

Earlier Trust and Later Trust in Sino-Joint Ventures
(A Study of Seven IJVs in the Pearl River Delta Economic Zone)

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Master of Philosophy

Aston University

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It is suggested that trust is fundamental in working relationships and in international joint ventures (IJVs) there is a need to trust partners. Yet the nature of the IJVs does not remain fixed forever, so it was decided to explore if and how trust between partners altered over time.

This is an exploratory research, in order to find out whether there is a need to go further and broader. The research explores Sino-joint ventures (equity and co-operative JVs), located in the Pearl River Delta Economic Zone, which is close to Hong Kong in Southwest China, a region which has seen intense commercial growth over the past two decades. It was expected that there would be a few IJVs willing to join this research that fitted the criteria (being a equity or co-operative joint venture, and having an IJV relationship for some years longer than four years). The dateline of four years represented the boundary from 'just beginning' to 'more mature' and it was felt that the nature of trust (earlier trust and later trust that are described and defined later) between partners might change as they passed this arbitrary dateline.

The thesis gives details of the research methodology and all assertions: here I will simply state that trust (earlier and later trust) in the target population of the IJVs does indeed change over time. Earlier trust is found to increase through the first four years in the young IJVs, but after the dateline has passed, later trust decreases in the mature IJVs. That earlier trust increases is in accord with theoretical expectations, and in practice it is needed for the progress of the IJVs. It was not expected from theory that later trust decreased as was found. But the lowering of later trust as the IJVs move to the mature time zone must be worrying for the IJVs directors and managers. The researcher suggests ways in which this situation may be improved.

Naturally these findings require further elaboration by more researchers by extending the scope of the research further. But for the moment the analyses yield important findings that add to the literature, to the practice of international joint ventures in China, and possibly the IJVs globally.

Key Words: trust, IJVs, communication, interdependence of resources, *guanxi* and commitment.

Dedication

- To my family -
for their love, support, and fellowship

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Chapter One

Introduction

This exploratory research is set up to find out whether there is a need to go further, to research deeply. The aims are to explore earlier trust and later trust in two different periods of time (the ‘early’ and ‘later’ time zones) within the Sino-joint venture’s lifetime and to explore if any changes occur in their relationships with commitment, communication, interdependence of resources and *guanxi* through the two time zones. Initially the following questions were asked:

What are the Sino-joint ventures of this research and why are they the focus?

What is trust and why are earlier trust and later trust the focus of this research?

The research is focused only on equity and co-operative Sino-joint ventures (through the research they are called ‘the IJVs’) in the Pearl River Delta Economic Zone, which is close to Hong Kong in Southwest China, a region of intense commercial growth over the past two decades. Although there is a considerable body of research upon international joint ventures, little research has been done on the shift in inter-organizational trust as time progresses. That is, from within the ‘early’ period defined from establishment, passing a four-years dateline from establishment to the ‘later’ time period as the IJVs move towards maturity. Trust through the time of incorporation to four years is named “earlier trust”; and the trust which maintains/develops in the time period after four years as the IJVs progress towards maturity is named “later trust”.

The following sections will explore the above questions.

1.1 Various Forms of Doing Business in China

(Source: China Desk <http://www.pinsentmasons.com>)

It is necessary to know how foreign companies can do businesses in China. The most commonly used modes of foreign companies entering and doing businesses in China are 1) representative offices, 2) processing and assembly operations, 3) technology transfer, 4) equity joint ventures, 5) co-operative joint ventures, 6) wholly foreign-owned enterprises, 7) joint stock limited companies, and 8) holding companies.

Representative offices

Representative offices allow a foreign company to engage in certain limited business activities in China. Registration of a representative office in China creates a permanent base for the resident personnel who may conduct local sales and purchasing activities. The offices provide a contact location in China for the convenience of its Chinese buyers and sellers and signify its commitment to the Chinese parties with which it has business dealings. Representative offices are forbidden from being involved with 'direct business operations'. They can only operate as a liaison for business purposes within the enterprise's scope of business, for the introduction of products, market research and/or technical exchanges.

Processing and assembly operations

There are two types of processing and assembly operations:

- Processing with supplied materials.
- Processing with imported materials.

Processing with supplied materials' arrangement ships raw materials or semi-processed goods to a Chinese workshop or factory from where the finished products are processed and are re-exported back to the foreign party. Typically, the Chinese factory receives a fee for its work, computed on a unit or delivery basis. The foreign party will usually agree to supply certain production equipment, which is sold, leased or provided to the Chinese party without charge.

Processing with imported materials is a new arrangement in which the local enterprises set up to import their own materials to manufacture goods for export. The cost of purchasing and importing materials is borne totally by the local enterprise and is absolutely in foreign exchange.

As labour costs continue to grow in Taiwan, Singapore, and South Korea, companies from these countries as well as from the UK, Japan, the United States are now entering regularly into processing and assembly transactions with Chinese companies.

Technology transfer

China's policy of co-operation with foreigners emphasizes the transfer of technology to Chinese enterprises. Specific regulations indicate the required contents and maximum term of technology transfer contracts and signify the centralised approval procedures.

They also disallow the imposition of various restrictions by the licensor on the use of technology by the Chinese licensee and provide assurances concerning the protection of the licensor's technology in China.

Transactions depending on these regulations consist of the transfer and licensing of patents, the right to apply for a patent, license for patent exploitation and unpatented know-how and other forms of proprietary technology, as well as the condition of technical services.

Equity joint ventures

Equity joint ventures must take the form of a non-share issuing 'limited liability company' incorporated and registered in China and are seen as Chinese legal entities in Chinese law. A substantial body of law governs the establishment and running of equity joint venture companies. The key aspect of an equity joint venture is that profits, losses and risks are shared in percentage to the parties' relevant contributions to the registered share capital.

Co-operative joint ventures

In practice, there are two types of co-operative joint venture, although the co-operative joint venture law (1988) does not explicitly identify the distinction:

- The true co-operative joint venture
- The hybrid co-operative joint venture

The 'true co-operative joint venture' doesn't involve the creation of a legal entity that is separate and distinct from the contracting parties. Each party takes responsibility for making

its own contributions to the venture, paying its own taxes anchored in the venture and bearing its own liability for risks and losses. Each party's rights, liabilities and risks are clearly stipulated in the original contract.

The 'hybrid co-operative joint venture' combines the characteristics of the true co-operative joint venture and the equity joint venture. A separate business organization is established and each party's liability is generally restricted to their capital contributions.

Wholly foreign-owned enterprises

Since 2000, Chinese law has changed concerning the establishment of wholly foreign-owned enterprises (WFOEs) and the law no longer requires WFOEs to favour domestic suppliers when sourcing their raw materials. This, linked to the fact that a WFOE may be easier to set up than a joint venture (as no negotiation with a Chinese party is required), means there has been a considerable rise in the number of WFOEs formed in China over recent years.

Joint stock limited companies

China adopted its first national 'Company Law' in 1993 which provides foreign investors with an additional form of investment mode: the joint stock limited company (also known as a company limited by shares). The aim of the Company Law is to transform China's state-owned enterprises into limited liability companies and joint stock limited companies that are commercially workable in an emerging market economy.

The distinction between joint stock limited companies and other common forms of direct investment is the fact that joint stock limited companies are able to issue shares.

Holding companies

In recent years, several foreign companies have established wholly foreign-owned or Chinese/foreign joint venture companies, the core purpose of which is to hold equity interests in subsidiary enterprises in China and to provide a variety of centralised services to these subsidiaries. These are formally known as 'investment companies' and informally as 'holding companies'.

A holding company may be found as an equity joint venture or wholly foreign-owned enterprise, suggesting the laws that apply to each also apply to holding companies, as do the general provisions of the Company Law.

Additional operational modes

- Branch offices
- Service centres
- Bonded zone and export processing zone enterprises

Branch offices: In many countries it is possible for foreign companies to establish branch offices engaging in business activities without the need to start a foreign subsidiary. However, in China, the situation is different. The Company Law introduces the legal possibility of foreign branch offices but no specific regulations have yet been published. At present, only foreign companies in a limited number of business sectors, such as banking and insurance have been authorised to start branches in China.

Service centres: Foreign companies may go into agreements with Chinese counterparts where the Chinese party is authorised to set up a service centre in China. These centres may offer after-sales service, maintenance and spare parts for machinery and equipment sold to end-users in China. They may not, however, market the main products they service.

