

Trust in international joint venture relationships

Margreet F. Boersma^a, Peter J. Buckley^b, Pervez N. Ghauri^{c,*}

^aPrice Waterhouse Coopers, Utrecht, The Netherlands

^bUniversity of Leeds (CIBUL), Leeds, UK

^cManchester School of Management, UMIST, PO Box 88, Manchester M60 1QD, UK

Abstract

A great deal of attention has been paid to the performance of international joint ventures (IJVs) and trust has been recognised as a key factor influencing it. This paper examines the emergence of trust as a process and develops a process model of trust building in IJVs, which is used to analyse four case studies. The main conclusions are the following: Whereas competence-based trust starts from public information, promissory-based trust and goodwill-based trust are individually orientated and mainly develop through direct personal interaction. Such interaction may lead to bonds of friendship between delegates. Before these bonds evolve, trust is mainly based on the perceived self-interest of the partner in the joint venture. When the bonds of friendship dominate, the main source of trust shifts towards emotional commitments. Thus, in the early stages of an IJV, promissory-based trust predominates, and as the joint venture progresses, competence-based trust emerges. Goodwill-based trust is important throughout the process. A commitment to cooperate emerges from initial self-interest. The model is capable of further development and testing.

© 2002 Elsevier Science Inc. All rights reserved.

Keywords: Trust; Joint ventures; Performance in joint venture

1. Introduction

International joint ventures (IJVs) are frequently stated to be increasingly popular but with significant managerial dissatisfaction in their operations (Madhok, 1995a). Therefore, a great deal of attention has been paid to the performance of IJVs (e.g., Contractor and Lorange, 1988; special issue of JIBS no. 5, 1996; Hyder and Ghauri 2000). Particular emphasis has been placed on the dynamic processes within IJVs, including conflict resolution strategies (Lin and Germain, 1997) and the development of trust between the partners (Parkhe, 1993b; Madhok, 1995b; Ariño and Torre, 1996).

This article examines the development of trust in IJVs over time. Many scholars have recognised trust as a key factor in improving the performance of IJVs (including Gabarro, 1978; Granovetter, 1985; Parkhe, 1993a; Ganesan, 1994; Ring and van de Ven, 1994; Nooteboom, 1996; Uzzi, 1997). Our approach is to formulate propositions based on transaction cost process analyses in which trust is seen as both an input and an output in various stages of devel-

opment of the IJV. Trust reduces transaction costs because it “economises on the specification and monitoring of contracts and material incentives for co-operation” (Nooteboom, 1996, p. 989). Buckley and Casson (1988, p. 32) argue that the firm essence of voluntary interfirm cooperation lies in “coordination effected through mutual forbearance, which in turn becomes possible where there is reciprocal behaviour and mutual trust.” When trust is present, managers will find “ways by which the two parties can work out difficulties such as a power conflict, low profitability and so forth” (Sullivan and Peterson, 1982 in Dwyer et al., 1987, p. 23).

The emergence of trust is a process. Every process has inputs and outputs. The process is likely to be recursive, not linear. However, it is useful as a first approximation to build a linear schema of the trust development process, and this we do below in developing our research propositions.

The following section explains the notion of trust, its dimensions and sources ending with a formal definition. We then examine a transaction cost approach to trust, and a process model is introduced. The four IJV cases are then examined, and the model is applied to their development. The conclusion presents refinements to the initial model.

* Corresponding author.

E-mail address: Pervez.Ghauri@umist.ac.uk (P.N. Ghauri).

2. Explaining trust

The first question is whether trust is simply a subset of risk taking (Corazzini, 1977; Gill and Butler, 1996; Luhmann, 1988) or whether it has a more moral basis (Hosmer, 1995; Craswell, 1993). In this discussion, trust is exemplified as an explanation of particular behaviour; for example, “X loaned some money to Y. What might explain X’s behaviour?” (Craswell, 1993, p. 487). Deutsch (1962) argues that trust arises only when the expected loss is greater than the expected gain, otherwise “trust would be a matter of simple economic rationality” (Hosmer, 1995, p. 381). This is in line with Williamson’s (1993) presumption of opportunism and calculative behaviour. He believes that actors who seemingly take a leap of faith are mostly behaving in a self interested way. Williamson thus argues that trust is not the right word to use in such cases. Craswell (1993), however, also recognises instances in which individuals take leaps of faith because they trust others. He thereby acknowledges that actors do not always act from calculative motives (see also Rempel et al., 1985; Luhmann, 1988). Some definitions only emphasise (an absence of) negative behaviour (e.g., Nooteboom, 1996), including cheating, while others focus on more positive conduct, such as doing more than is expected (e.g., Sako, 1992). Madhok’s (1995b) explanation starts from a presumption of opportunism, but then goes to observe (from four interviews) the growth of trust, while Das and Teng (1998) suggest that trust is strongly related with control.

2.1. Dimensions of trust

Authors have used different dimensions of trust and distrust (see, e.g., Lewicki et al., 1998; Bigley and Pearce 1998), however, in order to define trust, we follow Sako (1992) who makes clear distinctions between three different dimensions of trust in interfirm relationships. The dimensions she distinguishes are: contractual-based trust, competence-based trust (Ganesan, 1994 combines both promissory-based trust and competence-based trust into the label ‘credibility’) and goodwill-based trust (other labels for this type of trust are, amongst others, character-based trust (Gabarro, 1978), behavioural trust (Nooteboom, 1996) and benevolence (Ganesan, 1994).

Promissory-based trust arises from the explicit written or oral agreements that partners make during the joint venture relationship. When making such agreements, a party should be relied upon to keep to that agreement. Our definition of *promissory-based* trust follows: “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, p. 15).

The third dimension, *goodwill-based trust*, is explained by Sako (1992, p. 39) in the following way, “The key to understanding goodwill-based trust is that there are no

Table 1

Determinants of cooperative behaviour/sources of trust

	Macro	Micro
Egotistic	coercion or fear of sanctions from some authority (God, law)	material advantage or “interest”
Nonegotistic	ethics: values/norms of proper conduct	bonds of friendship, kinship or empathy; emotions

Source: Williams (1988).

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, then, is a less self-interested, nonegotistic form of trust.

2.2. Sources of trust

Is it possible to use the term ‘trust’ when one person believes that the other is acting in a trustworthy fashion for other than moral reasons (Hosmer, 1995)? Cooperative behaviour can occur even when the motives are material advantage or fear of sanctions (Buckley and Casson, 1988). So X believes Y will keep a promise because X thinks that Y has a clear self-interest in being ‘trustworthy.’ Table 1 represents a schema examining the determinants of cooperative behaviour that classifies its determinants into micro/macro determinants and egotistic/nonegotistic motives (Williams, 1988). The range of motives underlying trust can range from material advantage and fear of sanctions to an ethical stance based on superordinate goals and personal emotions.

