Discovering the needle of trust in the haystack of distrust: International and corporate citizenship alliances – Indian / Australian experiences

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Abstract

Trust is as a key aspect in the development of business relationships. Considerable research on trust is taking place in psychological, organizational and sociological fields of study. This paper summarises recent research findings and reviews a study of trust in international alliances (IA). Four joint venture case studies were investigated by interviewing IA managers in India and Australia. Findings confirmed the significance of trust and correlate with a number of the issues identified in previous trust theory. A number of other issues were identified which influence IA and corporate citizenship maintenance. The paper proposes that the importance of trust is also dependent on the nature of the industry, the type of joint venture project and the socio-economic and legal/control environment. A model describing how trust impacts on the phases of development of IA’s is proposed. The paper confirms that trust is a multidimensional and dynamic factor which is important for the development of IA or corporate/community relationships.

Keywords: Corporate Citizenship, Strategic Alliances, Trust theory, Relationships, International Joint Ventures, Ethics and Values.
Introduction

Why do firms get into an alliance? One aspect is to address opportunity efficiently and effectively in the world of economic opportunism. When economic opportunism is the goal how does one ensure that the same intent does not vitiate the joint contribution of capabilities to mine the pot of gold buried in the existing and emerging markets? When potential partners get together they experience each other through the smokescreen of preliminary knowledge, untested assumptions and prior experience, both relevant and irrelevant to alliance management. It is as if they are searching for the needle of trust in the haystack of distrust, a haystack that has self generating properties, a haystack full of wild weeds possessing self propagating genes to withstand annihilation. Partners to an alliance directly and indirectly attempt to burn, destroy and eliminate distrust. This paper presents evidence of distrust reduction behaviour in Indian and Australian alliances and highlights the importance of context in trust enhancing, distrust reducing mechanisms.

Alongside this economic opportunism argument flows a growing sequence of literature which suggest that many in the world are becoming increasingly alarmed at the impact of corporations who take little account of their goals in anything other than economic or financial terms (Hutton (1995), Saul (1997). Corporate sustainability is becoming increasingly linked to social and environmental sustainability. A movement built around the concepts of corporate citizenship and corporate social responsibility is growing. Corporations are facing increasing pressures to work in co-operation with social groups, not-for-profit entities, government agencies etc. to ensure healthy societies underpin a healthy economy. Consequently it follows that a study on the key factors which effect the ability of partners to pursue their opportunism together directly, or to work in society as effective corporate citizens, relates to their ability to manage their trust or distrust towards their partners and stakeholders.

The dominant purposes of alliance formation can be seen from two perspectives. Firstly, their purpose can be to access and utilise complementary resources of partnering firms to
strengthen existing products and services in existing markets or existing products and services in new markets or develop new products and services for existing or new markets. The leading perspective is the resource based view, which was developed from the work of Penrose (1959) and advanced for example by Wernerfelt (1984), Conner (1991), Barney (1994), Collis and Montgomery (1995), Ghemawat (1999). In order to reduce time to market, achieve top line and bottom line targets and beat competition, firms search for alternatives. In the process of this search firms find alliances as appropriate vehicles for the utilisation of complimentary capabilities.

Transaction Cost economics as developed mainly by Williamson (1975,1985) explains relational risk due to opportunism and dependence as a result of specific investment. Relational risk has two broad dimensions: The extent of loss one may incur due to opportunistic behaviour of the partner and the probability that this loss will occur. The extent of loss depends on the value of the partner in comparison to the next best opportunity plus the switching cost to that alternative which together determine one’s dependence.

The probability that this loss will occur depends the incentives the partner has for opportunistic behaviour and trustworthiness as explained by Nootenboom (1999) as ‘propensity towards opportunism’ which in turn depends upon character, bonding between partners, habits and institutions.

Secondly, alliances may be formed as a protective strategy to minimise the risk of factors other than economic opportunism limiting organisations capacity to grow or survive. Multi National Corporations (MNC) in particular are being forced to protect their reputations in an increasingly hostile social environment (Balasubrumanian and Kimber 2000) ¹. One way organisations are attempting to deal with this trend is to form alliances and relationships with stakeholder representatives, either groups or individuals, to work out mutually acceptable solutions. “Unholy Alliances” such as mining corporations and indigenous communities, oil producers and environmental activist Non Government Organisations (NGO’s) are becoming more common. The creation of business and community partnerships is becoming a global movement.
Consequently, trust is a topic rapidly moving into centre stage as a key management issue. Likewise ‘international alliances’ and ‘relationship building’ are playing an increasingly important role in the globalisation of business. This paper reviews the connection between these two areas. First, it defines the terms and sets out a conceptual framework for the discussion. American research on trust in the last ten years is briefly outlined and a study of the application of trust in international joint ventures (IJV) in India and Australia is reviewed. Findings from that study are presented and correlated with the research. The paper concludes by identifying aspects of trust theory which have been confirmed by the study and highlights practical issues which relate specifically to trust, relationship building and IJV’s.