Bonded zone and export processing zone enterprises: The Chinese government has set up these zones to facilitate import and export trade and encourage activities such as trading, warehousing, trade financing, transportation, packaging and export processing. Goods can be imported into and exported from these zones duty-free and are subject to very few import and export licensing restrictions.

1.2 Modes of Entry

International business professionals use the term "modes of entry" to describe the different methods and approaches available to enter markets and conduct business in other countries. Shown above are eight major entry modes applicable to China. This research focuses only on Equity joint ventures and Co-operative joint ventures in China (Sino-joint ventures) because they are the most common and effective means of conducting business internationally. The researcher further discusses these Sino-joint ventures' business expectations from both the Chinese parents and the foreign parents' point of views, under the subtitle 'Interdependence' (see 2.2.5). The ownership modes about these seven IJVs that took part in this research can be referred to table 3.4.1.4-1 and 3.4.1.4-2. The researcher is aware that the governance and the shareholding issues are relevant to the question of trust, but they are not the focus of this research.

The seven IJVs in the sample population are those IJVs that were built on the foundation of Chinese state-owned enterprises of long history who had good accesses to the national markets. In their joint mode they continue to operate in their historical markets. Thus they had their own technicians and management systems but were in need of new financing sources to make the most of current and available resources from the foreign parents. They wished also to adopt advanced production technology. The foreign parent companies wished to enter China's market, to take advantage of low cost labour and materials and to expand existing techniques from their home facility into China. All of the seven foreign companies would be relying on a Chinese partner to deal with the significant aspects of the complex Chinese environment though one of the seven IJVs has three Chinese partners, the relations with local and central governmental authorities, and their natural advantages in dealing with the local workforce, and so on.

This is an exploratory research, in order to find out whether there is a need to go further and broader. The research only explores Sino-joint ventures located in the Pearl River Delta Economic Zone, which is close to Hong Kong in Southwest China, a region that has seen intense commercial growth over the past two decades. It was expected that there would be a few IJVs willing to join this research that fitted the criteria (being a joint venture, and having an IJV relationship for some years longer than four years). The dateline of four years represented the boundary from 'just beginning' to 'more mature' and it was felt that the nature of trust (earlier trust and later trust that are described and defined later) between partners might change as they passed this arbitrary dateline. This is the focus of the research.

1.3 Why are the IJVs the Focus of This Research?

Sino-joint ventures are legally and economically separate organisational entities created by two or more parent organisations that collectively invest financial as well as other resources to practise certain objectives. For many years this was pretty much the only mode of investing in China, and investment regulations were heavily weighted in favour of local Chinese partners. Joint ventures can take several forms and can reflect in many ways the contribution of the joint venture partners: ownership, financial contributions, management, the level of participation, the contribution of technology and know-how and so on. There is no minimum foreign contribution required to set up a JV (Source: China-Britain Business Council at <http://www.cbbc.org>).

The People's Republic of China, oblige foreign companies to form joint ventures with local firms in order to go into a market. The IJVs are co-operations between local and foreign companies. This obligation often forces managerial control and technology transfers to the local partner/s. The partners all sit on the joint venture corporation's board, and can together provide the IJVs with a much-needed managerial resource. This research relates to all forms of the IJVs with at least one of the parent companies headquartered outside of the IJVs' host country – China, and being a joint venture having these relationships for some years longer than four years.

International joint ventures, which combine the features of the market and hierarchies, have been argued to be superior channel for the transfer of company-specific, difficult to grasp,

experiential knowledge (Kogut, 1988; Mowery et al., 1996). Joint ventures have been said to be especially suitable for managing organizationally embedded knowledge, given the high level of intimacy and intensity of interactions that they offer (Lane and Lubatkin, 1998). This high level of intimacy and intensity of interactions that the IJVs offer provide a very valuable base to explore any shift of earlier trust and later trust relationships over time.

China is commonly and correctly regarded as a country in which economic relations are strongly dependent on trust while, at the same time, trust in China is difficult to build beyond fairly restrictive circles defined by kinship or tight social networks (Fukuyama, 2002). Furthermore, according to the *FDI Confidence Index 2004*, China maintained its position as the number one most attractive FDI destination in the world in 2004, leaving U.S.A, India, and UK behind it, (<http://www.atkearney.com>). And the *IMF World Economy Outlook* (April 2006) indicated the 2005 nominal GDP, under a new methodology that has recently been released, makes China the fourth-largest economy in the world in the U.S. dollar terms, second largest in PPP adjusted terms (<http://www.imf.org>).

Often an IJV is created so as one party - in our case a Chinese firm - can acquire new technology and know-how. The other party – from overseas – has this technology and wishes to reach a wider market for its products, notably, the 1.3 billion people in China who represent an attractive market, much more than seeking low cost resources and exporting them. This is a theme mentioned by many, and is recalled constantly throughout the book titled *Mr China* (Clissold, 2004).

China's economy is characterised by lack of coherent business laws and strong governmental control over limited recourses (Xin and Pearce, 1996), notwithstanding the definitions and notes on changes in Company Law stated above. hence a trust relationship is very important to parties when they set up and manage the IJVs in China. China provides a distinctive context for research on trust, testing the limits of theories emanating from modern western societies (Child and Mollering, 2003). This is itself important as much research is embedded in Western theoretical assumptions: even modern research by the Chinese in China since many of these researchers have absorbed western theories and training in western universities.

1.4 What is Trust?

Trust has been a topic of research for more than 40 years and continues to receive attention in several social science literatures - psychology, sociology, social psychology, political science, economics, management studies and history.

Trust is a multilevel phenomenon that exists at the personal, organizational, inter-organizational, and even international levels, though the research base of trust has its roots in Psychology, and Social Psychology as an interpersonal phenomenon. The need of trust between partners in a joint venture has been identified as an important element of a long-term joint venture relationship (Madhok, 1995). At the interfirm level, researchers believe that trust is a key element in cooperative relationships (Ring and Van de Ven 1992;). It is effective in lessening concerns about opportunistic behaviour, in better integrating the partners, and reducing formal contracting. And once trust is established, companies learn that joint efforts will lead to outcomes that exceed what the company would achieve had they acted solely in

their own best interests (Anderson and Narus, 1990). Therefore, although interfirm trust is difficult to obtain, researchers have paid particular attention to the development of such trust (Das and Teng, 2001). Parkhe (1998) suggested that understanding the role of trust in the IJVs is of practical importance, as the level of trust is not necessarily a given, but can be influenced by manager's actions.

Trust has many possible definitions, Rousseau et al. (1998) have summarised common aspects among different definitions as (a) risk, (b) expectations or beliefs, and (c) a willingness to place oneself at risk with the assumption and expectation that no harm will come to oneself.

1.5 Why are Earlier Trust and Later Trust the Focus of This Research?

In line with the developmental process of trust of Lewicki and Bunker (1996) and Child (1998), the researcher propose a two-stage trust model which leads to the focus of this research on "*earlier trust* and *later trust*". Herein the research incorporates the influence of time during the development of the IJVs in China in combination with the definition of trust defined by Young-Ybarra and Wiersema (1999), who defined trust as dependability (an expectation that the partner will act in the IJVs' best interests), predictability (consistency of actions), and faith (that the partner will not act opportunistically). This research defines *earlier trust* as dependability - the rational expectations of best interests between interdependent parties in the young IJVs (the first four years of the IJVs), and defines *later trust* as predictability – knowing the other sufficiently well so that the other's behaviour is

anticipatable; and having faith - believing that the other will not act opportunistically in the mature IJVs.

There are two viewpoints here - the trustor (the person doing the trusting) and the trustee (the person who is the object of the trust). Trustor trust has the three antecedents as above - dependency (expectation that the partner will act in the IJVs' best interest), a perception that trustee is predictable (i.e. predictability), and faith (that the trustee will not act opportunistically). Trustworthiness of the trustee has also the three antecedents of dependability (the trustor can expect trustee to act in her best interests), predictability (consistency of actions), and faithfulness (trustor can expect that the trustee will not act opportunistically).