Our formal definition of trust thus is: “on expectation that a party can be relied on to keep to agreements (promissory), will perform its role competently (competence) and that the party will behave honourably even where no exploit promises or performance guarantees have been made (goodwill).” This is a wider definition and, as we shall see, it may be necessary to uplift the concept back into its component parts in practical situations.

3. The role of trust in IJVs: a transaction cost approach

The distinctive characteristic of a joint venture, which is shared ownership, is also its key problem (Killing, 1982; Beamish and Banks, 1987; Hennart, 1988; Geringer and Hebert, 1989). Shared control implies two or more companies deciding the strategic direction and operational issues of the joint subsidiary. Shared control brings with it increased transaction costs.

Transaction costs have both ex ante and ex post elements. Ex ante transaction costs include drafting, negotiating and safeguarding an agreement. They can be quantified by examining actual costs (mainly management time) of

the agreement process and examining the insurance costs of default. Ex post transaction costs are more complex. They include: (1) the adaptation costs incurred when transactions drift out of alignment with the terms of the agreement, (2) the haggling costs incurred if bilateral efforts are made to correct ex post misalignments, (3) the set-up costs and running costs associated with the governance structures (either in the courts or outside them) to which any disputes are referred and (4) the bonding costs of effecting secure commitments. Ex post costs are not easily quantifiable prior to the implementation of the agreement because they include an element of uncertainty. (How likely is it that the partner will default on the agreement?) This implicit probability exists in the minds of the executives entering the agreement. It is difficult for the executives to articulate the complexity of these issues and, hence, “The transaction costs that are really there, in the sense that they determine the outcome are those transaction costs that are perceived by the manager (or managers) who make the decisions” (Buckley and Chapman, 1997, p. 139).

The role of trust can now be seen in clear focus. Trust is a transaction-cost-reducing mechanism that lowers the subjective risk of entering into an agreement. Both ex ante and ex post elements are reduced by trust. Costs of negotiating are reduced (perhaps legal trappings are replaced by ‘a gentleman’s agreement’) and the subjective probability of ex post transactions failure declines when the parties trust one another.

Buckley and Casson (1988, p. 32) approach the issue of trust by defining cooperation as “co-ordination effected through mutual forbearance.” Forbearance is refraining from cheating (avoiding opportunism in Williamson’s, 1975 term). Cheating may take a weak form—failing to perform a beneficial act for the other party, or a strong form—committing a damaging act. The incentives for forbearance arise from the possibility of reciprocity, leading to mutual forbearance. Parties that are observed to forbear

may gain a reputation for this behaviour, which makes them potentially attractive partners for others. The parties to a successful agreement may develop a commitment to mutual forbearance, which cements the partnership, and, in this way, mutual trust is created, which alters the preferences of the parties towards a mutually cooperative mode. Thus, short-term, self-interested behaviour becomes converted to cooperative trusting behaviour, with beneficial transaction-cost-reducing results. This analysis is suggestive of a process method of analysing the key issue of developing trust in intracompany relationships.

4. A process model of trust

The main problem is ‘how can trust be developed between parties within IJV relationships?’ Here, the development of trust is analysed within a process framework (illustrated in Fig. 1), based on Ring and van de Ven (1994) and Larson (1992). The framework provides the basic concepts for our model, but it is further formalised into discrete stages of development.

The process framework indicates that trust in IJVs will develop through four different stages. The first stage is the *previous history*. This is the stage *before* the parties meet to negotiate the joint venture. During this stage, one party may construct an initial mental image of the other party with whom they will create the joint venture. The parties come together in order to negotiate the joint venture during the *negotiation stage*. “In the *commitment stage*, the will of the parties meet, when they reach an agreement on the obligations and rules for future action in the relationship” (Ring and van de Ven, 1994, p. 98). “In the execution phase, the commitments and rules of action are carried into effect” (Ring and van de Ven, 1994, p. 98). Renegotiations may take place after each period of execution during official board meetings. When one or both parties cannot maintain the commitment, the IJV

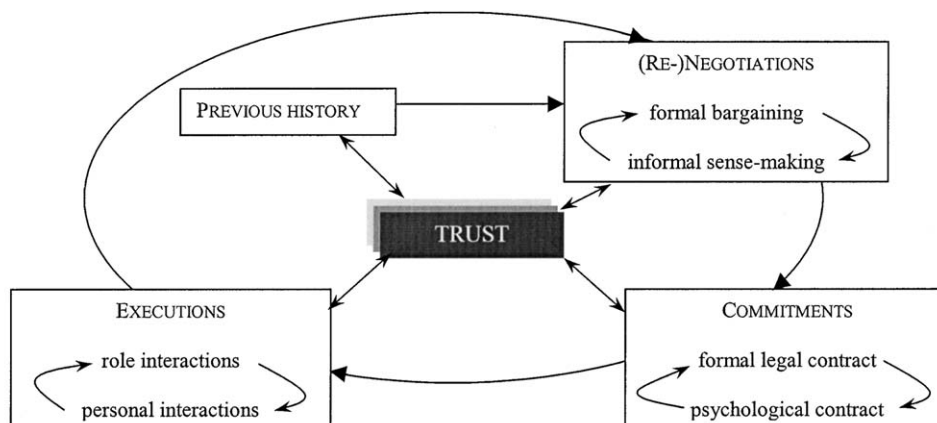


Fig. 1. A process model of the development of trust in IJV relationships. Source: Based on Ring and van de Ven (1994) and Larson (1992).

