

The Importance of Trust for the Success of International Strategic Alliances

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Abstract

In recent years, the role of trust between alliance partners for the success of International Strategic Alliances (ISAs) has received increased scholarly attention, as evidenced by the growing volume of published research on the subject. The delimitation of trust is difficult due to the varying disciplines that have adopted the concept of trust, for example economics, psychology, sociology and international business. The theoretical background of the construct of trust includes a variety of definitions, forms, dimensions, sources and international differences. This paper consists of an in depth review of the most recent literature about the role of trust for the success of ISAs and constitutes the basis for future research where we plan to examine the importance of trust in International Joint Ventures (IJVs) that include Greek business partners. Furthermore, this paper attempts to point out the importance of trust through its connection with other significant business factors, such as performance, profit, goal achievement and control. Finally, we present the conclusions and our objectives for further research.

Keywords: trust, international strategic alliances (ISAs), international joint ventures (IJVs)

Introduction

An issue that has recently received a great deal of scholarly attention is the importance of trust for the success of International Strategic Alliances (ISAs). International or Global Strategic Alliances are formal or informal cooperation agreements between two or more enterprises of the same or different industrial sector for the achievement of common business goals such as the extension of their activities in the international markets, the strengthening of their global business position and the improvement of their international competitiveness through the attainment of scale economies in all their business functions. An alliance is considered international when at least one of the partner - firms originates from a country different than the one that the alliance determines as a target market (Hajidimitriou, 2003).

Conceptualization of trust

Trust is a highly abstract and multidimensional concept that has been adopted from many different scientific disciplines like Psychology (Rousseau, 1995), Sociology (Fukuyama, 1995), Social Psychology (Lewicki & Bunker, 1996), Economics (Dasgupta, 1988, Williamson,

1993), Marketing (Castaldo, 2003), Strategic Management (Barney & Hansen, 1994), Organizational Behavior (Zaheer et al., 1998) and International Business (Inkpen & Currall, 1997). Each discipline has approached the concept with a different theoretical background which led to diverse conceptualizations that put the emphasis on different trustworthy components. Thus, a comparison between the different propositions and outcomes is difficult (Endrissat & Kühlmann, 2003).

Conceptually and methodologically, trust is a complex subject area. As a result of this complexity, numerous definitions of trust have been proposed in the literature, each focusing on particular aspects of a relationship. According to Williamson (1993), "trust is a term with many meanings". The problem with trust is not one of under - but rather of over - definition, leaving us with a situation of over conceptualization "resulting in a confusing potpourri of definitions applied to a host of units and levels of analysis" (Shapiro, 1987).

Definitions of trust

Good (1988) views trust as "based on an individual's theory as to how another person will perform on some future occasion, as a function of that target person's current and previous claims, either implicit or explicit". This definition focuses attention firmly on the fact that trust is a dynamic process, with a past, present and future, all of which interact in a relationship. According to Zucker (1986), trust is seen to arise out of "a set of expectations shared by all those involved in an exchange. It includes both broad social rules and legitimately activated processes. This definition takes the background of any given transaction into account, rather than simply examining the proximate terms of the exchange". From these definitions arises the one of Ayios (2003) where trust:

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

According to Sabel (1993), "trust is the mutual confidence that no party to an exchange will exploit another's vulnerabilities". Moreover, "trust is the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party" (Mayer et al., 1995). Common thoughts stand out from these definitions (Parkhe, 1998):

1. Trust inherently involves uncertainty about the future
2. Trust implies vulnerability, that is, the risk of losing something of value. The magnitude of this potential loss from untrustworthy behavior is typically much greater than the anticipated gains from trustworthy behavior.
3. Trust is placed in another whose behavior is not under one's control, so that each partner exercises only partial influence over alliance outcomes.

