lubatkin, M. (1987) Merger strategies and stockholder value, *Strategic Management Journal*, 8, 39-53.
- Luhmann, N. (1979) *Trust and power*, John Wiley, Chichester.
- Luhmann, N. (1988) Familiarity, confidence, trust: problems and alternatives, in D. Gambetta (eds.) *Trust: making and breaking cooperative relations*, Blackwell, Oxford.
- Lurigio, A. & Carroll, J. (1985) The development of parole officers scripts and schemas, *Journal of Personality and Social Psychology*, 1112-1126.
- Macaulay, S. (1963) Non-contractual relations in business: a preliminary study, *American Sociological Review*, 45, 55-69.
- Macneil, L. (1978) Contracts: adjustment of long-term economic relations under classical, neo-classical, and relational contract law, *Northwestern Law Review*, 853-906.
- Madrick, J. (1987) *Taking America: how we got from the first hostile takeover to megamergers, corporate scandal*, Bantam, Toronto, Canada.
- Magnet, M. (1984) Help! My company has just been taken over, *Fortune*, July 9, 44-51.
- Marks, M. L. & Mirvis, P. (1983) Psychological consequences of a corporate acquisition and the factors that moderate them: a longitudinal study, paper presented at the 91st Convention of the American Psychological Association, Anaheim, CA.
- Marks, M. L. & Mirvis, P. (1985) Merger syndrome: stress and uncertainty, *Mergers & Acquisitions*, summer 1985, 50-55.
- Marks, M. L. & Mirvis, P. (1986) The Merger Syndrome. *Psychology Today*, 20, 36-42.
- Marks, M. L. & Mirvis, P. (1993) The stiff challenge in integrating cross-border mergers, *Mergers and Acquisitions*, 28, 37-41.
- Marks, M. L. & Mirvis, P. H. (2000) Managing mergers, acquisitions, and alliances: creating an effective transition structure, *Organizational Dynamics*, Winter 2000, 35-47.
- Mason, D. & Lamkshear, G. & Coates, S. (1999) Technology, work and surveillance: organizational goals, privacy and resistance in Virtual society? *The social science of electronic technologies profile*, ESRC, London.
- Mayer, R. C. & Davis, J. H. & Schoorman, F. D. (1995) An integrative model of organizational trust, *Academy of Management Review*, 20, 709-734.

- McAllister, D. J. (1995) Affect- and cognition-based trust as foundations for interpersonal cooperation in organizations, *Academy of Management Journal*, 38, 24-59.
- McEvily B. & Perrone, V. & Zaheer, A. (2003) Introduction to the special issue on trust in an organizational context, *Organization Science*, 14, 1.
- McFall, L. (1987) Integrity, *Ethics*, 98, 5-20.
- McKnight, D. & Harrison, L. & Cummings, L. & Chervany, N. L. (1998) Initial trust formation in new organizational relationships, *Academy of Management Review*, 23, 3, 473-490.
- Meeks, G. (1977) *Disappointing marriage: a study of the gains from merger*, Cambridge university Press, Cambridge, UK.
- Merchant, K. A. (1985) *Control in business organizations*, Ballinger Publishing Company, Cambridge, Massachusetts.
- Meyer, C. B. (2001) Allocation Processes in Mergers and Acquisitions: An Organizational Justice Perspective, *British Journal of Management*, Vol. 12, 47-66.
- Meyerson, D. & Weick, K. E. & Kramer, R. M. (1996) Swift trust and temporary groups in R. M. Kramer & T. R. Tyler (eds.) *Trust in organizations*, Thousand Oaks, CA, Sage.
- Miles, R. E. & Creed, W. E. D. (1995) Organizational forms and managerial philosophies: a descriptive and analytical review, in B. M. Staw & L. L. Cummings (eds.) *Research in organizational behavior*, Greenwich, CT: JAI.
- Miles, R. E. & Snow, C. C. (1994) *Fit, failure, and the hall of the fame: how companies succeed or fail*, New York, Free Press.
- Mirvis, P. H. (1985) Negotiations after the sale: the roots and ramifications of conflict in an acquisition, *Journal of Occupational Behaviour*, 6, 65-84.
- Mishra, A. & Spreitzer, G. (1998) Explaining how survivors respond to downsizing: the role of trust, empowerment, justice, and work redesign, *Academy of Management Review*, 23, 3, 567-588.
- Misztal, B. A. (1996) *Trust in modern societies: the search for the bases of social order*, Polity Press, Cambridge, MA.
- Nahapiet, J. & Ghoshal, S. (1998) Social capital, intellectual capital, and the organizational advantage, *Academy of Management Review*, 23, 2, 242-266.
- Nahavandi, A. & Malekzadeh, A. R. (1988) Acculturation in mergers and acquisitions, *Academy of Management Review*, vol. 13, 1, 79-90.