Whilst the research focus of the paper relates to IJV’s, it is posited that new forms of alliances, especially those emerging from corporate citizenship developments, community/business partnerships, increased stakeholder involvement with corporations etc., will be well advised to take account of trust research and theory. Recognition of this arena is likely to enhance greater interaction between corporations, community groups, and society – a development that can only enhance the corporate citizenship movement.

**The Conceptual Framework**

Trust is not a new term. It is commonly used and has been a key influence on human behaviour for centuries. It has been the focus for many myths, legends and fables which deal with the way people and the Gods have behaved. However even though a key human value, it has not been central to philosophical discourse (Bauer, 1992). Bauer suggests trust has connections with “soft” emotional, subjectivity and, as such, has been discounted by many male philosophers who have reviewed moral, ethical behaviour in the light of conflict rather harmony.

The advent of internationalisation; a greater emphasis on relationship building, rather than managing conflict; and a growing awareness of the importance of economic co-operation, has led to a re-evaluation of the importance of trust as a business issue in the
last three decades. A body of research has been rapidly expanding in a variety of fields. Academics in politics, sociology, psychology, communications, economics and management or organisational behaviour have all taken up trust research. As indicated by a number of American literature reviews (McKnight & Chervany, 1996; Sheppard & Sherman, 1998; Rousseau, Sitkin, Burt & Camerer, 1998), a wide variety of orientations have developed. McKnight and Chervany’s extensive survey on the meanings of trust has provided an approach which assists in developing theory. They identified a wide range of trust meanings but conclude that “a broad, cohesive yet parsimonious group of constructs emerges” (McKnight and Chervany, 1996:13). These are: trusting intention, trusting behaviour, trusting beliefs, system trust, dispositional trust and a situational decision to trust. This conceptual framework flows in sequence from attitudes and beliefs through intention and behaviour disposition and systems to situational decision making. Such an approach assists researchers to focus on a specific trust arena and correlate their activities thematically with other research. This paper will concentrate on beliefs, intention and behaviour.

The Meaning of Trust

A number of perspectives of trust emerge, which are directly relevant to IJV’s. First, trusting beliefs suggest a psychological condition (Rousseau et al, 1998) underpins trust. Without this “state of mind” activity cannot progress. McKnight and Chervany suggest that trusting beliefs are built around a view that people are (can be) “benevolent, honest, competent and predictable”. They suggest ... “the combination of the four beliefs provides a firm foundation for trusting intention and trusting behaviour” (McKnight & Chervany, 1996:34).

A number of other elements are commonly associated with trust. The first theme identified by many researchers (Rousseau et al, 1998) relates to vulnerability (Mayer, Davis, Schoorman 1995) with a concomitant belief that trust provides security (Lewis & Weigert, 1985; Holmes & Zenna, 1985b; Eayrs, 1993).
Risk is the second theme identified in the research literature. It is an “essential condition in psychological sociological and economic conceptions of trust” (Rousseau et al., 1998:395). Risk must be known by the ‘trustor’, otherwise trust would not apply as a concept influencing behaviour or decision making.

Interdependence (Rousseau et al., 1998) or dependence (Dobing 1993) is the third condition regularly identified in trust theory. Trust implies a relationship exists between two parties whereby; either one relies on the other, or there is mutual reliance. IJV’s often are based in the latter condition.

Rousseau et al. (1998) and Nooteboom, Berger & Noorderhaven (1997) provide definitions of trust which summarise these themes as follows:

Trust is a psychological state comprising the intention to accept vulnerability based upon the positive expectations of the intentions of another.

(Rousseau et al., 1998:395)

Trust is a partner’s ability to perform according to the intentions and expectations of a relationship (competence trust) or his / her intentions not to defect (intentional trust).

(Nooteboom et al., 1997:311)

Other Factors Affecting Trust

Research has identified a wide variety of other factors, which impact on trust. At one end of a spectrum it has been identified as relating to a static single item event. What causes a person to trust another when faced with a single decision (Axelrod 1984). Alternatively, and more commonly in organisational contexts, trust has been considered as a dynamic element in relationships which can be constructively developed and maintained, or can decline (Rousseau et al., 1998; Miles and Creed, 1965).
An important, more recently identified view is that trust and distrust can exist as independent variables in a relationship, rather than as at either end of a spectrum (Lewicki, McAllister and Bries, 1998). They conclude that they operate simultaneously during a relationship and put forward the framework outlined in Table 1 below.

