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LOST THAT LOVIN' FEELING:

THE EROSION OF TRUST BETWEEN SMALL, HIGH-DISTANCE PARTNERS

[Running title: Trust Erosion and High-Distance Partners]

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Abstract

We investigate the role of high distance in trust erosion between small partners. High distance is known to hinder the formation of trust between potential partners, but its role in trust erosion in established partnerships is less understood by international business scholars. Through a qualitative longitudinal study, we extend current theory of how high distance effects the trust dynamics between cross-border partners. Specifically, we unearth three inter-related mechanisms that together explain how and why trust can erode due to high distance. We show that before a partnership is formed, high distance can lead partners to erroneously attribute cues to a potential partner's high quality, leading to over-expectations of partner performance. Once the partnership is operational, high distance hinders actors' ability to understand situational factors associated with disappointing outcomes, and so they are attributed to failings of the partner. At the same time, distance-related challenges of bounded reliability render partners reluctant to discuss partnership outcomes. This can result in a vicious cycle of inertia as partners strive to protect goodwill while abandoning efforts to produce partnership outcome because of doubts of the other's quality. Thus, our theoretical model illustrates the limitations of trust and explains how, paradoxically, high distance can facilitate both trust formation and trust erosion.

LOST THAT LOVIN' FEELING:

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Foreign partnerships are critical to the internationalization of smaller enterprises (see, for example, Coviello, 2006; Lu & Beamish, 2001; Oviatt & McDougall, 1994; Prashantham, 2011; Reuber & Fischer, 1997). Foreign partners can compensate for resource and information constraints when entrepreneurs aspire to do business in markets that are very different from their own home market, whether they follow gradual (e.g. Johanson & Vahlne, 2009) or accelerated (e.g. Oviatt & McDougall, 1994) internationalization processes. In order to reap the benefits of a cross-border partnership, though, past international business research asserts that it is important for trust between the partners to be established and maintained (for example, Dyer & Chu, 2000; Dyer & Chu, 2011; Madhok, 1995; Madhok, 2006; Zaheer & Zaheer, 2006). Trust is viewed as important because partners need to coordinate efforts to achieve common goals, and have limited information about, and control over, other actors' intentions, motives and competences (McEvily, Perrone & Zaheer, 2003). Past international business research emphasizes that trust between cross-border partners safeguards against opportunism (Wu, Sinkovics, Cavusgil & Roath, 2007), reduces transaction costs (Dyer & Chu, 2003), facilitates information sharing (Dyer & Chu, 2003), aids in negotiations (Lander & Kooning, 2013), and generally improves the relationship's performance (Child & Möllering, 2003; Katsikeas, Skarmeas & Bello, 2009; Krishnan, Martin & Noorderhaven, 2006; Luo, 2002; Meier, Lütkewitte, Mellewigt & Decker, 2016; Xie, Li, Su & Teo, 2010; Zhang, Cavusgil & Roath, 2003). These benefits are viewed as particularly valuable for small enterprises that are internationalizing, because of their vulnerability (Jiang, Chua, Kotabe & Murray, 2011; Mesquita & Lazzarini, 2008; Prashantham, 2011; Robson, Katsikeas & Bello, 2008; Tsui-Auch & Möllering, 2010). Compared to larger enterprises, they are more dependent on trust because they are more sensitive to uncertainty, more susceptible to opportunism, raise higher suspicions of opportunism, have less bureaucracy to structure relationships, and rely to a greater extent on relational governance.

However, despite the importance of foreign partnerships in internationalization, prior international business research has drawn attention to a high rate of partnership failure (for example, Kale, Dyer & Singh, 2002; Parkhe, 1993), often attributed to the erosion of trust (see, for example, Madhok, 1995; MacDuffie, 2011; Park & Ungson, 2001). Scholars have argued that maintaining trust is more difficult when partners are from different business environments (Dyer & Chu, 2000; Zaheer & Fudge Kamal, 2011; Zaheer & Zaheer, 2006) and have shown that the longevity of a foreign partnership decreases with the distance between these environments (Barkema, Bell & Pennings, 1996; Barkema, Shenkar, Vermeulen & Bell, 1997). Despite this evidence that partnerships across distance are difficult to sustain, past international business literature has focused primarily on distance-related mechanisms impeding the *formation* of trust (for example, Ertug, Cuypers, Noorderhaven & Bensaou, 2013; Jiang et al., 2011; Katsikeas et al., 2009; Luo, 2002; Tenzer, Pudelko & Harzing, 2014; Wu et al., 2007; Zaheer & Zaheer, 2006). Scholars have stopped short of identifying the distance-related mechanisms leading to trust *erosion*. This is a serious gap in our understanding of the internationalization of small enterprises which are particularly effected by distance-related challenges due to lower capacity for information processing (see Nooteboom, 1993).

Accordingly, our research question is: How and why does high distance contribute to the erosion of trust between small partners? Understanding how and why high-distance partnerships can fail because of trust erosion is important to our theoretical understanding of internationalization from two vantage points. First, the extant literature on the internationalization of small enterprises has been criticized for focusing on market entry activities, including partnership formation, and ignoring post-entry activity (e.g. Reuber, Dimitratos & Kuivalainen, 2017), despite the high rate of exit (e.g. Bernard & Jensen, 2004; Bernini, Du & Love, 2016). In contrast, our research goes beyond partnership formation and entry to explain partnership dissolution and exit by focusing on trust erosion, a reason for failure that has been flagged by international business scholars but not yet studied in detail. Second, and more generally, our research question addresses recent calls for a greater understanding of the dynamics of trust in *ongoing* cross-border partnerships in the commentaries following Dyer and Chu's *JIBS* Decade Award (Dyer & Chu, 2011; MacDuffie, 2011; Zaheer & Fudge Kamal, 2011).

From a managerial and policy perspective, the research question is important because the increased internationalization of small enterprises is critical for their prosperity and economy-level prosperity (e.g. OECD, 2017). In contrast to the large multinational enterprises (MNEs) that have been the primary focus of previous research on trust, small enterprises have few resources to invest in activities aimed at building and sustaining trust (Svejenova, 2006) and so failed partnerships waste scarce resources. In addition, the experience of eroded trust and partnership failure may deter entrepreneurs from attempting to do business again in a foreign market thought to be promising, which was true of the partners we studied. Moreover, one firm's negative experience with a foreign partner in a particular market may also lead to nearby firms being wary of that market, given the attention paid to internationalization activities among geographically proximate small firms (Fernhaber & Li, 2010; Oehme & Bort, 2015). Despite the high failure rate of foreign partnerships, much of the guidance provided to entrepreneurs has to do with establishing foreign partnerships rather than sustaining those partnerships already formed (for example, the UK's Department for International Trade's Meet-the-Buyer events; the incubator described by Blackburne & Buckley, 2019; and the government-sponsored bridging arrangements described by Couper & Reuber, 2013). Understanding the mechanisms underlying trust erosion between small high-distance partners can provide a basis for providing guidance that supports the success of operational partnerships.

To address the research question, we engaged in an inductive study of the partnership between a small British life sciences company (Beta) and a small branch of a Chinese state-owned enterprise that was their distributor (Sina).[1] This is a revelatory case (see Yin, 2014: 52); we had a unique opportunity to

[1] Beta and Sina are pseudonyms for the British and Chinese enterprises, respectively. The individuals that predominate in the relationship between the companies are Beta's founder and CEO, Beta1, and Sina's General Manager, Sina1. Additional individuals are named according to their company e.g. Sina2 and Sina 3.

study trust erosion over time, because the first author had an inside view of the partnership as it unravelled. We analyzed data collected longitudinally over a four-year period, to uncover three inter-related mechanisms that explain how and why high distance can contribute to trust erosion between partners.

Our research makes three important theoretical contributions to the international business literature. First and foremost, we extend current theory of how high distance effects the trust dynamics between cross-border partners. We provide a theoretical explication of how and why high distance does not just *impede* trust formation between potential cross-border partners, as has been emphasized in the prior international business literature. High distance can also *facilitate* trust formation among potential partners, and this can have adverse consequences over time. Thus, paradoxically, high distance between small partners can facilitate both trust formation and trust erosion. Specifically, distance can lead actors to erroneously and positively attribute cues about a potential partner's quality before a partnership is formed, thereby leading to over-expectations of a partnership's performance. Once the partnership is operational, distance can contribute to trust erosion through two reciprocal mechanisms. Distance hinders actors' ability to understand situational factors associated with the business environment, such as confusing regulatory demands, that may lead to disappointing partnership outcomes. As a result, these disappointing outcomes are erroneously attributed to a partner's failings. Such disappointing outcomes constitute the ex post non-fulfillment of ex ante commitments, a form of bounded reliability (see Kano & Verbeke, 2015; Verbeke & Greidanus, 2009). Since distance hinders the adoption of ex post safeguards, partners continue to rely on relational governance to protect goodwill and avoid discussions of the reasons for a partner's perceived ineptitude. This, in turn, further reinforces negative perceptions of the partner. Together these mechanisms can result in a vicious cycle of inertia as partners strive to protect goodwill while abandoning efforts to produce partnership outcomes because of doubts of the other's quality. They also explain why different dimensions of trust are not necessarily intertwined, as has been emphasized in past research on international partnerships, and can even come untwined under conditions of high distance.

Second, we draw attention to the limitations of trust, both as a governance mechanism for safeguarding partnerships and as a construct for explaining their dynamics. Our findings question the assumption that trust is a sufficient safeguard, given that in this case it was based on faulty attributions. Indeed, we show how trust can be a source of hazard in internationalization and should be accompanied by other safeguards.[2] Further we show that actions to preserve relational governance between high-distance partners can be dysfunctional and contribute to trust erosion themselves.

Third, we show that trust erosion may be associated with inertia in the internationalization of small enterprises and not necessarily with success or failure. We extend past theory on network inertia (e.g. Ahuja, Soda & Zaheer, 2012; Kim, Oh & Swaminathan, 2006) by highlighting the role of high distance in producing inertia. In doing so, we underscore inertia as a relevant internationalization outcome for scholars to consider.

In the next section, we outline the extant literature on distance, trust and bounded reliability that was relevant to the conceptualizations and research methods selected for this study. Following this, we describe our research methods and then present our findings. In the Discussion section we explain how these findings contribute to international business scholarship, and discuss their limitations, boundary conditions, and implications for managers and policymakers.