- Napier, N. K. & Simmons, G. & Stratton, K. (1989) Communication during a merger: Experience of two banks, *Human Resource Planning*, 12, 2, 105-122.
- Neu, D. (1991) Trust, contracting and the prospectus process, *Accounting, Organizations and Society*, 16, 3, 243-256.
- Olie, R. (1990) Culture and integration problems in international mergers and acquisitions, *European Management Journal*, 8, 206-215.
- Olie, R. (1994) Shades of Culture and Institutions in International Mergers. *Organization Studies* Vol. 15 No. 3 381-405.
- Orton, J. D. (1997) From inductive to iterative grounded theory: zipping the gap between process theory and process data, *Scandinavian Journal of Management*, vol. 13, 4, 419-338.
- Ouchi, W. G. (1977) The relationship between organizational structure and organizational control, *Administrative Science Quarterly* 22, 95-113.
- Ouchi, W. G. (1979) A conceptual framework for the design of organizational control mechanisms, *Management Science*, 25, 833-848.
- Parsons, T. (1951) *The social system*, Routledge & Kegan Paul, London.
- Parsons, T. (1969) Research with human subjects and the "Professional Complex" in P. A. Freund (ed.) *Experimentation with human subjects*, New York, George Braziller.
- Parsons, T. (1971) *The system of modern societies*, Englewood Cliffs, NJ, Prentice Hall.
- Pearce, J. & Branyicki, I. & Bigley, G. A. (2000) Insufficient bureaucracy: trust and commitment in particular organizations, *Organization Science*, 11, 2, 148-162.
- Peters, T. J. & Waterman, R. H. (1982) *In search of excellence*, Harper & Row, New York.
- Pfeffer, J. (1992) *Managing with power*, Harvard Business School Press, Boston.
- Porter, M. E. (1985) *Competitive advantage: creating and sustaining superior performance*, Free Press, New York.
- Porter, M. E. (1987) From Competitive Advantage to Competitive Strategy, *Harvard Business Review* 65, 3, 43-59.
- Powell, W. W. (1990) Neither market, nor hierarchy: network forms of organization, in G. Thompson & J. Frances & R. Levacic & J. Mitchell (eds.) *Markets, hierarchies and networks*, London, Sage.
- Preisendörfer, P. (1995) Vertrauen als soziologische Kategorie: Möglichkeiten und Grenzen einer entscheidungstheoretischen Fundierung des Vertrauenskonzepts, *Zeitschrift für Soziologie*, 24, 4, 263-272.

- Pritchett, P. (1985) *Making mergers work: a guide to managing mergers and acquisitions*, Homewood, IL Dow Jones-Irwin.
- Pritchett P. & Pound R. (1998) *Smart Moves. A Crash Course on Merger Integration Management*. Pritchett & Associate, INC.
- Ravenscraft, D. J. & Scherer, F. M. (1987) *Mergers, sell-offs, and economic efficiency*, The Brookings Institution, Washington.
- Redding, S. G. (1990) *The spirit of Chinese capitalism*, De Gruyter, Berlin.
- Rempel, J. K. & Holmes, J. G. & Zanna, M. P. (1985) Trust in close relationships, *Journal of Personality and Social Psychology*, 49, 95-112.
- Richardson, A. (1987) Accounting as a legitimating institution, *Accounting, Organizations and Society*, 12, 4, 341-355.
- Ring, P. S. & Van de Ven, A. H. (1992) Structuring cooperative relationships between organizations, *Strategic Management Journal*, 13, 483-498.
- Ritzer, G. (1993) *The McDonaldization of society*, Sage, London.
- Roberts, J. (1990) Strategy and Accounting in a U.K. Conglomerate. *Accounting, Organizations and Society*. vol. 15, 107-125.
- Robino, D. & DeMeuse, K. (1985) Corporate mergers and acquisitions: their impact on HRM, *Personnel Administrator*, 30, 11, 33-44.
- Rousseau, D. & Sitkin, S. & Burt, R. & Camerer, C. (1998) Not so different after all: a cross-discipline view of trust. *Academy of Management Review*, 23, 393-404.
- Sabel, C. (1992) Studied trust: building new forms of cooperation in a volatile economy, in F. Pyke & W. Sengenberger (eds.) *Industrial districts and local economic regeneration*, IILS, Geneva.
- Sako, M. (1992) *Prices, quality and trust: inter-firm relations in Britain and Japan*, Cambridge University Press, Cambridge.
- Sako, M. (1998) Does trust improve business performance, in C. Lane & R. Bachmann (eds.) *Trust within and between organizations*, Oxford University Press, Oxford.
- Sales A. L. & Mirvis Ph. H. (1984) When Cultures Collide: Issues in Acquisition. In J. R. Kimberley & R. E. Quinn (eds.) *New Futures: the Challenge of Managing Corporate Transitions*. Homewood: Dow Jones-Irwin.
- Salter, M. S. (1973) Tailor incentive compensation to strategy, *Harvard Business Review*, 51, 2, 94-102.
- Salter, M. S. & Weinhold, W. A. (1979) *Diversification through acquisition: strategies for creating economic value*, New York, Free Press.