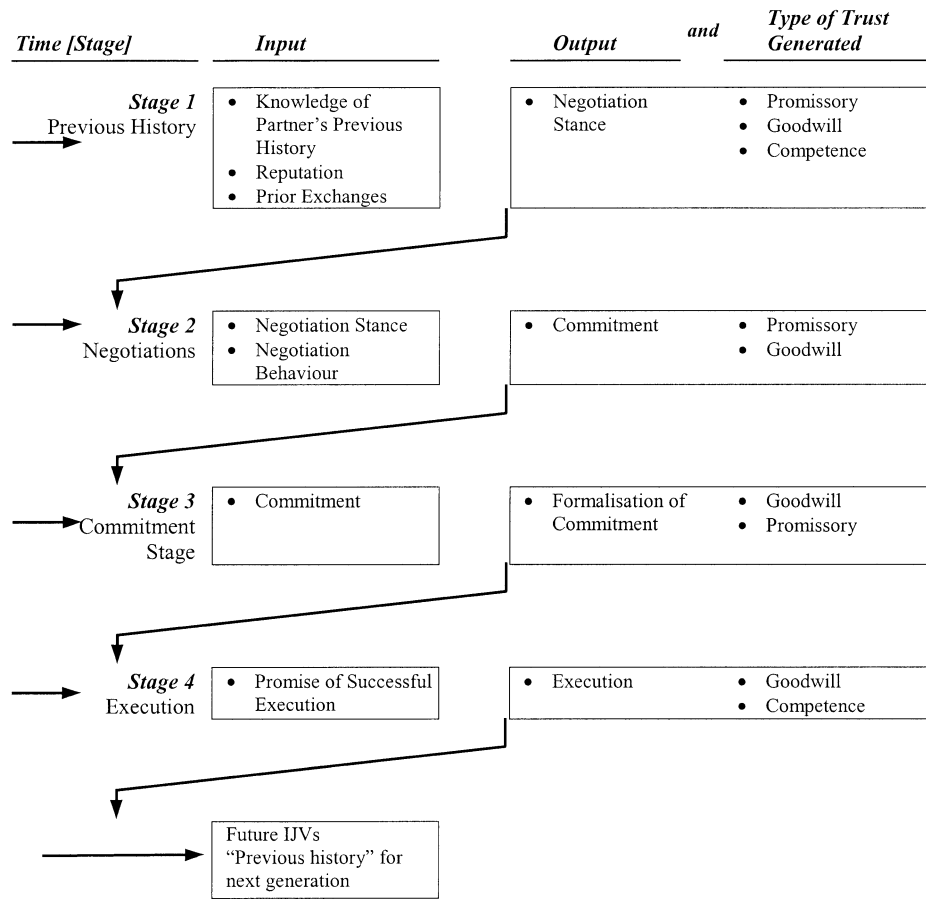


Fig. 2. A process model of the development of trust in IJVs.

relationship will cease to exist. Having described these stages and the dimensions of trust, the following two subquestions arise.

- Do all three dimensions of trust develop in each stage or do different dimensions of trust develop in different stages?
- What are the sources of trust and do they change over time?

These questions are relevant to purely national joint ventures, as well as IJVs. However, there are purely international issues, which we highlight below.

The conceptual model that we derive for analysis is presented in Fig. 2. It combines the concepts of Williams (1988), Ring and van de Ven (1994), Larson (1992) and Sako (1992). The model suggests a sequential process, arbitrarily broken into stages with each stage having both inputs and outputs. Based on the literature, reviewed earlier, and our framework, we derive the following propositions:

Proposition 1: The development of trust can be examined as a sequential process. These inputs build on the previous stage and represent the generation of trust from interactions

in the earlier stage. The output of trust feeds into the next stage of the process. Trust can either be generated de novo or can result as part of the ongoing process. It should be noted that at any stage mistrust (or distrust) can also be generated as an input into the next stage.

Proposition 2: The development of trust as a sequential process can be broken into stages where the output of a preceding stage can be regarded as an input into the next. The input of Stage 1 (Reputation) will be affected by the output of past joint ventures, and firms will build their reputation for successful joint venturing by generating trust from previous IJVs, which can be observed directly by their partners and indirectly by future, potential partners.

Proposition 3: The history of previous IJVs represents the final stage (input) of the process of building trust.

Proposition 4: The negotiations stage has an input from previous history of IJVs and generates an output ‘commitment’ to the next stage of trust building.

Proposition 5: The commitment stage has an input from negotiations and an output to the execution stage of the IJV.

Proposition 6: The execution stage has an input from the commitment stage and (observed) output to the next

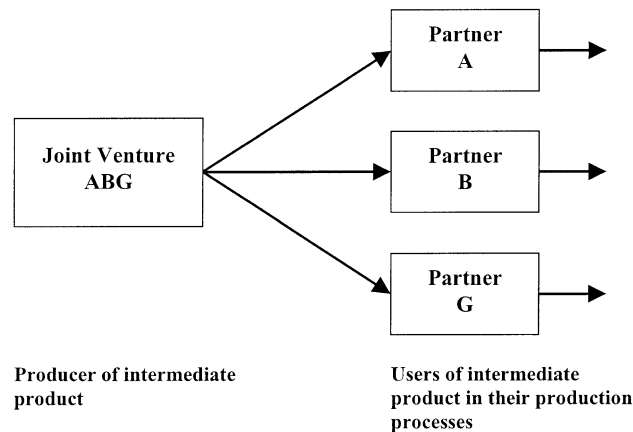


Fig. 3. The physical structure of the joint venture ABG.

generation of IJVs (as the ‘previous history’ of the partners). These propositions are shown diagrammatically in Fig. 2.

5. The four case studies

The case research method is appropriate to the study of the development of trust over time (Yin, 1989; Stafford, 1995; Parkhe, 1993b). The aim of this research is to study development over time, and so we wanted to examine joint ventures that varied in the length of time they had existed. Secondly, we were interested in international as opposed to national joint ventures. Hence, the joint ventures should at least have one foreign partner. However, in order to constrain cultural differences between the cases, and thus to reduce a major source of variation, we selected joint ventures with foreign partners from countries with similar cultures. All the partners are from EU member countries. The cases that we selected are (1) ABG, (2) Kemax, (3) LAP and (4) DSM-BASF. It was felt that relative cultural closeness would allow us to focus on issues of trust, which might be obscured if wide cultural differences were encountered. The limitations of the use of only four examples of IJVs needs to be borne in mind throughout the paper. The cases are not chosen to be representative of the population of IJVs, but as illustrative

material against which to demonstrate the testability of our propositions.

(1) ABG is a joint venture between Gamma in Scandinavia and Alpha and Beta in The Netherlands. ABG was established in 1976, is located in The Netherlands and produces an intermediate chemical product. Alpha and Beta each hold 30% of the joint venture’s equity, Gamma holds 40%. All the three parent companies are users of the output of the joint venture ABG. Each parent achieves security of supply, gains economies of scale in the production of the intermediate by ABG and shares risks (Fig. 3). In addition, the venture reduces competitive bidding between the parents for the input and raises the possibility of collusion between them. This is a classic case of an indivisibility in part of the supply chain leading to an IJV solution.

(2) Kemax is a joint venture between Kemira, Sweden and Akzo Nobel, The Netherlands. Kemax was established in 1993, is located in The Netherlands and also produces a chemical product. Kemira holds 51% of the joint venture’s equity, Akzo Nobel owns the remaining 49%. The production processes of the joint venture and Akzo Nobel are connected to each other (see Fig. 4). Akzo Nobel produces an intermediate product as a by-product of its main production process. The joint venture Kemax distillates this by-product from the main stream of waste and sells the product via the marketing channels of Kemira. The advantage for

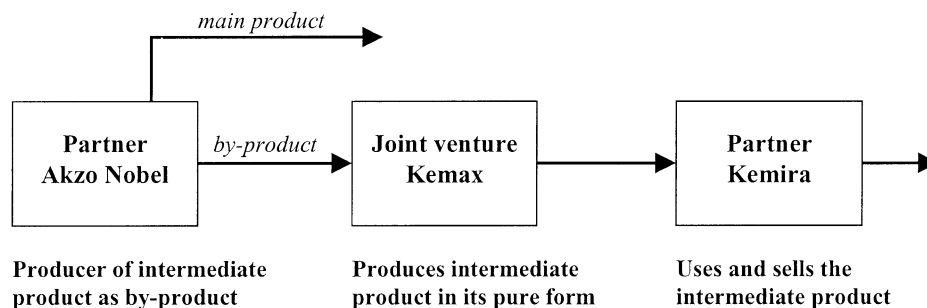


Fig. 4. The physical structure of the joint venture Kemax.