THEORETICAL CONTEXT

Distance as a Theoretical Construct

Distance is a fundamental construct in international business research. Essentially it connotes cross-national differences in business environments as a continuum, with "high distance" signifying substantial differences and "low distance" signifying minor differences (see, for example, Cuypers, Ertug, Heugens, Kogut & Zou, 2018; Maseland, Dow & Steel, 2018). It is also a hotly debated construct, with

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[2] We thank our editor Liena Kano, and an anonymous reviewer, for highlighting this thought-provoking point.

complex considerations surrounding its dimensions and measurement (e.g. Beugelsdijk, Ambos & Nell, 2018; Cuypers et al, 2018; Maseland et al., 2018; Zaheer, Schomaker & Nachum, 2012). Our purpose here is not to engage in these debates, but to draw on them in order to describe and justify how we conceptualize distance in this study. In doing so, we follow Beugelsdijk et al. (2018 :1126) who note: "there is no distance theory as such. Distance is given meaning within the context of specific theoretical frameworks."

Therefore, a key consideration in this research was deciding which dimensions of distance were meaningful in the theoretical context of trust between small partners. Extant research provides two dominant possibilities: cultural distance (Kogut & Singh, 1988), reflecting cross-cultural differences, and institutional distance (Kostova, 1999), reflecting institutional differences. Past international business research on trust has been mostly based on cultural distance (e.g. Ertug et al., 2013; Luo, 2002; Wu et al., 2007; Zaheer & Zaheer, 2006), although institutional distance has also been found to be relevant (e.g. Abdi & Aulakh, 2012). Given that trust between cross-border partners involves navigating both cultural and institutional distance, we conceptualized distance as a composite construct. Specifically, when we refer to distance, we are referring to compound distance, which Verbeke and Kano (2012: 142) define as "the need to manage various distance dimensions simultaneously." Such a composite approach is considered appropriate when the theoretical role of distance is conceptualized as general rather than specific to a particular dimension (Beugelsdijk et al., 2018: 1117).

Our research methods followed current guidelines to study distance effectively. We studied firms that were inexperienced in each other's business environment in order to avoid any noise due to differing familiarity (see Zaheer & Mosakowski, 1997). We studied a partnership in a context (UK-China) that is widely acknowledged to be characterized by high distance (Blackburne & Buckley, 2019; Child & Marinova, 2014), and adopted a dyadic approach to data analysis to detect any asymmetries in the perspectives of the partners (McEvily, Zaheer & Fudge Kamal, 2017; Zaheer & Fudge Kamal, 2011). In addition, international business scholars contend that distance-based research should focus on the explanatory mechanisms through which distance effects the outcome under investigation (Beugelsdijk et al., 2018; Maseland et al., 2018; Tung & Verbeke, 2010; Zaheer et al., 2012), and so our data analysis processes were designed to uncover the explanatory mechanisms through which distance effects trust erosion. Specifically, we followed prescriptions to identify and explain the mediators of this relationship (Maseland et al., 2018) by highlighting how and why distance results in adjustments to partner interactions over time. Therefore, each of the mechanisms described in this research consists of a condition (high distance), one or more behavioural outcomes contributing to trust erosion that result from that condition, and a theoretical explanation of how and why high distance results in that behaviour. We also explain why these three mechanisms in tandem result in the overall outcome of trust erosion.

Trust as a Theoretical Construct

Consistent with much of the international business literature, we define trust using the definition of Mayer, Davis and Schoorman: "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party" (1995: 712). Mayer et al. (1995) explain that a willingness to be vulnerable is an essential element of the definition because it implies that something important may be lost. This is true of economic exchanges, where trust allows people to simplify information processing and safeguard against opportunism (McEvily et al., 2003).

Trust has been conceptualised in the international business literature as existing at an interpersonal level of analysis (e.g. Chua, Morris & Ingram, 2009; Jiang et al., 2011) and at an inter-organizational level of analysis (e.g. Dyer & Chu, 2000; Ertug et al., 2013; Katsikeas et al., 2009; Wu et al., 2007; Xie et al., 2010; Zaheer & Zaheer, 2006). Zaheer, McEvily and Perrone (1998) differentiate between the two levels: interpersonal trust is the trust that a boundary-spanner in one organization has for their counterpart in a partner organization, while inter-organizational trust is the trust that multiple actors in an organization have in a partner organization. In the context of small firms and small branches of state-owned enterprises, this distinction is fuzzy because of the dominance of a single decision-maker.

The international business literature on small firms (e.g. Filatotchev, Liu, Buck & Wright, 2009; Lamb, Sandberg & Liesch, 2011) equates the perceptions and behavioural choices of the firm's dominant leader with those of the firm, as does the entrepreneurship literature (for example, Dickson & Weaver, 1997; Lumpkin & Dess, 1996). While there is some variation, branch managers of profit centres within Chinese state-owned enterprises, like the one studied here, dominate decision-making within the enterprise to a similar extent as a small business owner (see Meyer, 2017; O'Connor, Deng & Luo, 2006). Accordingly, we explicitly study interpersonal trust, between the leaders of Beta and Sina, and contend that this is a valid proxy for their organization's trust in the other organization. This approach is also consistent with arguments that individual-level perceptions and actions can explain enterprise-level internationalization outcomes (e.g. Coviello, Kano & Liesch, 2017).

A review of the trust literature has uncovered 38 different dimensions of trust (McEvily & Tortoriello, 2011). Two widely-studied dimensions in the international business literature are cognition-based trust and affect-based trust (e.g. Chua et al., 2009; Jiang et al., 2011; Luo, 2002). Cognition-based trust is formed by cues of quality signifying that another party is skilled, competent and reliable, while affect-based trust is grounded in the emotional bonds between individuals and their goodwill or benevolence towards each other (McAllister, 1995)[3]. Scholars examining trust involving Chinese market actors have shown that cognition and affect bases of trust are intertwined, reflecting the importance of interpersonal relationships in Chinese business relationships (e.g. Chua et al., 2009; Jiang et al., 2011; Xie et al., 2010). Due to the prominence of cognition-based trust and affect-based trust in the international business literature, we paid attention to both in analyzing the data.

Also, in analyzing the data we were aware that there is a wider debate in the international business literature around the relevance of trust in reducing the hazards of internationalization, given the

[3] A third dimension of trustworthiness often studied in the management literature is integrity (Mayer, Davis & Schoorman, 1995; Schoorman, Mayer & Davis, 2007). We do not consider it in this paper because it is not relevant to our findings or our theorizing. All informants acted with integrity and were seen by the other informants as acting with integrity. Opportunism (intentional deceit) was not observed.

possibility of adopting safeguards against these hazards (for example, Madhok, 2006; Verbeke & Greidanus, 2009). Verbeke and Greidanus (2009) argue that negative outcomes that might ensue are due to bounded reliability, which includes opportunism (intentional deceit) and benevolent preference reversal (good-faith commitments are made ex ante but are not fulfilled ex post). Good-faith commitments may not be fulfilled because a partner's priorities change and other options have higher potential or because a partner becomes over-committed and unable to deliver what was promised (Kano & Verbeke, 2015; Verbeke & Greidanus, 2009). This perspective suggests that if safeguards can protect against bounded reliability, trust is not needed as a relationship governance mechanism.

Despite the persuasiveness of these ideas, they were developed in studies of (typically large) multinational enterprises (MNEs). The focus of this study is small enterprises which often lack economies of scale, scope, experience and learning and so are disadvantaged in setting up contractual safeguards (Nooteboom, 1993). Moreover, we empirically observe that, rightly or not, both actors in the dyad approached relationship-building with the premise that trust ought to be built. Accordingly, we grounded our data analysis in the literature on trust dynamics, but we also paid attention to concepts related to bounded reliability in explaining the trust erosion observed.

Trust Dynamics

Understanding trust dynamics is important to a study of trust erosion. In this section, we draw primarily on management research to summarize key ideas underlying our scholarly understanding of trust dynamics, and in the next section, we draw on the international business literature to explain how these dynamics are effected by distance. Extant management research has found that sensemaking, through the interpretation of cues about trustworthiness, underlies trust. At a first encounter, when an actor has little information about another actor, he or she is likely to trust them if they perceive them favourably on the basis of easily observable cues that signal quality. These perceptions need not be objectively accurate; they can be based on a positive stereotype or social similarity (McKnight, Cummings & Chervany, 1998). Researchers have shown that cognition-based trust is assessed prior to affect-based trust, because perceptions of competence lead to the interactions upon which personal relationships are developed (e.g. Lander & Kooning, 2013; McAllister, 1995). However, in a study of cross-border partnerships in the international business literature, Jiang et al. (2011) show the relationship between cognition-based trust and affect-based can be reinforcing, because beliefs that caring sentiments will be reciprocated can boost perceptions of the other party's competence.

Through repeated interactions, as more cues about the other actor are interpreted, initial trusting beliefs may be revised (e.g. Inkpen & Currall, 2004; Mayer et al., 1995). This evolution of trust has been conceptualised as an ongoing sensemaking and learning process, where an actor interprets another actor's behaviour and makes attributions about the reasons for the observed behaviour (Tomlinson & Mayer, 2009). Then, if they believe it is warranted, they adjust the extent to which they trust the other actor and revise the nature of the subsequent interaction (Inkpen & Currall, 2004; Weber, 2017). Over time, then, trust can exhibit upward or downward spirals depending on observed cues (Jones & George, 1998).

Downward spirals – trust erosion – can be gradual or abrupt depending on how severe breaches are perceived to be, and the reasons that are attributed for them. Attributions are causal explanations that individuals ascribe to outcomes they observe (Harvey, Madison, Martinko, Crook & Crook, 2014). The locus of causality – whether the cause of an outcome is perceived by an actor to have been generated internally (by the other actor) or externally (by the situation that is outside the control of the other actor) – impacts trust dynamics. Trust erodes when negative outcomes are attributed to another actor (for example, their lack of competence or goodwill) rather than to the situation (for example, confusing regulatory demands or a downturn in the economy) (Lewicki & Bunker, 1996; Tomlinson & Mayer, 2009). In examining distrust in international relationships, MacDuffie (2011) suggests that when a breach in competence underlying cognition-based trust lies within an expected range of outcomes due to assumptions about the bounded rationality of other actors, there may be less erosion of trust than from a breach in the interpersonal relationship underlying affect-based trust and seen as a betrayal.

The recognition that dynamics are central to an understanding of trust has led management scholars (see Lewicki, Tomlinson & Gillespie, 2006; Meier et al., 2016) to call for longitudinal, qualitative research that tracks the dynamics of trust over time, which is the approach we followed.

