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Recommended Citation

Zaheer, A, and Fudge Kamal, D. 2011. Creating Trust in Piranha-Infested Waters: The Confluence of Buyer, Supplier and Host Country Contexts. *Journal of International Business Studies* 42 (1): 48–55. doi:10.1057/jibs.2010.49.

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This is a pre-copy-editing, author-produced PDF of an article accepted for publication in *Journal of International Business Studies*, volume 42, issue 1, in 2011 following peer review. The definitive publisher-authenticated version is available online at [DOI: 10.1057/jibs.2010.49](https://doi.org/10.1057/jibs.2010.49)

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Academy of International Business

CREATING TRUST IN PIRANHA-INFESTED WATERS:
THE CONFLUENCE OF BUYER, SUPPLIER AND HOST COUNTRY CONTEXTS

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Acknowledgments: We presented some of the ideas reflected in this paper at the Academy of International Business Meeting in Rio de Janeiro in June, 2010. We thank JIBS Editor Lorraine Eden for inviting us to participate in the Dyer and Chu (2000) Decade Award process and for her valuable comments on an earlier draft. We are grateful to Kangyong Sun, Kyungmin Baek, Sri Zaheer and the three anonymous reviewers for their useful comments. All errors are ours.

CREATING TRUST IN PIRANHA-INFESTED WATERS:
THE CONFLUENCE OF BUYER, SUPPLIER AND HOST COUNTRY CONTEXTS

Abstract

Research by Dyer and Chu (2000) suggests that trust in exchange varies significantly across borders and influences the level of trust in cross-border exchange dyads. However, while a good start, research has yet to develop the concept that not only can the countries of origin of the partners to the exchange influence the nature and outcomes of dyadic trust, but also the country where the exchange dyad is located.

Furthermore, such home and host country differences may interact with dyad-level differences in trust creation capabilities and influence trust violation and repair. We develop a framework and propositions along these lines.

Keywords: Cross national trust, exchange dyads, power, host country, home country

The recent recall of several million cars by Toyota involved an interesting mix of cross-national players: the supposedly defective gas pedal in question was manufactured in Canada by a US company (CTS) supplying a Japanese manufacturer. While plentiful evidence suggests that trust plays a vital role in the performance of buyer-supplier relationships (e.g. Zaheer et al., 1998), when presented with the complexities illustrated by this example, the question arises: is it the buyer firm (Toyota), the supplier firm (CTS), or the host country (Canada) whose trust characteristics dominate the exchange relationship in this situation, and how do we begin to think about issues such as these? With global suppliers recreating their exchange ties around the globe (Martin, Mitchell and Swaminathan, 1995), understanding how the firm- and country-level bases of trust affect the dyad have only become more salient since Dyer and Chu's (2000) seminal contribution.

Dyer and Chu (2000) highlighted several ideas that were new to the literature. Among the key ones were the notions that trust varies in dyadic relations across countries, both in terms of its levels and its determinants. It is important to note at the outset that the Dyer and Chu paper investigates trust relationships from the supplier firm (or "supplier") side and not the buyer firm (or "buyer") side. Put differently, the critical trust relationship being investigated was that of the supplier trusting the buyer rather than the buyer trusting the supplier – the two are not necessarily the same nor symmetric (Graebner, 2009). In this paper, we do not distinguish between the two but refer to 'dyadic trust' and emphasize that the role of the firm in the exchange relationship matters in terms of dyadic trust outcomes.

Dyer and Chu also present a process view of trust that incorporates the assistance that Japanese automakers provide their suppliers, particularly those from the US. At the same time, research suggests that the trustworthiness of organizations is also based upon the extent to which their institutionalized processes, structures, routines and cultures are stable, transparent and fair (Currall & Inkpen, 2002). For example, having a fair and well-developed conflict resolution system to deal with payment disputes by suppliers is likely to enhance buyer trustworthiness (McEvily et al., 2003). Thus, research still needs to establish whether the Japanese automakers' supplier assistance processes in Dyer and Chu's study

emanated from a home country institutional environment or whether there were differences across firms from the same home country (i.e. Japanese) environment. Consequently, in a multinational exchange relationship setting, it is unclear whether the firm-level effects or the home country institutional environment are more influential for the creation and outcomes of dyadic trust. In some cases at least, it appears that trust creation capabilities among firms go beyond their national origins. Thus, Google may be viewed as a more trustworthy exchange partner than some other US firms. In contrast, Toyota's recent challenges may be viewed as a weakness of the firm's ability to adapt its supplier assistance processes to the increased complexity of Toyota's growth in a number of countries. In short, it is not obvious whether the problems that befell Toyota would have equally hurt any Japanese automaker or whether they were specific to Toyota.