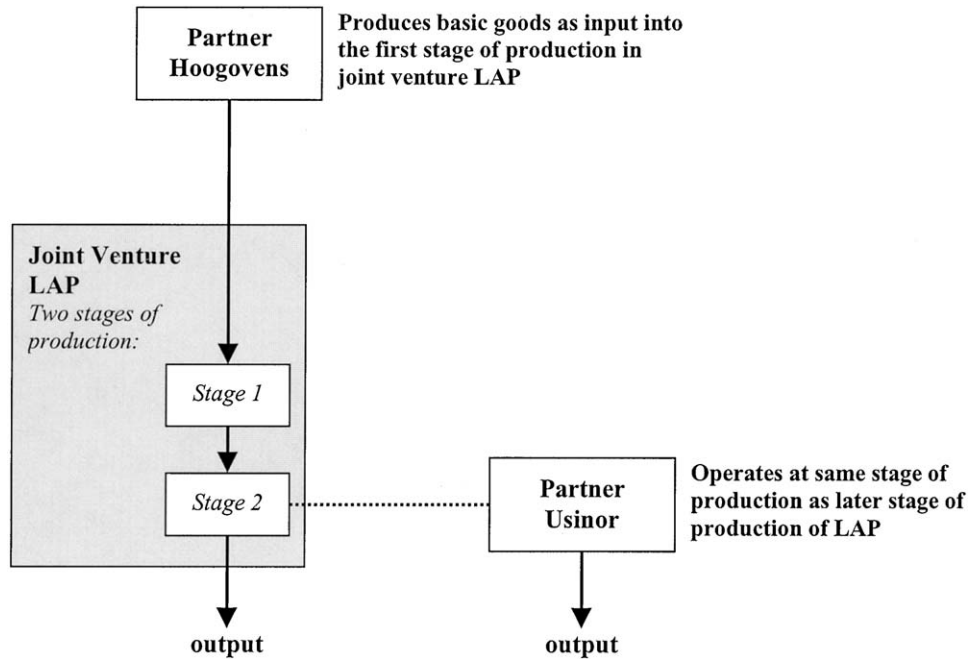


Fig. 5. The physical structure of the joint venture LAP.

Akzo Nobel and Kemira of this joint venture are clearly not the same. Akzo Nobel gains extra profitability and environmental benefits from the recovery of the by-product (which was previously dumped at sea!). Kemira gains access to a production source without meeting all the set up costs. Again, an important indivisibility (between Akzo Nobel’s main product and the joint venture’s by-product) is a key factor in the choice of an IJV.

(3) The third case came about because of a complex privatisation in Portugal where the joint venture LAP is located. The Dutch partner Hoogovens supplies a basic input to the (newly privatised) joint venture LAP, which it entered because it wished to secure supply of its output to the new company. The French Partner Usinor operates at the same stage of production as the later stages of activity carried out by LAP, and it wished to ensure prices and quality at the output stage. The French and Dutch companies share ownership 50:50 (see Fig. 5 and Table 2).

(4) The fourth case is analogous in physical structure to Case 1. The joint venture DSM-BASF produces an intermediate product, which is supplied to the partner companies for further processing (Fig. 6). The ownership is shared 60% by the Dutch company DSM and 40% by the German company BASF.

All IJVs present examples of barriers to full merger. In the first case, none of A, B or G wish to wholly own the joint venture production as they would have to ensure the sale of the excess production or run the plant at less than the optimal scale. In the second case, the joint venture Kemax is merely using a by-product of Akzo Nobel’s main business, and it would be infeasible for Kemira to buy the whole of Akzo Nobel’s production just to obtain access to the by-product. As Table 2 illustrates, only Case 3 is a completely symmetrical joint venture (Makino, 1995). It is a classic symmetrical case in that ownership is shared 50:50 and the physical structure is identical for the two partners (Fig. 6). This presents a useful benchmark for the three nonsym-

Table 2
Ownership structure of the four IJVs

Joint venture name	Ownership share		
	The Netherlands 1	The Netherlands 2	Foreign partner
1. ABG	Alpha (30%)	Beta (30%)	Gamma, Scandinavia (40%)
2. Kemax	Akzo Nobel (49%)	–	Kemira, Sweden (51%)
3. LAP	Hoogovens (50%)	–	Usinor, France (50%)
4. DSM-BASF	DSM (60%)	–	BASF, Germany (40%)

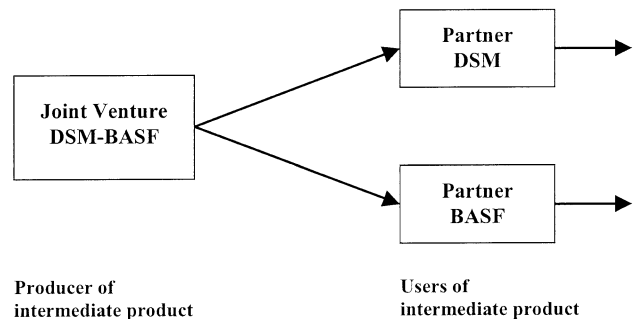


Fig. 6. The physical structure of joint venture DSM-BASF.

metrical cases. The four cases thus have important commonalities. They are all IJVs with a Dutch partner. They are all structured so as to manage the flows of intermediate products linking the IJV with the parents (although in different configurations). They are all trans-EU ventures. From these basic commonalities, we are able to proceed with confidence to apply a focus on the long-term study of the development of trust.

The unit of analysis encompassed the board members and people from the management team of the IJV (MIJV). Tracking the joint venture in real time was not possible, so we collected retrospective data by interviewing most of the current board members and the MIJV, as well as former board members who were representing their company during the creation of the joint venture. A complementary advantage of interviewing delegates from the several parents was that the reliability of the stories was checked. The total amount of interviews was 16, which lasted, on average, one hour and a half. During the interviews, we used a semistructured questionnaire. Following Ring and van de Ven (1994, p. 112), we let the respondents focus on critical events during the lifetime of the joint venture. In addition to these interviews, we obtained written documents on the history of the companies. Second, we were allowed to read the minutes of the board meetings. Third, we used public information such as annual reports, public relations material, press releases and information from the World Wide Web.

