

Empirical test of the trust – performance link in international alliances context

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Abstract

This paper focuses on the influence of trust on international alliances performance. Trust has been theoretically recognised to produce positive effects on alliances success. However, the link has rarely been empirically proven. We elaborate on the major difficulties that may explain this and propose a model for the understanding of that influence, where trust antecedents are also considered. The link is validated through primary data collected from 232 international alliances of Portuguese firms and analysed through structural equation modelling.

Key words

Trust; international alliances; international alliances performance; SEM.

Introduction

International alliances are popular among managers and academics. However, despite their popularity, alliances have historically had a high failure rate (e.g. Bleeke and Ernst 1991; Gomes-Casseres 2000a). In this context, studying the reasons that explain the success or failure of international alliances is an important task (Kanter 1989; Bleeke and Ernst 1991). In order to understand success and failure, measures of the success of alliances had to be developed. The search for the “magical formula” of success gained followers (Gulati 1998). In this search several factors have been used for a better understanding of alliances success. Within the inter-firm relationships literature, topics such as trust, information exchange, conflict management, and flexibility have received a considerable amount of attention.

This paper studies the influence of trust on the success of international alliances. Trust is seen as a behavioural trait of relationships able to explain the success of international alliances. The paper will start by defining the main concepts in this research: international alliances, trust and performance. Then trust is contextualised in the international alliances literature, emphasising its character as a performance enhancer. Trust antecedents will be studied for their contribution to the relationship between trust and performance. The third section will be devoted to the problem of the international alliances success measurement, which is followed by data collection. The data resulting from 232 international alliances surveyed will then be analysed using structural equation modelling. Discussion and conclusions will follow in the fourth section along with limitations and some hints for further research.

1. Research issues on trust and international alliances performance and proposed model

2.1 Key concepts

2.1.1 How international alliances are understood

International alliances refer to an international entry mode that includes several alternatives. Based on Contractor and Lorange (2002b) and on Geringer and Herbert (1989), international alliances are any medium to long-term cooperative relationship, whether or not based on equity or a contract, that entails frequent interactions between the allied corporations. Moreover, at least one of the allied corporations has to have its headquarters located outside the venture's country of operations or should have a significant activity in more than one country. Thus, international alliances can be seen as a continuum of organisational forms of international modes, including all kind of agreements that extend business firm activities to foreign markets, while excluding arm's length contracts and merger and acquisitions (Harbinson and Pekar 1998).

In the literature of international alliances there are different labels given to the idea above described. Kauser and Shaw (2004) are an example of who use the terms "international strategic alliances" and "international partnerships" interchangeably. And there are authors that set their research to a particular type of alliances, such as joint ventures, (e.g. Geringer and Herbert 1989; Geringer 1991; Geringer and Herbert 1991; Johnson 1999; Lane, Salk et al. 2001; Larimo 2003; Dhanaraj, Lyles et al. 2004), or licensing (Shane 1994; Kim and Vonortas 2004). In the marketing field international alliances are also studied though sometimes the labels are different. In Aulakh et al. (1996) and Bridgewater and Egan (2002) for example, the term international "marketing partnerships" is used and in some cases, the preferred expression is international "marketing-channels" (Etgar 1979; Mohr and Nevin

1990; Heide 1994; Andaleeb 1996; Goodman and Dion 2001; Claro, Hagelaar et al. 2003; Rosenbloom and Larsen 2003). In any case, the definition of international alliances provided above will be used and it is believed the labels “international alliances” or “international partnerships” are the most appropriate and can substitute the other terms used in the literature.

2.1.2 How trust is defined

There are almost as many definitions of trust as authors writing about it. Most definitions of the concept are influenced by the context of its use. In this case, the focus is on the international marketing context and therefore the marketing-channels literature will be used. Here, a substantial part of the literature views trust as a belief, confidence or expectation about an exchange partner’s trustworthiness that results from the partner’s expertise, reliability, or intentionality (Blau 1964; Rotter 1967; Schurr and Ozanne 1985; Dwyer, Schurr et al. 1987; Anderson and Weitz 1989; Moorman, Deshpande et al. 1993). This is the definition of trust that will be used.

As a key element in relationship marketing (Morgan and Hunt 1994; Wilson 1995), trust is included in most of the relationship models (Wilson and Jantrania 1994). It is also one of the most widely examined and accepted concepts in relationship marketing (Ganesan 1994; Mohr and Spekman 1994).

2.1.3 How international alliances success is understood

There are several ways of measuring success in international alliances and here also it has been difficult to find a consensual approach among researchers. The lack of consensus is mainly due to the subjective character of the concept. “Indeed, success has a different meaning to different firms at different times.” (Bissessur and Alamdari 1998, p. 334). It is

also due to difficulties in achieving a commonly accepted measure of success in alliances. These difficulties will be explained later in detail as well as the way they were dealt with. Before that, the understanding of alliance success will be presented, clarifying that success will be measured through managers' assessment of performance.

Performance has been used as an indicator of alliance success in many studies (e.g. Bucklin and Sengupta 1993; Dussauge and Garrette 1995; Kale, Dyer et al. 2002; Lambe, Spekman et al. 2002), namely through the use of managerial assessments. Several authors use managers' assessment of performance in terms of their overall satisfaction with the alliance, or in terms of the extent to which an alliance has met the stated objectives (e.g. Anderson and Narus 1990; Parkhe 1993a; Mohr and Spekman 1994; Saxton 1997). Based on the existing theory that uses performance measures to infer the success of an alliance, the terms "performance" and "success" will be used synonymously, that is – the evaluation of the satisfaction that parties to an alliance gain with this kind of agreement or even the satisfaction retrieved from the alliance itself, in the event that a third entity is created. This evaluation will be assessed through managers' perceptions of satisfaction that are considered a reasonable way to assess alliance performance (Anderson and Weitz 1989; Anderson 1990; Geringer and Herbert 1991; Das and Teng 2000; Kale, Dyer et al. 2002).

2.2 Research gap

Various approaches are possible in the search for explanations for the success and failure of international alliances. One possible approach emphasizes relationships between the different partners involved in an alliance. Specifically, it focuses on characteristics of alliances, namely behavioural and organisational characteristics (Kauser and Shaw 2004). In this context, trust was found to be critical (Ring and Ven 1992; Mayer, Davis et al. 1995; Das and

Teng 1998a; Zaheer, McEvily et al. 1998a). Therefore, trust has been widely used within the alliances literature and considered as fundamental for the relational governance of the partnership (Anderson and Weitz 1992; Mohr and Spekman 1994; Morgan and Hunt 1994; Claro, Hagelaar et al. 2003).