Forms - Dimensions of trust

In the context of ISAs, trust is seen to have important psychological,

sociological and economic properties simultaneously. Barney and Hansen (1994) identified three forms of trust: weak form, semi - strong form and strong form. Although each type of trust reflects the confidence that one's vulnerabilities will not be exploited in an exchange, the reasons underlying this confidence vary. Weak form trust arises when there are limited opportunities for opportunism (Barney & Hansen, 1994). Partners have no significant vulnerabilities and it is called weak form because its existence does not depend on the creation of elaborate governance mechanisms, nor on commitment by partners to highly trustworthy standards of behavior. Semi - strong form trust can be called "trust through governance" (Barney & Hansen, 1994). Various governance devices (e.g., market for reputation, sequential contracts, or reciprocal agreements) impose costs (social and economic) on parties that behave opportunistically, making the cost of such a behavior greater than its benefit (Parkhe, 1998).

Strong form trust is "hard - core trustworthiness" (Barney & Hansen, 1994). A company may be strong form trustworthy for at least two reasons. It may possess a culture and associated control systems that reward strong form trustworthy behavior, or the specific individuals representing the company in an alliance may be strong form trustworthy. It is also called "principled trust" and it is evident in the alliance philosophy of Corning Glass Works (Houghton, 1987). Alliances are so central to Corning's strategy that the corporation now defines itself as "a network of organizations". Corning's success at alliances derives from working with a very long - term perspective, in which strong form trust is key. Explains Corning vice chairman Van Campbell:

We're looking only for lifetime associations, because you have to invest an enormous amount of energy to make a partnership work. You not only have to deal with the business; you also constantly have to deal with the relationship you have with the partner - nurturing it and maintaining high - level contacts, so that when you deal with items of substance you will be dealing with friends, people you understand and respect. A partnership that is going to last only five to seven years simply doesn't warrant that kind of investment (Sherman, 1992).

According to international bibliography, trust has two primary dimensions: interpersonal and interorganizational trust. Inkpen and Currall (2002) are stressing the importance of a correct discrimination among the different levels since a confusion hampers comparative research. Even though this demand seems obvious, Inkpen and Currall (2001) were able to identify within the existent literature wrongful attributions such as "trust at the individual level was taken to be isomorphic with the inter - firm trust". In order to deal with this matter, Endrissat & Kühlmann (2003) are suggesting a matrix which incorporates three possible trustors, namely individual, group, or firm (with the trustor to be the entity who does the trusting) and three possible trustees, which are as well individual, group, or firm (with the trustee to be the entity who is trusted). Thereby, the trustor is decisive for the classification of the level of trust.

Lewis and Weigert (1985) divide trust into (a) emotional trust, where trusting behavior results from "strong positive effect for the object of trust" and (b) cognitive trust, in which there are good rational reasons for vesting trust in another. Usually trust results from a combination of both these elements. Zucker (1986) identified:

- a) Process - based trust, "where trust is tied to past or expected exchange such as in reputation or gift exchange"
- b) Characteristic - based trust, "where trust is tied to person, depending on characteristics such as family background or ethnicity" and the resultant norms of obligation and cooperation
- c) Institution - based trust "where trust is tied to formal societal structures, depending on individual or firm - specific attributes (e.g. certification as an accountant) or on intermediary mechanisms (e.g. use of escrow accounts)" (Zucker, 1986).

Apart from these, Sako (1992) makes a clear distinction between three different dimensions of trust in inter - firm relationships: (a) contractual - based trust, competence - based trust and goodwill - based trust. Many other researchers agree with the above distinction with minor differences. For instance, Boersma et al. (2003) refer to promissory - based trust (instead of contractual - based trust) which is defined as "an expectation that a party can be relied upon to carry out a verbal or written promise". The second form, competence - based trust refers to "an expectation that a party will perform its role competently" (Barber, 1983). Moreover, "the key to understanding goodwill - based trust is that there are no explicit promises which are expected to be fulfilled, as in the case of contractual - based trust, nor fixed professional standards to be reached, as in the case of competence - based trust. This is a less self - interested, nonegotistic form of trust" (Sako, 1992).