The interviews were tape-recorded and fully transcribed. The transcribed reports were sent back for factual data verification. The data were analysed in three steps (Miles and Huberman, 1994; Strauss and Corbin, 1990). Firstly, the transcribed interviews were broken into meaningful segments. Each segment brought out a major idea that was coded and summarised in a one- or two-line sentence. The interpretation of the quote was verified by sending the format back to the respondents. After the meaningful segments were coded, we grouped them into the dimensions of trust that were specified in the section above. The result of this second step was a convenient arrangement of the interview's segments. Based on this coding, we analysed the cases.

6. Test of the propositions

This section tests the propositions of the model using the four case studies as examples. The discussion of each stage examines the three dimensions of trust contained in our definition. Our more general propositions (Propositions 1 and 2) are examined in the concluding section.

6.1. Proposition 3: previous history

This stage proved to be a valuable period of time to learn about the prospective partner. We found three factors that

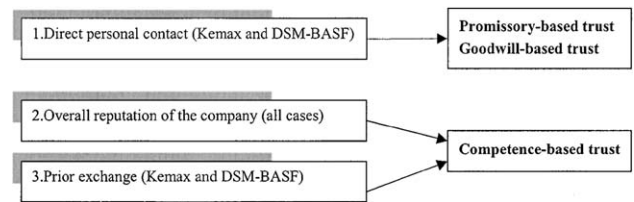


Fig. 7. Factors affecting the development of trust from the firms' previous history.

established a basic level of trust, namely prior exchange between the companies on an organisational level (two cases); direct personal contact between the initiators (two cases); and the overall reputation of the company (four cases). Through prior exchange Akzo Nobel and Kemira had learnt about each other's competencies. It even happened that Kemira bid for a part of Akzo Nobel before Akzo Nobel acquired that part. Usinor bought raw materials from Hoogovens 'for years' before they begun the IJV.

Direct personal contact between the initiators of Kemax and DSM-BASF, gave an insight into their behaviour and character. Because they operated in the same industry, they had met each other before at trade fairs. During these meetings, it appeared that the people who had to set up the IJV could get along with each other and that they could be taken at their word.

The reputation of the company played a role in all cases. For example, Kemira's market position was a sign for Akzo Nobel that Kemira was a valuable partner. Gamma knew Alpha and Beta as 'leading companies in the petrochemical industry.' Alpha and Beta also believed that Gamma would become a strong partner. An example is Alpha's and Beta's reaction to Gamma's plans for building a plant near their plant: In order to prevent competition, they contacted Gamma for possible cooperation instead of competition. DSM regarded BASF as its 'best competitor.' "They had particular resources that we liked to have. In this way, we gained an insight into their competencies" (DSM). Fig. 7 presents the three factors that set an initial level of trust between the partners: direct personal contact, overall reputation and prior exchange. This is a more nuance approach than the usual designation of reputation effects.

6.2. Proposition 4: negotiations

Most of the interviewees stressed the importance of mutual economic advantage. The conviction that the other party would benefit from a joint venture strengthened the belief that they would behave in a trustworthy fashion, because such behaviour would be in their self-interest. In addition to this key foundation of trust, we found a number of other ways by which trust developed. The managers of Kemax already started with a basic level of promissory-based trust. Therefore, the psychological process of constructing a perception about the other's trustworthiness took

less time. Promissory-based trust was magnified through the actual behaviour of the other:

When somebody says ‘I will sell 100.000-ton,’ you can only check that after three years. So maybe it starts in a very common way, that somebody says he will be somewhere at eight and he is there at eight. In this way somebody builds a reputation of ‘a man a man, a word a word’ (Kemira).

The parties of ABG started without any prior experience with each other before this joint venture. Only general knowledge about the company as a whole was available. Hence, promissory-based trust and goodwill-based trust between the people had to be built up. This was done in a variety of ways. The following quote illustrates how Gamma tried to assess whether the others could be taken at their word and whether they were sincere:

You have to make up your mind whether the fellows on the other side of the table are just like yourself. I said to myself, I am open, what I am saying I can stand for, I am always truthful, not trying to put in some snares. We are like that, so why shouldn’t the people on the other side of the table be of the same kind? And that you discover fairly quickly (Gamma).

Hence, the respondent used his own trustworthy behaviour as a reference point and trusted his partners until the opposite was proven. Stated differently, he started with trust instead of distrust. Such an attitude also emanated from the belief that only by acting in good faith could good business deals be made. The Alpha delegate also started with trust. His attitude resulted from considering himself as being naive, from lessons from other joint ventures and from the idea that the joint venture was a business opportunity and not a necessity. Hence, when people were not to be trusted (and he would use his own judgement and intuition in order to find this out), he would quit negotiations. In order to come to an opinion, social meetings (like dinners before the official meeting) played an important role. These meetings facilitated a setting in which the delegates could make up and adjust their perception about each other, thereby discovering that they could get along with each other that trust

could be built. Competence-based trust already occurred in the former stage, but could not be proven during this phase. Keeping promises in situations of minor importance gradually leads to a reputation for trustworthiness. Competence in these minor matters leads to competence-based trust even where (as in the DSM-BASF case) openness was not assumed by either party at the outset. The solution here was effected by frequent face-to-face meetings, to which purely social meetings were added. This led to the building of common interest by the individuals involved and knowledge of more subtle details of each other, such as body language. Examples include:

You get to know people better, including their body language. I am better able to understand the way the other person thinks and feels. The people know each other by now, and when mister X says something, you know that it is the truth (Gamma). And, what was very essential was that we liked each other a lot. We appreciated and respected each other, and when such a basis is lacking, you can simply forget about the whole thing (DSM).

The whole process towards the joint venture has a strong influence on the development of personal relationships. Our process towards the establishment of the joint venture took a long time, so we grew close. And in such a process an important factor is that people get on with each other (LAP).

This personal friendship is both created and built on to progress the IJV through mutual trust. One case shows that getting along with each other on a personal basis is not a necessary condition for the development of trust. Two initiators could not really get along with each other, but because of high levels of professional skills, competence-based trust and promissory-based trust compensated for this deficiency in building goodwill-based trust. Fig. 8 summarises the factors that play an important role in the development of trust during the negotiation stage. Keeping promises, personal relationships and forbearance are important here.