Our point of departure begins with systematically varying the countries of origin of the exchange partners as well as the host country in which the exchange dyad is located because, both theoretically and empirically, these complexities are likely to have a bearing on trust in the dyad. Furthermore, we distinguish between country and firm levels of analysis to suggest that firms from the same national environment may differ in their trust-creating capabilities based upon their relative position in the dyad. Our theoretical framework further conceptualizes trust in high and low context cultures into identity-based and control-based trust respectively, and argues that the nature of the trust violation and repair processes that emerge vary with such asymmetry between exchange partners' national origins and the host country environments, even if both home countries exhibit high generalized trust.

In sum, we embrace Dyer and Chu's paper because it represents a pioneering effort at developing theory and empirics about cross-border trust in exchange relationships. At the same time, we see the most potential for building on their research in exploring the issues that arise when exchange partners' home trust contexts interact across countries. We also consider the independent effects of the firm's position in the dyad in developing trust in the dyad as well as country effects on trust violation and repair. We raise the issue of firm-specific differences in trust building capabilities as important for explaining trust in a

cross-national exchange dyad, and one likely to interact with the home and host country contextual factors that we vary, but for space reasons we leave it as an issue for future research.

Trust across borders

Since Dyer and Chu's paper was published, research has posited that the bases for trust as well as its outcomes may be driven by country differences in international exchange relationships. Zaheer and Zaheer's (2006) paper provides a foundation for our theory that country environments are an important factor influencing trust in exchange relationships. These authors make the basic point that asymmetries in trust expectations, derived from the home country environments of the firms in the dyad, may result in reduced alliance performance. Moreover, asymmetries in the home country bases of trust between exchange partners become a greater or a less serious problem for performance outcomes depending on the degree of interdependence between the partners. We build on this work by adding the differing trust characteristics of home countries of the buyer and supplier firms, as well as the generalized trust of the host country, and further by dimensionalizing the trust construct to more clearly identify the sources and outcomes of the asymmetry in trust between exchange partners.

The national societal context influences organizations' trust. Work by Fukuyama (1995), Lincoln (1990), and Fisman and Khanna (1999) suggest that trust approaches are embedded in society and national culture. The cultural propensity to trust certain actors, affiliates or organizations is inherited. One approach to national trust differences (Fukuyama, 1995) sees low trust countries as tending to value blood relations over non-kin and generally distrust order imposed by non-kin ties or government (e.g. China, South Korea, and France). In contrast, high trust nations are inclusive of non-kin and rely on outside institutions such as government to enforce social order (e.g., USA, Japan, and Germany). Lincoln (1990) proposes that Japan's unique culture and historical foundations have also shaped the nation's organizational forms and practices and created a high trust culture, particularly in business relationships. In the same vein, Huff and Kelly (2003) show that managers from collectivist societies such as Japan,

contrary to conventional wisdom, display lower overall levels of trust than their more individualistic society counterparts, such as those from the US, but tend to trust in-group managers more than the latter do.

Empirical research has pointed to numerous bases of differences in the trust across national country environments. After an extensive survey of the empirical literature, Ferrin and Gillespie conclude: “Taken together, the results of these studies provide robust support for the view that there are national-societal differences in the average levels of generalized trust” (2010: 55). These national sources of trust differences can increase cultural misunderstandings and affect the development of trust in the exchange dyad. However, while work exists in this general area, as contemporary accounts have observed (e.g. Dyer and Chu, this issue; Dietz, Gillespie and Chao, 2010), much remains to be done in understanding the country and firm level trust nuances and contingencies around the specific buyer-supplier dyad context that Dyer and Chu addressed in their original paper.

A framework for globalized exchange relationships

We develop a framework for our theoretical propositions on these issues (see Figure 1). We systematically vary the trust context of the home countries of the buyer and supplier firms, as well as the context in which the dyad is located – the host country (noting that the latter part of the Dyer and Chu study falls into semi-quadrant 1). Two conditions (1 and 5) indicate the semi-quadrants where the buyer, supplier and host country all have symmetric levels of trust, either all high or all low, developed in P1 below. Two other conditions (semi-quadrants) present cases where symmetric levels of trust exist for the buyer and the supplier but the dyad operates in an asymmetric host country trust environment (4 and 8). These semi-quadrants, elaborated upon in P2, help tease out the impact of the host country’s contextual influence on the trust in the exchange relationship by allowing the researcher to observe whether and when the host country overpowers the influences of the exchange partners’ home countries and firm propensities for trust. In the remaining four semi-quadrants, two are symmetric between the buyer and the