Trust Dynamics Between High-Distance Market Actors

The business environment impacts market actors' sensemaking of cues and responses to cues (Orr & Scott, 2008), and so it is consequential to the attributions underlying trust beliefs. It is therefore not surprising that international business scholars have examined how distance effects trust dynamics. They have shown that high distance is relevant to trust in cross-border relationships, with attention predominantly focused on the formation of trust. Prior research shows that high distance impedes attributions of competence and benevolence to a potential partner by limiting sensemaking about actor-related and situation-related cues. High distance barriers to sensemaking – and, by extension, attributions – relevant to trust formation include a lack of information about local markets and actors (Wu, Sinkovics, Cavusgil & Roath, 2007), the use of social stereotypes in the absence of familiarity (Ertug et al., 2013), communication barriers (Luo, 2002; Tenzer et al., 2014), and differing understandings of business and cultural norms among actors (Jiang et al., 2011; Zaheer & Zaheer, 2006). Since trust is fragile and its maintenance also relies on attributions of cues from others (Kim, Dirks & Cooper, 2009), it stands to reason that high distance is likely to impact trust erosion as well as trust formation. Moreover, it is also likely to amplify bounded reliability because local demands may be prioritized since they are more apparent and easier to respond to (Verbeke & Greidanus, 2009).

There is a further concept from extant international business research on trust between high distance partners that is relevant to this study. This literature shows that the propensity to trust varies across countries, and there are differences in the perceived trustworthiness of partners depending on their home country (Bidault, de la Torre, Batten, Zanakis & Smith Ring, 2018; Ertug et al., 2013; Zaheer & Fudge Kamal, 2011; Zaheer & Zaheer, 2006). This variability across countries suggests that important aspects of trust in a cross-border relationship may be asymmetric. Accordingly, scholars have called for dyadic approach to the study of trust, to be able to take into account any asymmetry (McEvily et al., 2017; Zaheer & Fudge Kamal, 2011), and so this is the approach we have taken here.

RESEARCH SETTING AND METHODS

In describing our research setting and methods, we follow recent principles for establishing trustworthiness in qualitative international business research (Cuervo-Cazurra, Andersson, Brannen, Nielson & Reuber, 2016).

Case Selection

We used an inductive empirical approach since existing theory on trust erosion is nascent (see Edmondson & McManus, 2007). We examine a single case study, the partnership between a small British life science company (Beta) and a small branch of a Chinese state-owned enterprise that was their distributor (Sina). The case study is a revelatory one because it reveals a prevalent phenomenon that is difficult to study (see Yin, 2014: 52). Studying trust erosion is challenging: researchers are unable to know in advance how events will evolve, and people are reluctant to discuss failure. In addition, busy people resist committing large amounts of time to provide data over a period of years (Shepherd, Wiklund & Haynie, 2009). Studying the relationship as a dyad means that resistance on the part of two different business partners has to be surmounted to gain the perspective of each.

We overcame these difficulties because the first author was engaged in a larger project with Beta and Sina, from the period when trust was being built until after trust had eroded and the partnership was over. The depth of our understanding of the case stems from her close interactions with both enterprises. She is fluently bilingual in English and Mandarin and has held senior jobs in the UK and China. Accordingly, she could establish a personal rapport with all individuals without the use of interpreters. The interview transcripts and field notes reflect the language of the speakers, which reduces the potential for the data to reflect misinterpretations due to scholarly sensemaking in an unfamiliar business context (Kuznetsov & Kuznetsova, 2014) and the need to translate (e.g. Chidlow, Plakoyiannaki & Welch, 2014). Bilingual and bicultural fluency enabling an understanding of both business contexts and partner perspectives are particularly important for trust research because understandings about trust vary culturally (e.g. Chua et al., 2009; Dyer & Chu, 2000; Zaheer & Zaheer, 2006) and it is important to go beyond the unidirectional perspective of one partner (Schoorman, Mayer & Davis, 2007; Zaheer & Fudge Kamal, 2011).

Besides offering normally hard-to-access data, this research setting suits our research question in two other ways. First, there is high distance between China and the UK (Blackburne & Buckley, 2019; Child & Marinova, 2014). Second, trust did not erode because of malfeasance or wavering commitments on the part of either partner. Both parties were economically and personally motivated for the relationship to succeed and worked very hard to maintain it.

Case Overview

Beta and Sina signed an exclusive distribution agreement at the end of 2009. Beta was a three-year-old life sciences startup, with fewer than 10 employees. Beta1, Beta's founder and CEO, was looking for access to the Chinese market. Sina was a 20-year-old branch of a larger state-owned enterprise, responsible for the import and export of foreign products, with 144 employees, which is considered a small enterprise in China (Liu, 2008). Sina1, Sina's General Manager with sole decision-making power, was seeking new products for distribution into the Chinese market. Neither organization received resources from a parent organization, and both decision-makers had the same discretion with respect to their own enterprise and the partnership. Beta1 and Sina1 were also similar in that Beta1 had no experience in China and Sina1 had no experience outside Asia. They met at a trade fair in China in 2008, and were favourably impressed with each other. They were both enthusiastic about the commercial potential of the agreement when it was signed.

The first author became engaged with the two enterprises in June 2011. At that time, Beta1 confided that he shared a close personal relationship with Sina1, was optimistic about the relationship, and had high expectations of success. This was confirmed by Sina1. He described Beta1 as a good friend and someone he wanted to help become successful. However, during the summer of 2011, the cognition-based trust established between the two partners began to erode, and after four years of seemingly successful partnership development, the relationship between them collapsed in 2012. Beta's product was never launched in China. Sina1 confided to the first author that Sina had lost vast amounts of time and money during the registration process of Beta's product in China and that he had himself lost face over the failure at the company's board level. Likewise, a company director of Beta stated: "It remained the most incredible distraction in time and money; we must have invested extraordinary amounts of time and money in this process" (Beta4).

Data Collection

The case starts in April 2008 when Beta1 and Sina1 meet at a trade fair in China, and ends in June 2012 when the partnership between the two companies ended. The first author collected data continuously from both enterprises from June 2011 to November 2014. Knowledge of events and activities that occurred before June 2011 was captured retrospectively through interviews and archival data. Since data collection was ongoing during the period of trust erosion, we did not have to rely on retrospective data to capture degradations in the relationship. Data collection continued to 2014, more than two years after the relationship ended, to collect multiple reflections on why the relationship failed. This allowed us to understand the erosion of trust without relying solely on data generated during an emotional and frustrating breakdown. Thus, our data on trust erosion captures multiple sources of both real-time events and after-the-fact retrospections.

As shown in Table 1 and described below, three types of data were collected. Replication was achieved through multiple observations longitudinally, as is customary in process studies (Langley, Smallman, Tsoukas & Van de Ven, 2013). Collecting multiple types of data from multiple sources also enabled us to establish that evidence converged, for corroboration and the strengthening of construct validity (see Yin, 2014: 121), and to mitigate against self-serving biases (Bradley, 1978) in data collected from informants.

** Insert Table 1 about here **

Interviews

Interviews captured individuals' attributions of causes for outcomes, and how they explained their own trusting and trustworthy behaviour. Beta1 and Sina1 were the primary sources of interview data; however, we gained an understanding of the dyad from multiple perspectives by interviewing multiple individual people in both companies, as well as trade experts.

As shown in Table 1, the first author conducted over 35 in-depth formal interviews spanning the time before, during and after the period of trust erosion. Key actors were interviewed multiple times from 2011 to 2014 in order delve deeper into the data collected earlier and to capture changes in individuals' perceptions over time. This time period gave informants time to reflect on how and why the relationship had failed. Interviews were recorded, and the recordings were transcribed in English or Chinese, depending on the interview language.[4] Retaining the richness of the native data for interpretation purposes sidesteps issues of cognitive, linguistic and pragmatic equivalence (Holden & Michailova, 2014), improving analytic rigour. To minimise interpretation inaccuracy (Stening & Zhang, 2007), two native Chinese academics verified Chinese transcriptions and data from Sina.

Data collection in China can be hard because of suspicion regarding how data are used, especially when the topic is sensitive, as it is for research on trust (Stening & Zhang, 2007). Accordingly, as shown in Table 1, some interviews of key Chinese informants were conducted in a more informal manner, sometimes as part of a group and in the context of social occasions such as dinners and more leisurely pursuits. This format allowed Chinese informants to relax and helped the researcher build the rapport required to discuss sensitive topics. Following established practices, data from such interviews were recorded through field notes written up during the encounter or right afterwards (Corbin & Strauss, 2008: 123).

Observation

[4] The translations of the Chinese quotations that appear in the paper were done by the first author to facilitate discussion among the co-authors and to share our data in English for this paper.

Direct, field observation offers a real time and highly valuable contextual complementary source of evidence to interview data (Yin, 2014: 113). In a Chinese context, it can be more effective to collect complex, reflective data through observation in informants' own environments than in a time-constrained interview. Observation revealed aspects of the relationship unacknowledged by the informants when interviewed; often this was due to the informants not being fully aware of dynamics within their interaction because of distance-related barriers. Moreover, maintaining interaction with Beta1 and Sina1 was essential to putting them at ease in sharing their perspectives and feelings.

The first author attended meetings of the partners at a trade fair in Germany in November 2011. Field observations took place throughout 2012, through video conferencing and face-to-face encounters. In addition, the researcher was able to meet and observe Sina1 and Sina2 during two trade fairs in November 2013 and 2014. Observational data was captured immediately, through field notes (Corbin & Strauss, 2008: 123) that recorded both observational description and analytical remarks about the behaviour and perspectives of the informants. As is conventional practice (Jarzabkowski, Bednarek & Lê, 2014), data from observational field notes needs to be contextualised when reported as findings and so it is reported as part of the narrative rather than as direct quotes.

Archival Data

Archival data can replicate and triangulate data collected through field observation and interviews (Yin, 2014: 107). In this study, it also provided a real-time record of the events prior to June 2011, so we were not reliant on retrospective interviews. In particular, analyzing email messages sent during the process of trust erosion highlighted difficulties and confusion in communication. Moreover, we were able to verify important facts about the partnership from the enterprises' organizational records. As shown in Table 1, archival data included (a) email exchanges; (b) PowerPoint presentations; (c) reports, agreements, regulatory certificates and brochures; and (d) media articles and public information about the enterprises.

Data Analysis

There were four steps of data analysis. While described here in sequence, there was overlap in carrying them out, because insights at one step often resulted in revision of work products from a previous step. As is customary with inductive research, we cycled back and forth between theory and data in order to gain an increasingly refined theoretical understanding of the case (see Miles & Huberman, 1994). Throughout, we shared our interpretations with key case informants and three outside experts in order to gain confidence that our mechanism-based model of trust erosion made sense to "those living the phenomena of interest" (Nag, Corley & Gioia, 2007: 829).

The first step of analysis was to develop a timeline of the case, as shown in Table 2. Temporal bracketing transforms process data into discrete but connected blocks (Langley, 1999). We used temporal bracketing to separate the data into two time periods bracketed by the partnership agreement: the pre-partnership period in which trust developed (April 2008 to December 2009) and the partnership period in which trust eroded (January 2010-June 2012). We identified activities and events within each time period.