**Table 1: Trust – Distrust Matrix**

<table>
<thead>
<tr>
<th><strong>High Trust</strong></th>
<th><strong>Low Trust</strong></th>
<th><strong>Low Distrust</strong></th>
<th><strong>High Distrust</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Characterised by:</td>
<td>Characterised by:</td>
<td>Characterised by:</td>
<td>Characterised by:</td>
</tr>
<tr>
<td>Hope</td>
<td>No fear</td>
<td>Absence of scepticism</td>
<td>Fear</td>
</tr>
<tr>
<td>Faith</td>
<td>Absence of cynicism</td>
<td>Absence of cynicism</td>
<td>Scepticism</td>
</tr>
<tr>
<td>Confidence</td>
<td>Low monitoring</td>
<td>Low monitoring</td>
<td>Cynicism</td>
</tr>
<tr>
<td>Assurance</td>
<td>No vigilance</td>
<td>No vigilance</td>
<td>Wariness and watchfulness</td>
</tr>
<tr>
<td>Initiative</td>
<td></td>
<td></td>
<td>Vigilance</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Lewicki, McAllister and Bies, 1998:445)</td>
</tr>
</tbody>
</table>
Their analysis suggests that the simultaneous existence of these two conditions is most likely in rapidly changing or unstable environments. This is particularly relevant for IJV’s in new or emerging industries such as information technology. Two entities may implicitly trust each other’s technical expertise and rely on each other’s involvement supporting the JV accordingly. However as has been recognised in JV, research (Raghunath, 1996a, 1998b) both parties may be aware of the other potential to become a future competitor in the market and therefore “distrust” each other in terms of market information. As such it is not uncommon for parties involved in such an IJV to erect “paper walls” around the IJV to protect themselves. Both parties may be quite distrustful of each other in terms of future market development strategies. However they are prepared to work together and trust each other to gain mutual technological advantage via an IJV.³

Trust has been identified as both a “cause” and “effect” in terms of relationship development. It has been described as a key element determining how relationships are built and maintained (Deutsch, 1958; Williamson, 1975) It has also been regularly noted as an outcome of good relationships - namely, trust builds trust. (Mishra, 1996; Rousseau et al, 1998).

Schemas of trust have been identified in a number of ways. Research which comes from economic analysis, considers trust as a calculative event, predictable and based on rational choice. People or entities will trust each other based on knowledge of proven prior performance, evaluation based on certification, reputation, history of past performance, rational choice, economic exchange assessment, etc. This is identified as calculative trust. In contrast, the sociological/psychological perspective recognises relational issues. Then trust is perceived as an interpersonal, “affective”, emotionally influenced interaction between people either individually or in groups (McAllister 1995). Such an approach emphasises the intuitive, subjective feelings which people have about each other. Trust emerges from the relationship itself - personal factors will have significant impact and is known as relational trust.
Another schema of trust suggests it has meaning as a concept at four levels:

- interpersonal (one to one relationships),
- group/organisational (relationships between groups in formally structured environments such as at work),
- small group/community (relationships between groups in informally structured environments such as neighbourhoods, social clubs, etc), and,
- large group/institutional/societal. (relationships between individuals and groups at institutional/societal levels - in schools, relating to law and order, etc.)


These two frameworks can be combined to reflect the potential, multi-channelled, multi-faceted set of relationships which co-exist and influence each other simultaneously.

**Table 2: Trust levels and styles**

<table>
<thead>
<tr>
<th>Trust styles</th>
<th>Primarily Calculative</th>
<th>Primarily Relational</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trust levels</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interpersonal</td>
<td>XX</td>
<td>XXX</td>
</tr>
<tr>
<td>Group/organisational</td>
<td>XXXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Group/community</td>
<td>XX</td>
<td>XXX</td>
</tr>
<tr>
<td>Large Group/Institutional/Societal</td>
<td>XXX</td>
<td>X</td>
</tr>
</tbody>
</table>
The X’s displayed on Table 2 represent the hypothetical likelihood of the different styles having a different emphasis at different levels. (More X’s = higher probability). This model suggests that calculative trust will be more evident when considering trust at societal or institutional level, and that relational trust between individuals is likely to have little or no impact, whilst at the interpersonal level relational trust styles are likely to be more influential.