However, despite the widespread consideration of trust as a determinant of successful relationships, “little research has been done on how trust (...) operates to affect the performance of interfirm exchange.” (Zaheer, McEvily et al. 1998a). In fact, several authors within the international business relationships field refer to this lack of research in the literature, and most notably to the gap of empirical research (e.g. Hosmer 1995; Aulakh, Kotabe et al. 1996; Inkpen and Currall 1998; Koza and Lewin 1998; Sako 1998; Möllering 2003).

2.3 Trust and international alliances in the literature

2.3.1 The importance of trust

International alliances, as do all inter-firm relationships, involve interaction. Several critical factors in business relationships that involve interaction have been studied. One of the most frequently studied is trust. Trust is a topic that has been gathering the attention of academics since long ago. However, the economics and business literature only recently started devoting attention to this topic, in most cases departing from definitions developed in sociology, psychology and social psychology (e.g. Deutsch 1958; Luhmann 1979; Barber 1983; Coleman 1988). However, definitions rapidly evolved and several conceptual papers were published about the concept (e.g. Hosmer 1995; Kramer and Tyler 1996; Gambetta 1998b; Nooteboom 2002).

Several advantages were assigned to trust. Trust was considered fundamental for cooperation to evolve (e.g. Morgan and Hunt 1994; Child 2001; Blomqvist and Seppänen 2003). It has also been identified as an important component in the success of partnerships, strategic alliances and networks of small firms (Powel 1996). Trust was recognised as able to reduce uncertainty and complexity inherent to business, especially in an international context (e.g. Anderson and Narus 1990; Parkhe 1993a; Zaheer, McEvily et al. 1998a; Child 2001). According to Parkhe (1998b), for instance, trust is key to the success of international alliances. Thus, companies willing to learn how to successfully manage an international alliance will have to focus on trust creation, development and maintenance.

As stated by Parkhe (1998b) trust should be calibrated according to the different phases of an alliance. This idea goes in line with Boersma et al. (2003); Demirbag and Mirza (2000); Hyder and Eriksson (2005); and Ring and van de Ven (1994) that studied the effect of trust at different stages of an alliance. Different studies gave rise to the common belief that, although its influence varies, trust is important in every phase of the life of an alliance. Indeed, it should always be possible to form a perception of trust between partners in an alliance and evaluate the satisfaction partners have with a particular partnership. If that satisfaction is measured through the performance of that partnership, then, it would be in fact important to understand the link “trust-performance”.

2.3.2 Trust and international alliances performance

Several perspectives have been used to learn about the topic of international alliances (Das and Teng 1998b), a topic that is receiving more and more attention in the current competitive context (Yoshino and Rangan 1995). From the inter-firm relationships point of view, trust is studied as an important attribute of the behavioural characteristic of a relationship (Kaiser

and Shaw 2004). It has been studied in this perspective by authors such as Anderson and Narus (1990); Child (2001); Mohr and Spekman (1994); Parkhe (1993a); and Powell (1990), specifically in the context of international partnerships. Under this approach trust was revealed to be important namely because it reduces uncertainty and complexity inherent to business in an international setting, an aspect that had been studied by several authors such as Child (2001) Hennart and Larimo (1998) Lee (1998b); Noordewier et al. (1990); and Ramaseshan and Loo (1998).

An important benefit attributed to trust is its ability to enhance performance. The relationship between trust and performance is lacking in empirical evidence as has been claimed by authors such as Möllering (2003), Sako (1998), Koza and Lewin (1998) and Zaheer et al (1998a). In fact, though many studies refer to the conceptual relationship between both constructs (Barney and Hansen 1994; Inkpen and Currall 1998), no empirical evidence is given. Child (2003), for instance, associates superior performance to high levels of inter-organisational trust; Parkhe (1993a), using opportunistic behaviour as a proxy of trust, claims a strong relationship between the perception of opportunistic behaviour and performance. However, none of these studies, nor many others in the field (e.g., Parkhe 1993c; Nooteboom 1996; Uzzi 1997; Boersma, Buckley et al. 2003) succeed in measuring the success of the relationship.

The reference to the positive impact of trust on international partnerships' satisfaction, measured through performance, is made in several studies, as for instance, Aulakh and Kotabe (1997); Barney and Hansen (1994); Boersma et al. (2003); Buckley (1992); Cullen et al. (2000); Demirbag and Mirza (2000); Dhanaraj et al. (2004); Ganesan (1994); Inkpen and Currall (1998); Kauser and Shaw (2004); Lane et al. (2001); Möllering (2003); Nielsen

(2002a); Nooteboom (1996); Parkhe (1993c); Ring and Van de Ven (1994); Sako (1998); Sako and Helper (1998); Smith and Barclay (1997); Teegeen and Doh (2002); Uzzi (1997); Zaheer et al (1998a), where the common belief is that trust brings about a superior performance. Nevertheless, only in Zaheer et al. (1998a) there is unequivocal evidence of the link. In Demirbag and Mirza (2000) and Dhanaraj et al. (2004) the link is not tested; in Aulakh et al. (1996) trust is not significantly related to performance; in Lane et al. (2001) the relationship is proved, though it has not been initially hypothesised; in Smith and Barclay (1997) the link was tested with a second dimension for the trust construct; in Kauser and Shaw (2004) the relationship is between trust and alliance success; and in Mohr and Spekman (1994) with profitability (but not with satisfaction).

Consequently, further evidence is necessary to quantify the relationship. It is accepted that, when involved in a partnership, a company tends:

- to rely more on the ability of its partner and leave more space for working based on the confidence that the partner will do what he said he would do, while refraining from taking any unfair advantage (“goodwill trust”),
- will act according to the competence yield (“competence trust”) and;
- also according to the contract, if there is one (“contractual trust”) (Sako and Helper 1998).

This confidence may work as a catalyser for doing what is right and avoiding what may hurt the other partner’s interests. The reciprocity of attitudes is likely to feed this process and improve the chances to do more and better in face of this feeling. According to Kumar (1996), “partners that trust each other generate greater profits, serve customers better, and are more adaptable.” Moreover, it is believed that, working this way, partners will

increase their satisfaction with the relationship and that this satisfaction will be reflected in their perception of performance.

Based on this, the following hypothesis is proposed:

H1: in an international partnership, there is a positive relationship between the amount of trust one partner places on the other and the performance that first partner perceives in its relationship.