** Insert Table 2 about here **

The second step was to code the case data (Corbin & Strauss, 2008). We systematically went through all of the data, separately for Beta and Sina, creating a list of lower-order empirical themes. Based on prior literature, we started by looking for evidence of cues of cognition-based and affect-based trust. For example, the following statement from Beta1, upon meeting Sina1, was coded as a cue attributed to competence: "Well, they had a good size office, they had a team, you know, I guess you are looking, you are doing the diligence exercise aren't you?" The following statement about Sina1 was coded as a cue attributed to affect: "I'm his brother, he calls me his brother, he is 'zhongguo geermen' [Chinese brother]." The remaining lower-order empirical themes were developed inductively. While process-based research tends to identify the precipitating events that result in changed relationships (Giesler & Thompson, 2016), we observed that trust between the partners eroded also because of events that failed to occur. Thus, evidence of stalling and a lack of progress was crucially relevant in developing the empirical themes.

In the third step of analysis, we proceeded from open coding to axial coding (Corbin & Strauss, 2008), structuring the evidence into higher-order conceptual themes related to trust erosion and aggregate theoretical dimensions corresponding to explanatory mechanisms. The objective was to move from the concrete description of the case data to a more abstract, theoretical model of the dyadic relationship that explained how and why trust eroded. Consistent with our research question and commentaries on distance-related research (Beugelsdijk et al., 2018; Maseland et al., 2018; Tung & Verbeke, 2010; Zaheer et al., 2012), we focused on identifying the explanatory mechanisms linking high distance and trust erosion. We were open to the possibility that different mechanisms would be relevant to Beta and Sina, but we found a rather surprising theoretical symmetry in the data from the two enterprises. The structure of our data is presented in Figure 1. Additional data supporting the empirical themes, from both enterprises, is shown in Table 3.

** Insert Figure 1 about here **

** Insert Table 3 about here **

In the fourth step of analysis, we specified the dynamics among the mechanisms: how they were inter-related over time, as shown in Figure 2, and how they impact our current understanding of trust dynamics from prior research, as shown in Figure 3.

FINDINGS

We structure discussion of the findings around the three mechanisms identified during data analysis. Together these explain how and why high distance may lead to the erosion of trust between smaller partners.

Mechanism 1: High Distance Leads to Erroneous Attributions of Cues to Potential Partner Quality

While prior literature highlights that high distance can mask a potential partner's competence and hinder partnership formation (e.g. Tenzer et al., 2014), this case shows that high distance can also result in inaccurately inflated perceptions of quality and competence on which cognition-based trust forms. Beta1 was actively looking for a Chinese partner when he met Sina1 at a trade fair in China in April 2008, believing that China had vast potential as a market for the company's products and was "the place to be" (Beta1). From the time of their initial meeting until they signed a partnership agreement, Beta1 and Sina1 believed the other party's level of quality and competence to be high, and they quickly developed cognition-based trust. However, as shown in the data structure diagram in Figure 1, cognition-based trust was based on erroneously attributing cues about the other party to their quality and competence.

For Beta1, a strong cue of Sina's standing in the industry was the size of the state-owned enterprise it was associated with: Beta repeatedly described the organization to others as a "huge medical company in China" (Beta1). This was reinforced by the fact that he was always driven around town "in a Mercedes or a Buick" (Beta1) when he visited China. The following retrospective quotation indicates Beta1's confidence in the quality of Sina's marketing operation at the time of the agreement: "He seemed to do quite a bit of marketing research to verify that the product would…you know, they seemed to scrutinize other products' opportunities for them... They all seemed to be doing quite a bit of market stuff in China, talking to doctors if they would buy it" (Beta1).

However, Beta1's favourable perceptions of Sina's standing in the industry and quality of operations were based on cues that he erroneously attributed to the enterprise rather than to the context of the Chinese business environment. We observed that the high distance between the two business environments hindered his understanding of these cues. The luxurious cars and trapping of success that Beta1 paid attention to are common occurrences in China, because of "face" (mianzi)-related norms (Buckley, Clegg & Tan, 2006), and do not represent evidence of organizational success. Indeed, Sina1 confided to the first author that his expensive Mercedes was a present from a friend. Moreover, Beta1 was impressed that Sina was visually depicted on presentations and reports as part of a massive state-owned enterprise with sales forces based in Beijing, Shanghai and Guangzhou, but did not understand the institutional arrangements of the larger organization. In reality, Sina was small, operated independently and was not funded by the state-owned enterprise. Consistent with Beta1's inaccurate perceptions of Sina's size, press releases in the UK around the signing of the agreement in 2010 actually describe the deal as being with the much larger state-owned enterprise associated with Sina. These inflated perceptions of Sina led Beta1 to have unrealistic expectations of the partnership's performance. As illustrated by a quotation in Table 3, he expected Sina to have operations like Johnson & Johnson, a company he did business with in North America. He also saw Sina as a possible acquirer – "We knew Chinese companies were interested in growing their international portfolio and for us that was a big exit" (Beta1) – which was an inaccurate perception of Sina's size and financial standing and an unrealistic outcome for the partnership.

For Sina1, a strong cue of Beta's standing in the industry was Beta1's business network and his ability to connect Sina with potential partners in Europe and North America. Sina1 also perceived Beta's product to be of high quality because it was already being sold throughout Europe and Canada, and they had numerous international distribution agreements in place. For example, Sina1 stated: "because he had already started selling in the UK, we were confident his business would progress" (Sina1).

However, like Beta1, Sina1 had inaccurately attributed these cues as being due to his potential partner's competence and quality because high distance hindered his understanding of the other business environment. Beta was just a three-month old startup when they met. Even though Beta's product was being distributed and sold outside the company's domestic market, Sina1 did not understand that Beta's foreign market experience was unlikely to translate to the Chinese market which had a very different regulatory process. Further, Beta1's introduction of Sina1 to Western companies was not a cue that he was an internationally adept player in the industry, because Western companies are generally amenable to introductions from each other in China. His expectation that product registration would take 12 to 18 months was unrealistic.

Thus, because their attributions about these cues were embedded in their own, very different business environment, Beta1 and Sina1 had an inaccurate and inflated basis on which cognition-based trust developed. The consequence of this is that they had unrealistic expectations about what the other could deliver and over-expectations of the performance of a future partnership. Additional data supporting these constructs is shown in Table 3. As further evidence of their unrealistic expectations, both partners made expensive credible commitments (Ingram, 1996; Schelling, 1960) towards the success of the relationship. For example, when the partnership agreement was signed, Beta1 announced the formal relationship with Sina in the local business media and leveraged this announcement to attract further investment. In an interview in early June 2011, he confided to the first author that he expected sales in China to reach £1.5 million in the first year of selling. At the same time, Sina1 hired a new English-speaking manager to compensate for Sina1's weak English-language skill. Sina1 also offered to pay for Beta's product registration in China, which was a fairly risky commitment from an outside perspective, given the uncertainty of getting a product from a small, new foreign enterprise approved by the Chinese regulatory authorities.

Mechanism 2: High Distance Leads to Erroneous Attributions of Disappointing Results to Partner Quality

The second mechanism uncovered during this research is the erosion of cognition-based trust due to the attribution of disappointing partnership outcomes to the partner rather than to the situation. Although prior literature suggests that a negative outcome may not be attributed to another party if it is seen as lying within an expected range of outcomes (MacDuffie, 2011; Verbeke & Greidanus, 2009), our findings suggest that a high-distance context inhibits market actors from understanding the expected range of outcomes. As the timeline in Table 2, shows, there were repeated incidents where one partner privately raised doubts about the other's competence on the basis of a faulty understanding of the situation.

A key issue was the two partners' very different understandings of the Chinese regulatory process. Beta1 expected an efficient product registration system. He did not expect product-related issues to arise because the product was considered low risk in Europe and benefitted from a simplified regulatory process, stating, for example: "it's such a low, a low risk device, even in Europe it's a class 1, you just sail through the file and start selling" (Beta1). He blamed Sina's lack of competence for requests for information that were unexpected and came at the last minute: "Instead of planning in advance, all your requests for information and support have been left to the last minute with requirements of 'we need them by tomorrow...in two days' time etc., requirements which are just not possible to comply with on our side" (email from Beta1 to Sina1). Sina1 tried to explain that the regulatory process was inefficient and ad hoc: "We can't tell in advance what we should offer, it depends on the auditor's personality. If no additional documents are requested, the auditor will be suspected of being incompetent or the auditing not strict, so they always have weird questions" (email from Sina1 to Beta1). However, Beta1 did not believe that such idosyncracies could be part of an official system, and so questionned Sina's ability to navigate the process.

Another example of such differing understandings relates to the documentation required by the Chinese regulatory authorities. Sina1 expected that Beta would be able to supply all the requested documents because he did not view Beta's product as particularly novel or special: "To be honest, Beta's product is not an innovative or good quality product: it is a type of product and technique that could easily be produced in China" (Sina1). Yet, some required documents were impossible for Beta to provide. For instance, Beta could not supply a copy of an agreement with a raw material supplier because it is not normal practice in the UK to sign an agreement with suppliers when the raw materials are off-the-shelf, as was the case here. Sina2 believed that missing documentation was a sign of an unstable product and began to doubt Beta's product-related capabilities: "he didn't know that in fact we sometimes we lose confidence about the product due to the problem we meet" (Sina2). Sina1 also could not understand why Beta did not submit the required document. He confided to the researcher that he suspected Beta1 was not being truthful in saying that the agreement with the raw material supplier did not exist and suspected that Beta1 feared imitation: "He would not submit the document? He believed we want to copy his product? After that I became angry" (Sina1).

Increasing doubts about each other's competence were also exacerbated in terms of the different temporal expectations of Beta1 and Sina1. Consistent with the literature on distance (e.g. Beugelsdijk et al., 2018), Sina1 had a longer-term orientation than Beta1. Beta needed immediate sales revenue from the Chinese market to show short-term progress to his investors in the UK. Sina1 took a longer term perspective and preferred to "wait until his product improved before we begin selling" (Sina1). As a result, Beta1 lost confidence in Sina's ability to deliver while Sina1, unaware of the requirements of Beta's investors, was relaxed about meeting milestones later.

The discovery by Beta1 of the successful registration of a rival product in China is another example where high distance fostered attribution of disappointing results to the partner rather than to situational causes. Beta1 (erroneously) believed that his competitor had started the registration process after Beta and blamed Sina's lack of regulatory competence for the delay in registration: "I'm pretty disappointed that [competitor enterprise] have found a partner and registered and carried out a trial during our time still getting nowhere with Sina. I'm becoming convinced that this shows we have chosen the wrong partner" (email from Beta1 to first author). Documents later supplied to the researcher by Sina showed that (1) the competing product had started registration in China much earlier than Beta; and (2) many delays in Beta's product registration were due to Beta's inability to supply requested documents.

