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Research note

Revisiting trust at the later stages of international Joint Ventures: The role of longevity, interdependence and risk of opportunism

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ABSTRACT: In recent years, great numbers of enterprises worldwide form international joint ventures (IJVs) in order to expand internationally and gain global competitiveness. The increasing number of scientific publications worldwide has distinguished the concept of trust as one of the most important elements that affect the success of IJVs. The objective of this paper is to present a number of propositions on the contextual factors that have an impact on the development of trust at the later stages of IJV operations.

Keywords: Trust, International Joint Ventures (IJVs).

JEL Classification: M16

Theoretical background

The formation of international joint ventures (IJVs) is considered a significant strategy for achieving global competitiveness in many industries (Gulati et al., 2000; Muthusamy and White, 2006). An IJV is defined as a separate legal

organization that represents the joint equity holdings of two or more partners, in which the headquarters of at least one partner is located outside the country of the venture operation (Shenkar and Zeira, 1987; Chung and Beamish, 2012). It has been argued that trust is so important to alliances that it is considered the "cornerstone of the strategic partnership" (Spekman, 1988, p. 79). According to Jiang et al. (2011), "trust is an indispensable ingredient in effective business relationships".

The purpose of this paper is to revisit the concept of trust in the context of IJVs and to present a number of propositions on the contextual factors that affect the development of trust at the later stages of IJV operations. It is noteworthy that such a research has never been conducted in IJVs that include Greek partners. These propositions will be tested empirically as hypotheses in our future research.

Trust is defined as one party's confidence that the other party in the exchange relationship will not exploit its vulnerabilities (Barney and Hansen, 1994; Dore, 1983; Ring and Van de Ven, 1992; Sabel, 1993; Sako, 1991, Dyer and Chu, 2011). According to Ayios (2003), trust:

- ✓ consists of the theoretical (i.e. uncertain) expectations of individuals interacting within a relationship, or by extension, groups of individuals within a relationship
- ✓ is based on explicit and implicit signals and acts that are given, received and interpreted within the business relationships
- ✓ is socially constituted
- ✓ is dynamic – past, present and future interact

The degree of trust is a critical determinant of alliance performance (Boersma et al., 2003, Robson et al., 2008, Nielsen and Gudergan, 2012). Partner trust increases cooperation, improves flexibility, lowers the cost of coordination and increases knowledge transfer (Nielsen and Nielsen, 2009, Schweitzer and Gudergan, 2011). The above arguments suggest that examining the processes that foster interfirm trust is a critical issue in international business systems research. In this paper we present our conceptual framework with testable propositions of the factors that affect the development of trust at the later stages of IJV operations.

Post-alliance formation factors

Interfirm trust continues to develop, only if IJV partners' actions following the creation of the IJV also continue to create an environment in which trust can expand. The first factor that plays an important role in the continuation of trust development is IJV age or the longevity of the IJV. Since firms involved in IJVs develop close bonds over time and, if the IJV is successful, form positive attitudes

regarding each other's reliability, the level of trust is likely to improve over time. In terms of performance, as empirically shown by Meschi (1997), one would expect that "all cultural differences in an IJV, regardless of their nature and intensity, will ultimately recede over time". Although intuitively appealing, in reality there will always be cultural and organizational distance in dyadic relationships – particularly relationships spanning national boundaries. However, some studies suggest a positive correlation between on one hand duration and trust and on the other trust and learning in relation to IJVs (Norman, 2000). Trust is to a certain degree a trial-and-error process, and in the absence of prior experience with the partner, time serves as a mechanism for embeddedness and trust development.