As this research is to review earlier trust and later trust over a period of time in the IJVs it becomes a little confounded in the strategic issues surrounding the IJVs. Often the IJVs are set up with both parties knowing the venture has a limited life time – but there is no exact duration understood from the outset. Following this line of argument the researcher would suppose that earlier trust and later trust between the parties would not follow a simple monotonic increase over time, but like 'a product maturity cycle', trust would rise from the point of inception, have a period of stability, then a change. In this research it is hoped to capture feelings about the initial phases of trusting as in earlier trust, and the feelings about the later trust during the change with the boundary arbitrarily set at four years from the establishment of the IJVs - being assumed to be at the period of stability in the abovementioned life-cycle model.

1.6 Other Elements

In chapter two – the researcher will look at four relevant trust elements which are suggested by the literature review: commitment, communication, interdependency of recourses and embeddedness (or *guanxi* using a Chinese term) in the context of the particular transaction cost theory & social exchange theory, and social embeddedness. This research proposed that these relationships are positively related to both earlier trust and later trust. Details of these four elements will be discussed in the next chapter.

1.7 Objectives

The objectives of this research are to explore earlier trust and later trust in two periods of time over the IJVs lifetime and their relationships with commitment, communication, interdependency of recourses and embeddedness (or *guanxi* a Chinese term) in Sino-joint ventures located in Southwest China.

These objectives can be further deconstructed, as follows:

- To see whether earlier trust increases through the first four years of the IJVs over the joint venture's lifetime.
- To see whether later trust changes after the four years dateline over the rest of the joint venture's lifetime.

- To find out if earlier trust has a positive relationship with commitment, communication, embeddedness and interdependence of resources in the first four years in young IJVs.
- To find out if there are any changes in the relationships between later trust with commitment, communication, embeddedness and interdependence of resources after four years since formation in the mature IJVs in comparison to that in the young IJVs with its earlier trust.

Chapter Two

The Literature Review

Chapter one presented the overall structure of this research in which earlier trust and later trust are said to play critical roles in the development and maintenance of the IJVs' relationships. Chapter two presents the literature that supports the building of a conceptual framework of earlier trust and later trust in Sino-joint ventures over the two periods of time in the IJVs, and their relationships with the other four elements as necessary conditions for earlier trust and later trust to be developed.

2.1 Overview

The discussion of the literature concerns the role of specific trust which is separated into two categories: trust in the young IJVs (earlier trust) and trust in the mature IJVs (later trust) in order to capture the evolution of earlier trust and later trust over time. The proposition of earlier trust is about dependability - the rational expectations of best interests between interdependent parties in the young IJVs and earlier trust benefits from commitment, embeddedness of *guanxi*, the communication between all partners, and interdependence of idiosyncratic and complementary resources; while later trust is concerned with predictability of the actions of each partner, their faith in their processes, and benefits accruing from all of the early stage elements which continue to play their roles.

Trust exists in context and is shaped by dynamics specific to particular social networks. In this research 'social network' refers to the natural work networks in the IJVs in China. In a transitional economic situation, the IJVs have a more detailed interaction with the foreign parent(s), rather than with their Chinese partner firms, and knowledge is more often transferred from the foreign parent to the joint venture (Tsang, 2002). Yet in spite of legal contracts drawing the boundaries of a partner's commitment in these relationships, socially embedded relationships in the natural work network surpass these contracts and are evidenced by characteristics, such as the development of trust, fine-grained information transfer, and joint problem-solving arrangements (Uzzi, 1997).

Trust is path-dependent and socially constructed. It evolves over time and depends on the social, institutional and national context. International collaboration is also path-dependent and is continuously changing over time. Therefore, trust is a dynamic and continuous variable, which can vary substantially within and across relationships, as well as over time.

Earlier trust from the outset determines the degree to which the partners engage in a trusting way in the building stage – the first four years of the partnership. This type of trust is important for the later phases in the development of the partner relationship because it acts as a determinant of the level and the quality of cooperation possible between the parties.

Trust is a precondition and is the basis of all human relations, including economic ones. Such a view was held in China as early as Confucius 551 – 479 BC (Hann, 1968, quoted by Möllering, 2002). Trust based on calculation is likely to apply particularly to relationships that are new and hence can only proceed on the basis of institutionalised protection (incorporating

deterrence), or upon the reputation of the partner (Child, 1998). In the early stage, firms that are embedded in their social networks of prior alliances are only connected with one another indirectly. These social relations are mainly responsible for the production of trust that is presented in the embedded *guanxi* in this research, though Chinese participants and also the non-Chinese who are familiar with the use of *guanxi*. Foreign representatives have their own form of relationships, but they may not work in China where the IJVs are located. Thus the practice of *guanxi* embedded in the IJVs may have a very special function in the longevity of an IJV.

It is assumed that later trust in the developmental process of the dyadic relationship has a more direct mediating effect on sharing than does earlier trust. Knowledge or information serves as the mediator in getting to know the other partner, and being able to predict his/her behaviour (Shapiro, 1992). Thus the rationality in the calculative reasoning view of earlier trust would be relaxed in later trust, since later trust is founded on being sure and comfortable that the partner is well-understood and is known to share information, knowledge and policies and has faith.

2.2 Development of the Framework

Trust is not a property that can be installed at any moment of time in the IJVs; partners have to make a long-term effort to develop it to achieve long-term cooperation. The question of how partners in the IJVs can build, maintain and develop trust requires a longitudinal approach. In order to understand the evolution of trust building over time, the researcher has looked at:

Firstly, transaction cost theory & social exchange theory is studied. Kogut (1988) and Hennart (1991) have applied TCT to explain that the existence of joint ventures that are based on asset specificity and the respective asset and resource exchange transactions.

Secondly, social embeddedness is studied, since the types of social relationships within embedded network ties may influence the types of trust available (Granovetter, 1985; Uzzi, 1996).

Finally, interdependency of resources is reviewed, because interdependence forms the economic validation for the continuation of joint ventures.

The integration of these three aspects leads us to a better understanding of the need for and the evolution of trust.

2.2.1 Transaction Cost Theory & Social Exchange Theory

Transaction Cost Theory

According to Davies and Powell (1992) transaction costs are the costs of planning, adapting and monitoring task completion. The transaction cost theory (TCT) argues that companies try to minimize each discrete transaction cost and maximize its benefits, which transfer into a co-operation relationship. TCT becomes one of the key theories in describing relationships among organizations, since parties will enter into a co-operative relationship, which results in lower transaction costs, compared to the alternative forms of co-operation.

In the context of transactions, trust would be expected to emerge in situations where the "trustworthy" party in the exchange relationship (1) is known to reliably make good faith efforts to behave in accordance with prior commitments; (2) makes adjustments (e.g., as market conditions change) in ways perceived as "fair" by the exchange partner; and (3) does not take excessive advantage of an exchange partner even when the opportunity is available (Mayer, 1995).

Trust can impact on transaction costs since transaction costs also influence the type and depth of trust. It might be difficult to substantiate that high investment in transaction costs will incur high trust. However, it is agreed that, to build up trust, investment in transaction costs is necessary. Particularly, in transactions, interactions between organizations in one phase will impact or even determine the next phase of the transactions/interactions that are critical to the IJVs'.

In general, a certain amount of trust is needed as an entry condition for inter-organizational transactions to evolve, and a high level of trust permits a wide variety of social relationship to emerge. By contrast, widespread distrust in a society imposes a kind of "tax" on all forms of economic activity (Fukuyama, 2002; Lewicki & Bunker, 1996). Organizations who do not trust one another will end up cooperating only under a system in which every detail has to be negotiated, agreed to, legitimised, and enforced, sometimes even by coercive means. This legal apparatus, serving as a substitute for trust, entails what economists call "transaction costs". Therefore it is understood that TCT is an encompassing theory with facets relating to person-to-person interactions in organisations and the easements they may engineer through the development of trust.

If we had to approach every contract with the assumption that our partners would try to cheat us if they could, then we would have to spend a considerable amount of time bullet-proofing the document to make sure that there were no legal loopholes by which we could be taken advantage of. Contracts would be endlessly long and detailed, spelling out every possible contingency and defining every conceivable obligation. We would never offer to do more than we were legally obligated to in a joint venture, for fear of being exploited, and we would regard new and possibly innovative proposals from our partners as tricks designed to get the better of us. Furthermore, we would expect that, despite our best efforts in the negotiation, a certain number of people would succeed in cheating us or defaulting on their obligation. We would not be able to resort to arbitration, because we would not trust third-party arbitrators sufficiently. Everything would have to be referred to the legal system for resolution, with all of its cumbersome rules and methods, or potentially even to the criminal courts (Fukuyama, 2002).