Dissecting trust into its individual components is useful, because such analysis permits a deeper understanding of its distinct, interrelated elements. Ultimately, however, trust is a complex integration of the psychological, sociological and economic dimensions into an irreducible whole experience. To illustrate, consider how we choose a job or a house on one hand, and a friend on the other hand. We may choose a job by first separately weighing a number of components (salary, benefits, prospects, etc.) and then by somehow summing the results. We may perform a similar analysis with the house (size, cost, location, etc.). But we do not choose our friends by summing our appraisals of component traits and habits. We react rather, to the personality as a whole. Likewise, trust in an alliance partner is the overall outcome not of the summation of component parts, but of a holistic assessment of the past, present and future of the relationship with that partner (Parkhe, 1998).

International differences in approaches towards trust

ISAs often bring together managers who may have different patterns of behaving and believing, fundamentally different cognitive blueprints for interpreting the world, and, differences in the very structure of perceiving, thinking, and reasoning (Maruyama, 1984). Adler (1997) ponders the question: What is the nature of the individual, good or evil? The answer varies across countries. Thus, Americans see people as a mixture of good and evil, capable of choosing one over the other. Some other cultures see people as basically evil (as reflected in Puritanical thinking) or as basically good (as reflected in utopian societies). Societies that consider people good tend to trust them a great deal, whereas societies that consider people evil tend to suspect and to mistrust them.

Fukuyama (1995) stresses the importance of some "arational" factors as religion, tradition, and the concepts of honor and loyalty. How a society approaches these parts of communal life dictates how much

trust exists among its members. Higher trust societies include Japan, Germany, and perhaps to a lesser extent, the U.S.A. These countries enjoy relatively high levels of "social capital", "spontaneous sociability" and trust (Fukuyama, 1995). People tend to form and join a range of voluntary organizations, from sports societies to religious groups, which in turn prepare citizens to work cooperatively in large, private companies (e.g., IBM, AT&T, Toyota, GM, Mitsubishi, Siemens, Daimler- Benz) that are able to amass capital and develop technologies efficiently, leading to high economic performance and the creation of prosperity. In contrast, lower trust societies include Italy, China, and France. Citizens of these societies tend to avoid people who are not part of their immediate families, thus crippling attempts to build large, private business organizations. Whereas higher trust societies benefit from their lower costs in forming large enterprises, lower trust societies confront higher costs that impede the formation of such enterprises (Parkhe, 1998).

These differences can be crucially for ISAs managers. For instance, persons from low - trust societies tend to assess alliances more on person-specific trust, where socio - psychological factors play a larger role. It has been observed that, especially in oriental cultures, trust is a vital supplement to contractual arrangements, and it may even take their place and the establishment of such trust with oriental managers often takes more time and patience than many Western executives would like to invest (Thorelli, 1986). It was noted earlier that higher trust levels within a country can enhance cooperative performance (Cusumano & Takeishi, 1991).

A tougher challenge is to answer if companies from high - trust countries will be able to leverage their domestic collaborative experience to achieve high performance in their international alliances as well. Kanter (1994) responds affirmatively. Asian companies are the most comfortable with relationships, and therefore they are the most adept at using and exploiting alliances. Hamel (1991) as well as Reich and Mankin (1986) strongly corroborate this point. Kanter (1994) worries that American companies' "Anglo - Saxon style of management" is not conducive to trusting relationships with other companies, because of its "narrow, opportunistic view of relationships, evaluating them strictly in financial terms or seeing them as barely tolerable alternatives to outright acquisition." European companies seem to fall in the middle. These international differences are explained by Kenichi Ohmae, head of McKinsey's Tokyo office, who wrote (Ohmae, 1989):

When Americans and Europeans come to Japan, they all want 51%. That's the magic number because it ensures majority position and control over personnel, brand decisions, and investment choices. But good partnerships, like good marriages, don't work on the basis of ownership or control. It takes effort and commitment and enthusiasm from both sides if either is to realize the hoped - for benefits. You cannot own a successful partner any more than you can own a husband or a wife.