2.4 Trust antecedents

Following the hints for further research in Zaheer et al. (1998a, p. 157), in the operationalisation of this link, trust antecedents should also be included. In fact, they say: “our understanding of interorganizational trust and its consequences would be greatly enhanced by a study of contextual antecedents of trust (...)” In fact, trust is considered an important relationship attribute and revealing its main ingredients may help managers to develop more effective international partnerships in the future (Kauser and Shaw 2004). This idea is in line with Aulakh et al. (1996) who claim the incorporation of different dimensions of the trust concept allow for a better understanding of the trust-performance link. Also Smith et al. (1995) state there is the need for further research on the study of trust and its determinants when studying partner relationships.

As said by Seppänen et al. (Forthcoming, p. 13) “studies on trust need to be replicated, and extended to different types of contexts – i.e. different cultures, industries, and relationships – in order to improve their validity and generalizability.”. However, that has not been the case. According to Blomqvist et al. (2002), no replication studies have been conducted on trust research and “...there seems to be a tendency that each authors develop their own measures.” (p. 5) These same authors also found several concepts used as determinants of trust, such as relational norms, monitoring mechanisms (Aulakh, Kotabe et al. 1996), reputation of vendor,

satisfaction with previous outcomes, experience with the vendor (Ganesan 1994), shared values, communication, hostages or balanced asset specificity (Young-Ybarra and Wiersema 1999). In their opinion, only shared values and communication are common concepts in these studies.

However, if marketing channels theory is reviewed, Morgan and Hunt (1994) also use the same constructs plus opportunistic behaviour as trust antecedents. Many other authors refer to their research for further developments (Doyle 1995; Sheth and Parvatiyar 1995; Aulakh, Kotabe et al. 1996e.g. ; Johnson, Cullen et al. 1996; Reinartz 2000; Sirdeshmukh, Singh et al. 2002). Thus, in order to obtain some of the replication claimed as necessary by Seppänen et al. (Forthcoming), the antecedents of trust proposed by Morgan and Hunt (1994) in their study of the trust construct: shared values, communication and opportunistic behaviour will be used as basis. Explanations for their use will be provided in the following sections.

2.4.1 Shared values

Enz (1988) considers shared values as a good proxy for the analysis of organisational culture, which can be inferred through the comparison between corporate ethical values of the partners involved in a relationship. Also Jeminson and Sitkin (1986) use this concept to describe similarities between organizations in terms of organizational culture, human resources policies and administrative processes. Das and Teng (2001c) referred to the importance of sharing similar values because it allows the creation of a “clan-like environment”, where the sense of belonging to the same team may foster dispute resolution and trust. This is an argument based on the belief that similar corporate cultures and values will promote organizational fit between partners. This idea was also defended by Inkpen and Currall (1998)

for whom similarities between partners' organizational culture, policies and processes could lead to the development of trust.

The reference to the positive link between shared values and trust can also be verified in Zaheer et al. (1998a) when they refer to the importance of "common fate"; and in Mohr and Spekman (1994) when they refer to the straight influence of trust on satisfaction. It is considered that the fact that partners in an interaction consider themselves as sharing the same obstacles that result from being involved in the alliance, may lead to a development of trust among them. This is the underlying idea of Sako (1998) who states that shared values among partners create value congruence that no rule or regulation can promote; and also the suggestion proposed by Sitkin and Roth (1993) when they state that shared values avoid the flourishing of distrust.

With base on Dyer and Nobeoka (2000) it is believed that socialization leads to a common identity between partners and to collective interpretations of the reality they face. This social bond created between partners is likely to improve trust between them. Thus, the following hypothesis is proposed:

H2: there is a positive relationship between values shared among partners and the trust one partner places in the other.

2.4.2 Communication

Communication between partners has been used in several studies (Bialaszewski and Giallourakis 1985; Mohr and Nevin 1990; Moorman, Deshpande et al. 1993e.g.), namely in an inter-firm relation context. It has been understood as the exchange of information between

partners. Anderson and Weitz (1989) used it as a determinant of trust, as well as Young-Ybarra and Wiersema (1999) and Morgan and Hunt (1994).

In Sako (1998), the provision of information, even when unilateral, was found to enhance trust, a claim that was corroborated by Zaheer et al. (1998a). Communication openness was also considered important for the conceptualization of the construct “trusting behaviours” by Smith and Barclay (1997). These same authors also advise further research to examine communication as a separate construct and its impact on trust. Communication, along with shared values, are the trust antecedents that raise little controversy as important determinants in the formation of trust.

Based on this it is proposed that communication is a trust enhancer, no matter its form: personal or non-personal, electronically or by mail, solicited or unsolicited. Thus, the following hypothesis is proposed:

H3: there is a positive relationship between communication between partners and the trust one partner places in the other.

2.4.3 Opportunistic Behaviour

The consensus characteristic of shared values and communication as determinants of trust exists in Morgan and Hunt (1994)’s study together with opportunistic behaviour. In Smith and Barclay (1997) forbearance from opportunism is also considered to be important in the conceptualization of trust.

There are authors connecting trust and the perception of opportunistic behaviour, though the direction of the link is not obvious. Inkpen and Currall (1998), for instance, consider forbearance as a trust consequence; Aulakh et al. (1996) consider the role of trust as a

behavioural deterrent of opportunistic behavior; and Bradach and Eccles (1989); Chiles and McMackin (1996); and Hill (1990) think that the risk of the partner behaving opportunistically is lessened in the presence of trust. There are also authors that see both constructs as mere opposite concepts, as does Klein et al. (1978), for instance, who treats both notions as reverse; and other such as Parkhe (1993a) for whom opportunistic behaviour can be used as a proxy of trust.

The two concepts are indeed related through the consideration of the risk dimension of trust. In fact, according to Inkpen and Currall (1998) risk has to be present for trust to operate, which is an idea that Nootebbom (2002) also subscribes to and that it is indeed common to several theorists on trust that elect risk as a one dimension of the construct (e.g., Michalos 1990; Kramer 1999; Hudson 2004). Thus, one may say that although opportunistic behaviour is frequently related to trust, the causality effect is not obvious and feedback loops may occur.

However, and despite the debate, it is accepted that the two concepts are indeed related. It is considered that the opportunism one partner perceives in its counterpart can help in the determination of the degree of trust demonstrated in that partner firm. And though the absence of opportunism does not necessarily lead to trust, its presence will decrease it. Contracts, for example, can be seen as forbearance to opportunism, but they do not build trust. So, to build trust more than “just” the absence of perceived opportunism is necessary. Trust goes beyond that. But, when the perception of opportunistic behaviour is high, a low degree of trust should be expected.

Thus, it is reasonable to say that when building a perception of trust, a partner needs to form an idea about the perception of opportunistic behaviour of its homologue. Trust makes no

sense without risk. The risk arises from the existence of limited information, but not from complete information nor from no information whatsoever (Pagden 1988).