host country (3 and 7) and two between the supplier and the host country (2 and 6), while the exchange counterpart in each is asymmetric with the level of trust in both the host country and the partner. In each of these cases, one of the exchange partner's home country trust environments is asymmetric with both the level of trust in the host country context and the other exchange partner's home country trust environment. Thus, in these instances, one partner firm's home country trust effect on the dyad is singled out in order to determine the extent to which the creation of dyadic trust is determined by a firm's position in the exchange dyad, i.e. which of the home country national trust propensities dominate, that of the buyer or the supplier. We discuss this idea formally in P3 below.

At the same time, we recognize that we are far from exhausting the complexities involved in examining the trust in cross-national supply chains – yet another dimension that may be varied is the possibility that the supplier and buyer firms are themselves located in different host countries (e.g. a Japanese supplier, say DENSO, located in Italy and supplying, say, US-owned Opel in Germany). We also note the likelihood that interfirm differences in trust-creating capabilities exist as Dyer and Chu (2000) identified process bases for trust creation, such that not all firms from a given home country environment are equally adept at creating and sustaining trust, which raises yet another set of questions around these issues.

The dominance of trust conditions

We begin noting that the symmetric conditions (High, High, High: 1; and Low, Low, Low: 5) are conducive to creating either a high or a low trust condition in the exchange dyad. In either case, expectations regarding the formulation of trust are congruent with both home and host country environments. Note that in low trust environments, such as China and India, a common element is the use of kinship as an assurance of ethical behavior (e.g. Ellickson, 1989). Alternatively, in other low trust environments, substitutes for trust such as hostages or contracts may be used effectively, since all parties understand these mechanisms well. While the first condition is likely to involve greater efficiencies, given

the vast research that has established the positive effects of trust in exchange (Zaheer et al., 1998; Katsikeas et al., 2009), the exchange relationship in either condition will be relatively easy to establish since the partners will understand each other well. In addition, by being consonant with the institutional environment of the host country too, the exchange relationship will be relatively smooth as expectations will be consistent all around.

To address the asymmetric semi-quadrants of our framework (2, 3, 4, 6, 7 and 8) we draw on recent experimental work in the field of trust. In a series of experiments, Fehr and his colleagues find that low trust contexts dominate when fair individuals are exposed to selfish individuals (Fehr & Gächter, 2000; Fehr & Schmidt, 1999). Trusting people tend to become selfish in such settings, erasing the benefits of their willingness to trust. Since organizations rely upon individual trust to facilitate organizational level trust (Zaheer et al., 1998), firms that operate in a different host country are influenced by the presence of employees who are host country nationals (Hofstede, 1984). These employees may hew to the trust conditions of their national environment affecting the level of trust in the dyad. At the same time, when one of the exchange partners is from a low trust country environment, regardless of the trust level of the home country of the other exchange partner, trust in the dyad is likely to be low. Summarizing these ideas, we begin with a baseline proposition as follows:

P1. The presence of an exchange partner from a low trust home country, or operating in a low trust host country, will reduce the level of trust in the exchange relationship.

However, the theoretical relationship we suggest in proposition (P1) may be more nuanced. We can vary the host country to be out of sync with matched exchange partners' home country trust contexts (semi-quadrants 4 and 8) and highlight the influence of the host country environment on trust in the dyad. The strong links between national culture and the employment of host country nationals by both buyer and supplier firms might overwhelm both exchange partners' home country environments particularly in buyer-supplier relationships, which are more likely to be actively managed on a day-to-day basis by employees from the host country who are typically at lower organizational levels than home country

expatriates. Thus, the possible negative repercussions on the level of trust in the dyad from low trust exchange partner home countries may be mitigated by a high trust host country environment (semi-quadrant 4). Note that where trust is low in the host country context where the dyad operates (semi-quadrant 8), the overall of trust in the dyad will also be low, commensurate with our previous proposition. Thus, we have:

P2. The trust context in which the dyad operates will supersede the level of home country trust of either exchange partner.