Such a matrix highlights a key trust issue. People relate to each other at all levels, and are likely to use different styles of trusting behaviour and beliefs in different circumstances. They may trust a professional or trades-person they deal with very much on a calculative basis whilst at the same time respond to friends and work colleagues in a more relational way. At the same time they might be members of groups which exhibit both high and low trust reactions to other groups or individuals in different settings. The matrix emphasises the point that trust as a concept rarely exist in isolation and is highly contextual. It highlights that in corporation-community partnership development both calculative and relational trust factors are likely to be influential.

This approach can be extended to reflect the impact of national culture on trust practices (Doney, Cannon and Mullen, 1998). Their analysis suggests different styles will be adopted in different cultural environments. They use Hofstede’s dimensions of culture (Hofstede, 1980) as the basis for a series of hypotheses which indicate how different countries’ cultural styles are likely to encourage different types of trust behaviour. Hagen and Choe’s (1998) analysis of trust in Japan suggests that situational factors, such as the importance of trade group relationships in Japan, influence the potential for the betrayal of trust.

Das and Teng (1998) review the relationship between trust and control mechanisms used to manage distrust. They present a number of hypotheses that relate trust and control levels to different types of alliances. They suggest that high trust and good control systems will help create joint ventures. When trust levels are low and control systems are hard to establish, non equity alliances are most appropriate. Minority party equity alliances will emerge when there is low trust and good control systems or vice versa.
The relationships between risk and interdependence and relational forms have been analysed by a number of researchers and are summarised by Sheppard and Sherman (1998). They have developed the following model which helps to clarify potential relationships and behaviors. Their table extends the concepts of different types and levels of trust outlined in Table 2.

Table 3: Trust Relationships and Behaviours

<table>
<thead>
<tr>
<th>Forms of Dependence</th>
<th>Risks</th>
<th>Qualities of Trustworthiness</th>
<th>Mechanism for trust</th>
<th>Relational Mechanisms</th>
<th>Institutional Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shallow dependence</td>
<td>Indiscretion</td>
<td>Discretion</td>
<td>Deterrence</td>
<td>Fate Control</td>
<td>Historical Records, Enforcement</td>
</tr>
<tr>
<td></td>
<td>Unreliability</td>
<td>Reliability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Competence</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deep dependence</td>
<td>Cheating</td>
<td>Integrity Concern</td>
<td>Obligation</td>
<td>Network</td>
<td>Quadratic Control Socialisation Selection</td>
</tr>
<tr>
<td></td>
<td>Abuse</td>
<td>Benevolence</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Neglect</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Self Esteem</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shallow interdependence</td>
<td>Poor co-ordination</td>
<td>Predictability Consistency</td>
<td>Discovery</td>
<td>Contiguity</td>
<td>Communication and information systems</td>
</tr>
<tr>
<td>Deep interdependence</td>
<td>Misanticipation</td>
<td>Foresight Intuition Empathy</td>
<td>Internalise</td>
<td>Shared Meaning, Values, products, goals</td>
<td>Strategic alignment, common membership, discourse</td>
</tr>
</tbody>
</table>

One concludes a review of the different aspects of trust research by suggesting that balance and consistency are likely to be temporary states in many situations. Equilibrium is often a snapshot of a moving continuum of interaction influencing and influenced by trust and distrust simultaneously. This becomes increasingly relevant to global world influenced by dynamic and rapidly changing organisations who want to use joint venturing as an approach to expansion and market development. Similarly, MNC’s being pressured to take account of a wider group of stakeholders need to take account of trust research. It would suggest that interpersonal trust may have more applicability when calculative or institutional trust becomes more problematic. However rapidly changing environments are likely to break the connections which help build up relational trust. The
effect of down-sizing and restructuring on the personal relationships may be an important factor which should be taken into account in the development of a new IJV. In the merger and acquisition climate this may be a key factor being overlooked in the swirl of global decision-making in MNC’s. Consequently trust management and its impact on the development of IJV’s in Australia and India in the last five years is an important field worthy of further research.

**Indian and Australian cases studies - methodology**

In 1997 and 1998 a series of interviews were carried out with four organisations directly involved with joint venturing. Two IJV’s were chosen in India. Both were set up as independent entities from their parent companies. Both were involved in information technology development - one in the aircraft industry, the other in medical equipment research. In Australia interviews were conducted with personnel from the international divisions of two MNC’s, operating in the finance industry. The two Australian corporations were chosen because of recent significant offshore joint venturing activities. One had just won a licence to operate in mainland China, the other has been developing extensive networks in South and South East Asia. A further interview was undertaken in Australia with an experienced independent consultant who has been working on IJV development for the past two decades, to verify the findings from the four cases.