To protect one's interest and ensure that opportunistic behaviour, such as cheating, is kept to a minimum, some minimal trust must be established before any serious business relationship can be cemented. Not coincidentally, for both transaction cost theory and network theory, trust has been regarded as a critical component of the network (Thorelli 1986; Williamson 1993). Williamson advocates that exchange relationships based on personal trust will survive greater stress and display greater adaptability. Thorelli observes that trust in Oriental cultures may even take the place of contractual arrangements.

Exchange Theory

The study of relationships and “exchanges” argues that individuals or cooperating groups evaluate alternative courses of action so that they get the best value at lowest cost from any transaction completed. Nooteboom (1996) has used social exchange theory as a starting point for examining related areas such as commitment, trust, and affective ties. Johnson & Mattson (1987) also suggested that the result of exchange, which leads to mutual adaptation, entails

investment in a relationship, so bonding between the actors develops and trust is generated, finally, a lasting relationship emerges.

Exchange theory is based on the premise that human behaviour or social interaction is an exchange of activity, tangible and intangible (Homans, 1961), while the basic premise of social exchange theory is that relationships providing more rewards than costs will yield enduring mutual trust and attraction (Blau, 1964). Blau (1994) proposed that trust and commitment evolve together, beginning with minor transactions in which little trust is required because little risk is involved, which gradually expands as partners prove themselves trustworthy and exchange with each other more frequently. Empirical evidence from Molm (2000) indicates that reciprocal exchange leads to trust.

2.2.2 Embeddedness and *Guanxi*

In general terms, embeddedness refers to the degree to which an actor – individual or organisation – is involved in a social system and how, in turn, this level of involvement affects (and is affected by) its behaviour (Granovetter, 1985). Granovetter further suggests that actors do not behave or decide ‘as atoms’ outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive actions are instead embedded in a concrete ongoing system of social relations. It is the social relations rather than institutional arrangements or generalised morality that is mainly responsible for the production of trust in economic life. Embeddedness thus creates the ‘logic of confidence and good faith’ (Meyer & Rowan, 1977).

Dimensions of Embeddedness

Two dimensions of embeddedness are found in the literature – relational and structural. Both however, serve a similar purpose, which is to provide information. As explained by Gulati (1998), “underlying embeddedness is the quest for information to reduce uncertainty, a quest that has been identified as one of the main drivers of organisational action” (ibid: 295).

Relational Embeddedness

Is about personal relationships, dyadic economic interactions and about social capital according to Hite (2003).

Relational embeddedness determines that ties generally influence two strategic outcomes: a) ties are embedded with a social relationship that influences the economic actions of the firm (Granovetter, 1985, Hansen, 1995; Larson and Star, 1993; Uzzi, 1996; Uzzi, 1997 as cited in Hite, 2003); and b) ties are governed more through mechanisms of trust and relational contracting than through traditional market governance (Granovetter, 1985; Uzzi, 1996; Uzzi, 1997 as cited in Hite, 2003).

Relational embeddedness develops from the direct relationships in dyads within a network. This leads to development of shared understandings and a decrease in potential hazards in alliances (Gulati, 1995; Gulati, 1998). It facilitates the dyadic partner awareness of each other's needs and interests, building the sense of similarity “to be in kind of the same boat” -

which definitely goes a lot deeper than just business. It develops a sense of sharing of feelings and perceptions (which might be defined as later trust). International joint ventures rely upon a high level of intimacy and intensity of interactions between a foreign parent and the IJV (as well as the local host enterprise) that is especially appropriate for the developing of a mutual understanding, and hence for organisationally embedded knowledge transferring.

Structural Embeddedness

Structural embeddedness (reputation, referrals) explores the impact of the structure of relations around actors on their tendency to cooperate with one another (Gulati, 1995) and the informational role of the positions that actors occupy in the overall structure of the alliance network (Gulati and Gargiulo, 1999; Uzzi, 1996.). With a lack of prior experience/knowledge of a particular partner, the reputation of that firm will be the best prediction of their behaviour. Researchers note that most of the firms are embedded in a social network of prior relations through which they are connected with one another either directly or indirectly (Kogut, 1993). Within such a social network - often dense - the reputation and referrals of the potential partners play an important role in recommendations for possible partnership opportunities. Third parties encourage partners to trust their network neighbours, and through diffusion this could lead to a greater trusting of the third party.

However, these two types of embeddedness are interlinked with each other as they are serving the same purpose: to provide information, so driving the organisational actions. They are

mediated by the relational and structural network perspectives, and these two perspectives could benefit from continued integration.

Guanxi is a specific form of embeddedness reflected in China. *Guanxi* can be envisaged as the cultural glue that holds people and networks together (Luo, 2000) and can be treated as social capital in China, characterised by durability, or even “harder” connectivity (Ambler and Styles, 2000), although China is often portrayed as a “relational society” (Styles and Ambler, 2003) with long-term orientation. According to Styles and Ambler (2003), Chinese gradually apply *guanxi* and commitment (relational commitment and financial commitment) with new partners. Once formed, these relationships are more difficult to break than a poor implementation of a formal agreement. This provides the base for the co-existence of relational and transactional behaviours in Chinese business. This is contrasted to either transactional or relational behaviours adopted by Western business. *Guanxi* related activities require an in-depth knowledge of relational partners and their needs. Ambler and Styles (2000) suggest five components of *guanxi*: good/bad, trust, leverage, onward connectivity, and identity. Trust within Chinese networks is based on what the Chinese know as *guanxi*. It is significant within work units, and even more so for the development of inter-organizational relations in which the actors have no other foundation on which to establish trust in a society where institutional guarantees and protection are weak. There is a risk involved in offering the favours through which it is hoped to build up *guanxi*, and trust within Chinese networks therefore has an important basis in the calculus of trust (Möllering 2000).

Guanxi philosophy of management is essential in the Chinese context and it involves the creation of a social bonding based on a co-operative environment between parties within the

network. Historically Confucianism influenced, societies like China where social trust is relatively low and characterized with particularistic culture, even the effort for the minimum trust that a business alliance requires, which is normally taken for granted in the Western legal context, can be a difficult to achieve and is a time-consuming process in the Chinese-Western business context (Möllering, 2000).

2.2.3 Trust in This Research

The elusive nature of trust is defined in many ways in the literature. Yet, when it comes to defining just what trust means, difficulty creeps in.

The first aspect is about whether trust is a subset of risk taking or has a moral undertone (Hosmer, 1995). This discussion focuses on trust explaining particular behaviour. For instance, X lends some money to Y. What might explain X's behaviour? Deutsch (1985) argues that it would only be a matter of trust when the expected loss was greater than the expected gain. This is in line with Williamson (1993) who suggests that actors who take an apparent leap of faith, most of the time act in line with their calculated self-interest. He argues that trust is not the right word to use in such cases. In his opinion, trust should be reserved for family and close relationships. This is similar to Granovetter's argument (1985) that trust between trading partners would have a limited function to fulfil, since buyers and sellers are supplied with perfect information.

Second, trust may be a variable that has to be explained. For instance "X trusted Y and therefore, X lent some money to Y." What explains X's trust? The discussion in this context focuses on whether the enabler is trust when there is a belief in the other party acting in a

trustworthy mode for other than moral reasons (Nooteboom, 1996). For instance, when we know it is in the other party’s interest to behave trustworthy, the question arises whether or not trust is the right word. Nooteboom (1996) argues that you really trust someone when you are willing to forgo guarantees on the basis of self-interest.

Third, definitions are different simply because of the researcher’s different natural and theoretical backgrounds and their chosen empirical context for their study. Table 2.2.3.1 shows some of the theoretical backgrounds, conceptualisations and components of trust, based on this literature review.