- Santala, R. (1996) *Post-Acquisition Integration of Strategic Management in an MNC*. Publications of the Turku School of Economics and Business Administration. Series A-2:1996. Turku.
- Scherer, F. M. (1980) *Industrial market structure and economic performance*, 2 ed., Rand McNally, Chicago, IL.
- Schutz, A. (1967) *The phenomenology of the social world*, Evanston II, Northwestern University.
- Schweiger, D. M. & Csiszar, E. N. & Napier, N. K. (1994) A Strategic Approach to Implementing Mergers and Acquisitions, in G. V. Krogh & A. Sinatra & H. Singh (eds.) *The Management of Corporate Acquisitions*, Macmillian Press, London.
- Schweiger, D. M. & DeNisi, A. S. (1991) Communication with employees following a merger: a longitudinal field experiment, *Academy of Management Journal*, 34, 1, 110-135.
- Schweiger, D. M. & Ivancevich, J. M. (1985) Human resources: the forgotten factor in mergers and acquisitions, *Personnel Administrator*, November, 30, 47-61.
- Schweiger, D. M. & Ivancevich, J. M. & Power, F. R. (1987) Executive actions for managing human resources before and after acquisitions, *Academy of Management Executive*, 1, 127-138.
- Schweiger, D. M. & Ripley, J. R. & Martini, D. M. (1992) Creating One from Two: The Merger between Harris Semiconductor and General Electric Solid State, in S. F. Jackson and Associates, *Diversity in Workplace: Human Resource Initiatives*. The Guilford Press, London.
- Schweiger, D. M. & Weber, Y. (1989) Strategies for managing human resources during mergers and acquisitions: an empirical investigation, *Human Resource Planning Journal*, 12, 2, 69-86.
- Scott, W. R. (1995) *Institutions and Organizations*, Sage, London.
- Searby, F. W. (1969) Control postmerger change, *Harvard Business Review*, 47, 5, 4-12, 24, 155.
- Seth, A. (1990) Value creation in acquisitions: a re-examination of performance issues, *Strategic Management Journal*, 11, 99-115.
- Shamir, B. & Lapidot, Y. (2003) Trust in organizational superiors: systematic and collective considerations, *Organization Studies*, 24, 3, 463-491.
- Sheppard, B. H. & Tuchinsky, M. (1996) Micro-OB and network organization, in R. M. Kramer & T. R. Tyler (eds.) *Trust in organizations: frontiers of theory and research*, Sage, Thousand Oaks, CA.