A set of semi-quadrant combinations where trust conditions from either exchange partner firms' home countries can be imposed on the dyad involves the extent of power derived from the partners' positions, sizes or market power in the dyad. For example, Dyer and Chu's (2000) paper used the global auto industry as a research context. It is well known that in the auto industry, due to far greater industry concentration of the buyer firms (auto manufacturers) relative to auto parts supplier industries, buyers are in a more powerful position with respect to suppliers.¹ In such cases, the more powerful buyers are more likely to impose their own trust contexts on the dyad. Recent work from social psychology on power imbalances supports such reasoning. In particular, more powerful actors, usually the buyers, are more attuned to their own position while lower power actors, usually the suppliers, are counter-intuitively also more attuned to the more powerful actor in the dyad rather than their own circumstance (Ebenbach & Keltner, 2003; Magee & Galinsky, 2009; McEvily et al., 2010).

In our framework, this reasoning would apply for the buyer in semi-quadrants 6, 7, and 8. However, in the relatively uncommon cases where the supplier is the more powerful party in the dyad, the semi-quadrants involved are 2 and 3. Overall, we suggest that exchange partners are more likely to adapt

¹ While buyers often tend to possess more power than suppliers, the position in the exchange dyad could vary based on the industry structure (e.g. the barriers to entry and exit, the number and concentration of buyers and suppliers).

their bases and levels of trust in the dyad based on their relative positions of power in the exchange relationship. Thus, we have:

P3. More powerful parties in an exchange relationship are more likely to impose their home country context of trust on the dyad regardless of the host country environment.

Trust violation and repair across cultural contexts

Thus far, we have assumed that national environments generally rely on the same sources of trust creation. If we now consider the likelihood that trust sources and bases may differ even across high trust national country environments, we can explore the consequences of trust violations and repair that may arise from dissimilar trust expectations between the exchange partners as outcomes of dyadic trust. Further, both the severity of the violation and the ease of repair will vary based on the host country trust context. Consistent with a broad literature, we argue that national cultures can be classified as high context and low context; a common example of a high context country is Japan while the US exemplifies a low context country (Hall, 1977). In essence, we argue that trust violations are more likely, and trust repair more difficult, when exchange partners' home countries are high trust and yet asymmetric cultural contexts (semi-quadrants 1 and 8 in Figure 1). However, semi-quadrant 8 will experience less severe violation and easier repair than semi-quadrant 1.

More specifically, we argue that high context cultures are underpinned by "identity-based" considerations and low context cultures by "control-based" ones, where the former involve a loss of face and the disruption of dyadic norms while the latter involve a loss of resources and expected outcomes (e.g. Goffman, 1967; Tajfel & Turner, 1986; Ren & Gray, 2009). We further suggest that firms from low context cultures may be unwittingly more prone to violations of trust arising from identity-based considerations; similarly, trust violations may derive from lapses of control-based considerations by firms from high context cultures.

For example, in high context cultures firms may require greater attention and support from their exchange partner, and trust development may be dependent on the past history of the relationship. In

contrast, firms from lower context cultures are more likely to explicitly communicate their needs by, say, being more willing to write extensive contracts and abide by them. As such, lower context cultures may be particularly concerned with proximate performance, of the ‘What have you done for me lately?’ variety, or even an evaluation of the value of the relationship’s future benefits (Axelrod & Hamilton, 1981) rather than its past longevity. Thus, firms from low culture contexts may view a fulfillment of a contract as the end of the relationship while high context firms may find that this to be an abrupt termination and a violation of implicit norms. When social norms are particularly strong and robust, trust increases when sanctions are not applied (Fehr and Gächter, 2000). When this violation takes place in a low trust host country environment, the parties are less likely to give each other the ‘benefit of doubt’ (Kramer, 1999) and the violation is therefore likely to be more severe.

Framed in terms of Dyer and Chu’s paper, one can view such an error as occurring when an exchange partner firm from a low cultural context is, as expected, reliant on hostage-based foundations of trust. The high cultural context partner firm may expect its partner firm to perform what would be an impossible task – to repair trust by actually refraining from using contractual based sanctions while at the same time ‘demonstrating concern’ and having a third party from the high cultural context vouch for it (Ren and Gray, 2009).

Moreover, because some transgressions may be perceived as more harmful than others, the repair process based on these transgressions may be different and difficult (Ren & Gray, 2009). Thus, firms from high context home countries will have different expectations about the requirements for trust repair than their low context home country exchange partners. The repair process will tend to be further complicated when the host country trust context is low because efforts at trust repair will be met with skepticism rather than more generously interpreted in a manner conducive to trust rebuilding.