The open ended interviews were conducted using a series of questions to encourage discussion and trigger ideas around the theme of trust management. The questions covered the following themes:

- what does trust mean in terms of an IJV?,
- determination of its importance and techniques used to develop it,
- clarification of conscious or unconscious processes used to deal with trust or distrust issues emerging in IJV management,
- How does timing and time management influence trust maintenance?,
- other strategic/policy management factors which impact on trust maintenance.
The way the interviews were conducted emphasised ‘focussed informality”. In India they were conducted by both researchers working as a team, in Australia by one researcher. The interviews, in most cases, were tape recorded and transcripts made to create initial data. The transcripts were initially analysed both independently by the researchers and then, later, as a team. The findings outlined below emerged from this analysis.

**Research findings**

Many of the findings correlated with the research outlined above. However some modified the more extreme reflections which postulate that trust is the most significant element influencing the development of IJV’s.

**The Importance of Trust at the early stages of IJV negotiation**

All parties interviewed strongly endorsed the view that trust is an essential factor at early stages of an IJV. Most parties identified approaches which helped develop a trusting relationship. In one case ‘distrust signposts’ were specifically removed at the first meeting. For example an attempt by a legal adviser to one partner to the project to get a confidentiality contract signed before negotiation started was strongly resisted by senior negotiators from the other organisation. They regarded the need for such a document as a sign of distrust. It would start the relationship off on a negative footing. They indicated that if it was seen as an essential aspect of the negotiations by the other party, the likelihood of the IJV succeeding was not high. This argument was accepted and the legal advice was ignored. In other cases, active steps were planned to include all key players in early deliberations. Workshops were used to ensure people affected by the project were kept informed of the proceedings, so as to reduce uncertainty. Such actions confirmed that trust underpins positive interaction between parties; is built via beliefs and attitudes; and is reinforced by behaviour.
The significance of relational trust

Personal intimacy was noted by a number of interviewees. The good personal relationships between the key people, often the senior decision makers, was highlighted as a factor which will help established a IJV. Handwritten personal memos were noted as a way of developing personal connectedness by one CEO. In another case small gifts being given – stamps for the other partner’s children, books on specific topics discussed, etc. Such actions showed an awareness of personal interests and were noted as gestures which helped build relational trust.

An interesting note was that this issue was discussed by Indian IJV managers but not the Australian international trade personnel. The Australian consultant said that he felt Australians were often insensitive to the more personal aspects of trust building. They were not ‘culturally prepared’ and as such missed out on recognising the personal issues which helped establish trust. Such findings correlate with research done on the preparation of Australian managers for international project work (Blackman 1994).

This result confirmed Macneil’s (1980) view. He said:

*Relational exchange is based on a social component, largely represented by trust. Specifically, parties involved in relational exchange derive non-economic satisfactions and engage in social exchange as well as economic exchange*

*(Macneil, 1980:13)*

This line of reasoning is consistent with the work of sociologists such as Powell (1990) and Granovetter (1985) who developed the notion of embeddedness. These scholars have emphasised the role played by socially embedded personal relationships in economic exchange. Economic exchange relations depart from “pure economic motives” and “become overlaid with social content that carries strong expectations of trust and abstention from opportunism” (Granovetter, 1985:490)
Trust and distrust management as part of the total package of relationship building

Most parties identified the need for a solid foundation for an IJV relationship. They indicated that it must be built on a sound awareness of all factors – social, economic, political, structural, operational systems, etc. As such trust and distrust management will influence how the relationship is developed. The Indian cases identified the need for “paper walls” as noted above as part of distrust management. Staff allegiance to the JV, rather than the international parents, was noted as an important organisational factor by one of the Indian cases. This was done by ensuring the partner ‘macro’ decision making was kept separate from the operational arena of the IJV. Both Indian cases created separate financial entities for the IJV’s. In both of the Australian cases, the operational control systems were emphasised as important elements in a successful IJV. These features indicated the need to manage distrust as well as to strengthen trust. Both these approaches confirmed the features of relationships which exist when high trust and distrust operate simultaneously, as noted in table 1 above. Our research reinforces a view that high trust and high distrust is likely to be found in the IJV environment, especially when longer term, technically complex relationships are implicit.

The development of trust takes time

It was evident in all cases that time is a crucial factor in the development of trust. In one of the Indian IJV’s the two parties had been trading or relating to each other for over 30 years. One of the Australian organisations obtained a licence to operate in another country after negotiating for over 5 years. They expected to be committed to the IJV for 20 to 30 years. Rapid trade development is often alluded to as a feature of globalisation. However, it is worth recognising the importance of time. It confirms that calculative trust is an important factor in larger organisational situations. Clarifying reputation, establishing an awareness of technical skills and capacity of the other partner is not likely to occur quickly and will be important if the relationship is to continue over a long period.