Morgan and Hunt (1994) also refer to a negative influence in trust formation. In their opinion, when a party believes that a partner engages in opportunistic behaviour, such perception will lead to a decrease in trust.

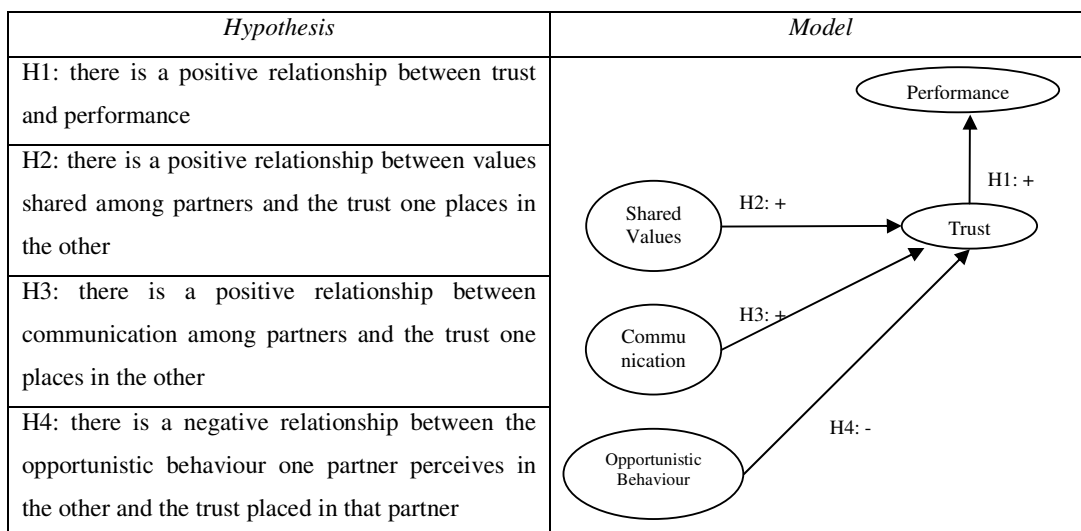
Based on this the following hypothesis is proposed:

H4: there is a negative relationship between the opportunistic behaviour one partner perceives in the other and the trust placed in that partner.

2.5 The proposed model

Based on the literature reviewed the proposed hypotheses can be summarised as shown in the next figure (see Figure 2.1) and proposed the corresponding model.

Figure 2.1 - Hypotheses and model proposed



3. Methodology, research design and data analysis

3.1 The unit of analysis of international alliances

Following Gulati (1995) and Ring and Van de Ven (1994), and, subsequently Saxton (1997), it is conceived that the study of international alliances is better done using a relationship approach. In the current study, the goal is to infer the impact of trust on the performance of companies involved in international alliances. Trust is considered a relationship attribute and therefore the relationship is the object of analysis, while firms involved in international alliances are the unit of analysis. This is in line with one of the approaches established by Olk (2002) in his study of alliances performance. According to that author, there are two alternative approaches for evaluating performance of an alliance depending on the perspective under analysis: the alliance itself or the partners involved in the alliance. The first case is more suitable for the study of international joint ventures, since a separate entity is created that represents the alliance itself (e.g. Pfeffer and Nowak 1976; Geringer and Herbert 1989; Chowdhury 1992; Demirbag and Mirza 2000; Larimo 2003). The second case is more suitable for situations where no entity is created whose performance can be evaluated. It is the most common situation. For situations where no constraints are made concerning the type of alliance under study, the latter approach is more appropriate.

In this second approach, the benefits of partners are evaluated. This can be done through the study of all the participants' satisfaction in the alliance or through the study of just one of them. The first approach would produce better results although the latter approach is the easier option due to time and resource constraints. After choosing this approach, the next step is deciding how many respondents to question within a company. Here also, though several respondents are normally advised (e.g. Geringer and Herbert 1991), that option is not easily achievable due to the difficulty in obtaining responses from different individuals.

3.2 The difficulties in measuring alliances performance and researching on international alliances

The lack of empirical evidence mentioned before can in some way be explained by the difficulties associated with researching on international alliances, especially on international alliances performance. In fact, the study of international alliances performance is far from consensual. First, there is no consensus on how to measure performance. Second, obtaining data to measure seems to be very difficult. These difficulties were already pointed out in Gulati (1998) and were reinforced by Kale, Dyer et al. (2002).

3.2.1 How to measure performance

The main debate here lies in the use of objective or subjective measures of performance. The former set includes: accounting measures of performance (such as sales, profits, market share, etc), survival rates, duration rates or instability rates. Subjective measures include indicators such as level of satisfaction with performance, and perceptions of the partner's satisfaction level. However, there seems to be a problem in using accounting measures in situations where the alliance does not give rise to a third entity.

In fact, it is very difficult to measure alliance performance using traditional accounting measures. This is the reason why some researchers use other objective measures such as longevity or stability in any alliance types except for international joint ventures in which a separate entity is created (Franko 1971; Killing 1982; Harrigan 1987)¹. Harrigan (1988b) uses duration as a measure. However, this is less relevant if companies can not leave the alliance due to exit barriers (Harrigan 1987). In addition, termination may not necessarily be an

¹ See for a revision: Yan and Zeng 1999; Ariño 2003.

indicator of alliance failure. It can mean that the alliance achieved the objective for which it was created and therefore was no longer required (Bissessur and Alamdari 1998). The same happens with stability. An alliance may be stable without being considered successful. Thus, duration, continuation or even survival are fallacious measures and may lead to opinions that do not correspond to reality, because they “fail to distinguish between alliances that fail and therefore die, and those that accomplish their objectives and thus outlive their utility.” (Kale, Dyer et al. 2002, p. 753). Therefore, it is believed that it is necessary to rely on different measures.

Indeed, a group of researchers proposed that performance can be measured through all partners’ subjective assessment of the alliances in which their companies are involved. The use of this set of measures, besides more appropriate for alliances other than joint ventures, seems to produce comparable results to the ones obtained with the use of the first set of measures. Killing (1982), for instance, found that subjective measures of a joint venture’s performance and measures of performance on longevity produced the same results. In order to disentangle the decision of which measures of satisfaction to use, Geringer and Herbert (1989) studied a correlation between the subjective and objective types of measures. Two years later, these authors further developed that work and confirmed the existence of a high correlation between subjective assessments of performance with more objective measures, based on accounting data. Besides some limitations related with financial measures, they also pointed out that one type of measure could be used in the place of the other.