Table 2.2.3.1 Conceptualizations and Components of Trust

Author: Type of relationship	Theoretical background	Conceptualisation	Components of trust
Nooteboom et al. (1997) Manufacturer-supplier in microelectronics	Transaction cost approach, marketing channels, resource dependence and relational contract theory	“Trust as a significant source of cooperation, along with coercion and self-interest”.	Institutionalisation and habitualization
Smith & Barclay (1997) Selling partnerships in computer industry	Organizational and social exchange theories	Trust as the critical factor differentiating effective from ineffective selling partner relationships.	Honesty/integrity Reliability /dependability Responsibility Likeability Judgment
Zaheer et al. (1998) Manufacturer - supplier relationships in electronics	Interorganizational relations	Expectation that an actor can be relied on to fulfil obligations, will behave in a predictable manner, and will act fairly when the possibility for opportunism is present.	Reliability Predictability Fairness
Young-Ybarra and Wiersema (1999) Strategic alliances in information technology	Transaction cost economics and social exchange theory	Trust is based on three components: dependability (refers to expectations that the partner will act in the alliance’s best interests), predictability (refers to consistency of actions by the partner), and faith (refers to the belief that the partner will not act opportunistically).	Dependability Predictability Faith

The above discussion and table indicate that while the authors are using similar theoretical approaches they do not define trust similarly, however, the most common components seem to be dependability, predictability and reliability.

The definition of trust defined by Young-Ybarra and Wiersema (1999) was in a specific industry – strategic alliances and international joint ventures which was investigated by employing transaction cost economics and social exchange theory approaches. With similar theoretical approaches and a similar setting, the researcher herein is sure it is the most appropriate definition for this research.

Consequently this research adopts the definition of trust by Young-Ybarra and Wiersema (1999). According to them, trust is based on three components: dependability (refers to expectations that the partner will act in the partner's best interests), predictability (refers to consistency of actions by the partner), and faith (refers to belief that the partner will not act opportunistically, even in novel or unforeseen situations).

Though the definition of trust defined by Young-Ybarra and Wiersema (1999) was presented from a similar setting and similar theoretical background as this research, trust in their research was not investigated under different time periods during the lifetime of the strategic alliances. They did not meaningfully determine their definition of trust in the context of a strategic alliance's lifetime: as these the researcher believes that trust may be characterised differently in different time periods of an IJV.

Lewicki and Bunker (1995; 1996) suggested that trust is a multi-dimensional construct that can take various forms and their trust model in work relationships *Calculus-based trust* to *knowledge-based trust* to *identification-based trust* initially posited three-stages. Their notion was that trust develops gradually and grows with mutual experience in work relationships over time, but they didn't examine these three stages at any specific time period and in any specific industry. This research proposes that trust would characterise differently in different time periods of the IJV's lifetime accepting that time is a very important indicator in the evolution of trust. Lewicki and Bunker (1995; 1996) illustrate that trust does not simply grow stronger over time, but the 'frame' in which the actors consider trust changes as trust develops, so that the issues faced at an early stage could be very different from those in a later stage in the trust relationships.

Child adopts Lewicki and Bunker's model in combination with McAllister's (1995) distinction between cognition-based and affect-based trust, and proposes a model of trust evolution, from *calculation* to *prediction* to *bonding*, which mirrors the development phases of strategic alliances and joint ventures (Child, 1998). He draws on extensive qualitative case-study material to reveal his model, distinguishing between a 'low-trust option' and a 'high-trust option', which foreign investors may use in joint ventures with Chinese partners and which have an impact on the ensuring trust-building processes. Starting with too little trust due to short term economic considerations, partners may never get the trust-building process going, especially in China (Child and Möllering, 2003)

Other researchers, as shown in Table 2.2.3.2 below, have used other descriptions of trust in the literature, but also ignore the time indicator, and don't investigate in specific contexts.

Table 2.2.3.2 The Various Forms of Trust

Author	Source of trust	Detail
Lewis and Wiegert 1985, McAllister 1995	Affect-based trust	The emotional bonds between individuals induce trust.
Lewis and Wiegert 1985, McAllister 1995	Cognition-based trust	Information gathered through the interaction sets the trust.
Williamson 1993	Calculative-based trust	Trust is the result of rational calculation of the cost and benefit.
Williamson 1993	Familiarity-based trust	Past interaction results in trust.
Lewicki and Bunker 1995	Knowledge-based trust	Trust is based on the accumulation of relevant knowledge
Lewicki and Bunker 1996	Deterrence-based trust	Trust is built because of consistency of the behaviour. Consistency is sustained by the threat of punishment.

Following the developmental process of trust of Lewicki and Bunker (1996) and Child (1998), the researcher propose a two-stage trust model which leads us to the focus of this research on “*earlier trust and later trust*”. Herein the research incorporates the influence of time during the development of the IJVs in China in combination with the definition of trust defined by Young-Ybarra and Wiersema (1999).

For Chinese people, the time dimension has two orientations: past-time orientation and community. This implies that for the Chinese, once a relation is established it is hard to break and once a relation is broken, it is very difficult to re-establish. Continuity indicates that Chinese people are long-term oriented. Therefore, once *guanxi* is established both parties will try their best to keep this relationship by reciprocating benefits.

2.2.4. Earlier Trust and Later Trust

Lewicki and Bunker's three-stage model suggests a "stage-wise evolution of trust" (1996: 124) in which trust develops gradually as the parties move from one stage to another. They argue that trust first starts on the basis of a market-oriented, economic calculation whose value is derived by determining the outcomes resulting from creating and sustaining the relationship relative to the costs of maintaining or severing it. The concept of calculative-based trust has enjoyed widespread acceptance (Williamson, 1993). Williamson (1993) describes trust as calculative, personal and institutional.

From the combination of the trust definition of Young-Ybarra and Wiersema (1999) and Lewicki and Bunker's 'stage-wise evolution of trust model' (1996), the concept of *earlier trust* is defined as dependability - the rational expectations of best interests between interdependent parties in the young IJVs (the first four years of the IJVs). The definition of earlier trust is similar to calculative-based trust defined by Williamson (1993), and later developed by Lewicki and Bunker (1996). In other words, Party A confidently enters into a vulnerable situation because it is in Party B's rational best interests to behave in a way that is consistent with Party A's welfare.

As a developmental process, earlier trust - rational expectations - provides a confirmation of the validity of trust, though it is partial and quite fragile. The continuance of earlier trust allows relative unfamiliar firms to become sufficiently relaxed to begin further interaction and develop their relationships into later trust. Therefore, inspired by Young-Ybarra and Wiersema (1999) and Lewicki and Bunker (1995; 1996), *later trust* is defined in this research as predictability – knowing the other sufficiently well so that the other's behaviour is

anticipatable; and having faith - believing that the other will not act opportunistically in the mature IJV after the dateline of four years experience of the IJVs existence within its trust maintenance or development period. Later trust shares some similarity of cognition-based trust (Lewis and Wiegert, 1985, McAllister, 1995); and an aspect of later trust is what Lewicki and Bunker have termed as 'knowledge-based trust'. Later trust amplifies information that accumulates over time through repeated interactions, making the parties' behaviour more predictable. It is developed through frequent contact and communication. The social embeddedness of *guanxi* in China provides the required information.

2.2.5 Interdependence

Interdependence [or mutual dependence] is the realisation that two people or organizations are dependent on one another (Thompson, 1967; Ring and van de Ven, 1992). Thompson (1967) sees mutual dependence as reciprocal, typical of situations where outputs from organization A become an input in B and, at the same time, outputs from B become inputs for A. Thus the organizations are not only dependent but may also influence each other's actions. Interdependence does not necessarily mean that both parties are dependent on one another for the same reason or to the same extent.

One reason that international joint ventures are set up is because a partner holds particular resources that the other firm needs. This expectation for and control over particular resources indicates a dependence relationship from the other partner. To a great extent there is mutual interdependence: both partners need the other partner's resources though in different ways. Thus, interdependence shapes the economic validation for the continuation of joint ventures.

And an IJV is the formal linkage used to stabilise exchange relationships in order to manage interorganizational interdependence (Pfeffer and Salancik, 1978). However, to be dependent involves something else: the partner must control resources that are unique or of a higher value than similar resources the other firm holds.

Empirical investigation of the different expectations from the joint ventures between foreign investors and their Chinese partners in 800 joint venture in hi-tech industries located in China's new economic development zones (Yang, 2002) revealed that different expectations could be compensatory to both sides and have a positive effect on the longevity of the joint venture (as illustrated in Tables 2.2.5.1 and 2.2.5.2).

The longevity of the IJVs is closely linked to the implicit and explicit motivational intent of each partner and the presence of appropriate integrative resources. The partners may measure the level of importance attached based on the level of resources committed to the relationship and the level of commitment confirmed by senior managers. The motivational intent is manifested in the level of resources allocated to the relationship, which in turn influences the level of interdependence. The motivational intent might change over time as a function of interdependence and within this relationship, in which trust is a factor.