6.3. Proposition 5: commitments

In the commitment stage, the wills of the parties meet (Ring and van de Ven, 1994). The formal legal contract gave the juridical security that both parties were committed to the joint venture. In addition to this formal contract, a number of psychological contracts also contributed to the development of trust. These were the additional investments to make the joint venture work and set the mode of cooperation. In all cases, it was necessary to make extra investments before the joint venture could start production. These investments were a signal for the partners that all parties were long-term oriented and that they were committed to the joint

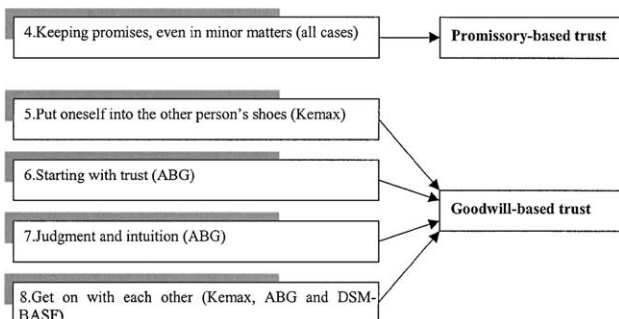


Fig. 8. Factors affecting the development of trust during negotiation stage.

venture. Hence, financial investments reinforced goodwill-based trust. This accords with Ganesan (1994) who calls these investments ‘credible commitments’ (following Williamson, 1983). In addition to these investments, starting a joint venture instead of a nonequity agreement appeared to be a signal that the partner was to be trusted:

We have started a joint venture because we wanted to create commitment towards both processes (production and marketing) ... Kemax has several production locations. Therefore, it would be relatively easy for them to drain this plant in case of a bad supply agreement and to deliver from their own production locations. And you never know how such things develop in the future (Akzo Nobel).

Hence, the creation of a joint venture aligned the interest of the parties, and, therefore, the parties trusted each other to do their best for the joint venture while they had a self-interest to do so.

However, a legal contract is seen as a last resort—something to fall back on. Partners work things out in other ways and will not often use the contract to enforce decisions. Using the contract in order to make the other party keep to the agreement is perceived to be damaging to the long-run relationship. Examples include:

Putting things on paper is like a protection, normally legal. However, when things function you could discuss them over a cup of coffee as well as at a formal meeting. I feel it is more because of a lack of confidence, that you would like to have things on paper, because then you have your back covered. I don't have that need and I think that there is nothing wrong with a failure sometimes (Kemax).

We never have to use our documents after we have signed them. But that is not unique for ABG, we have this in all our joint ventures. We are of the opinion that when a problem arises, we have to solve it in a friendly way, and to discuss it irrespective of what has been written in the legal documents (Alpha).

Fig. 9 presents the factors that develop trust during the commitment stage. The formal legal contract and supporting investments reinforce ongoing cooperative behaviour.

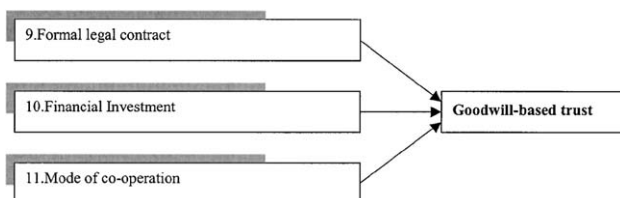


Fig. 9. Factors affecting the development of trust during the commitment stage.

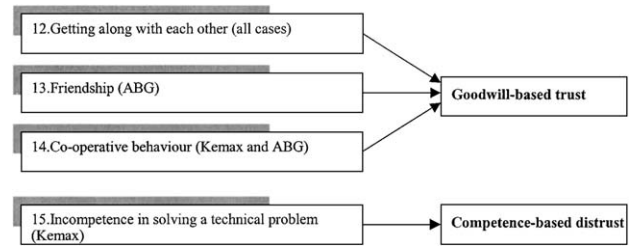


Fig. 10. Factors affecting the development of trust during the execution stage.

6.4. Proposition 6: execution

During the execution stage, the expectations raised during the previous three stages are confirmed or confounded. Considering ABG, we conclude that trust between the parties only strengthened. Kemax showed a decrease in competence-based trust in time. However, after its performance improved, trust was restored. Trust between the people of ABG became stronger mainly due to a growing personal bond between most of the delegates, which resulted in friendship between some of the board members. This personal bond started during negotiations, when the participants found out that they could get along with each other very well. The bond stimulated cooperative behaviour (i.e., showing empathy and giving support) when ABG began to have financial problems. It happened that additional financing was needed in order to assure survival of the joint venture. One party was not able to make this extra investment, without bringing itself into severe financial problems. It turned out that both European partners were ready to solve ABG's problems on their own by financing Gamma's part as a loan to ABG. The following quote illustrates the motivation to do so:

I felt such a sympathy for Gamma's delegate and his companion, that when we would have followed the rules of the game, they would have gone down the drain. So I put a lot of effort into finding all kinds of ways to help him, without betraying Alpha and Beta. I knew the joint venture was his baby so I did not want to let him down because I liked him too much for that ... So, it was not self-interest but pity for the other partner (Alpha).

Hence, the social relationship between the people stimulated support, although it was not required economically. The bond was maintained through social events (such as dinners before the board meeting, weekends with spouses). Two board members kept visiting each other even after their retirement. The result of this growing bond was that although each delegate kept advocating their own firm's interests, the members actively looked for consensus when

the interests were opposing. Such behaviour, in turn, reinforced trust.

Goodwill-based trust also results in acceptance of failure to perform according to expectations for a given period of time. The case of Kemax is an example of this. From the start, the intermediate product plant did not perform optimally. This was due to an ongoing failure of Akzo Nobel to solve a technical problem. Kemira, however, believed that Akzo Nobel made an effort to solve the problem because it was also in the interest of Akzo Nobel to solve it as quickly as possible. After all, low performance of the plant directly affected Akzo Nobel's performance as a whole (i.e., Akzo Nobel had a clear self-interest to solve the problem). Hence, goodwill-based trust had the effect that Kemira kept competence-based trust in Akzo Nobel for quite a period of time. Moreover, Kemira did not monitor Akzo Nobel's endeavours as they trusted the information that Akzo Nobel presented. This is a sign of Kemira's promissory-based trust in Akzo Nobel, which developed during the former stages. Yet, after 4 years, Kemira's tolerance for Akzo Nobel's failure decreased; they started to think that they would send their own people in order to investigate the problems. In addition, the partners arranged an extra board meeting to discuss the problem. However, before this happened, Akzo Nobel succeeded in resolving the problem thereby taking away Kemira's worries and removing potential competence-based distrust.

An important mechanism in the execution stage is monitoring. However, in all four cases, monitoring was indirect rather than direct. Through indirect monitoring, the partners keep themselves posted on changes in their partner's behaviour, strategy or environment. Changes may be an indication of changing self-interest in the joint venture. Indirect signals are used to maintain mutual trust in the joint venture. Fig. 10 summarises the factors discussed in this section. In this stage, ongoing cooperative behaviour reinforces trust, while technical incompetence can damage trust.

7. Discussion

The paper started with the observation that, although many scholars have stated that trust has a positive effect on IJV performance, only a few studies have investigated the development of trust over time. Specifically, it was found that competence-based trust develops before the parties come together. Moreover, this proved to be an important factor in selecting a partner. The data reveal that this dimension of trust is somewhat impersonal; it is mainly based on company specific characteristics. The facts that lead to such a perception are predominantly of a public nature. Hence, before the parties really meet to start a joint venture, competence-based trust develops mainly through the performance of a company. Promissory-based trust and goodwill-based trust are, however, more person oriented and based on individual knowledge. These two types of trust

mainly develop through direct personal interaction. Congruent industries increase the likelihood of prior interaction, while delegates of similar industries may come together at trade fairs. Such prior interaction may also contribute to the creation of ties between firms. As one respondent noted: "a lot of business is emerging from the fact that people know each other." Having a trustworthy reputation is therefore extremely important.