In essence we argue that inter firm relationships develops within the context of recurring transactions between the parties. Social elements and relational norms epitomised by trust
become established in the relationship (Ring and Ven de Ven, 1992). The parties to the IJV rely on relational norms to adopt process elements that serve as safeguards in their relationship, contributing to a more durable, stable, long-term relationship.

**Assessment of integrity**

A corollary of the point just identified was the importance of integrity. All cases indicated that the development of trust and the strength of the relationship was directly influenced by the assessment of the partner’s reliability, competence, and credibility. As one of the Australian corporations noted, “our prime concern is to establish a relationship with a quality partner”. Again this directly relates to establishing trust in a ‘calculative’ way. The findings suggest this will be more important when commitments to the IJV are high. Capital costs in developing infrastructure in another country are likely to be substantial. In certain areas, especially those influenced by government regulation such as the finance industry, a failed first venture could stop further opportunities to start with another partner.

**Implications**

A number of implications can be drawn from the research undertaken to date and the cases researched in India and Australia.

**Confirmation of former research**

The findings from this research project did not produce any contradictory findings relating to prior research work on trust theory. It confirmed a number of key principles, namely the ability of organisations to simultaneously manage trust and distrust, the importance of both relational and calculative trust and the significance of complexity and context, which is discussed in more detail below. The research also confirmed some of the factors which impact on trust creation and development previously identified.
At the same time a simple model is proposed which combines some of the aspects of former research and draws in the findings from this project. It is outlined below.

**Importance of context and complexity**

Context is a significant factor which reduces the prospect for simple overall hypothesis to be drawn and proven when considering IJV development. This was illustrated by the cases and confirmed by discussions with the independent consultant. The industries considered highlighted two issues. The finance industry, especially with products such as insurance and long term lending, create connections with customers which have to be handled for a long time. Consequently IJVs must be planned as a long term operation. As such systems must be established which can be sustained over a long period. An IJV in this field ideally must be between mature businesses - entities which will be able to co-exist over a long period. As such, calculative trust mechanisms and approaches will be most important. Whilst relational trust may assist in the establishment of the IJV, ultimately in this industry trust-strengthening, distrust-limiting financial control systems will be essential if the IJV is able to sustain market credibility.

In the technology industry environment, relational trust is more likely to be influential. Establishing control systems in areas undergoing rapid change is more difficult and possibly less manageable. Why establish an intricate financial control system if new products, changes in strategy, etc. are likely and probable? In such environments approaches which enhance and strengthen interpersonal trust may be more valuable. Relational trust building approaches, such as encouraging and rewarding ethical conduct, may be more effective than concentrating on systems to manage distrust.

Whilst the cases appeared on the surface to provide some simple predictors in this arena, closer reflection suggested that simple solutions are unlikely. The dynamic and multifaceted nature of trust and IJV development was confirmed in each case. Each case had certain individual features which meant drawing broadly based conclusions too strongly would be problematic.
**Trust theory, networks and multiple alliances**

In a world of rapid technology development and change, it can be posited that multiple alliances or networks are emerging as expansion or market share protection devices. Examples are most evident in the airlines and IT/Communications industries. They may relate to a specific technology development or may be used to keep ‘a finger in a pie which is being continually rebaked’ – a strategy to protect against being left behind during periods of rapid change. As such these connections can be transitory or opportunistic, but still strategically significant.

This research emphasises the need to clearly identify the trust elements, or the appropriate distrust management systems needed to develop or maintain these entities. A loose R & D alliance to consider a specific technology application to be shared by all parties may be strongly influenced by the relational trust between the scientists involved. The control systems relating to seat allocation, booking and scheduling for an airlines alliance needs to be foolproof, to ensure overall market share of the group is expanded and no individual parties positions are damaged.

**Corporate Citizenship Alliances**

Much of the paper to date has been focussed on IJV’s being seen as technical and market development focused – primarily driven by the economic or financial imperative. However the emerging importance of corporate reputation and citizenship is leading to MNC’s forging relationships with other groups representing social and environment communities. Resources and energy corporations are being forced to refocus their strategies towards sustainability. Manufacturers are re-evaluating the impact of their production processes and products on the communities around them. Former ‘radical’ NGO’s are increasingly been turned to by corporations who are concerned about their lack of knowledge in community and environmental affairs.