Anderson (1990) also listed some limitations and argue that financial measures assess only one dimension of performance and defends the inclusion of qualitative factors in the analysis. Chowdhury (1992) and Demirbag and Mirza (2000) also claim that traditional accounting

figures are statistically insufficient to distinguish more successful firms from less successful ones. Following this line, Dussauge and Garrette (1995) use perceptual performance measures as proxies of objective measures.

In the literature there are also authors that prefer the use of a combination of different categories of the above measures. For instance, Teegen and Doh (2002) claim that "...objective performance measures such as financial returns, interests of allies extended to matters such as reputation enhancement/protection, relationship maintenance, and precedent-setting..." should be included in the analysis of performance as well as perceptual measures "...as the primary-firm benefit in the negotiation context..." (p. 760). On the other hand, there are also authors that prefer the exclusive use of perceptual measures, referring to the need to capture the diverse and idiosyncratic evaluation criteria of the firms that are negotiating alliances (Yan and Gray 1994; Johnson 1999).

Also of interest is the finding of Ramaseshan and Loo (1998). They refer to a positive correlation between a partner's satisfaction and the other partner's satisfaction for the same alliance. "This implied that a partner's response is sufficient to provide a reliable source for analysing the effectiveness of an alliance." (p. 445) The measure used – "perceived effectiveness of alliance" – was defined as "the extent the partner perceives whether partners were committed to the alliance and find it to be productive and worthwhile (Bucklin and Sengupta 1993)." It was initially developed in organisation theory and it was suggested by Ruekert and Walker Jr. (2001) and used in Bucklin and Sengupta (1993) for measuring the success of co-marketing alliances.

In our opinion, perceptions of partner's satisfaction level will be an adequate form of measuring performance in international alliances. Despite the fact that "managerial assessments of alliance performance received some initial criticism for reasons of bias and inaccuracy." (Kale, Dyer et al. 2002, p. 753), it is understood that the arguments and tests above invoked are sufficient to sustain that position. This claim is also based on the belief that managerial perceptions of performance and objective measures are strongly correlated, which is the opinion of several authors that consider alliance performance using managerial assessments (Pearce, Robbins et al. 1987; Narver and Slater 1990; Mohr and Spekman 1994; Smith and Barclay 1997; Zou, Taylor et al. 1998; Young-Ybarra and Wiersema 1999; Teegen and Doh 2002; Nguyen, Barrett et al. 2003). It is assumed that assessing managers' perceptions on alliance success may serve as an indicator for the performance attributed to that relationship.

3.2.2 How to obtain data

The next step is the identification of international alliances as the universe of analysis. This is *per se* a very difficult task since there are no databases or secondary data available on this international entry mode, which does not require reporting to the authorities. In fact, contrary to what happens with mergers and acquisitions, for instance, there is no obligation to provide any official statement of an international partnership agreement. Thus, two companies may decide to pursue an alliance without this being known. Consequently, much of the empirical work done in this field is conducted, either through case studies, or through the use of primary data, collected through what is called the "literature-counting method" (Hagedoorn and Narula 1996). There are several shortcomings ascribed to this method of information gathering, namely drawbacks resulting from "...bias against the recording of those events that are only reported in non-English (national) sources, and those involving smaller firms."

(Patel 1998, p. 7). However, Hagedoorn and Narula (1996, p. 270) defend that the method can produce a clear picture of the joint efforts of many companies, claiming that it enables “...to perform empirical research which goes beyond case studies or general statements.” Some authors rely on this method and consider it appropriate (Hagedoorn and Schakenraad 1994; Cecil, Green et al. 1996; Hagedoorn and Narula 1996; Johnson, Cullen et al. 1996; McNaughton 2001; Ramaya, Khayum et al. 2003; Palmberg and Martikainen 2004).

When considering the “literature-counting alliance” method, other difficulties arise in subsequent stages of research on international alliances. Even when a list of relevant alliances is drawn, since the data necessary to infer about performance is primary, managers involved in those alliances have to be individually identified. Indeed, performance is, along with the trust construct and its antecedents, a latent variable, measuring a latent construct that is not directly observed. Thus, opinions have to be collected, irrespectively from the data collection method and methodology. And in this stage there is an evident difficulty: collecting data from one-single respondent or from various respondents. Aulakh et al. (1996), Inkpen and Currall (1998), Zaheer et al. (1998a), Teegen and Doh (2002) and Kauser and Shaw (2004), for instance, advise the use of multiple respondents. However, this represents greater difficulties, namely the access to respondents and the increase in the obstacles of obtaining data.

3.3 Data collection

The research took place in Portugal, based on a database of companies engaged in international activity which was collected through a “literature-counting alliances” approach (Hagedoorn and Narula 1996). As the intention was to measure performance through manager’s opinions, all entries with a contact name were selected. Seeing that most of the contacts also had an e-mail address, a web-based survey was carried out (e.g. Dillman 2000;

Dillman 2001). Contact names were selected to receive a personalised e-mail embedded with the link for the survey, with an explanation of the purpose of the study and the importance of their collaboration for the understanding of trust.

The questionnaire had questions related with the five main constructs described above (see Table 3.1).

Table 3.1 - Constructs under study

<i>Construct</i>	<i>Reference</i>	<i>Questions²</i>
Shared Values	Young-Ybarra and Wiersema (1999)	Regarding the values between you and your partner company please indicate the degree to which you feel that: a) Our goals and objectives for this alliance are shared by our partner company b) Our partner company had similar motives for forming this alliance
Communication	(Young-Ybarra and Wiersema 1999)	Regarding communication between you and your partner company please indicate the degree to which you feel that: a) we always keep each other informed about events or changes that may affect the other party b) It is expected that any information that might help the other party will be provided to them c) It is expected that proprietary information will be shared if it can help the other party d) Exchange of information in this alliance takes place frequently and informally, not only according to a pre-specified agreement
Opportunistic Behaviour	(Morgan and Hunt 1994)	With respect to your partner company's behaviour in the present alliance: a) Sometimes my partner company alters the facts slightly in order to get what it needs ³ b) My partner company has sometimes promised to do things without actually doing them later c) To accomplish its own objectives, sometimes my partner company fails to provide us with the support that it is obliged to
Trust	(Morgan and Hunt 1994)	Please indicate to what extent you agree with the following statements: In our relationship my partner company: a) Cannot be trusted at times ⁴ b) Is perfectly honest and truthful c) Can be trusted completely d) Can be counted on to do what is right e) Is always faithful f) Is someone I have great confidence in g) Has high integrity
Performance	(Zou, Taylor et al. 1998)	Our firm's performance in this alliance: a) ...has been very profitable b) ...has generated high volume sales c) ...has achieved rapid growth Our firm's strategic performance in this alliance: d) ...has improved our global competitiveness e) ...has strengthened our strategic position ³ f) ...has significantly increased our global market share ³ Regarding the overall satisfaction with this alliance: g) The performance of this relationship has been very satisfactory h) This relationship has been very successful i) This relationship has fully met our expectations

² All items are 7-point Likert scales; anchors: strongly disagree/strongly agree.