There is a temporal interaction between trust and dependence. Trust is expectation concerning the future. Dependence differs from trust by being formed in the present time and may therefore become a means to avoid problems in the future. When the IJVs choose to trust each other, as a consequence they become interdependent.

Interrelationship between dependence and trust is thus complex and intertwined. It varies with task, situation and the people involved. The order of events in time has an impact. Earlier actions by actors influence later ones. Trust develops stepwise in repeated encounters between the partners: Ring and Van de Ven (1992) argue that trust emerges as a consequence of interactions over time. The partners' actions towards each other and the evolvement of action processes seem to be the key to understanding parent companies and the IJVs' dependence and trust. Expectations concerning the other party, i.e. trust, could thus change substantially, leading to different types of actions than before.

2.2.6 Commitment

Morgan and Hunt (1994) propose that relationship commitment and trust are key variables for successful relationships because they promote cooperative behaviors between relationship partners and encourage them to maintain long-term relationships. They suggest that relationships characterized by trust and commitment allow partners to be more accepting of high-risk situations because each party believes that the other party will be inclined to engage in activities that are in the long-term best interests of both partners. They tested their theory on business relationships between automobile tire retailers and their suppliers, and then concluded that it was clearly supported by the data. When the IJVs enter into the same boat, the parties are committed to each other, as a trusting relationship requires a degree of commitment (Buckley and Casson, 1998).

Table 2.2.5.1: Different Expectations Between Foreign Investors and Chinese Partners

Foreign investors	Chinese partners
1 Open China's market for its products	Adopt advanced production technology
2 Overcome trade barriers	Improve R&D capability
3 Take advantage of low cost labour and materials	Open more information channels
4 Expand existing techniques from home facility	Looking for allies for international competition
5 Reduce financial risks	Add new financing source
6 Protect copyright for intellectual products	Increasing firm reputation from famous brand
7 Reduce capital input in 'investment	Utilize current and available resources
8 Access natural resource	Reduce operational risks

Source: Yang, J and Huei Lee, H (2002)

Table 2.2.5.2: Compensatory Factors Between Foreign Investors and Chinese Partners

Factors	Foreign investors' needs	Chinese partners' needs
<u>Advanced technology</u>	Promote 'its technology Protect copyright	Introducing new technology Upgrade current equipment
<u>China's market</u>	Overcome market barrier Increase market shares	Increased demand from continuing growth
<u>Labour resource</u>	High skilled labour with low cost and good ethics	More employment and job opportunities
<u>Capital resource</u>	Investment diversity and high return options upgrading	More capital for facility and technology
<u>Information channels</u>	Have established global information channel	Need connection with global business information network
<u>Global alliance</u>	New partners to expand international network	Initialise toward globalisation
<u>Incentive policy</u>	Gain tax and all other governmental incentive	Support from governmental incentive policies
<u>Global market</u>	Expand new market and improve competitiveness	Enter international market & participate
<u>Reduce risk</u>	Diversify investment and share potential risk	Improve management system and control investment risk
<u>Increase profit</u>	Invest in fast growth investment	Experience fast growth and need capital

Source: Yang, J and Huei Lee, H (2002)

2.2.7 Communication

Better communication and the more open sharing personal information are recommended for the IJVs to enhance interdependency. This interdependency creates a form of interpersonal trust (Rolland & Chauvel, 2000), leading to an upgrade of knowledge sharing and understanding, hence leading to the development of later trust. Von Krogh, Ichijo and Nonaka (2000) also recommend that partners should make trustworthy behaviour part of the performance review; and also increase individual reliability by creating a map of expectations. This view gives greater knowledge of the other's intentions, and thus enhances predictability. Sharing information supports the development of later trust within the organisation - which is very much a social activity. For example, Allen (1977) found that engineers and scientists were roughly five times more likely turn to a person for information than to an impersonal source such as a database or file cabinet. Allen researched while the prevalence of personal computers was less widespread than today, however more recently, Cross (2001) found people even with ready access to well-populated electronic and paper-based sources of information reported seeking information from colleagues significantly more frequently than from these digital sources. Generally, researchers have noted that relationships are important for acquiring information; learning how to do one's work (Lave and Wenger, 1991); and solving complex problems (Hutchins, 1991). Fortunately, social embeddedness creates such an environment for communication.

2.3 Conceptualisation of the Problem

Derived from the above discussion, our framework has meta-level connections, as it explores three phenomenons: earlier trust, later trust, and their relationships with four elements - commitment, communication, embeddedness of *guanxi* and interdependency of resources.

Figure 2.3 illustrates this conceptual framework.

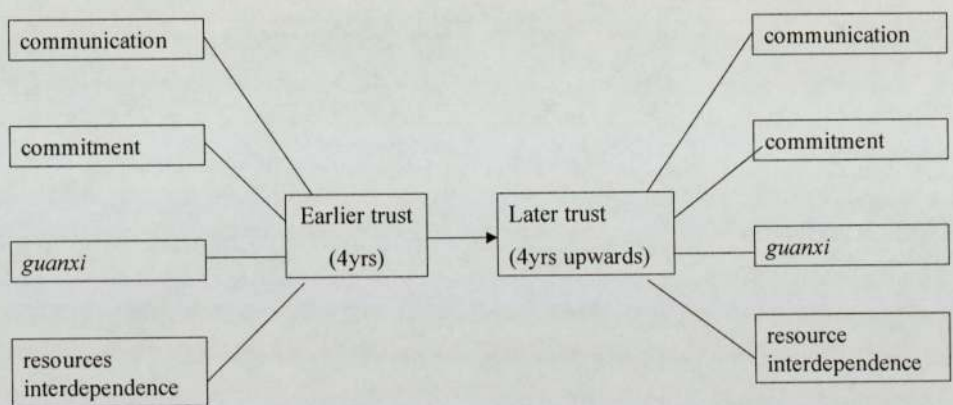


Figure 2.3 Conceptual framework

As illustrated in Figure 2.3, earlier trust and later trust are time dependent variables. Regarding the process view of trust there are three important aspects of this framework to note. First, trust matters from the very beginning and it is expected to develop gradually - but is weak in theory. It is a repeated interaction between interdependent partners. Second, the framework emphasises the need of partners involved get to know each other, while embeddedness of *guanxi*, interdependence of resources, commitment and communication among partners play their roles. In the ‘setting up stage’ till the four years dateline, earlier trust tends to be more

about the rational expectations of best interests between interdependent partners in the young IJVs, which is an independent variable in the research. The development of earlier trust depends mainly on the developmental process of joint expectations over time. Third, there are two possibilities in the later stage of the IJVs – after four years and upwards - on the one hand, if the accumulated knowledge of the other partner helped better predict the other's fulfilment of their economic expectations and build up the faith in each other, later trust may thus increase. On the other hand, if rational expectations turned out to be unfulfilled or not matched, later trust may decrease. Even so, this research proposes that commitment, communication, embeddedness of *guanxi*, and interdependence of resources between partners still have a role in the mature IJVs as later trust develops, either increasing or decreasing.

2.4 Gaps in Knowledge

Most practitioners and researchers agree that trust is one of the main concerns for partners in international joint ventures; and trust is a core concept in the development of a formal theory of international joint ventures (Parkhe, 1993). The high level of intimacy and intensity of interactions that the IJVs offer, provide a distinctive context for research on trust.

The setting for this research is laid in China, where people are said to be long-term oriented, and they expect mutual benefits from the involved partners to sustain the relationships. Sino-IJVs are created because both parties are in need of each other and they have the capability to fulfil each other's rational expectations. Naturally it is expected that trust is to be built from the outset, and that trust is important for maintaining and achieving their goals.

Trust researchers, such as: Lewicki and Bunker (1995; 1996), Lewis and Wiegert (1985), McAllister (1995), Williamson (1993) and Child (1998) have studied trust in different forms based on different theories and perspectives, but none of them have investigated trust over different periods of the lifetime of the IJVs. Young-Ybarra and Wiersema (1999) investigated trust in the IJVs context, and its relationship with flexibility, but they neglected the time indicator's influence on trust building and progress. Child (1998) proposed a model of trust evolution, from a calculation phase, to prediction, to bonding, which mirrors the development phases of international joint ventures, but his model was not explored in specific time periods of the IJVs lifetime. It is known that trust is path-dependent, and evolves over time just as the IJVs. Therefore, the examination of *earlier trust* in the young IJVs, and *later trust* in the mature IJVs during the Sino-IJVs' lifetime has considerable significances in the management philosophy and practices of the IJVs, and may supply a meaningful extension of the trust literature.