Understanding the implications of how trust is built or lost, especially with former ‘enemies’ who are now ‘uncontrollable, often suspicious, allies’, is an important dimension for the corporate citizenship movement. Relational trust is important,
especially if interest groups are represented by strong personalities holding entrenched views. In Australia some mining companies’ relationships with indigenous communities, whose land rights and cultural heritage have been threatened by mining, have become benchmark examples of corporate citizenship in action, primarily because the trust factor was appropriately managed.

**Social and Cultural Awareness**

As MNC’s develop links in new and emerging economies, awareness of socio-cultural factors become more significant influences on their success. They have come to realise their expatriate managers must be adept at gathering social and cultural understanding, and be able to adapt to local conditions, if they are to operate in a way which respects regional economies’ needs and interests. Trust theory awareness will greatly enhance the chances of this occurring. Minimising behaviours which encourage distrust, and understanding how trust develops in the local context, will directly affect an MNC’s ability to ‘understand’ how to effectively operate in that region. It is an issue which will influence the development of new IJV’s, as well as relating to relationships with other stakeholders. It was a point strongly emphasised by the consultant commenting on failure of MNC’s attempting to work in China and is an often cited factor relating to the failure of MNC’s initial ventures in India. 9

**An Alliance Model of Trust/Distrust Management**

From our findings and reflecting on the implications, we have put forward a schema which may help understand how trust/distrust management will impact on relationship building. We suggest that the phases of trust development are likely to be as follows:

1. Prior to the relationship existing, either no trust or distrust between the parties will exist. If trust exists in any form, a relationship must have been established. Hence any new relationship exists either without trust, or with distrust assumed. This state must be a pre-existent condition before any relationship develops and can be regarded as
the ‘bedrock’ on which the alliance will be built. It automatically establishes the need for trust building behaviours to either overcome distrust or change the ‘no trust’ situation.

2. The initial, or ex-ante, phase of an alliance is likely to incorporate calculative trust establishment activity. This will aim to either overcome natural distrust or to establish a basis on which the relationship can develop. It is likely to be sought to establish the credibility of the potential partner(s). Reputation will attempt to be established by researching data or seeking opinions of others to establish prior performance. Parties may use certification such as ISO registration standards, government registration (official corporation status etc.) to attract potential ‘suitors’. Relational trust, such as friendship between the key players, may initiate this phase but, in IJV’s in particular, some calculative trust measures are likely to be important. In the exploratory phase of the IJV trust is established through reputation. The companies, and business leaders involved with those companies, acquire reputation for integrity and technical competence which are known in the market place and amongst peers. Reputation as a basis for trust is seen to define the inherent attributes of the firm concerned. In this phase trust is based on two key elements:

- Market complementarity based on joint competence required competing in the market place.
- Commitment, a reputation based on past performance in collaborative ventures.

3. The second phase of actual relationship building is likely to require a greater emphasis on relational trust. Most of the people interviewed stressed this. Relational trust become significant as the ‘glue’, the element which helps the alliance move into the third, operational phase. Meetings will be held which highlight protocol, the establishment of personal relationships, etc. Unless this occurs it will be difficult for parties to align their values, identify the prime purpose for the relationship and frankly work through all issues which need to be clarified at the initial development stage. Goodwill and positivity is more likely if relational trust exists alongside calculative trust.
Having checked the antecedents of the other party, the agreement to venture jointly is born out of matching the value system of the parties that is reflected in the culture of the participating firms. Culture that is based on a value system provides a common base for moving the collaborative venture forward.

Researchers have shown that what people view as desirable or ideal – that is, their internalised values condition favours the experience of trust which is upheld as a standard to strive for in the future. (Butler, 1991: Gabarro, 1978). A firm whose values system emphasise a certain values will strive to achieve those values in its relationship with others. Therefore, it follows that firms with similar value propositions will contribute to the generalised experience of trust and can even create a propensity to trust each other that surpasses specific situations or contingencies. This is the glue that affixes the conditional trust in the ex-ante IJV implementation phase to the evolution in to the process based trust in the implementation phase of any IJV.

4. The operational or ex-poste phase of the alliance will be dependant on performance. Hence calculative trust measures, as well as distrust management control systems, will be required to ensure both parties believe that their expectations are being fulfilled. Transparency and feedback systems inherently operate to maintain trust or diminish the impact of distrust. These can be structural, such as regular reporting, auditing, etc as well as psycho-social, such as social gatherings, informal feedback systems, friendship networks etc.