³ Reverse-coded item.

⁴ Dropped.

From a sample of 3,705 potential respondents, 232 completed web-based questionnaires were received, resulting in a response rate similar to other studies conducted through comparable modes (e.g. Tse, Tse et al. 1995). Half of the respondents reported a partnership with one of four countries: Spain, Germany, France and United Kingdom. Over 60% of the surveys referred to small or medium sized firms, mainly using agency and outsourcing agreements. The average duration of the relationship to which they decided to refer was 9 years. On average companies were involved in 6.94 relationships at the time they responded.

Tests were conducted to ensure the absence of non-response bias. Sampling, coverage and measurement errors were also evaluated and the sample considered acceptable, given the constructs under study. There were no missing values in our sample because responses to all the questions were mandatory. Otherwise the respondent could not advance in the web-survey and a message was displayed asking to complete the unanswered question. For the same reason there was no space for univariate or multivariate outliers.

3.4 Data analysis

3.4.1 Confirmatory factor analysis

Factor analysis was considered the most appropriate technique to analyse the data. Therefore, sample size, missing data, normality and linearity, outliers, multicollinearity, singularity and factorability requirements were verified to conclude that the data was appropriate.

The model specification proposed was subject to confirmatory factor analysis (CFA), which was conducted using AMOS 6.0 with maximum likelihood (ML) estimation method (Byrne 2001) to assess construct validity and convergent validity. The measurement model allows the

development of accurate and reliable measures (Craig and Douglas 2002). This model is given by the analysis of links between the factors and their measured variables. In our case, all the variables were latent since they were not directly observable. Therefore, measuring instruments are used as proxies that work as indicators of the latent constructs.

The CFA model tests the multidimensionality of a theoretical construct (Byrne 2001). In the current study, relationships between the five constructs were specified a priori and tested. The standardised regression weights associated to three items produced low loadings. Those items also produced small squared multiple correlations and therefore a purification procedure was conducted. Comrey (1973) suggest a minimum level of 0.63 for loadings to be considered very good. This threshold was used and based on that three items were removed: two in the performance scale and one in the trust scale.

Using SPSS 14.0, the resulting factors produced satisfactory reliabilities, measured through coefficient Alpha. Coefficient Alpha is, according to Tabachnick and Fidell (1989) the appropriate measure to infer about reliability. This coefficient provides a good indication of the average correlation among the items that make up a scale. Higher values indicate greater reliability. 0.7 represents the recommended minimum (Nunnally 1978). In all cases, the minimum was surpassed (see Table 3.2).

Table 3.2 - Items removed and retained after the purification of scales

<i>Factor</i>	<i>Items removed</i>	<i>Items retained</i>	<i>Coefficient Alpha</i>
Shared Values	0	2	0.807
Communication	0	4	0.840
Opportunistic Behaviour	0	3	0.778
Trust	1	6	0.922
Performance	2	7	0.928

After scale purification, the measurement model should be evaluated. The estimation of the CFA model produced the following results (see Table 3.3).

Table 3.3 - Results from the Confirmatory Factor Analysis

<i>Constructs</i>	<i>Items</i>	<i>Factor loadings</i>	<i>t-value</i>	<i>Squared Multiple Correlation</i>	<i>Coefficient Alpha</i>	<i>Composite Reliability</i>	<i>Average Variance Extracted</i>
Shared Values	1	0.955	-	0.912	0.807	0.827	0.709
	2	0.711	9.733	0.506			
Communication	1	0.740	-	0.548	0.840	0.846	0.579
	2	0.791	11.387	0.625			
	3	0.809	11.624	0.654			
	4	0.7	10.099	0.490			
Opportunistic Behaviour	1	0.688	-	0.474	0.778	0.779	0.542
	2	0.683	8.637	0.466			
	3	0.828	9.326	0.686			
Trust	1	0.875	-	0.765	0.922	0.944	0.739
	2	0.852	17.692	0.726			
	3	0.825	16.655	0.681			
	4	0.845	17.433	0.715			
	5	0.858	17.950	0.737			
	6	0.901	19.861	0.812			
Performance	1	0.827	-	0.683	0.928	0.912	0.6
	2	0.901	17.423	0.811			
	3	0.929	18.321	0.864			
	4	0.654	10.956	0.428			
	5	0.643	10.723	0.414			
	6	0.703	12.046	0.494			
	7	0.716	12.340	0.512			

The measurement model for each of the constructs suggests a good fit of the data. In fact, with regard to reliability, the Coefficient Alpha's, also known as "Cronbach Alpha" (Peter 1979), minimum recommended level of 0.7 (Nunnally 1978) was achieved, as all the values range from 0.778 to 0.928. Construct reliability, computed with the help of the measurement error, also helps in the assessment of reliability. According to Bagozzi and Yi (1989) it has a minimum recommended level of 0.60, which was surpassed as the minimum value for our data is 0.779. The average variance extracted for all the constructs demonstrates support for convergent validity (Bagozzi and Yi 1988). Indeed, all values exceed the recommended level of 0.5, ranging from 0.542 to 0.739.

Our data passed the reliability tests. In terms of validity, convergent validity was ensured through loading factors. Based on a significance level of 0.05, significant factor loadings are those greater than ± 0.4 Hair et al. (1998). In our case, the minimum factor loading is 0.643, a value that, according to Comrey (1973) is considered very good. It is also possible to say that convergent validity is evident in the current case because of the large and significant standardized loadings ($t > 1.96$; $p < 0.05$), reported in the third column of Table 3.3. These values indicate that scales are measuring the intended concepts.

Discriminant validity has to do with the relationship between the above constructs and others that are unrelated (Pallant 2000). It ensures that the scale is sufficiently different from other similar concepts. Thus, the correlation between constructs should be significantly different from one (Gerbing and Anderson 1988), which is the case as it can be confirmed with the observation of the values below the main diagonal in Table 3.4.