On the other hand, Li et al. (2006), in their study of trust building of local senior managers in 138 IJVs operating in China, controlled for firm age because sociologists suggest that trust evolves over time (Gulati, 1995). Firm age was measured as the number of years since the IJV first set up in China. The results indicated that firm age is not significantly related to trust. Thus, the logic proposed by the social perspective - "trust develops over time"- does not seem to apply in this research context (Li et al., 2006). It may be that, in a highly unfamiliar and uncertain environment, a longer history leads to both trust and distrust (Child and Mollering, 2003). According to Child and Mollering (2003), active trust development, by its very nature, requires time to be realized. While it is possible that relationships between foreign managers and local staff may deteriorate over a period of time with a resulting decline in trust and that it may take time to recognize untrustworthiness, this does not detract from the point that the development of trust itself requires time, especially when it cannot draw on generalized institutions, but only on individual investments. The results of Child and Mollering's (2003) research revealed that the length of time in the Chinese environment does marginally predict higher trust in local staff and it primarily leveraged the effect of personal rapport on trust. The results of Child and Mollering's (2003) research suggest that active trust development policies take time to provide a basis for increasing trust.

Lewicki and Wiethoff (2000) examine identification – based trust, where parties come to know and understand the expectations of one another. In time, they develop the ability to know what one another would want in a given situation and take the initiative of acting for each other in certain situations. Often, these individuals share common values and have an outlook based on mutual benefit, and over time are able to develop a collective identity. It is as though both parties have learned a dance, and are able to lead and follow as necessary, trusting one another along the way. If this type of relationship can develop in the workplace, it will be much easier for parties to work together as a team, understanding the expectations, goals, and needs of one another. Lewicki and Wiethoff (2000), point

out that, in order to build identification - based trust, it is important for persons to set aside time to get to know one another, thereby discovering common interests, personal values, perceptions, motivation, objectives and goals. They may even discover that they react similarly in certain situations. A strong emotion component is present in, and will help to establish a secure base from which to build (Lewicki and Wiethoff, 2000). Madhok (1995) notes that sustained interaction is a crucial mechanism for holding the partners together. Similarly, Kollock (1994) found a strong relationship between commitment and trust. Hence, through repeated interaction and information exchange, partners should identify and develop more commonalities, which in turn would reinforce a sense of trust. One can argue that it is the longevity of an IJV that depends on trust and without its presence an IJV cannot withstand through time. We argue that, apart from trust, longevity of an IJV depends on a number of factors such as unpredictable changes in economic environment, resource interdependence among partners and imponderable factors of social nature in the host country. Therefore, we consider trust as the dependent variable in this case. Thus, one would expect longevity to be positively related to trust:

Proposition 1: IJV age – longevity is positively related to the development of trust in the context of IJVs

Apart from that, another crucial factor that facilitates the expansion of trust at the later stages of IJVs is interdependence of the partner firms that builds up through time. Interdependence is used in the management literature to suggest the presence of mutual dependencies between two parties (Calton and Lad, 1995; Oliver, 1990). Trust is closely related to interdependence in IJVs, since the interest (in relation to the IJV) of one partner cannot be achieved without reliance upon the other partner. The level of interdependence may vary according to the specific nature of the relationship. Sheppard and Sherman (1998) distinguish between (1) shallow interdependence, which involves the risk of poor coordination and lack of consistency in exchanges, and (2) deep interdependence, which might lead to misinterpretation and conflict. Institutional mechanisms for building trust (and countering these risks) range from developing communication and information systems via employing cross-organizational teams to engaging in shared strategizing and development of common incentives. Powell (1996) argues that four distinct types of collaborative networks exist, each with unique sources of trust. In industrial districts, trust is linked to ties to place and kinship. In R&D networks, trust is based on common membership in a professional community. The third network type is business groups, where shared historical experiences play a dominant role in trust building. Finally, Powell (1996) examines strategic alliances and concludes that trust emerges from mutual dependencies. According to Gao et al. (2002), high and mutual dependence relationships usually involve extensive

personal interaction, information exchange, and resource integration. The opportunities for intensive interactions in a balanced dependence relationship provide a field where mutual trust can emerge and develop.