The cases, however, show a difference in trust before negotiations. Whereas Kemax started with a positive initial level of all three dimensions of trust between the parties, ABG began with only a basic level of competence-based trust. The latter case showed, however, that promissory-based trust and goodwill-based trust can also be built during negotiations. On the other hand, as one respondent noted, it saves negotiation time when parties do not have to gather information on each other, when this has already been done before negotiations.

The commitment stage confirms the goodwill of the other party. The data suggest that trust is based mainly on the perceived economic self-interest of the other: Contracts establish fear of coercion; choosing a joint venture aligns the material advantage of the partner. In other words, during this stage, perceived economic self-interest of the other party seems to be a main source of trust. We found that trust based on emotions may develop during the execution stage. In order to develop this trust, friendship between the delegates plays an important role. Bonds of friendship have the effect that people listen to each other more carefully, support each other when difficulties arise, are more open and direct in their communication and look for consensus when the interests are opposing. Such behaviour successively strengthens trust. The different cases show that time is important in order to let such bonds grow. While all cases start with people that can get along with each other, ABG shows that such a bond may transform itself into friendship. When personal bonds dominate the main source of trust shifts from perceived self-interest towards emotional commitment.

The investigation has thus highlighted 14 factors that the partners use to build and sustain trust in IJVs and one factor that leads to distrust. These are incorporated in Figs. 7–10. Most of the factors establish goodwill-based trust in the partner, that is, the factors create an expectation that the other party will take care of the interests of ego (Hosmer, 1995) and may be willing to do more than is formally expected (Sako 1992). We found that this goodwill-based trust is mainly based on the other's perceived economic self-interest. Most of the factors are particularly useful for assessing and confirming the other's economic self-interest. For example, partners put themselves into the other's shoes to understand the other's economic self-interest. The contract strengthens the belief that the other has indeed a self-interest (otherwise, they would not sign the contract). Trust is only based on emotions when bonds of friendship develop. ABG shows evidence for this proposition. Such a friendship is more than 'getting on with each other.' It

includes feelings of affection and warmth, and the involved persons see each other also outside the joint venture relationship. In this case, the development of trust thus runs from the top line of Table 1 towards the bottom line—from egotistic to nonegotistic behaviour.

8. Conclusion

The case studies illustrate several key findings. First, we believe that trust can be seen both as an output and an input at various stages of the process. Propositions 1 and 2 are vindicated. It is possible to see the development of trust as a sequential process and a linear form of this process, broken into stages serves the analysis well. Second, we can observe forbearance (as defined above) both in its strong form (avoiding damage to the other party) and in its weak form (avoiding omitting actions which benefit the partner). A good example of the former is the forbearance shown by Kemira when Akzo Nobel was failing to correct a defect in the plant. The latter form is illustrated when Alpha helped to solve Gamma's financial problems. Third, reputation effects are important, as an appreciating asset brought to the table in the first stage and as an operating asset as promises are delivered or overfulfilled. Fourth, from a transaction cost point of view, the cases illustrate some very important advantages of joint ventures (Buckley and Casson, 1988). The joint venture ABG (1) allows hedging against changes in the price movement of the intermediate product; (2) sees to it that long-term supply is assured; (3) makes sure that operational integration between upstream and downstream activities is achieved; and (4) implements quality assurance in supplies. The joint venture Kemax (1) allows efficient utilisation of a by-product of a separate process and (2) prevents competition from a (second) source of production. Through the LAP joint venture, Hoogovens secured its supply to the joint venture and Usinor prevented the growth of competition in the Iberian market. The risks of financing the takeover were shared. The joint operations of DSM-BASF provided economies of scale, but the attitude of key clients prevented a full merger—there was a strong chance that the acquiring party would lose customers when the business was sold. The cases illustrate a combination of internalisation economies, indivisibilities and barriers to merger. In addition, the IJVs provide a context where the partners demonstrate mutual forbearance and therefore build up trust. A key thread, which runs through the exposition, is that trust reinforces self-interest and is often seen to be there when self-interest is clearly congruent with trusting behaviour.

In terms of our process model as presented in Fig. 2, we can see from the summary of results (Fig. 11) that it performs well. At every stage, we can identify outputs of trust, which become inputs into the next stage (see also the recursive model of Madhok, 1995b). Not all the assumptions in the conceptual model are justified, and we find one instance of an output of distrust. The research findings

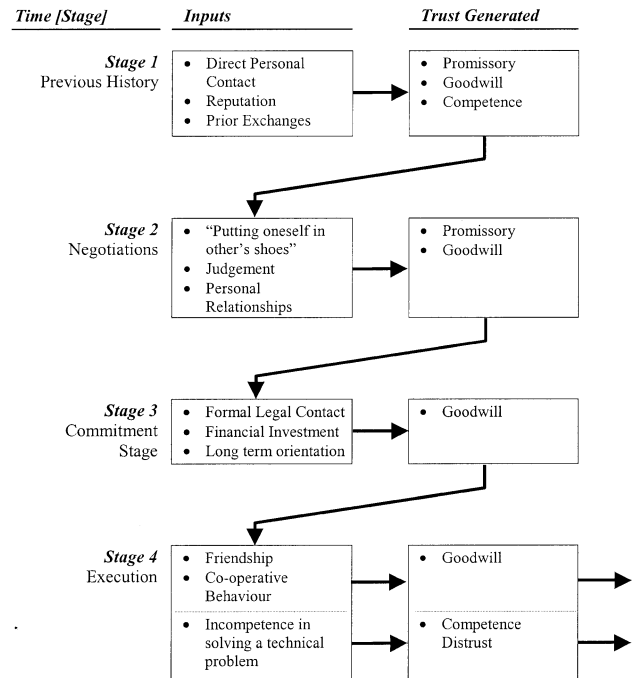


Fig. 11. The research model: findings of the four illustrative cases.

reveal a rich picture and suggest that the model is a useful one for the further examination of trust building processes in IJVs. Indeed, the results are richer in many areas than the original conceptual model initially suggested. For instance, the personal elements of relationships and feelings (e.g., "putting oneself into the other's shoes") are shown to be important. Moreover, it appears that promissory-based trust is important early in the process and competence-based trust later in the sequence of stages. Trust based on individual self interest thus grows, through forbearance to a commitment to cooperate, which is self-reinforcing (Buckley and Casson, 1988). Goodwill is important throughout. These preliminary results provide an excellent basis for more research—and, in particular, for testing our model on a wider sample of firms.