An empirical study of U.S.-Japanese alliances found that American managers rated consistency between future and past behaviors to be an important part of trust (Sullivan et al., 1981). Japanese managers on the other hand, seem more willing to develop trust even in the face of unexpected, inconsistent behavior of the alliance partner. This finding is linked to differences in cultural values regarding an individual's relationship to his/her experiences. The Japanese believe

that individuals must accommodate themselves to a continuously unfolding set of events, and must learn to accept ambivalent behaviors of others. Americans, however, have a lower tolerance for ambiguity. This, in addition with their need to seek mastery of a situation, made American managers unable to go as far as the Japanese managers in their willingness to build trust in the face of unpredictable, inconsistent, and ambivalent behavior (Sullivan et al., 1981).

Connection of trust with other critical business factors of ISAs

So far we referred to the multidimensional concept of trust and the indisputable difficulty of its delimitation due to the varying disciplines that have adopted the concept. Moreover, we examined the various forms and dimensions of trust and we stressed the international differences in approaches towards trust. At this point we intend to point out the importance of trust through its connection with other significant business factors, such as performance, profit, goal achievement and control.

Connection of trust with performance of ISAs

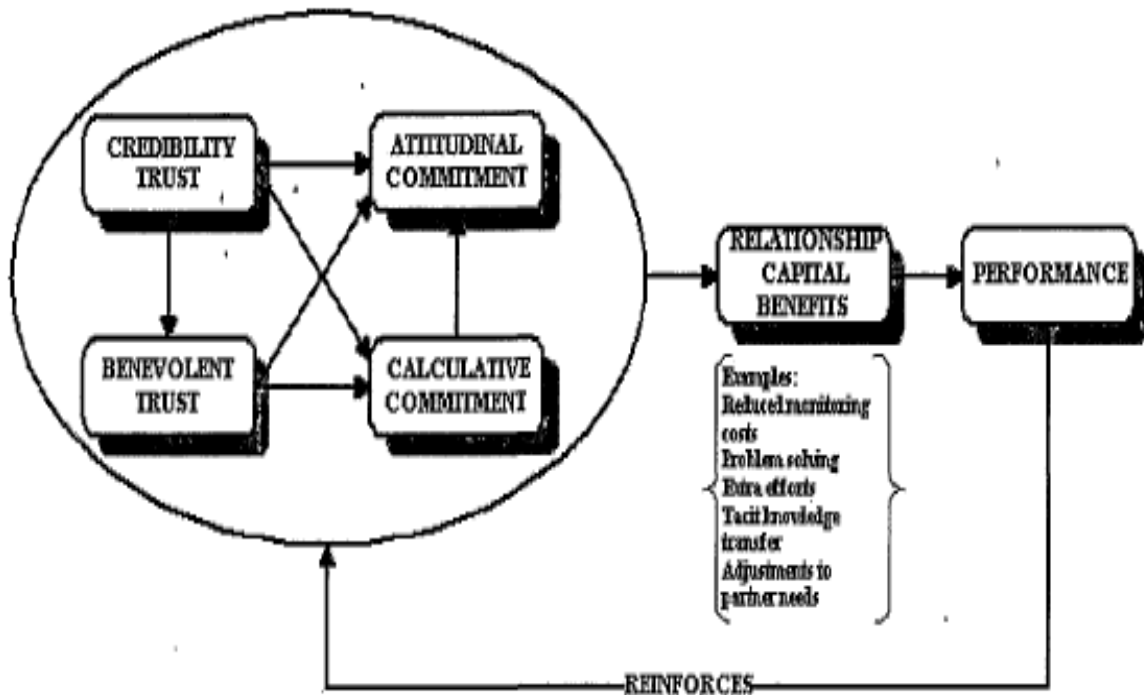
Cullen et al. (2000) argue that the success of international strategic alliances requires attention not only to the hard side of alliance management (e.g., financial issues and other operational issues) but, also to the soft side. The soft side refers to the development and management of relationship capital in the alliance. Relationship capital consists of the socio - psychological aspects of the alliance, and more specifically to those aspects that are positive and beneficial to the alliance. Although not the only aspects of relationship capital, most researchers consider trust and commitment as the major forms (Burt, 1997, Hosmer, 1995, Rousseau et al., 1998).