Linking these cultural foundations of trust repair back to Dyer and Chu’s study, consider again Toyota’s recent challenges with its suppliers. In Dyer and Chu’s study, the Japanese automakers built trust with US suppliers by offering them assistance and cultivating process-based foundations of trust. If

the violation was attributed to a failure of assistance from the Japanese automaker, then the repair process would be difficult because it would have to include both identity-based and control-based remedies to rebuild trust with the US supplier because the different cultural contexts of their home countries emphasize divergent elements of trust repair. Toyota in this case would need to remedy its assistance program to its suppliers (identity-based) as well as provide financial compensation for any losses (control-based) that its US suppliers incurred. Thus, in asymmetric cultural contexts such as this, firms will have to satisfy both the norms that they established at the onset of the relationship as well as the bases for trust in the host-country context. Firms from asymmetric cultural contexts may lack the necessary capabilities to perform such a task. Consequently, misunderstandings will arise because the firm from the high cultural context will find it hard to be explicit enough to satisfy the low context home country exchange partners. Thus, we propose that

P4a. Trust violations are more likely to occur when partner firms are from asymmetric cultural contexts, regardless of their high levels of generalized trust.

P4b. Firms from low context cultures will be more likely to cause identity-based violations while firms from high context cultures will be more prone to causing control-based violations. Such trust violations will be more severe, and trust repair harder, in low host country trust contexts than in high host country trust contexts.

Discussion

The limited research on trust across borders, specifically in global exchange dyads, has only begun to consider the complexities of creating trust in different national host country environments. Using the Dyer and Chu (2000) article as a point of departure, we develop theory that explicitly factors in not only the home country context of the partners to the dyadic relationship but also the host country in which

the dyad happens to be located. The framework that we use becomes a useful basis for thought experiments, and a basis for future research, along each of these dimensions. We develop propositions that suggest when the home country, host country or firm conditions will dominate the nature of trust in the exchange. We also include firm-level differences, in terms of the greater relative power of the buyer firm, and the nature of trust violations and repair.

Our research framework may be faulted as relying on, possibly, a currently limited empirical phenomenon. However, we argue that our work refers to a phenomenon whose incidence is only going to increase inexorably with globalization. As MacDuffie's commentary (this issue) points out, many suppliers to the auto industry have followed their customers around the globe (Martin et al., 1995). Therefore, many of the exchange relationships that may have taken place in one country context may be replicated in terms of their trust levels in other country contexts. At the same time, as we have laid out, there may be trust influences of the host country or the exchange partner firms involved in the dyad. Furthermore, while it may appear that we are only complicating an already difficult empirical setting, we are in fact erring on the side of parsimony by suggesting that by employing our framework we can actually narrow down the moving parts to those that hold the greatest promise for stimulating future research. For example, certain combinations of buyer and supplier home countries and host countries may be more interesting, from a theoretical point of view, than others.

We also believe that our ideas are valuable because of the strong imprinting of the home country environment on firms. Despite the strong push to globalize, the extent to which, say, Japanese companies retain their home country identity has surprised observers, often requiring, for example, the ensemble singing of the company song and group calisthenics every morning in their factories around the world. Obviously, empirical validation is needed to establish these ideas and the relative strength of each of our proposed effects under different contingencies.

Another dimension that we have developed in our current effort is the explicit notion that the buyer firm in the buyer-supplier dyad often has greater power than the supplier firm (McEvily et al,

2010). This is an important consideration because it highlights the notion that trust is not held symmetrically by the partners to the dyadic exchange. As implied in the Dyer and Chu (2000) paper, the most relevant part of the trust relationship is the trust that the supplier firm reposes in the buyer firm. By building in this intrinsic asymmetry into our propositions, we hope to also move this line of work forward.

In a bow to recent developments in the field of trust (Dirks et al., 2009), we also bring in the nature of trust violation and repair to the global exchange relationship context. We draw out the asymmetries across home country cultural contexts between equivalently high trust environments and differing host country trust contexts to identify conditions under which trust violations will be more severe and trust repair harder. Overall, we present ideas that use the Dyer and Chu (2000) article as a point of departure to systematically vary home country, host country and within-dyad effects to develop propositions about trust levels as well as trust violation and repair in cross-national exchange relationships. Our hope and expectation is that our work can serve as the basis of fresh theoretical and empirical approaches to the study of trust across borders.

Table 1

Varying Trust of Host Country and Buyer/Supplier Home Countries

		Buyer Home Country Trust	
		High	Low
Supplier Home Country Trust	High	1. Host Country Trust High (Japan, USA, Germany)* 8. Host Country Trust Low	2. Host Country Trust High 3. Host Country Trust Low
	Low	7. Host Country Trust High 6. Host Country Trust Low	4. Host Country Trust High 5. Host Country Trust Low (China, Italy, South Korea)

* Country contexts qualified as high or low based upon Fukuyama (1995)

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