During the implementation phase, signalling through performance becomes the surrogate for trust. Reciprocal action serves as the basis for mutual commitment (Dwyer, Schurr & Oh 1987). The recognition in the game theory literature of infinite horizon games and the empirical demonstration that a tit for tat strategy is most optimal under those circumstances (Axelrod, 1984) provides further evidence for the role of reciprocity in long term relational exchange. We suggest that trust evolves on the basis of reciprocal signalling that conforms to stated intent announced prior to the formation of the IJV.
In this phase the notion of trust is process-based. Repeated interactions allow the participating companies to understand each other’s motives and priorities. Part of the process of deciding how much to trust involves finding out in practice about the strategies adopted by one’s other partners. Luhmann (1979) argues that a deepening of trust involves a learning process, saying that:

“... such learning processes are only complete when the person to be trusted has had opportunities to betray the trust and has not used them.”

Luhmann (1979:45)

Process-based trust creates social capital that enables the trusting party to exercise initiative, assured of the support of the trusted party. Parties in the course of the interaction periodically create, monitor and repair the trust as tensions surface and are resolved. (Lewicki & Bunker, 1996) These conditions reflect promotive interdependence and co-operation.

This schema can be represented diagrammatically:
Our model posits that the evolution of trust can be understood only in the context of the bedrock of “no trust or absence of trust”. Trust as an instrument of governance contributes to reduction of “dis-/no trust”. If trust is not present, it has to be created through shared norms and values. In the IJV context it evolves into “an out-come” from a state of ‘pre-condition’ (Phase 1: Ex-Ante) in which case it provides an improved basis for on going co-operation. Shared norms and values provide a criterion (“glue” in our model) for the selection of partners and in that sense can serve as an instrument of governance.

However, in our view, in the initial phase of contact between the potential IJV partners, the tension between the existence of “no trust” and “signals” of trustworthiness (the “ex-Ante” phase) is productive, in the best interests of the interested parties, and as a potential source for relationship. Switching on the search lights on the dark areas of distrust serves the purpose of enabling the emergence of greater trust in collaborative ventures. This is clearly evident in the ‘prior enemy’ examples in the corporate citizenship arena.

Whilst this model is put forward as a likely common perspective on how relationship development and trust theories interrelate, it is clearly dependent on context and complexity issues outlined above. However it emerges as a potentially valuable schema to assist in awareness of the phases of alliance building and trust management.
Conclusion

Our paper suggests a dynamic view of the notion of trust in the context of IJVs. IJVs are exchange relationships existing with a significant social component which may be masked or missed in economic explanations of exchange. The sociological perspective captured in the trust construct, significantly enhances the explanatory power of the model of governance in the context of IJVs.

Trust theory is becoming recognised as a key issue in a world affected by rapid change and globalisation. It has direct impact on the nature of corporate citizenship. Many of the themes relating to trust outlined above have clear applicability irrespective of the nature of the alliance. Business/community partnerships can only be enhanced by greater awareness of this field. As corporate citizenship develops as a global movement, international alliances, allegiances, and networks are likely to expand. Hence the issues emerging from this paper will need to be further developed. The significance of positive planning for trust development and the recognition of the impact of distrust open up further fields of research well worthy of further work.
References


Endnotes

1. The risk of not doing so in many circumstance has proven detrimental to the corporate reputation.

Cases relating to social or environmental disasters, such as the Union Carbide chemical spill in Bhopal, Exxon Valdez oil tanker shipwreck, Shell Oil’s problems with politics in Nigeria and oil rig dismantling in the North Sea, illustrate this point.

2. Axelrod’s “Prisoners Dilemma” research is typical of this sort of analysis

3. Lewicki et al describe such a JV which existed between Boeing Corporation and a Japanese company involved in the building of the Boeing 777.

4. Another area of trust relates to the ‘individual’ i.e. trusting oneself. It emerges from psychological themes of self deception, self confidence, self doubt, etc. and is worthy of consideration, but is outside the boundaries of this paper.

5. At this level it is the trust behavior of a critical mass - the larger social groups such as religious communities, societies, etc., and is influenced by both culture and structural support systems.

6. A contract which bound both parties not to divulge what would be discussed in the meeting to outside parties.

7. A literature review undertaken in 1995 on trust in business indicated that key factors influencing trust were co-operation and sharing, time, good communication, appropriate behaviour, positivity, care, reliability and stability, equity and fairness. For further details see Kimber and Birchall, (1998)

8. Examples are Star Alliance linking a number of independent airlines, and TV and Telecommunications networks such as those created by Start TV in India and China.

9. Enron’s initial, expensive failure to establish an IJV for a power plant in India has been at least partially attributed to their inability to effectively connect with local communities, something they have now addressed - see Shrivastava H & Venkateswaran S (2000).
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