As can be seen from these examples, and the additional data provided in Table 3, the faulty attributions to cues which occurred because of high distance resulted in the erosion of cognition-based trust between the partners. However, the explanation of trust erosion in a high-distance context is more complex than false attribution of competence-related cues during trust formation (Mechanism 1) and false attribution of disappointing results during an operational partnership (Mechanism 2). This is shown in the next section where we describe the third mechanism uncovered in our research.

Mechanism 3: High Distance Leads to an Over-Emphasis on Goodwill to Reduce Commitment Non-fulfillment

Whereas the first two mechanisms relate to cognition-based trust, and are based on attributions, this third mechanism relates primarily to affect-based trust and is driven by a response to bounded reliability (Kano & Verbeke, 2015; Verbeke & Griedanus, 2009). Even if initial cues were perceived too positively, favourable beliefs about the other partner's quality and competence before the partnership agreement was signed resulted in repeated and supportive social interactions between Beta1 and Sina1 that led to the formation of affect-based trust and reliance on relational governance. Consistent with the importance of relational governance among small enterprises (e.g. Mesquita & Lazzarini, 2008), they were both sceptical of the value of formal contracts. For example, Beta1 stated: "Getting the product in and getting the sale, but then getting the second sale and continuing to build that relationship. […] The contracts we have are very big, but it doesn't mean they will buy, you know" (Beta1).

As shown in the data structure diagram in Figure 1, affect-based trust developed between Beta1 and Sina1 through friendship ties and each party's willingness to do favours for the other. Beta1 and Sina1 referred to each other as "brother" or "friend" repeatedly. Field notes taken during interactions in meeting rooms or at restaurants record a pleasant, friendly atmosphere. Beta1's wife came to China with him, and socialized with Sina1 and his wife. A warm personal relationship was reinforced through each partners' appreciation that the other was willing to do favours for him, even "in circumstances where there was no benefit to be derived" (Sina1) from the helpful action. The following quotations explicitly link favours to affect-based trust:

> Beta1: "When they do contracts, they use my contract, when they need help, they ask me, so I think they do trust me."
>
> Sina1: "In China, to do business, I need to decide whether a person can be trusted. Because he still helped me even though there was no benefit for him in doing so, I decided he was someone that deserved to be trusted.

Although Beta1 and Sina1 had misinterpreted quality and competence cues about each other and their businesses, our observational data indicates a warm personal relationship developed between the two men and their beliefs about the other's benevolence were well-founded.

Prior research suggests that cognition-based trust and affect-based trust are intertwined for Chinese market actors, because interpersonal relationships are important in Chinese business relationships (e.g. Chua et al., 2009; Jiang et al., 2011; Xie et al., 2010). Somewhat surprisingly though our data reveals that Beta1 and Sina1 sustained affect-based trust even while cognition-based trust was eroding.

They continued to do favours for each other and socialized as friends. Beta1 made several trips to China and continued to build upon his earlier efforts to assist Sina1 in brokering Western connections in non-competing areas. The first author attended meetings and meals with the partners during this time period and observed that the personal relationship remained intact. The following quote nicely illustrates the preservation of Sina1's affect-based trust towards Beta1, while his cognition-based trust had diminished: "In the process of interacting with Beta1, well, I first and foremost consider Beta1 as a good friend. So I trust him. But, in actual fact, I have little confidence in his product." (Sina1).

Our analysis indicates that Beta1 and Sina1 prioritized the protection of affect-based trust as a response to what they perceived as each other's commitment non-fulfillment. They observed a benevolent preference reversal in that good-faith commitments were made ex ante but were not being fulfilled ex post (see Kano & Verbeke, 2015; Verbeke & Greidanus, 2009). Since high distance hindered their ability to explain this situation, they did not even try to put safeguards in place ex post. Instead, Beta1 and Sina1 continued to rely on relational governance through the goodwill they had established. In order to preserve relational governance they avoided confrontation and hid their true beliefs about their declining perceptions of the other's competence. For example, when Beta1 introduced Sina1 to a potential partner and later found the Chinese company's conduct troubling, Beta1 thought Sina was failing to respond in a professional and timely manner to the situation. However, Beta1 failed to raise concerns about Sina's conduct. When asked later why he had not, he replied: "What could I tell him? I was disappointed, okay? I couldn't tell him I'm disappointed. I don't want to hurt his feelings or offend him" (Beta1).

Such reluctance to discuss difficult issues preserved goodwill, but exacerbated the lack of clarity about commitment non-fulfillment and resulted in stalled partnership outcomes. For example, Sina1 hid his concerns about the quality of Beta's product. This was observed during a meeting at a trade fair in Germany in November 2011, which the first author attended. During the meeting, Beta1 focused on issues related to product launch in China. Field notes indicate a clear reticence on the part of Sina1 and Sina2 to discuss any product-related matters. Sina1 repeatedly changed the subject to their unrelated – and positive – progress made with the Western companies introduced by Beta1. Beta1 failed to notice this elusive behaviour of Sina1 and confided to the researcher after the meeting that "it had gone very well" (Beta1). However, while the meeting had proceeded with an air of cordiality, there was no resolution of the stalemate, and no clear enunciation of the concerns each had about the abilities of the other. The inefficacy of the November 2011 meeting was further manifested in the fact that little else happened in the months that followed. Moreover, consistent with Verbeke and Greidanus's contention that high distance is likely to amplify reliability problems because local demands may be prioritized (2009), while there was inertia in the partnership, there was not inertia in Beta and Sina individually. Beta1 and Sina1 both pursued other opportunities that were more adjacent to what their enterprises were already doing, rather than dealing with their joint problems.

Thus, this third mechanism results in partnership inertia because commitment non-fulfillment persists. Over time, as partners interact, the second and third mechanisms operate reciprocally, producing an ever-widening gap between the maintenance of affect-based trust and the erosion of cognition-based trust. The partnership collapsed when cognition-based trust between the partners broke down after a European firm successfully registered a competing product in China. Data collected two years later shows that the personal relationship between Beta1 and Sina1 remained. Beta1 called Sina1 "a good guy" and Sina1 stated "I miss Beta1." They kept in touch, and would visit when Beta1 was in China on other business activities. However, this experience soured both partners on attempting to establish another partnership in the same market. Beta avoided other possibilities in China and chose to collaborate with Indian enterprises instead. Sina stopped its internationalization activities altogether and refocused its efforts in the Chinese domestic market.

The Three Mechanisms and Trust Erosion

Each of the mechanisms described here was insufficient in itself to result in trust erosion; instead, our data shows that it was caused by the three mechanisms operating in tandem over time. The relationships among the mechanisms are illustrated in Figure 2, which summarizes the theoretical model of trust erosion generated by this study. Each mechanism provides an explanation for how and why high distance as a macro-level contextual condition impacts partners' actions as they interact over time. Together they explain how high distance between partners can result in trust erosion.

Insert Figure 2 about here

Through the first mechanism, high distance between potential partners sets the stage before a partnership is operational by hindering accurate attributions of cues about a potential partner. If these cues are erroneously attributed to negative partner quality, it is unlikely that cognition-based trust will be formed, and there will be no partnership. However, when they are erroneously attributed to positive partner quality, cognition-based trust develops on inflated perceptions of the proposed partner and there are over-expectations of partnership performance.

Once the partnership is operational, the second and third mechanisms operate reciprocally over time. Through the second mechanism, high distance between partners hinders accurate attributions to disappointing outcomes because situational causes for such results are not recognized. Instead, partners attribute them to a partners' lack of competence, resulting in ongoing erosion of cognition-based trust. At the same time, the faulty attributions stemming from high distance deters the ex post establishment of safeguards to curb commitment non-fulfillment. Instead, the partners are motivated to protect affect-based trust to preserve the existing relational governance of the partnership. Accordingly, they continue to perform acts of goodwill for the other partner and also refrain from discussing disappointing outcomes. Over time, there is a vicious cycle of a widening gap between cognition-based trust and affect-based trust leading to inertia in partnership activity. This results in another vicious cycle as inertia is perceived unfavourably, and attributed to the partner's lack of competence. While the partners can remain friendly and the partnership formally exists, partnership activity stalls with continued commitment non-fulfillment and partnership objectives are not achieved.

DISCUSSION

This research was prompted by the observation that the internationalization of small enterprises is often based on high-distance partnerships that fail, and while we understand how high distance can hinder trust formation between foreign partners, we have little understanding of its effect on trust erosion in ongoing partnerships. Our goal was to extend existing theory on trust dynamics in high-distance contexts to explain trust erosion between small high-distance partners. Towards this end, we analyzed detailed, longitudinal data about the partnership between a small British life sciences company and its Chinese distributor. Through this analysis we induced a theoretical model of trust erosion under conditions of high distance, consisting of three inter-related mechanisms, as shown in Figure 2 and described above. In this section, we outline three important contributions to international business theory from this research, suggest avenues for future research, and discuss the limitations of our study, the boundary conditions of our findings, and the implications of this research for managers and policymakers.

Theoretical Contributions

Expanded understanding of trust dynamics between cross-border partners. The first theoretical contribution of this research is an expanded understanding of the trust dynamics between high-distance cross-border partners, through the identification of three inter-related mechanisms resulting in trust erosion. We provide a theoretical explication of how and why high distance does not just impede trust formation between potential cross-border partners, as has been emphasized in the prior international business literature (e.g. Ertug et al., 2013; Jiang et al., 2011; Katsikeas et al., 2009; Luo, 2002; Tenzer et al., 2014, Zaheer & Zaheer, 2006). High distance can also facilitate trust formation between potential partners, and this can have adverse consequences over time. Although this finding does not contradict past research, given that distance involves a lack of familiarity and the concomitant possibility that cues are interpreted through a falsely favourable lens, it augments past research by providing the first (to our knowledge) empirical evidence of this possibility and a theoretical explanation of why.

This expanded framework of trust dynamics is depicted visually in Figure 3. First, our study introduces new ways of thinking about the direct effect of distance. Figure 3 illustrates that high distance impacts attributions about the trustworthiness of a partner and potential partner in ways that have not previously been identified: by inflating cues of competence initially and obscuring situational cues once the partnership is operational. Second, we show that trust dynamics may not involve the intertwining of cognition-based trust and affect-based trust over time as has been previously found. Instead, trust dynamics may involve asymmetries in different bases of trust over time and they may become untwined. Third, our study uncovers patterns of partner interaction, due to trust dynamics over time, that have not previously been identified. Specifically, we identify over-expectations of partnership performance, inertia in partnership activity and good-faith commitment non-fulfillment as partnership interactions that are both effected by trust dynamics and consequential to subsequent trust dynamics. Thus, we show how and why high distance can contribute to the breakdown of once-promising partnerships that is so ubiquitous in practice.