Cullen et al. (2000) propose a dynamic model of trust and commitment and their relationships to ISAs performance. For the purposes of their research, they divide trust into the following types: (a) credibility trust, which is the confidence that the partner has the intent and ability to meet their obligations and make their promised contributions to the alliance, and (b) benevolent trust, which is the belief that an alliance partner will behave with goodwill towards the alliance and the partner. Credibility trust is the rational component of trust, while benevolence is the subjective or emotional side of trust. Furthermore, they divide commitment into (a) calculative commitment, which is the rational and economic side of commitment, and (b) attitudinal commitment, which is the emotional or affective component of commitment.

The research of Cullen et al. (2000) reports on the results of two field studies. The first study involves Japanese equity joint ventures with partners from 11 other countries, while the second and far more interesting involves 98 nonequity Japanese strategic alliances with U.S. companies. Figure 1 illustrates the implications of the research findings regarding how performance relates to trust and commitment. Performance in ISAs includes a range of possible outcomes (Anderson, 1990). Learning a new market, gaining a new technology and learning new business practices are examples other than traditional financial dimensions of performance. The findings of the research of Cullen et al. (2000) suggest that performances of all types interplay with commitment and trust and, on one hand, higher levels of mutual trust and commitment lead to better performing alliances in terms of both

financial and non financial aspects. On the other hand, higher levels of performance result in more mutual trust and commitment.

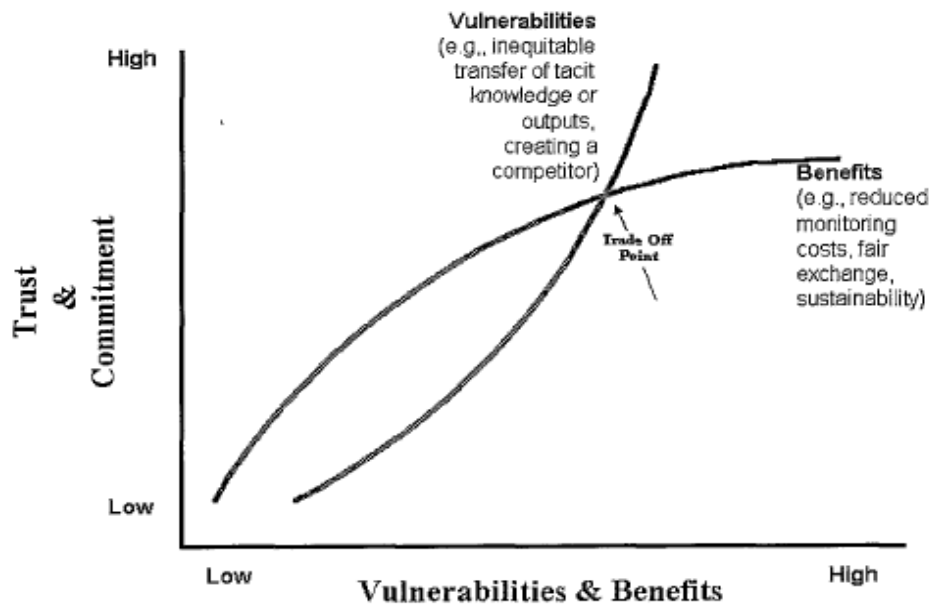
Figure 1: Trust - Commitment and Performance of ISAs



Source: Cullen et al. (2000)

Cullen et al. (2000) point out the importance to seek a level of trust and commitment that is appropriate for the strategic goals of any ISA. Maximum investment in relationship capital may not always be required. Thus, for example, a short - term alliance may rely mostly on the contract to deliver mutual benefits. In contrast, an alliance with long term goals may emphasize building trust and commitment to carry the marriage through the rough times that may come over the years. In general, trust and commitment have benefits, but they also have vulnerabilities like unequal transfer of knowledge or creation of a future rival. Because of this fact, managers of ISAs must always assess the possible advantages - disadvantages and choose to function in the "zone of comfort", which is illustrated in Figure 2. The zone of comfort for the relationship exists below the tradeoff point where the benefits exceed the vulnerabilities (Cullen et al., 2000).