Chapter Three

Research Methodology and Methods

Methodology is a system of explicit rules and procedures, which provide rules for communication, rules for reasoning, rules for inter-subjectivity for research, hence a means for asserting how knowledge is evaluated (Nachmias, 2003). The distinction between research method and methodology is that *method* relates principally to the tools of data collection or techniques such as interviews and questionnaires, whereas *methodology* relates to the more general philosophical issues, applicable to families or approaches (Blaxter, Hughes & Tight, 1996). The latter also suggest that research methods should be considered under three successive levels

1. Research Family
2. Research Approaches
3. Research Techniques

The research families comprise:

- Quantitative or Qualitative Research
- Deskwork or Fieldwork Research

The research approaches involve:

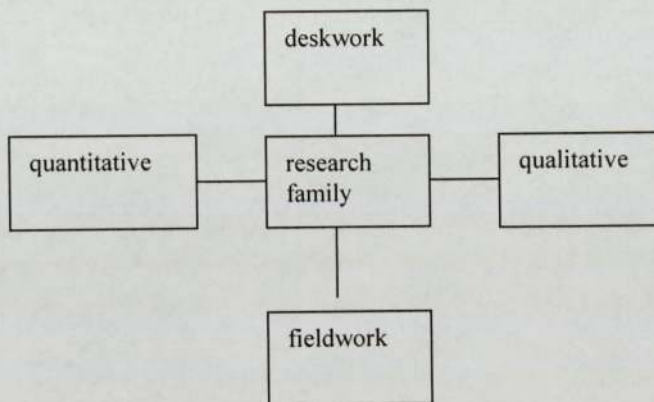
- Surveys
- Case studies
- Experiments
- Action Research

The research techniques consist of:

- Questionnaires
- Interviews
- Observations
- Documents

3.1 Research Family

Figure 3.1 The Research Family (source: Blaxter, Hughes & Tight, 1996)



Quantitative method was first used as a catchall phrase for ways of dealing with experimental observations of scientists (Dewhurst, 2002). Later it was pursued in social science research. Its designs are characterised by the assumption that human behaviour can be explained by what may be termed “social facts”, which can be investigated by methodologies that utilise “the deductive logic of the natural sciences”. These quantitative investigations look for “distinguishing characteristics, elemental properties and empirical boundaries” (Horna, 1994, p121). It involves studies in which the data concerned can be analysed via numbers. It is an

indirect and abstract form of research, which treats experiences as similar, and amenable to mathematical analysis to make judgements. The use of questionnaires can be seen as a quantitative strategy whereas interviews and observations might be thought of as qualitative techniques. However, some structured and well-analysed interviews could also be regarded as belonging to the quantitative family, just as some open-ended questionnaires would be regarded as part of the qualitative family.

Qualitative research designs are those that are associated with interpretative approaches, from the participants' point of view, rather than automatically measuring discrete, observable behaviour. Observation, conversing, participation and interpretation are the fundamental aspects of qualitative research (Shank, 2002). Further, qualitative research is much more concerned with depth while generalizability is most often a push toward breadth (Shank, 2002). Qualitative method is an interactive process in which the event or object or person being studied is the one which produces or delivers materials or statements.

Deskwork looks up a process, which does not involve going out into the field. It is concerned with those activities, which are performed while sitting at a desk, such as literature review, experiments and laboratory work, analysis of data, administration, etc.

Fieldwork refers to the process of 'going out to the fields' where research events, data and materials can be collected. This includes visiting colleagues in other organisations, contacting other people and organisations, attending meeting and seminars.

3.2 Research Approaches

Surveys are a method of collecting data by asking a set of pre-formulated questions in a structured manner. Usually, questionnaires are designed and sent to a sample of individuals drawn from a representative or defined population.

Case studies operate a combination of methods such as personal observation, the use of informants for current and historic data, interviewing, the tracing and study of relevant documents.

Experiments are at the heart of scientific methods, with its practice of formulation and testing hypotheses through carefully designed and controlled tests. Essentially these experiments look for repeatability to verify findings.

Action research is the study of a social situation with a view to improving the quality of action(s) within it. Action research is common for those working in professional areas with the aim of implementing the outcome of the research in their work place.

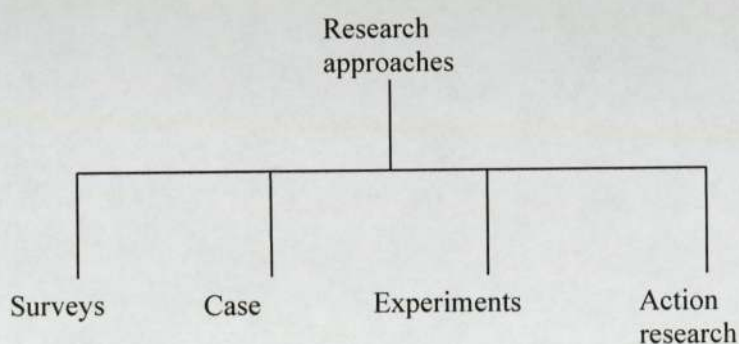
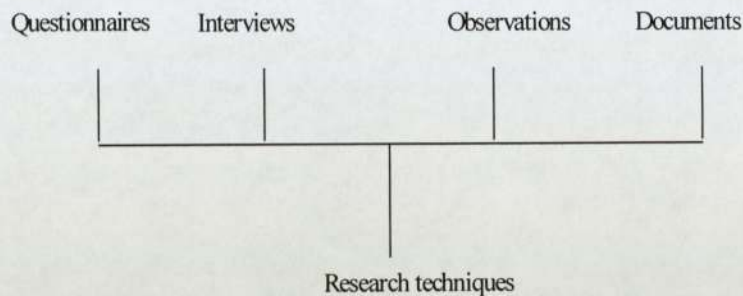


Figure 3.2 The Research Approaches (source: Blaxter, Hughes & Tight, 1996)

3.3 Research Techniques

Figure 3.3 Research Techniques (source: Blaxter, Hughes & Tight, 1996)



Questionnaire method is widely used in social research: it can be administered in a number of ways. This method can be conducted on a face-to-face basis, or over the telephone, as with interviews, or it can be posted to the intended participants who would be expected to complete by themselves all the questions and return it in a pre-addressed stamped envelope (self-administered questionnaires). Self-administered questionnaires have certain advantages over other methods. In the first place, they are cheaper, especially where a large number of participants spread geographically. Second, they are quicker than interviews in the sense that the questionnaires can be distributed in a large numbers at a time.

The questionnaire method has disadvantages of low response rate and also an uncertainty about the true identity of the person who completed the questionnaire. There is also doubt about the time of posting and there is no requirement usually for a signature. These downturns puts pressure on the researcher to make the research questions very clear and understandable since there would be no one to explain the questions (if needed) and answer any queries the respondent might have.

Interviews begin with the assumptions that the perspective of others can be captured in meaningful way, made knowable, and are able to be made explicit. Patton (1987) concluded there are three different types of interviews:

1. *Informal conversational interview* in which questions emerge from the immediate context and are asked in the natural course of things; there is no predetermination of question topics or wording. This type of interviews can be matched to individuals and circumstances, but data organisation and analysis can be quite difficult.
2. *Interview guide approach*: topics and issues are covered and outlined in advance. It increases the comprehensiveness of the data and makes the data collection somewhat systematic for each respondent, but important and salient topics may be inadvertently omitted.
3. *Standardised open-ended interview*: Participants answers the same questions, thus increasing the comparability of responses. It permits users to see and review the instrumentation used in the evaluation but there is little flexibility in relating the interview to particular individuals and their circumstances.

Observation method is used to monitor events. It requires the researcher to be involved in watching, recording and analysing the said events. It is time consuming, since the observer will not only spend time observing and recording the events but he/she must later spend additional time to analyse and interpret what was recorded.

Document method is involved in almost all research programmes from time to time. In most cases, the focus of data collection is on documents of various kinds. This can come in the form of hard copy of original data; secondary data and/or hard copy of data analysed by another source; or even a company's annual report, journals, government white paper, etc. Documentary evidence is very useful as secondary data complements primary data, confirms or contradicts research findings, and also keeps the researcher informed of work already done or on-going in the area.