Insert Figure 3 about here

These insights about trust erosion demonstrate the benefits of conducting research on trust between high distance partners with dyadic, detailed and longitudinal methods. This has been advocated in some past studies of trust (e.g. Lewicki et al., 2006; McEvily et al., 2017; Meier et al., 2016; Zaheer & Fudge Kamal, 2011), and we encourage their use in future research that builds on our work. We would not have been able to uncover the inaccuracy of informants' perceptions of events (for example, a partner's reaction) without having observational data to serve as a counterpoint. We would not have been able to identify a "non-event" or the lack of an occurrence (such as avoidance of a discussion about delays) as consequential without having an in-depth knowledge of what each party expected to happen. We would not have been able to interpret differences in understandings (for example, of the Chinese regulatory requirements) if one of us was not conversant in both cultures and institutional settings.

Limitations of trust. The second contribution of this research is drawing attention to the limitations of trust, both as a governance mechanism for safeguarding partnerships under conditions of high distance and as a construct for explaining their dynamics. Our findings raise an interesting question:

was it warranted for trust, which was eventually eroded, to be built in the first place since it was based upon distance-induced erroneous attributions to cues observed? If the partners had been more sceptical of signals of each other's quality or of their ability to interpret those signals, they might have (or at least should have) implemented stronger safeguards so they would not have to rely on relational governance to the same extent. In particular, we show instead how trust can be source of hazard in internationalization and, intriguingly, that actions to preserve relational governance can be dysfunctional and contribute to trust erosion themselves.

Verbeke and Greidanus (2009) contend that high distance can amplify reliability problems if local demands are prioritized. Our study offers an additional reason why high distance can amplify reliability problems: high-distance partners may have different conceptions of reliable behaviour. Differences of conceptions of reliability may be due to having different temporal orientations; for example, Beta1 and Sina1 had differing expectations of the time it would take to smooth out the difficulties in meeting regulatory demands. They may also be due to different expectations about deliverables; for example, Beta1 and Sina1 had differing expectations about the ease with which particular documents could be provided. Understanding these differences is crucial in being able to establish appropriate safeguards.

We believe that an interesting avenue for future research is to explore more systematically how distance-related bounds to reliability effect relational governance mechanisms over time. This is a particularly important question for small enterprises that rely heavily on relational governance (see, for example, Dimitratos, Lioukas, Ibeh & Wheeler, 2010; Mesquita & Lazzarini, 2008; Obadia, Vida & Pla-Barber, 2017) and have less organizational slack (Bourgeois, 1981; Thompson, 1967) to buffer them from the resource demands of the partnership. In doing so, it will be beneficial to include dyads from multiple countries in the research design to capture any variability associated with different cultural mixes (e.g. Zaheer & Fudge Kamal, 2011).

Inertia as a relevant cross-border partnership outcome. A third theoretical contribution of this research is a trust-based explanation of cross-border partnership inertia. Past international business literature has emphasized the success, failure and adjustment of cross-border relationships, but has not explicitly recognized that relationships may simply stall. Our study shows that a deterioration of cognition-based trust coupled with a stable level of affect-based trust can result in a persistent cycle of non-productive activity. The relationship between Beta and Sina did end, but the ending was triggered by an exogenous event – the discovery that a competitor's product was registered before Beta's product – rather than through trust dynamics within the partnership. It is not possible to determine in this study how stable the cycle of inertia is, and whether it takes an exogenous event to disrupt it, because there is only one ending. However, our study suggests scholars conducting research on trust in high-distance settings may wish to consider the factors that stabilize, destabilize and restabilize different dimensions of trust over time. It also suggests that researchers collecting quantitative data on high-distance partnerships should consider the possibility that partnerships categorized as existing may not be actively operational, and this could add noise to the testing of hypothesized relationships. Indeed, past management research shows that firms can sustain unproductive partnerships (Gulati, Nohria & Zaheer, 2000) and has uncovered structural and temporal reasons for network inertia (e.g. Ahuja et al., 2012: Kim et al., 2006), but has stopped short of considering factors specifically relevant to international networks. Our research suggests that the distance between partners, and distance-related trust erosion, are important to consider in future research in this area.

Limitations

This study has several limitations. First, there are limitations related to the nature of the research methods, which are longitudinal and involve observation. It is possible that the first author's presence as an observer may have impacted the relationship between the informants involved in the partnership. It is also possible that that the informants were not truthful in answering interview questions, given the failure of the partnership. In addition, interview questions asked at one point in time may have effected subsequent cognition and behaviour. Steps were taken to minimize such contagions and to ensure the collection of reliable data. The first author spent much time with Beta1 and Sina1 privately, developing a personal rapport with them, and was treated as trustworthy. No information privately disclosed by an informant in one organization was provided to informants in the other organization. Interview questions during the process of trust formation and trust erosion focused on concrete events and activities rather than on trust per se; explicit questions about trust were asked only retrospectively after the partnership had ended. The theoretical constructs and relationships identified were supported by data that was triangulated from different sources.

Second, the study focused on one partnership, and it is important to consider whether the trust dynamics observed may be generalizable to other partnerships, or whether they are distinctive of this one. We expect there to be differences in the details for high-distance partnerships involving other countries (for example, norms of reciprocity are strong in China) or involving other types of products (for example, where regulations are not as salient). Our point is not that all high-distance partnerships between small enterprises will be effected by the mechanisms identified here; rather, we argue that when high distance results in false expectations of partners, the partnership is prone to the self-reinforcing cycle of inertia inherent in the inter-related mechanisms uncovered in this study. Thus, we believe that these mechanisms are generalizable although not determinant, as is true of research on mechanisms (see, for example, Davis & Marquis, 2005; Sydow, Schreyögg & Koch, 2009). We acknowledge that there may be situation-specific factors that heighten or reduce their impact, which are interesting avenues for future research. Further, we recognize that a single case is limited in the extent to which it can detect individual and cultural differences in the propensity to trust, and recommend a research design which systematically captures variance to examine how this propensity to trust may affect the mechanisms identified here.

Third, the mechanisms identified in this study were based on interview, observational and archival data. We recognize that these types of data constrain the types of attributions we were able to detect and acknowledge that there may have been attribution biases at play that remained undetected. For example, there may have been confirmation bias when cues were interpreted by Beta1 and Sina1, with cues conforming to prior beliefs being accepted at with little scrutiny and cues not conforming with prior beliefs being viewed as less reliable and dismissed (see Baack, Dow, Parente & Bacon, 2015; Lord, Ross & Lepper, 1979). The attribution of disappointing results to partner competence, rather than to external causes, may have been a result of the fundamental attribution error – people's tendency to underestimate the impact of situational factors and overestimate the impact of the actor (e.g. Ross, 2018) – rather than, or in conjunction with, distance. We took steps to reduce cognitive biases, by ensuring that informants provided explanations for their attributions. We realize that such steps are only partial. We did not use research methods intended to study cognition, such as the experimental design used by Baack et al. (2015), and realize that our data may have been affected by cognitive biases which we were not able to capture. The role of cognitive biases such as confirmation bias and the fundamental attribution error in trust dynamics are promising areas to investigate as part of the emerging research agenda to better understand the role of cognition in international business (Coviello, Kano & Liesch, 2017; Maitland & Sammartino, 2015).

Boundary Conditions

There are two important boundary conditions for our findings which also suggest avenues for future research. The first relates to the size of the partners. This study is explicitly situated in the context of small enterprises, and a number of assumptions are made about this context. Foremost among these is the focus on interpersonal trust, rather than organizational trust, and the presence of a dominant leader in each organization with both the availability to establish personal rapport with a leader in the other organization and the clout to make decisions. In larger organizations, where partnership development is more bureaucratized and distributed, the relevance of affect-based trust and relational governance may be lower. Indeed, a recent conceptualization of the evolution of inter-organizational trust focuses on competence and integrity as dimensions of trust and ignores affect (Weber, 2017). Accordingly, the propensity to protect goodwill may not exist to the same extent in larger enterprises where authority regarding partnerships is more diluted. On the other hand, personal relationships established across high distance exist also in large organizations, such as those stemming from interlocking directorates or professional associations. The benefits of relational governance may motivate individuals in large organizations to protect goodwill and maintain an international partnership even in the face of ongoing weak outcomes. The ways in which the size of an enterprise may affect the propensity to protect goodwill can be investigated in future research.

A second boundary condition relates to the inexperience of the partners. Beta1 and Sina1 had had little experience in foreign markets before they met. Of course, direct experience with a foreign market can reduce distance from it, rendering our model – which is anchored on high distance – less applicable. However, we believe that past experience with any foreign partnerships, even when there is high distance with a focal market, may impact the mechanisms we have identified. In particular, exposure to a variety of foreign markets is likely to sensitize individuals to the existence of a wide range of formal and informal institutional arrangements which may render them more discerning in interpreting cues of competence. In addition, a bad past experience with a foreign partner may lead to reticence in establishing a personal goodwill relationship before some material objectives of the partnership have been achieved. Thus, future research is warranted on the role of experience in the mechanisms underlying the erosion of trust between high-distance partners.

Implications for Managers and Policymakers

The study offers several important insights for managers. With the rise of emerging economies and lower economic growth in more mature markets, the leaders of small enterprises are being increasingly encouraged to turn their sights further afield and consider partnering with foreign enterprises from markets fundamentally different than their home market. The warm reception they often receive when meeting potential foreign partners can encourage them to build trust "from the heart" rather than "from the head" (Chua et al., 2009: 491). Across high-distance, managers are likely to interpret incorrectly cues of a potential partner's competence. Whereas prior international business research has emphasized how this can impede the formation of trust and a subsequent partnership, we show that it can have the opposite effect and encourage foreign executives to develop false expectations of a partnership's potential. This suggests that managers should be cautious of betting on their own perceptions of quality when considering high-distance partners. Instead, they should involve people who are adept at interpreting cues of potential partners' capabilities and in adopting safeguards against commitment non-fulfillment. Although this may be costly and frustrating for leaders of small enterprises, entering into a contract with the wrong partner whom one likes, is likely to be costlier still.