Figure 2: The right level of Trust and Commitment



Source: Cullen et al. (2000)

Correlation of trust, control, performance and interaction in IJVs

Mohr (2004) assumes that the complex interrelationships which exist in IJVs cannot be comprehensively reflected in singular relationships. Rather, it is suggested that the complexity of the subject matter warrants a more "holistic" approach in analysing the interrelatedness existing among control, trust, performance, and the interaction between the partner firms. In order to empirically explore the interdependencies between the variables, a two stage research design was chosen. During the first stage, in - depth interviews were carried out with 27 German and Chinese managers. In addition to the qualitative research, a second stage consisted of a questionnaire survey to allow for a quantitative exploration of the relationship in question. To this aim, questionnaires were sent to 392 German - Chinese IJVs (GCJVs) in the People's Republic of China, of which 110 usable responses were received (response rate 23.3%).

IJV performance is measured in accordance with the differentiation of performance indicators in goal - criteria and systems - criteria, as well as the latter's split into short - term and long - term criteria. The factors that are measured are:

- ✓ Goal achievement
- ✓ Short - term performance which includes profitability, growth, and market share
- ✓ Long - term performance which includes technological level, stability of the IJV, quality of the relationship with the partner, and competitiveness of the IJV.

In order to measure the extent to which partners exert control over the JV's activities, two constructs are used (strategic and operational control). In order to measure strategic control 4 items are used, while 11 items are used to measure operational control. Trust is measured by the use of the basic distinction between trust in

interpersonal level (trust in partner's management) and trust in interorganizational level (trust in partner firm). Moreover, three factors are used in order to measure the interaction between the partner firms:

- ✓ Exchange of resources and information (with 4 measure items)
- ✓ Communication (with 3 measure items, reflecting the intensity, openness, and efficiency of the communication)
- ✓ Adjustment between the partners (with 11 measure items)

As mentioned above, Mohr (2004) attempts a more "holistic" approach in analysing the interrelatedness existing among control, trust, performance, and the interaction between the partner firms in IJVs. For this purpose, Mohr (2004) used cluster analysis, which allows the analyst to find out if it is possible to combine objects that are described by various characteristics into groups, with the objects within groups showing a high degree of similarity and objects in different groups showing little or no similarity (Backhaus et al., 2000). Cluster analysis makes it possible to identify different types of JVs which differ significantly along all the dimensions used. The results of the cluster analysis are shown in table 1. The analysis resulted in two clusters that differ significantly along all of the dimensions used (Mohr, 2004).

Table 1: Taxonomy of German - Chinese Joint Ventures

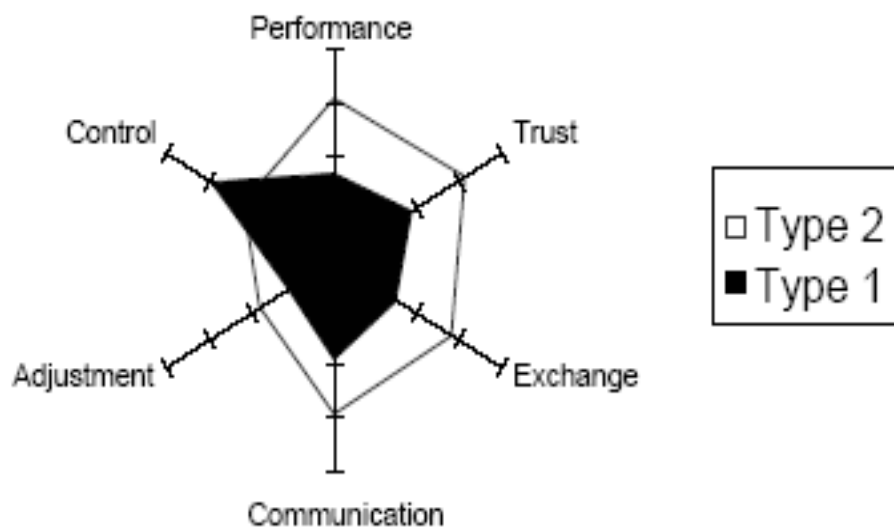
	TYPE 1 (N=50) Mean	TYPE 2 (N=53) Mean
Performance		
Goal achievement	2,45	4,07
Short-term performance	2,46	4,06
Long-term performance	2,96	4,11
Control		
Strategic control	3,85	3,00
Operational control	3,99	3,30
Trust		
Trust in partner firm	2,66	4,06
Trust in partner management	2,93	4,15
Interaction		
Exchange	2,49	3,79
Communication	2,88	3,91
Adjustment	2,10	2,73