A strategic partner is likely to measure the level of importance attached to the IJV based on the level of resources committed to the relationship and the level of commitment demonstrated by senior managers. The motivational intent is manifested in the level of resources (personnel and financial) allocated to the dyadic relationship, which in turn influences the level of interdependence. Trust plays an important role in the evolution of an IJV and the motivational intent might change over time as a function of interdependence – and vice versa. This, in turn, will influence the level of resources dedicated to the relationship and the power balance among partners. As interdependence increases so too does the potential need for trust (Wicks et al., 1999). An important view in alliance theory is that resource interdependence glues two partners in long – range cooperation, conflict resolution and forbearance maintenance (Buckley and Casson, 1988; Doz, 1996; Hamel, 1991; Parkhe, 1993). The stronger the resource interdependence between parties, the more opportunities and benefits will be created from cooperation and trust (Ring and Van de Ven, 1994; Yan and Gray, 1994). This corroborates a tenet in trust literature arguing that the influence of trust on performance is increasingly a function of interparty reliance (Rousseau et al., 1998). When resource interdependence is stronger, the same amount of established trust, whether calculative – based or relational – based, will be likely to save more coordination costs (Mohr and Spekman, 1994) or create more returns from interparty learning (Hamel, 1991). This means that resource interdependence can enlarge the contribution of trust to IJV success. Buckley and Casson (1988) note that trust can be transmitted much more smoothly to a higher level of cooperation, if resource interdependence between parties is higher. Based on several cross – cultural case studies, Yan and Gray (1994) observed an increasing role of trust in weakening the hazardous effect of self – interest bargaining on IJV performance in situations where both parties are more reliant on each other's distinctive resources (Luo, 2002).

Wicks et al. (1999) note that “high trust allows interdependent relationships to function smoothly and realize strategic objectives...trust provides the ‘glue’ to hold such relations together” (Wicks, Berman and Jones, 1999: 108). Katsikeas et al. (2009) suggest that interdependence magnifies trust’s ability to: (1) increase transaction value, since coordinating high-value, compared with low-value, resources enhances payoffs (Wicks et al., 1999); and (2) reduce transaction cost, since the expected benefits from exploiting an irreplaceable partner are reduced, lowering vulnerability (Kumar, Scheer and Steenkamp, 1998). According to Wicks and Berman (2004), “as interdependence goes up, so too does the need for (and

value of) trust within the relationship” (Wicks and Berman, 2004: 144). Interdependence creates an incentive structure that deters exploitation, which in turn lowers the transaction cost of exchange as business partners exchange valuable, irreplaceable resources (Katsikeas et al., 2009). Katsikeas et al. (2009) conclude that “significant economic benefits could result for a firm from placing emphasis on trust with foreign partners that share and/or have the prospects of greater interdependence, whereas engaging in trusting relations is uneconomical when the value received and irreplaceability between the partners are low” (Katsikeas et al., 2009: 147). Trust not only gives rise to qualitative relationship outcomes, but also creates economic benefits that can be enhanced in the presence of high interdependence (Morgan and Hunt, 1994).

Alliances are formed when organizations perceive that they cannot achieve their desired outcomes through markets or hierarchies and can represent a configuration of interdependencies (Oliver, 1990). When the dependence between firms is high, both of them are critical to each other and cannot operate alliances alone. Gill and Butler (2003) argued that inter – partner dependence is a necessary condition for collaboration. Interdependence favours IJV stability and provides a motivation to act in a trustworthy manner or promote a desire to resolve any conflicts (Huang et al., 2012). Wicks and Berman (2004) emphasize the important idea that trust is a costly governance mechanism, to be deployed only when necessary. They suggest that the greater the degree of interdependence between the parties to the exchange, the greater will be the need for trust.

Zaheer and Zaheer (2006) present a model that argues for viewing trust symmetry and asymmetry between partners, together with their degree of interdependence in international collaborations, to arrive at a set of mechanisms and implications for investment in trust – building and governance. Similarly, as argued by resource dependence theorists (Pfeffer and Salancik, 1978), firms depend on access to (external) resources critical to firm performance and competitive advantage. Hence, interdependence provides not only a useful connection to trust, but it underlines trust as an effective mechanism to gain access to and utilize external knowledge in order to improve performance. As mentioned above, one can argue that there is a two way link between trust and interdependence and can wonder which variable depends on another. We agree that a two way link between the variables is valid indeed, but our purpose is to examine the factors that contribute to the development of trust in IJVs and all the above reasoning leads to the consideration of trust as the dependent variable in this case. Thus, the following relationship between interdependence and trust can be derived:

Proposition 2: Interdependence is positively related to the development of trust in the context of IJVs

Moreover, we suggest that the risk of opportunistic behaviour plays a dominant role for the continuity of trust development in an IJV. We attempt to ascertain the link between trust and perceived risk of opportunism rather than effective opportunism which has an obvious negative relationship with trust. We examine the risk of opportunistic behaviour as a post – alliance formation factor rather than a factor that affects trust at the early stages of the formation of an alliance. It is true that perceived risk of opportunism may also impede alliance formation, but we agree with Nielsen (2001), who supports that the risk of opportunistic behaviour plays a more important role during the later stages of an IJV, when structural and contractual elements are repeatedly evaluated. An important limitation in current work within social exchange theory is the neglect of deceit and opportunism in exchange relations. That is, in the typical exchange experiment actors bargain over the price of their goods, but there is never the possibility of lying about the value of the good, receiving a good without paying the agreed price, or backing out of a contract after it has been agreed upon (Kollock, 1994). The concept of opportunistic behaviour emanates from the transaction cost literature and is defined as “self-interest seeking with guile” (Williamson, 1975), which increases transaction costs and encourages formal governance structures. As such, it restrains collaborative arrangements for which trust is considered key. However, empirical research indicates that “human behaviour may not be so Machiavellian after all”, particularly in long – term relationships (John, 1984). Hence, incorporating trust in models of inter – firm relationships provides a unique vantage point for treating opportunism as an explanatory variable (Dwyer et al., 1987).

For Six (2004), the process of building trust requires the suspension of opportunistic behaviour so that, the absence of opportunistic behaviour is a crucial condition for the trustor to place trust in the trustee. Vertical integration, hostages, and offsetting investments are well - established safeguards against opportunistic behaviour when specific assets are involved. However, despite Kogut and Singh’s (1988) observation that IJVs can be regarded a response to the existence of asset specificity, collaboration does not constitute a foolproof safeguard against opportunism. Hence, the importance of developing high levels of trust between partners in order to ensure effective interfirm links is evident (Dodgson, 1996), since the knowledge being exchanged may be not only tacit but also specific, and as such, constitute important elements of a firm’s competence and competitiveness (Simonin, 1999). Trust counters uncertainty stemming from the assumption of opportunism and it helps reduce the complexity of the exchange. From a “rational prediction” point of view, agents focus on collecting and processing information to project likely outcomes of certain future events (Lewis and Weigert, 1985). From this perspective, agents are perceived to think about trust in a highly calculative and risk – oriented fashion (Barney and Hansen, 1994; Williamson, 1975). Hence, conditions of trust arise when parties have something at risk and trust can be seen

as cooperation in a prisoner's dilemma game (Lewis and Weigert, 1985). There seems to be evidence of general agreement across disciplines (e.g. psychology, sociology, and economics) that risk is essential in conceptualizing trust (Rousseau et al., 1998). Trust and the perception of opportunistic behaviour have been linked in several studies. Quite a few researchers have shown that the risk of the partner behaving opportunistically is lessened in the presence of trust (Bradach and Eccles, 1989; Chiles and McMackin, 1996; Hill, 1990).

Despite widespread scholarly and managerial interest in interfirm trust and opportunism, there is lack of clarity in the relationship between these two constructs (Barney & Hansen, 1994; Lewicki et al., 1998). Katsikeas et al.'s (2009) study reveals that opportunism has the strongest effect on trust. Their study results reveal that internal uncertainty influences trust but not opportunism, whereas external uncertainty affects opportunism but not trust. One possible explanation for this counterintuitive evidence lies in the role that trust plays in reducing perceived risk (Chiles and McMackin, 1996). When one cannot predict the actions of another, one has less certainty about the other's behavior. Difficulty in assessing the partner's tasks disheartens the development of trust. Partners whose behavior is foreseeable are trusted more than those who behave in an uncertain manner. That one's behavior cannot be anticipated does not necessarily mean that one acts with guile. Skepticism of harboring exploitative intentions – that impede trust – may appear, but still this does not constitute opportunistic action. Katsikeas et al. (2009) suggest that an interesting line of theoretical exploration could involve examining a complete set of drivers and outcomes of these competing behavioural assumptions and drawing a clear distinction between trust and opportunism.