- Shimizu, K. & Hitt, M. A. & Vaidynath, D. Pisano, V. (2004) Theoretical foundations of cross-border mergers and acquisitions: a review of current research and recommendations for the future, *Journal of International Management*, vol. 10, 3, 307-353.
- Shrivastava, P. (1986) Postmerger Integration. *Journal of Business Strategy*, 7 (1), 65-72.
- Simons, R. (1991) Strategic orientation and top management attention to control systems, *Strategic Management Journal*, 12, 49-62.
- Sinetar, M. (1981) Mergers, morale and productivity, *Social Journal*, 6, 863-867.
- Smith, K. & Carroll, S. & Ashford, S. (1995) Intra- and interorganizational cooperation: toward research agenda, *Academy of Management Journal*, 38, 7-23.
- Sohn, J. H. D. (1994) Social knowledge as a control system: a proposition and evidence from the Japanese FDI behavior, *Journal of International Business*, 25, 295-324.
- Strauss, A. (1987) *Qualitative analysis for social scientists*, Cambridge university press, Cambridge.
- Strauss, A. & Corbin, J. (1990) *Basics of qualitative research: grounded theory procedures and techniques*, Sage, Newbury Park, CA.
- Sydow, J. (1998) Understanding the constitution of interorganizational trust, in C. Lane & R. Bachmann (eds.) *Trust within and between organizations*, Oxford University Press, Oxford.
- Taylor, S. E. & Brown, J. D. (1988) Illusion and well-being: a psychological perspective on mental health, *Psychological Bulletin*, 103, 193-210.
- Tomkins, C. (2001) Interdependencies, trust and information in relationships, alliances and networks, *Accounting, Organizations and Society*, 26, 161-191.
- Trice, H. & Beyer, J. (1993) *The cultures of work organizations*, Englewood Cliffs, Prentice-Hall, New York.
- Turney, J. (1987) The Pilkington experience, *Personnel Management*, July.
- Tyler, T. R. & Degoy, P. (1996) Trust in organizational authorities: the influence of motive attributions on willingness to accept decisions, in R. M. Kramer & T. R. Tyler (eds.) *Trust in organizations*, Thousand Oaks, CA, Sage.
- Tyler, T. R. & Lind, E. A. (1992) A relational model of authority in groups, in M. Snyder (ed.) *Advances in experimental social psychology*, New York, Academic Press.
- Unger, H. (1986) The people trauma of major mergers, *Journal of Industrial Management*, 10-17.

- Uzzi, B. (1997) Social structure and competition in interfirm networks: the paradox of embeddedness, *Administrative Science Quarterly*, 42, 1, 35-67.
- Vaara, E. (1999) *Towards a Rediscovery of Organizational Politics: Essays on Organizational Integration Following Mergers and Acquisitions*. Helsinki School of Economics and Business Administration A-149.
- Very, P. & Lubatkin, M. & Calori, R. & Veiga, J. (1997) Relative standing and the performance of recently acquired European firms, *Strategic Management Journal*, 18, 8, 593-614.
- Walsh, J. P. (1988) Top management turnover following mergers and acquisitions, *Strategic Management Journal*, vol. 9, 2, 173-183.
- Walsh, J. P. & Ellwood, J. W. (1991) Mergers, Acquisitions, and the Pruning of Managerial Deadwood. *Strategic Management Journal*, Vol. 12, No. 2, 1991, 201-217.
- Walzer, M. (1999) Rescuing civil society, *Dissent*, 46, 1, 62-67.
- Weber, Y. & Schweiger, D. M. (1992) Top management culture conflict in mergers and acquisitions: a lesson from anthropology, *International Journal Conflict Management*, 3, 1-17.
- Weber, Y. & Shenkar, O. & Raveh, A. (1996) National and Corporate Cultural Fit in Mergers/Acquisitions: An Exploratory Study, *Management Science*, Vol. 42, No 8, 1215-1227.
- Wenger, E. (1998) *Communities of Practice*, Oxford University Press, New York.
- Williamson, O. E. (1975) *Markets and hierarchies*, Free Press, New York.
- Williamson, O. E. (1993) Calculativeness, trust and economic organization, *Journal of Law and Economics*, 36, 453-486.
- Young, J. B. (1981) A Conclusive Investigation into the Causative Elements of Failure in Acquisitions and Mergers. In S.J. Lee & R. D. Colman (eds.) *Handbook of Mergers, Acquisitions and Buyouts*, Prentice Hall, Englewood Cliffs, NJ, 605-628.
- Zaheer, S. (1995) Overcoming the liability of foreignness, *Academic of Management Journal*, 38, 341-363.
- Zand, D. E. (1972) Trust and managerial problem solving, *Administrative Science Quarterly*, 17, 229-239.
- Zucker, L. G. (1986) Production of trust: institutional sources of economic structure, 1840-1920, *Research in Organizational Behaviour*, 8, 53-111.