A second implication for managers is relevant after the contract is signed. If there is commitment non-fulfillment under conditions of high distance, there is motivation to preserve goodwill and relational governance in the absence of other safeguards. Our study shows that protecting affect-based trust can render managers reluctant to confront a lack of progress towards partnership objectives, resulting in a vicious cycle of declining cognitive-based trust and inertia in achieving partnership objectives. This finding suggests that means of breaking the vicious cycle be included in partnership agreements. These would routinize and make explicit regular examinations of partnership outcomes, rather than leaving the partners responsible for initiating a discussion. Such means include specifying explicit milestones, ways to track progress towards milestones, and benchmarks for how long it should take to achieve milestones. Regular attention to schedule variance may not solve the problems underlying a lack of progress, but it may provide an agreed-upon justification for discussing them.

Our research also has implications for policymakers. Western small enterprises with an interest in emerging markets are advised by trade support organizations that collaborating with local partners is critical (for example, the organizations discussed by Blackburne & Buckley (2019) and Couper & Reuber (2013)). The rationale behind this advice is that (a) their small size will impair their ability to go it alone; and (b) the emerging market's business environment is too opaque and complex to navigate without a partner. Enterprises are often told that "relationships matter," but they are rarely offered support with the tactics that may help build and sustain effective relationships. Policymakers who understand both sides of a high-distance divide can also usefully provide specialised information to help entrepreneurs accurately assess partners' quality, comparative benchmarks for outcomes and suggest feasible safeguards. Moreover, our study suggests that foreign trade support programs should extend beyond the establishment of foreign partnerships. Partnerships that look promising at the outset due to the existing of a strong interpersonal relationship can stall or fail while managers are attempting to preserve the relationship. It could be useful to provide situational assessments so that disappointing results are not unthinkingly attributed to weaknesses of the partner. It could also be useful to provide training in how to deliver bad news in a way that is consistent with a partner's business environment.

CONCLUSION

Internationalizing effectively across high distance is imperative to realizing the growth ambitions of many small business owners. Prior literature has recognized that developing foreign partnerships is essential to this process and has provided important insights as to how high distance can impede the formation of trust needed to select, and be selected by, partners. However, many high-distance partnerships are established and then fail, which is the starting point of this study. We examine a case where high distance was a facilitator of trust, rather than a barrier, and analyze how and why trust erosion occurred and its detrimental implications for the subsequent partnership. Our findings and theoretical contributions regarding trust erosion are novel due to the uniqueness of our research design. One of the authors is multicultural and multilingual, spent much time with informants from two very different countries over an extended period of time, and directly observed informants interacting while the trust between them evolved. Our study shows the benefits of such a dyadic, inductive and longitudinal approach to studying the trust dynamics between high-distance partners, and we look forward to other scholars joining us in this endeavour.

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Figure 1 Data Structure diagram (β = Beta, σ=Sina)

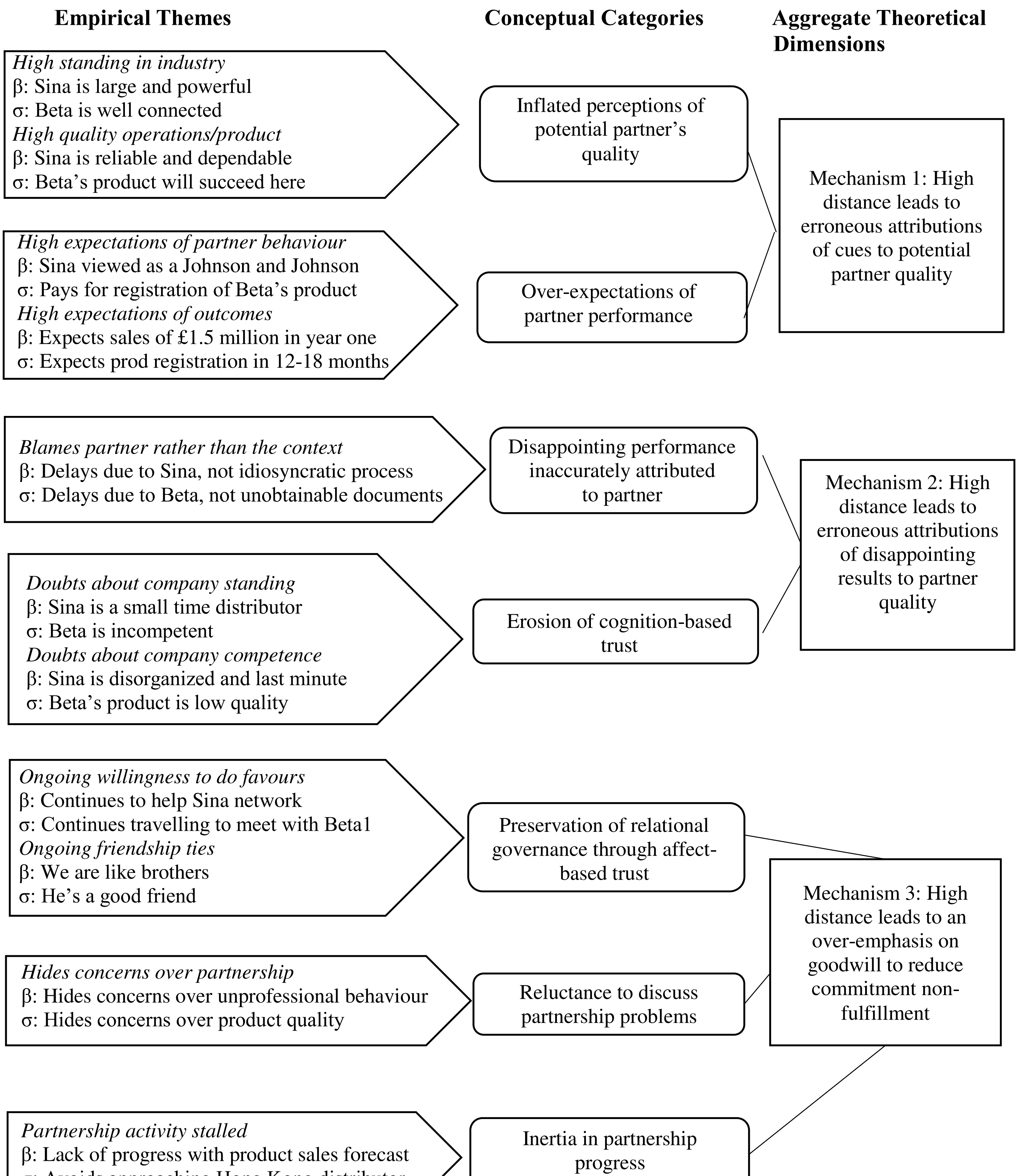

Figure 2 Inter-related mechanisms underlying trust erosion between small partners across high distance

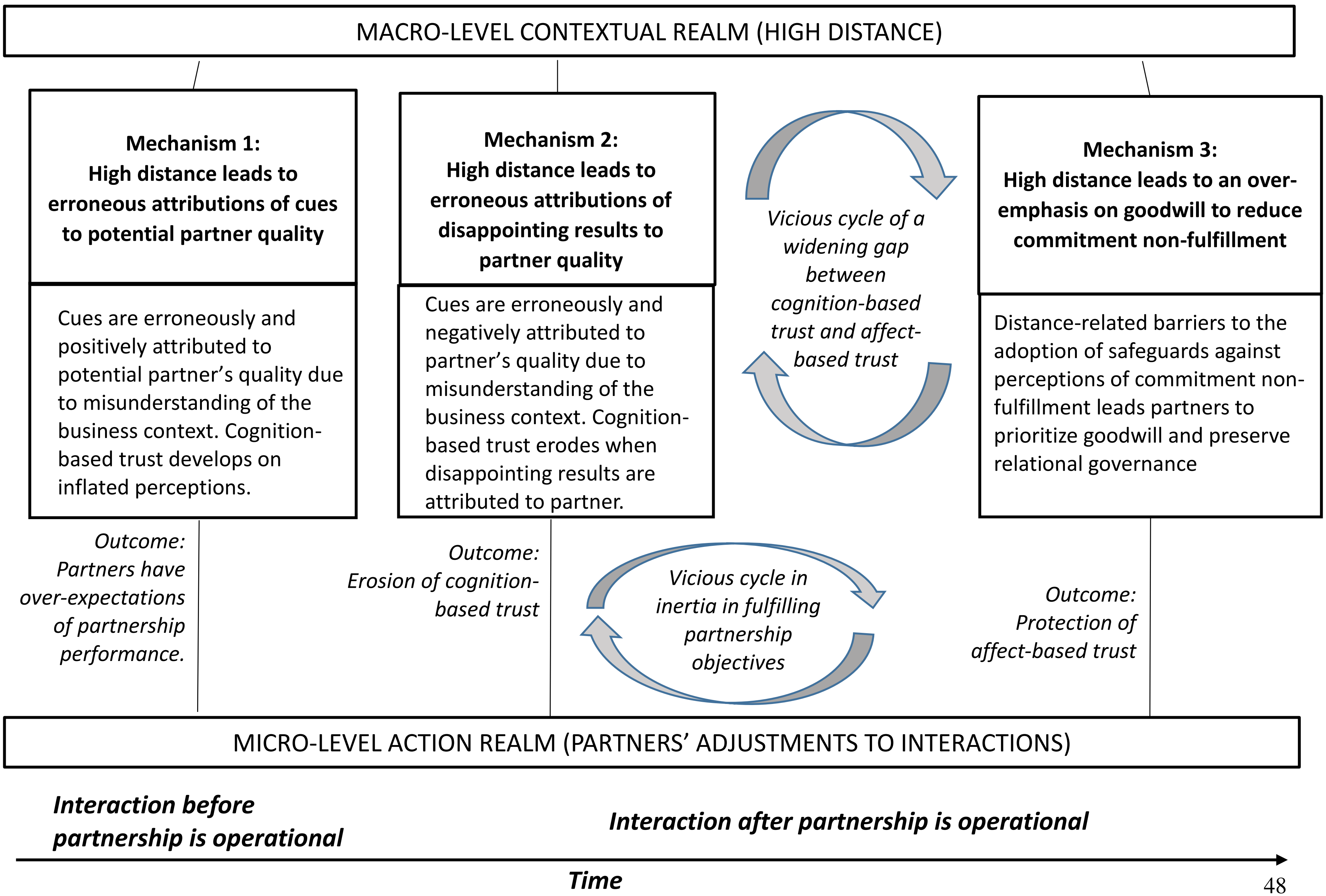

Figure 3 Framework of trust dynamics highlighting trust erosion.