The two concepts, opportunistic behaviour and trust, are related by considering the risk dimension of trust. In fact, according to Inkpen and Currall (1998), risk has to be present for trust to operate, an idea that Nooteboom (2002) also subscribes to and that is common to several theorists on trust that elect risk as one dimension of the construct (Michalos, 1990; Kramer, 1999). Costa e Silva et al. (2012), believe that the opportunism one partner perceives in its counterpart can help determine the degree of trust demonstrated in that partner and though the absence of opportunism does not necessarily lead to trust, its presence will decrease it. So, to build trust, more than just the absence of perceived opportunism is necessary. Trust goes beyond that. But, when the perception of opportunistic behaviour is high, a low degree of trust should be expected. When a perception of trust is being formed, a partner needs to have an idea about the possible opportunistic behaviour of its counterpart. Morgan and Hunt (1994) refer to “a negative influence in trust formation”. When a party believes that a partner engages in opportunistic behaviour, such perception will lead to a decrease in trust. Moreover, when the parties involved in a business-to-business relationship trust each other, they are less

likely to show opportunistic behavior (Leonidou et al., 2006) or take advantage of each other (Styles et al., 2008, Bloemer et al., 2013).

Smith and Barclay (1997) found that forbearance from opportunistic behaviour indicates trusting behaviour. This results from the opportunistic risk that a company perceives in its relationship. It is imperative to consider as very important the positive responses to promises made, as well as acting with honesty, integrity, and forbearance from opportunistic behaviours. A regular evaluation of the risks involved in the partnership should also be considered important in the trust building process (Costa e Silva et al., 2012). The path - dependent connection between trust and risk – taking arises from a reciprocal relationship, where risk creates an opportunity for trust, which in turn (if the desired behaviour materializes) leads to more risk taking. This is the reason why one can argue that there is a fundamental contradiction: more you trust, more vulnerable you are and more you are exposed to the risk of opportunism. Thus, results the question: more trust leads to more opportunism? We argue that although risk – taking breeds trust, firms do not blindly take unjustified risks in the hope of developing a trustful relationship. Evidence suggests that firms adopt an incremental approach, in which the initial investment is small (Larson, 1992). To sum up, when negotiating structural and contractual elements repeatedly with a partner during the evolution of the IJV, the risk of opportunistic behaviour will be evaluated and re – evaluated and one would expect the following relationship between perceived risk of opportunism and trust:

Proposition 3: Risk of opportunism is negatively related to the development of trust in the context of IJVs

Conclusions and Objectives for Further Research

The aim of this paper is to revisit the concept of trust in the context of IJVs and to present a number of propositions on the contextual factors that have an impact on the development of trust at the later stages of IJV operations. The first section is concerned with the conceptualization of IJVs and trust along with their theoretical background. The main section contains the analysis of our theoretical framework and refers to the post – alliance formation factors, which are the variables that affect trust expansion as an IJV operates through time. Three propositions are presented and discussed. We conclude that IJV age – longevity as well as built-up interdependence of the partner firms are positively related to trust in the context of IJVs. On the other hand, we propose that the perceived risk of opportunism is negatively related to trust expansion in IJVs with at least one Greek partner.

As far as further research is concerned, we aim at examining the proposed conceptual framework by constructing an appropriate questionnaire which will be

sent to managers of Greek companies that have formed IJVs in recent years. We believe that our research findings will be innovative and pioneering because of the complete lack of evidence in the field of trust development in IJVs that include Greek partners. The propositions that we present will be tested empirically as hypotheses during our research. Our main research objective is to empirically examine the factors that affect trust building in IJVs that include at least one Greek partner. The results of the questionnaires will be statistically analysed using the appropriate statistical methods. The questionnaire survey will be followed by interviews with Greek managers involved in IJVs. We strongly believe that any possible findings would constitute a valuable addition in the international literature about the complex concept of trust among IJV partners.

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