Since cluster analysis maximises differences between clusters, all differences are significant on the 1% -level.

Source: Mohr (2004)

The second group of GCJVs (N=53) scores higher in all performance dimensions as compared to the GCJVs in the first group (N=50). Figure 3 depicts the identified types as web diagrams, in which (for reasons of better display) the values for the performance, control, and trust variables were averaged.

Figure 3: Taxonomy of German - Chinese Joint Ventures (web diagrams)



Source: Mohr (2004)

Managers representing GCJVs of type 2 reported a lower degree of control over the JV than managers of a type 1 JV. The former also show a higher level of trust towards both the partner firm as a whole as well as to the counterpart managers of the partner firm. This may be interpreted by the fact that trust has a positive influence on performance whereas control has a negative impact. At the same time the reverse arguments may apply, i.e. high performance leads to higher levels of trust and to lower levels of control. In addition, managers who regard their JV as successful also show significantly better evaluations of the interaction elements exchange, communication and adjustment. This also corroborates the tentative reasoning above, according to which trust is related to higher levels of exchange and communication as well as a higher willingness of partner firms to adjust their business practices in order to achieve shared, rather than merely private, goals (Mohr, 2004).

In general, although many authors have stressed the importance of control and trust for the performance of IJVs, there is a lack of empirical evidence explaining the interrelatedness between control, trust, performance and the interaction between the JV partners. Against this background, the results of Mohr's (2004) exploratory study shed some necessary light on the interactions between partners in their relation to control, trust and performance. It is a contemporary and distinguished research that better explains the interrelatedness existing among control, trust, performance, and interaction in IJVs.

Conclusions and objectives for further research

This paper consists of an in depth review of the most recent literature about the role of trust for the success of ISAs. The first section is concerned with the conceptualization of trust and its theoretical background which includes a variety of definitions, forms, dimensions and international differences. Furthermore, the second section attempts to point out the importance of trust through its connection with other significant business factors, such as performance, control and goal achievement. It includes the research of

Cullen et al. (2000) who propose a dynamic model of trust and commitment and their relationship to ISAs performance. This useful research is followed by a paper by Mohr (2004) who attempts a more "holistic" approach in analysing the interrelatedness that exists among control, trust, performance, and the interaction between the partner firms in IJVs with the use of cluster analysis. The results show that trust has a positive influence on performance whereas control has a negative impact, while, at the same time, high performance leads to higher levels of trust and to lower levels of control. Furthermore, trust is related to higher levels of exchange and communication.

As far as further research is concerned, our main research objective is to empirically examine the concept of trust and its role in ISAs that include at least one Greek partner or generally in ISAs that operate in South - East Europe. We intend to investigate these issues by constructing an appropriate questionnaire which will be sent to managers of Greek companies that have formed ISAs in the recent past. The results of the questionnaires will be statistically analysed using the appropriate statistical methods. Any possible findings would definitely constitute a valuable addition in the international bibliography about the complex concept of trust. This paper constitutes the basis for such future research. Apart from that, we believe that the use of more variables, such as performance, profit or goal achievement and long - term measurements would be really helpful for better understanding the ways that trust affects the operation of ISAs and to point out even more the importance of trust for their success. Finally, there is great need to elucidate the multidimensional concept of trust even more and to stress the significance of its role for the success of ISAs, by systematically examining the various mechanisms through which trust may be created and expanded among alliance partners.

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