Our research has limitations. It is based on only four case studies. These case studies cannot be considered representative of all IJVs because of their industrial and cultural biases. Generalisation is only possible by applying our model to further examples. Because our model is longitudinal, it is necessary to test it against the behaviour of firms over time—a difficult, costly and time-consuming enterprise. It is not easy to transform our model to make it suitable for point-of-time cross-sectional postal questionnaire type approaches. However, we believe that longitudinal analysis is the correct way to proceed in IJV research. The next step is to confront our model with a richer, more widely dispersed set of cases, with more cultural and structural variety in the IJVs analysed in order to investigate its degree of robustness. It may also be possible in future research to move forward from our linear model to a more realistic, recursive flow schema.

Acknowledgements

The authors thank Professor Wouter van Rossum, Rosalinde Klein Woolthuis and two anonymous referees for their helpful comments.

References

- Ariño A, Torre J de la. Learning from failure: the evolution of co-operative behaviour in inter-firm ventures. Paper presented at the AOM Annual Meeting, Cincinnati, 1996.
- Barber B. The logic and limits of trust. New Brunswick: Rutgers Univ. Press, 1983.
- Beamish P, Banks JC. Equity joint ventures and the theory of the multinational enterprise. *J Int Bus Stud* 1987;18(2):1–16.
- Bigley G, Pearce J. Straining for shared meaning in organization science: problems of trust and distrust. *Acad Manage Rev* 1998;23(3):405–21.
- Buckley P, Casson M. A theory of co-operation in international business. In: Contractor FJ, Lorange P, editors. *Co-operative strategies in international business*. Lexington: D. C. Heath and Co., 1988. p. 31–53.
- Buckley P, Chapman MK. The perception and measurement of transaction costs. *Cambridge J Econ* 1997;21(2):127–45.
- Contractor F, Lorange P. *Co-operative strategies in international business*. Lexington: D. C. Heath and Co., 1988.
- Corazzini JG. Trust as a complex multi-dimensional construct. *Psychol Rep* 1977;40:75–80.
- Craswell R. On the uses of trust: comment on Williamson's, 'calculativeness, trust and economic organization'. *J Law Econ* 1993;36:487–500.
- Das TK, Teng BS. Between trust and control: developing confidence in partner cooperation in alliances. *Acad Manage Rev* 1998;23(3):491–512.
- Deutsch M. Co-operation and trust: some theoretical notes. In: Jones MR, editor. *Nebraska symposium on motivation*. Lincoln: University of Nebraska Press, 1962. p. 275–320.
- Dwyer FR, Schurr PH, Oh S. Developing buyer–seller relationships. *J Mark* 1987;11–27 (April).
- Gabarro JJ. The development of trust, influence, and expectations. In: Athos AG, Gabarro JJ, editors. *Interpersonal behaviour: communication and understanding in relationships*. Englewood Cliffs, NJ: Prentice-Hall, 1978. p. 290–303.
- Ganesan S. Determinants of long-term orientation in buyer–seller relationships. *J Mark* 1994;58:1–19.
- Geringer JM, Hebert L. Control and performance of international joint ventures. *J Int Bus Stud*. 1989;235–54 (Summer).
- Gill J, Butler R. Cycles of trust and distrust in joint ventures. *Eur Manage J* 1996;14(1):81–9.
- Granovetter M. Economic action and social structure: the problem of embeddedness. *Am J Sociol* 1985;91:481–510.
- Hennart JF. A transaction cost theory of equity joint ventures. *Strategic Manage J* 1988;9:361–74.
- Hosmer LT. Trust: the connecting link between organizational theory and philosophical ethics. *Acad Manage Rev* 1995;20(2):379–403.
- Hyder A, Ghauri P. Managing international joint venture relationships: a longitudinal perspective. *Ind Mark Manage* 2000;29(3):205–18.
- Killing JP. How to make a global joint venture work. *Harv Bus Rev* 1982; 61(3):120–7.
- Larson A. Network dyads in entrepreneurial settings: a study of the governance of exchange relationships. *Adm Sci Q* 1992;37:76–104.
- Lewicki RJ, McAllister DJ, Bies RJ. Trust and distrust: new relationships and realities. *Acad Manage Rev* 1998;23(3):438–58.
- Lin X, Germain R. Sustaining satisfactory joint venture relationships: the role of conflict resolution strategy. *J Int Bus Stud* 1997;29(1):179–98.
- Luhmann N. Familiarity, confidence, trust: problems and alternatives. In: Gambetta D, editor. *Trust: making and breaking co-operative relations*. Oxford: Blackwell, 1988. p. 101–7.
- Madhok A. Revisiting multinational firms' tolerance for joint ventures: a trust-based approach. *Sound Int Bus Stud* 1995a;26(1):117–37.
- Madhok A. Opportunism and trust in joint venture relationships: an exploratory study and a model. *Scand J Manage* 1995b;11:57–74.
- Makino S. Joint venture ownership structure and performance: Japanese joint ventures in Asia. Unpublished PhD dissertation. University of Western Ontario, 1995.
- Miles MB, Huberman AM. *Qualitative data analysis*. Thousands Oaks: Sage Publications, 1994.
- Nooteboom B. Trust, opportunism and governance: a process and control model. *Organ Stud* 1996;17(6):985–1010.
- Parkhe A. Trust in international joint ventures. Paper presented at the Academy of International Business Meeting, Hawaii, 1993.
- Parkhe A. Messy research, methodological predispositions, and theory development in international joint ventures. *Acad Manage Rev* 1993b;18: 227–68.
- Rempel JK, Holmes JG, Zanna MP. Trust in close relationships. *J Pers Soc Psychol* 1985;49(1):95–112.
- Ring PS, van de Ven AH. Developmental processes of co-operative inter-organizational relationships. *Acad Manage Rev* 1994;19:90–118.
- Sako M. *Prices, quality and trust: inter-firm relations in Britain and Japan*. Cambridge: Cambridge Univ. Press, 1992.
- Stafford ER. Opportunities for alliance research in marketing: an argument for a multi-method case research strategy. *Am Mark Assoc*. 1995; 508–15 (Summer).
- Strauss A, Corbin J. *Basics of qualitative research*. Thousands Oaks: Sage Publications, 1990.
- Uzzi B. Social structure and competition in interfirm networks: the paradox of embeddedness. *Adm Sci Q* 1997;42(1):35–67.
- Williams B. Formal structures and social reality. In: Gambetta D, editor. *Trust: making and breaking co-operative relations*. Oxford: Blackwell, 1988. p. 3–13.
- Williamson OE. *Markets and hierarchies*. New York: Free Press, 1975.
- Williamson OE. Credible commitments: using hostages to support exchange. *Am Econ Rev* 1983;73:519–40.
- Williamson OE. Calculativeness, trust, and economic organization. *J Law Econ* 1993;36(1):453–86.
- Yin RK. *Case research: design and methods*. London: Sage Publications, 1989.