Table 3.4 - Correlation between constructs

	<i>Shared Values</i>	<i>Communication</i>	<i>Opportunistic Behaviour</i>	<i>Trust</i>	<i>Performance</i>
Shared Values	0.842				
Communication	0.654	0.761			
Opportunistic Behaviour	-0.257	-0.409	0.736		
Trust	0.513	0.630	-0.571	0.86	
Performance	0.490	0.468	-0.403	0.559	0.775

A powerful test for ensuring for discriminant validity was developed by Fornell and Larcker (1981). The procedure involves the calculation of the squared average variance extracted (see table 3.3 for the value of the average variance extracted) for all pairs of constructs. These values are listed in the main diagonal of the previous matrix. Those values should be compared with the correlation between the constructs of interest and be greater if discriminant validity is in accordance. The data passed this test too and therefore the discriminant validity is ensured.

To test nomological validity it is necessary to use prior research or accepted principles to verify the scales. Proceeding accordingly was ensured. Although constructs were used in a different context, all of them were measuring the same constructs as before. This is due to the use of already calibrated and tested measurements.

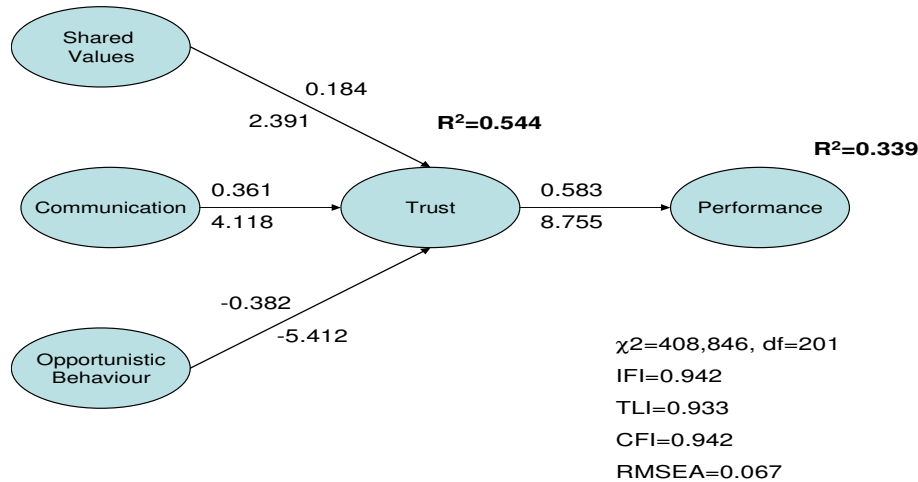
3.4.2 The structural equation model

The conceptual model proposed in Table 3.1 had several relationships that had to be tested simultaneously. Therefore, it was believed that in order to capture the full effect of all the relationships at the same time, structural equations modelling (SEM) should be used. According to Blomqvist et al. (2002) “the usage of SEM can be considered more proper” for situations in which concepts under analysis are “soft” and because explaining variables correlate with each other often. In the model fit, when comparing coefficients of determination in the SEM alternative vs. the alternative of regression analysis, higher indicators were found in the first case. Thus, those simultaneous equations were computed using AMOS 6.0 and the model estimated through the maximum likelihood estimation method. The model has 22 observed variables, out of 51 in total, which include measurement and latent variable errors and inter-correlations between the latent constructs (see Figure 3.1).

Despite the significant chi-square statistic of the model ($\chi^2=408,846$, $df=201$, $p<.000$), the fit indices Incremental Fit Index (IFI), Tucker-Lewis Index (TLI) and Comparative Fit Index (CFI) produced very reasonable results. According to Hair et al. (1998), those indexes should have values above 0.9, which was the case. Because the adequacy of a model to the sample data needs more than just global fit indexes (Byrne 2001), other criteria have to be used whenever possible. Thus, relying on the Root Mean Square Error of Approximation

(RMSEA) is a frequent procedure used in literature akin. The structural equation model produced a RMSEA compatible with the range of values proposed by Hair et al. (1998) of [0.05;0.08].

Figure 3.1 - The structural equation model



Note: standardized parameter estimate above and t-value below the arrow. All estimates are significant at 95% level of significance.

Thus, on the basis of the reliability and validity tests conducted and the goodness-of-fit analysis one may say that the model fits the data well in the population from which the sample was drawn.

3.4.3 Assessment of research hypothesis

After a model that fits the data is obtained, parameter estimates should be interpreted as well as individual tests of significance of each parameter estimated. Standardized estimates and corresponding t-values allow the assessment of research hypothesis. Four relationships were hypothesised and confirmed (see Table 3.5).

Table 3.5 - Assessment of research hypothesis

<i>Hypothesis</i>		<i>Expected sign</i>	<i>Estimated parameter</i>	<i>p-value</i>	<i>Assessment</i>		
H1	there is a positive relationship between shared values among partners and trust one places in the other	+	0.184	0.017	+	Significant at 95%	Supported
H2	there is a positive relationship between communication among partners and trust one places in the other	+	0.361	0.000	+	Significant at 99%	Supported
H3	there is a negative relationship between the opportunistic behaviour one partner perceives in the other and the trust placed in it	-	-0.382	0.000	-	Significant at 99%	Supported
H4	there is a positive relationship between trust and performance	+	0.583	0.000	+	Significant at 99%	Supported

Taking into account the normally used $p < 0.5$ level for statistical inference one may confirm the entire group of hypothesis initially raised. Therefore, trust antecedents proposed by Morgan and Hunt (1994) were confirmed. In the case of shared values, it may be said that, when the influence of shared values increases one unit, trust increases 0.184 units. A stronger impact comes from communication whereby an increase of one unit leads to an increase in trust of 0.361 units. The strongest impact on trust formation comes from opportunistic behaviour. Indeed, when the perception of opportunistic behaviour increases one unit, trust decreases 0.382 units. The largest impact on trust according to Morgan and Hunt (1994) was also due to opportunistic behaviour, revealing that in the development of trust the perceived opportunistic behaviour of the partner is a fundamental keystone in the perception of confidence in an exchange partner's reliability and integrity.

In what concerns the last hypothesis, it is possible to verify that, according to the data, when trust increases one unit, performance rises 0.583 units.

4. Discussion and conclusion

Trust and international alliances

The measurement of the satisfaction with a particular international partnership was calculated through the perceived performance. The impact of trust in that measurement was inferred. It was possible to verify empirically this relationship which, though often used in alliances literature, has not been proven (e.g. Zaheer, McEvily et al. 1998a; Möllering 2003). As stated in Sako (1998, p. 88), “While theoretical explorations on the link between trust and performance abound, empirical studies in this area are rare.” In this way, the empirical evidence necessary to fill the gap was missing.