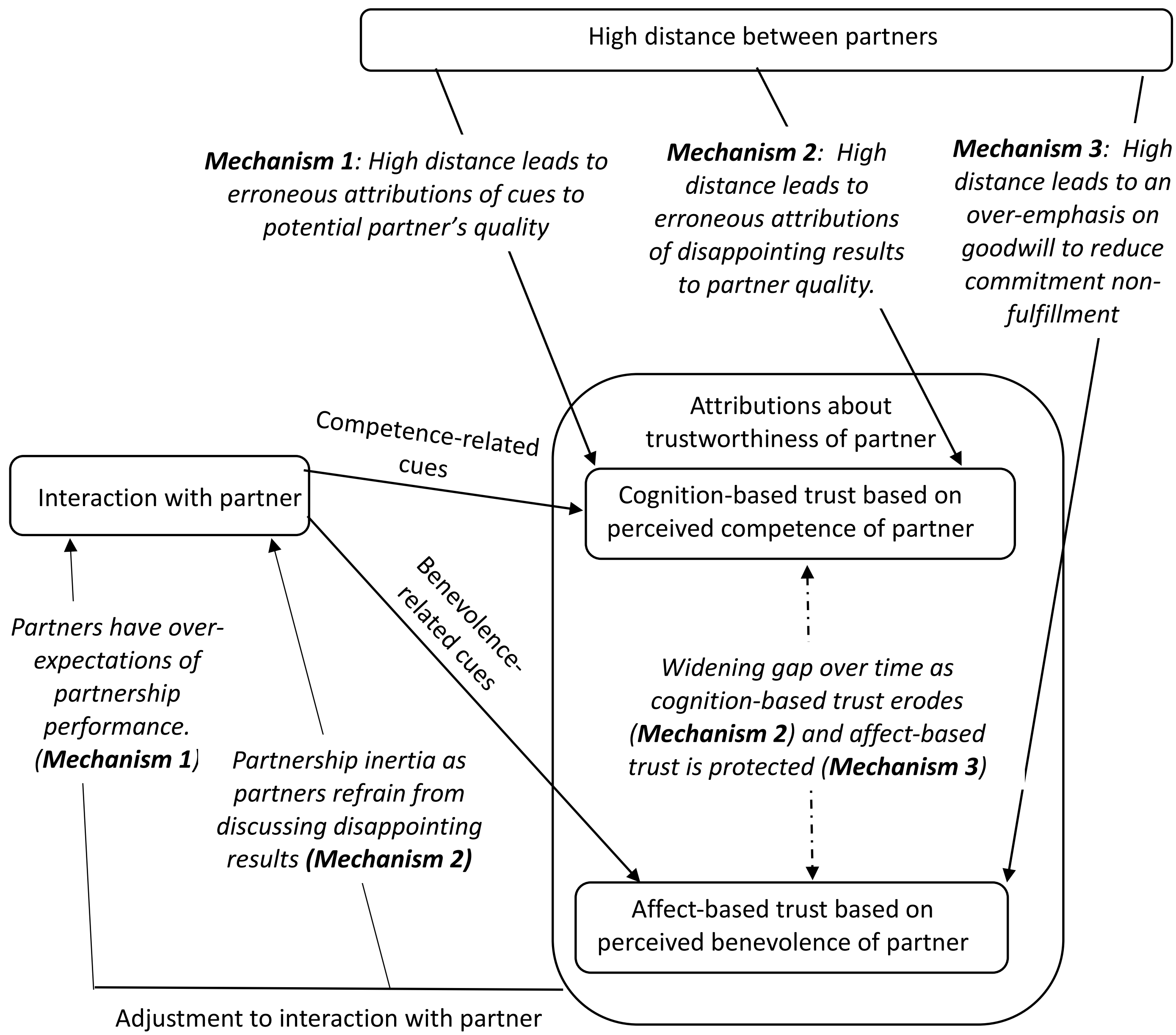

Table 1 Summary of data collected

Interviews *Number of interviews per year*				
Interviewees	***2011***	***2012***	***2013***	***2014***
Beta1	4	10	6	2
Beta1, Beta2		1		
Beta4				1
Sina1,Sina2		1	1	1
Sina2				1
Sina6				2
Sina1, Sina2, Sina3		1		
Sina1,Sina2, Sina3, Sina4			1	
Sina2, Sina3,Sina4, Sina5			1	
UK/China trade experts		3		1
Pages of transcript data	27	191	30	110

Observation *Number of days*				
Participants	***2011***	***2012***	***2013***	***2014***
Beta1, Sina1, Sina2	3			
Beta1, Sina1			1	
Beta1, Beta2, Sina3		1		
Beta1, Beta2		1		
Beta1, patent attorney		1		
Beta1, Beta3, Beta5		1		
Sina1,Sina2, Sina4, Sina6			1	
Sina1, Sina2		1	1	
Sina1, Sina2, Sina5				2
Memo and Field notes (number of pages)	26	17	13	7

Archival Data *Number of items per year*							
Type of Archival Data	***2008***	***2009***	***2010***	***2011***	***2012***	***2013***	***2014***
Emails					22		
PowerPoint presentations	2		3	6	3		
Reports, agreements, brochures	1	5	7	10	53	4	
Media articles and public company information			2	1			

Beta1: Founder and CEO
Beta2: Regulatory Officer
Beta3: Sales Manager Europe
Beta4: Non-executive company director
Beta5: Sales Manager Middle-East & Africa

Sina1: General Manager
Sina2: Assistant General Manager
Sina3: International Assistant
Sina4: Sales Manager
Sina5: R&D Manager
Sina6: Regulatory officer

Table 2 The timeline of the case

Pre-Partnership Period (trust forms)	January 2008	Beta is founded in the UK, with China identified as a key market.
	April 2008	Beta exhibits at a trade fair in China where the enterprise encounters prospective partners, including Sina. Beta's founder and CEO, Beta1, offers to broker a meeting between Sina's General Manager, Sina1, and another European enterprise.
	May-Oct 2008	Beta1 interacts with prospective Chinese partners.
	November 2008	Beta1 feels that Sina is the only remaining contender to be a partner. Sina1 willingly agrees to meet Beta1 at a trade fair in Germany. Beta1 introduces another Western firm to Sina and Sina becomes that firm's distributor.
	Jan-Oct 2009	Beta1 and Sina1 work towards a formal partnership. Beta1 travels to China multiple times and is impressed with the VIP treatment received from Sina. Beta1 continues helping Sina with Western-related activities and partnerships. Beta1 and Sina1 both report friendship.
	Dec 2009	Beta1 and Sina1 sign a partnership agreement in China.
Partnership Period (trust erodes)	January 2010	Sina hires Sina2, a manager with strong English skills. Product registration begins and is expected to take 12-18 months.
	Jan-Dec 2010	Beta1 visits China multiple times and continues helping Sina with its Western activities. Both parties report friendship. Product samples are sent to the Sino Food and Drug Agency (SFDA) for testing. The tests fail. Beta tells Sina the formula has been amended, with a new preservative added. New documentation is provided and samples are retested.
	Dec 2010-Feb 2011	The SFDA raises more questions about Beta's product and requests more evidence and statements. After receiving satisfactory answers, new product tests are started.
	Jan-June 2011	Sina plans to launch Beta's product in Hong Kong through a local distributor and suggests Beta1 should visit Hong Kong. Beta1 is optimistic about the China market.
	June-July 2011	Beta is unable to supply some documents required by SFDA because they don't exist. Sina1 suspects Beta1 is not being truthful as to why he can't supply them.
	July 2011	Beta1 visits Hong Kong but Sina1 intentionally fails to introduce any distributor to him.
	August 2011	The registration test results for the product fail. Sina1 is beginning to doubt Beta's technological capability. Beta1 finds Sina's communication about registration requirements frustrating and unclear.
	Nov 2011	SFDA accepts receipts of Beta's registration application, with approval expected to take 6 months. Sina1 is pressured by Beta1 to meet at a trade fair in Germany to discuss product launch plans. Sina1 attends the meeting but is non-committal.
	Dec 2011-Mar 2012	Beta1 and Sina1 exchange email rarely. Beta1 does not visit China.
	Feb 2012	Beta1 is unable to supply a copy of a raw materials supplier agreement to the authorities, because it doesn't exist.
	March 2012	Sina1 claims Sina could not agree on a price with a distributor. This is untrue, as Sina had not approached a distributor. Beta1 believes that Sina acted inappropriately with a U.S. firm he had introduced them to.
	April 2012	Beta1 is horrified to learn that a European rival product has obtained regulatory approval in China. He (erroneously) believes that the competitor had begun the registration process after Beta and Sina.
	May 2012	Beta1 discovers that Sina is not funded by the state-owned enterprise that owns 50% of Sina.
	June 2012	Beta1 tells Sina1 to finalize registration and produce results or face a withdrawal from the relationship. Sina1 fails to respond. The partnership is over.

Table 3 Additional supporting data for each conceptual category

Inflated perceptions of potential partner's quality	"When we started I thought [Sina] was part of a huge government-owned company, that had millions of millions of millions" (Beta1)
	"It is thanks to (Beta1)'s help that [the relationship with] Firm Delta succeeded" (Sina1)
Over-expectations of partner performance	"In fact, if I was dealing with Johnson and Johnson, […] they have loads of different people to do all the analysis and once it goes into the machine then that's it. So I don't understand why we're not in the machine." (Beta1)
	Sina1 estimated product registration to take between 12 and 18 months and offered to pay for it
Disappointing performance attributed to partner quality	"So, the whole thing, their frantic and immature approach, to that whole thing, really made me think, and then you say: "Oh, I don't know, I don't think they're the right partner, so I am sitting going phew, you know, this is a, this is a bad situation." (Beta1)
	"We do not think it is complicated to provide the supplementary document from your side. We are responsible for the most complex thing: persuade the reviewer not to add test parameters, which means if failed, we will have to come back for product test again." (Sina2)
Erosion of cognition-based trust	"What I realised was I'm not dealing with a multi-billion pound company; and every time they do presentations, they'd be like these billions and billions of dollars. That was [SOE parent], [Sina] was just an opportunistic division." (Beta1)
	"In actual fact, Beta1 supplied a lot of [incorrect] data that do not qualify with China's regulatory requirements." (Sina1)
Preservation of relational governance through affect-based trust	"I'm his brother, he calls me his brother, his "zhongguo geermen" (Beta1)
	"He has continued to help us since. Mu [another partnership] is a success and he greatly helped us with this project, so every time he visits I offer him highly valuable gifts." (Sina1)
Reluctance to discuss partnership problems	"What could I tell him? I was disappointed, okay? I couldn't tell him I'm disappointed. I don't want to hurt his feelings or offend him. I'm sure he was doing the best he could." (Beta1)
	"So I did not tell him [about low trust in product quality]. I just told him another reason why we did not sell the product in Hong Kong." (Sina1)
Inertia in partnership	"There has been absolutely no progress made in the Hong Kong market even though the product is already registered there." (Beta1)
	"Because I lost trust in the product quality, so I did not dare promote and sell it in Hong Kong". (Sina1)