APPENDIX INTERVIEW DATA

(shorter discussions, meetings etc. which also occurred with other than listed interviewed persons are not reported here)

Person (position in which interviewed)	Date	Interview method	Interview time
1. CEO	7.3.2002	Theme	1'55
2. CFO	7.3.2002	Theme	2'35
3. Integration steering group member/ business area group VP	15.4.2002	Theme	2'25
4. Business group VP A	2.5.2002	Theme	2'00
5. HR director Group VP	11.6.2002	Theme	2'00
6. Group general counsel	13.6.&13.8.2002	Theme	2'25
7. Group VP communications	13.8.2002	Theme	2'00
8. Group controller	22.11.2002	Theme	2'40
9. Group VP/ EC member	12.3.2003	Theme	1'50
10. Integration steering group member/ business area group VP	22.4.2003	Theme	1'25
11. Business group GVP B	7.5.2003	Theme	2'35
12. Business group controller A	8.5.2003	Theme	1'00
13. Business group deputy managing director/ SSC director	13.5.2003	Theme	2'50
14. Business group sales manager A	13.5.2003	Theme	2'20
15. Business unit managing director A	14.5.2003	Theme	2'15
16. Site/ operations director A	14.5.2003	Theme	2'20
17. Business group sales manager B	27.5.2003	Theme	2'40
18. Business unit managing director B	28.5.2003	Theme	1'45
19. Group level controller	18.6.&22.7.2003	Theme	2'45

20. Business unit/ group managing director C	30.10.2003	Theme	4'30
21. Integration director/ EC member	6.11.2003	Theme	2'10
22. Group manager operations/ operations VP	8.12.2003	Theme	2'40
23. Business group deputy managing director/ SSC director	10.12.2003	Theme	2'15
24. Business unit operations director	10.12.2003	Theme	2'00
25. Business group controller B	10.12.2003	Theme	1'40
26. Site/ operations director B	11.12.2003	Theme	1'15
27. Sales/ operations manager	11.12.2003	Theme	2'30
28. Business group sales manager C	19.12.2003	Theme	1'35
29. Business group IT manager	23.12.2003	Theme (by phone)	1'35
30. Business group sales manager A	2.3.2004	Theme (by phone)	1'15
31. Business group controller A	15.4.2004	Theme	1'50
32. CFO	29.4.2004	Theme	1'55
33. CEO	17.5.2004	Theme	1'40

**TURUN KAUPPAKORKEAKOULUN JULKAISUSARJASSA A OVAT
VUODESTA 2005 LÄHTIEN ILMESTYNEET SEURAAVAT JULKAISUT**

- A-1:2005 Satu Rintanen
The Establishment and Development Directions of Corporate Environmental Management – Case Studies in Italian and Finnish Meat Processing Sector
- A-2:2005 Seppo Määttä
Strategian ja strategisen informaation tulkintahorisontteja. Case Valtiovarainministeriö
- A-3:2005 Olli Järvinen
Privacy Management of e-Health. Content Analysis of 39 U.S. Health Providers' Privacy Policies
- A-4:2005 Markus Orava
Internationalisation Strategies of Knowledge-Intensive Professional Service Firms in the Life Sciences
- A-5:2005 Birgitta Sandberg
The Hidden Market – Even for those who create it? Customer-Related Proactiveness in Developing Radical Innovations
- A-6:2005 Lotta Häkkinen
Operations Integration and Value Creation in Horizontal Cross-Border Acquisitions
- A-1:2006 Anne Vihakara
Patience and Understanding. A Narrative Approach to Managerial Communication in a Sino-Finnish Joint Venture
- A-2:2006 Pekka Mustonen
Postmodern Tourism – Alternative Approaches
- A-3:2006 Päivi Jokela
Creating Value in Strategic R&D Networks. A Multi-actor Perspective on Network Management in ICT Cluster Cases
- A-4:2006 Katri Koistinen
Vähittäiskaupan suuryksikön sijoittumissuunnittelu
Tapaustutkimus kauppakeskus Myllyn sijoittumisesta Raision Haunisiin
- A-5:2006 Ulla Hakala: Adam in ads: A thirty-year look at mediated masculinities in advertising in Finland and the US
- A-6:2006 Erkki Vuorenmaa: Trust, control and international corporate integration

Kaikkia edellä mainittuja sekä muita Turun kauppakorkeakoulun julkaisusarjoissa ilmestyneitä julkaisuja voi tilata osoitteella:

KY-Dealing Oy
Rehtorinpellonkatu 3
20500 Turku
Puh. (02) 481 4422, fax (02) 481 4433
E-mail: ky-dealing@tse.fi

All the publications can be ordered from

KY-Dealing Oy
Rehtorinpellonkatu 3
20500 Turku, Finland
Phone +358-2-481 4422, fax +358-2-481 4433
E-mail: ky-dealing@tse.fi