The results showed that trust does indeed exert a positive influence on performance. This finding is the confirmation of a recent trend that has been assumed in business nowadays. The trend that gives trust a crucial role in the management of relationship seems to constitute the end of a cycle in which fear and intimidation were the most effective way to manage relationships. This drift became particularly apparent when companies moved from the use of competitive strategies to collaborative ones, irrespectively of the motivation behind the strategy pursued. The acuteness of this tendency gains even more relevance in partnerships established with commercial rather than research and development goals. In this type of partnership, the recent wave of mergers and acquisitions, strategic alliances and networks seem to consubstantiate the idea that, although exerting power may produce better results in the short run, in the long run the exploitation of those imbalances may bring disadvantageous outcomes. Therefore, companies learned that the relations established with their partners should be object of a careful management, namely in agreements with other firms regarding

pursuing common interests, exploring complementarities, and gaining access to new resources.

Trust is important in partnerships

In the process of exploring the advantages of cooperating, trust plays a key role. Besides the recognition of this fact by managers that often cite lack of trust for the failure of partnerships (Gomes-Casseres 2000b), trust benefits are also explored by academics. The benefits of trust were recognised in the literature by several authors. Bharadwaj and Matsunob (2006); Buckley and Casson (1988); Ganesan (1994); Nootboom (1999a); Nootboom (1996) recognised the impact of trust in the reduction of transaction costs. But trust was also assigned other advantages such as the reduction of opportunism (Bradach and Eccles 1989; Hill 1990; Chiles and McMackin 1996), allowing firms to rely confidently on their partners (Butler Jr. 1991; Moorman, Deshpande et al. 1993), and increasing the incidence of constructive conflict resolution (Weitz and Jap 1995). Kumar (1996) adds the possible exploitation of complementary skills of the parts, naming not only transaction costs reduction, but also quick adaptation to marketplace changes and the development of more creative solutions to meet customers needs.

Trust was also recognised by Bibb and Kourdi (2004) as having important advantages for firms such as: increased productivity, competitive advantage creation, improvement of communication and improved mutual understanding, transparency and risk-taking (Bogenrieder and Nootboom 2004). A commitment to quality and innovation (Child 2001) can also be achieved if partners in a relationship believe that their contribution to the partnership outcome is relevant and that, by aligning their activities and resources, a result larger than the sum of singular parts is possible. Some of these advantages can

simultaneously be seen as determinants and outcomes of the trust process, as already referred to by Seppänen et al. (Forthcoming), which allows the recognition that trust builds trust and may lead to a virtuous circle (Child 2001).

Trust determinants

After a review of what the literature points out as the main ideas behind trust, the decision was taken to rely on Morgan and Hunt's (1994) model of commitment and trust, specifically on trust determinants, using it to evaluate the trust-performance relationship. In this sample, it was possible to replicate equivalent influences, with the perception of partner opportunistic behaviour as the most relevant in the formation of trust, followed closely by communication. This can be attributed to the fact that the alliances studied were primarily commercial alliances, of distribution/agency and subcontracting agreement types. In these types of alliances, imbalances in power are more frequent than in alliances whose different resources, namely tacit knowledge, are complemented with common goals in mind, that is: in alliances whose main goal is the joint development of a product, process, technology or knowledge. In distribution alliances it is also acceptable that less emphasis is placed on the values shared among partners than in alliances such as licensing agreements, technology transfers or joint ventures designed for the development of a competency.

Trust positively influences performance

In this study, it was observed that trust can indeed work as a catalyst for satisfaction in inter-firm relations, especially in relationships established with partners from other countries. Moreover, it was observed that in building and maintaining trust, there are at least three elements to which relevance should be consigned: shared values, communication and opportunistic behaviour. Therefore, it can be confirmed that, in on-going alliances, in order to

contribute to a successful relationship, all partners should pay close attention to the elements that are likely to build and maintain trust.

Considering the suggestion proposed by Zaheer et al. (1998a) the link trust-performance was studied at the same time as the determinants of trust. From this standpoint it was possible to recognise that partners' alignment in terms of motives for the partnership and goals, their organisational culture, their own way of working, decision-making processes and policies, have an important impact on trust development. Therefore, it is expected that trust takes some time to grow and that limits of trustworthiness may be widen with time. It is also possible to recognise that keeping a close eye on the information that may be important for the partnership, updating and subsequent disclosure to the partner can also increase trust. Providing information signals reliance and stimulates reciprocity in a partner's behaviour. Provision of information, even when unilaterally was also found to enhance trust (Sako 1998). Besides these catalyser attitudes that help to build and maintain trust, there is also a hampering effect to be considered. This results from the perceived opportunistic risk that a company attains from its relationship. Consequently, it is imperative to consider positive responses to promises, goal attainment, honesty, integrity, forbearance from opportunistic behaviours, and regular evaluation of the risks involved in the partnership as important attitudes to have a close look at.

Those attitudes were found to affect trust and indirectly influence the performance attained from the partnership. This overall finding was missing from empirical evidence that can be found in international alliances literature. Evidence for it was provided.

Limitations

However, this study is not free from limitations. One has to do with incapacity “to overcome dyadic reductionism” (Gulati 1998) and the correspondent examination of the dyadic relationship embedded in the context where other relationships have to be considered. Also, only one side of the relationship was observed, contrary to the advice of authors such as Aulakh et al. (1996) and Kauser and Shaw (2004), due to the evident difficulty in obtaining information simultaneously from both sides of a relationship.

Concepts used in this study are reliable and show validity. However, it is very difficult to capture all of their complexities when using a method that implies the measurement of concepts that are, apparently, non-quantifiable. That is the case of trust (Bibb and Kourdi 2004). This also constitutes a limitation of this study which is common to most of the studies that use quantitative techniques to perform qualitative studies. On the other hand, as mentioned by Blomqvist et al. (2002) replication was somehow achieved. An existent model in a different setting was not used, because Morgan and Hunt (1994)’s model was employed to study trust and commitment at the same time. However, the part of their model concerning trust was tested and results similar to their own were obtained.

Further research

As avenues for further research, the study of trust simultaneously with other relationship attributes, such as commitment and conflict/control (which Demirbag and Mirza (2000) had already suggested) is recommended. Further developments of this work could be pursued by extending the developed framework to international alliances established in a different context, whether geographical or industrial.

There are clear struggles asserted to the obtaining of the necessary primary data, using just single respondents and studying just one side of the relationship. The study could be improved if multiple-respondents were used and if both sides in the relationship had been studied. The dynamic aspect of trust is also a perspective that requires closer attention than that given here. In fact, the main logic in the analysis did not account for the fact that the relationship evolves over time and that the path it follows may affect partners' decisions to continue to cooperate and their perception of performance (Harrigan 1985a; Smith, Carroll et al. 1995).

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