Connecting families, approaches and techniques does not mean that every research project would fall into just one of these classifications. This research project employed a few aspects which are discussed below.

3.4 Methods and Methodologies Employed in This Research

The research methods and methodologies used in this research are discussed under three headings. This is because they were applied at different times and for different purposes and the methods used for collecting data are different from those used for the analysis of data. The headings for discussion are as below:

Research Design

- The objectives of exploration
- Hypotheses generation
- The sample population
- Quantitative research
- Operationalization of the variables

Data Collection Process

Data Analysis Methods

3.4.1 Research Design

3.4.1.1 The Objectives of Exploration

In any research, it is the nature of the research that determines the selection of tools and not the converse – i.e. not the selection of tools which determine the nature of research. The objectives of this research were -

- To see whether the mean score of earlier trust increases through the first four years in the young IJVs.
- To see whether the mean score of later trust changes after the four years dateline in the mature IJVs.
- To find out if earlier trust has positive relationships with commitment, communication, embeddedness and interdependency of resources through the first four years in the young IJVs.
- To find out if there are any changes in the relationships between later trust with commitment, communication, embeddedness and interdependency of resources after four years since formation in the mature IJVs in comparison to the early stages with its earlier trust.

In order to achieve these objectives, the researcher undertook the following:

3.4.1.2 Discussion

At the preliminary stage of the research process, the researcher engaged in discussions with supervisors, and other researchers as one of the means of establishing what focus of this

research was all about. These discussions were not structured. They usually took place at social gatherings, private homes, over the telephones and via e-mails. They helped in generating ideas and concepts before the more structured methods were employed. Importantly it was acknowledged that this was to be an exploratory research. Thus, although as much data as possible was to be collected (see discussion following), the analyses would be undertaken on aggregate data to ascertain if there were any significant findings at that level. If these were so, more detailed research would be undertaken later.

3.4.1.3 Hypotheses Generation

In order to explore the two categories of *earlier* trust and *later* trust over time, the research firstly looked at Transaction Cost Theory (TCT) and social exchange theory. Kogut (1988) and Hennart (1991) have applied TCT to explain the existence of joint ventures based on asset specificity and the respective asset and resource exchange transactions. And Nooteboom (1996) has used social exchange theory as a starting point for examining related areas such as commitment, trust, and affective ties. Johnson & Mattson (1987) also suggested that the result of exchange, which leads to mutual adaptation, entails investment in a relation, so bonding between the actors develops, trust is generated, and a lasting relation emerges. Secondly, embeddedness of *guanxi* was considered, since the types of social relationships within embedded network ties may influence the types of trust available (Granovetter, 1985; Uzzi, 1996). Finally, the interdependency of resources was considered because interdependence forms the economic validation for the continuation of joint ventures. As mentioned in Chapter Two: 2.2.3 'Trust in this Research', the researcher adopts the definition of trust defined by Young-Ybarra and Wiersema (1999) which is dependability (refers to expectations that the

partner will act in the partner's best interests), predictability (refers to consistency of actions by the partner), and faith (refers to belief that the partner will not act opportunistically, even in novel or unforeseen situations) and they investigated trust by employing transaction cost economics and social exchange theory approaches in strategic alliances and international joint ventures. With similar theoretical approaches and a similar setting, the researcher herein is sure it is the most appropriate definition for this research, however trust in their research was not explored under different time periods during the lifetime of the strategic alliances. They did not meaningfully determine their definition of trust in the context of a strategic alliance's lifetime. The researcher believes that trust may be characterised differently in different time periods of an IJV. Furthermore, they didn't display their full questionnaire, hence the researcher created a questionnaire to collect data with all the 32 questions listed randomly. The questionnaire was designed specifically for this research purpose in which the statements are constructed based on Larry Cummings & Philip Bromiley (1996), Aks Zaheer and his colleagues (1998) and Daniel McAllister (1995) (details seen in Chapter Three: 3.4.1.5). The questionnaire had 7 Likert scales - nine questions (multi-item) were asked in each section on 'trust' because measures with more items are more reliable (Nunnally, 1978, quoted from Brookes, 2006), this can be referred to the figure below.

The nine questions regarding earlier trust were focusing on dependability, which is the expectation that the partner will act in the partner's best interests.

Earlier trust

Measure	Items	Resource	Cronbach's alpha
Earlier trust (scale 1-7: Strongly disagree - Strongly agree)	We have found that our partner company is unusually dependable from the very beginning.	Young-Ybarra, C. & Wiersema, M. (1999)	0.69
	The partner firm in our alliance can be trusted to make sensible IJV decisions	Daniel McAllister (1995)	
	Both parties in our alliance have a high level of mutual trust in various activities.	Aks Zaheer & his colleagues (1998)	
	Both parties in our alliance can rely on each other to abide by the alliance management agreement	Aks Zaheer & his colleagues (1998)	
	We worry about the success of joint projects with our partner company	L.L. Cummings & Philip Bromiley (1996) <i>The Organisational Trust Inventory</i>	
	We think our partner meets its negotiated obligations to our organization	L.L. Cummings & Philip Bromiley (1996) <i>The Organisational Trust Inventory</i>	
	We plan to document all aspects of our negotiations with our partner	The researcher	
	We feel that our partner negotiates joint expectations fairly.	L.L. Cummings & Philip Bromiley (1996) <i>The Organisational Trust Inventory</i>	
	We each are constantly seeking partnering opportunities.	Lewicki, R.J. and Bunker, B.B. (1995)	

The nine questions concerning later trust related to predictability or consistency of actions by the partner, and faith refers to belief that the partner will not act opportunistically, even in novel or unforeseen situations, see the figure below.

Later trust

Measure	Items	Resource	Cronbach's alpha
Later trust (scale 1-7: Strongly disagree - Strongly agree)	When we encounter difficult and new circumstance, my company does not feel worried or threatened by letting our partner company do what it wants	Young-Ybarra, C. and Wiersema, M. (1999)	0.72
	My company is familiar with the patterns of behavior our partner company has established, and we can rely on them to behave in certain ways.	Young-Ybarra, C. and Wiersema, M. (1999)	
	The partner firm always stands by its word even when this was not the best interest for it.	L.L. Cummings & Philip Bromiley (1996) <i>The Organisational Trust Inventory</i>	
	The partner firm never uses opportunities that arise to profit at our expense	Daniel McAllister (1995)	
	Both parties in our alliance have a high level of mutual trust in various activities.	Aks Zaheer and his colleagues (1998)	
	Both parties in our alliance can rely on each other to abide by the alliance management agreement	Aks Zaheer and his colleagues (1998)	
	We think we can accurately predict what the partner firm will do.	Lewicki, R.J. and Bunker, B.B. (1995)	
	We feel that the local/foreign manager takes advantage of people who are vulnerable.	L.L. Cummings & Philip Bromiley (1996) <i>The Organisational Trust Inventory</i>	
	We feel comfortable about our partner's willingness to stick to our schedule	L.L. Cummings & Philip Bromiley (1996) <i>The Organisational Trust Inventory</i>	

Literature has revealed that trust follows the developmental process suggested by Lewicki and Bunker (1996) and Child (1998), the researcher propose a two-stage trust model which is the focus of this research on “*earlier trust* and *later trust*” in young IJVs and mature IJVs between pre-four years and post-four years. Earlier trust - rational expectations - provides a confirmation of the validity of trust, though it is partial. The continuance of earlier trust allows relative unfamiliar firms to become sufficiently relaxed to begin further interaction and

develop their relationships into later trust. Later trust intensifies information that accumulates over the first four years in the young IJVs through repeated interactions, making the parties' behaviour more predictable. It is developed through frequent contact and communication, and the social embeddedness of *guanxi* in China.

Having integrated the developmental idea of trust and that IJVs would live a life longer than research its development takes time which would create differences as time passes in theory, and earlier trust is the precondition of late trust, the researcher's logic was that if earlier trust decreases, there is not a chance for later trust to happen, therefore the researcher proposed the following two major hypotheses.

H1. The mean score of earlier trust increases through the first four years since establishment in the young IJVs.

H2. The mean score of later trust changes after four years have passed since the establishment in the mature IJVs.

The researcher also developed eight sub-hypotheses as follows based on the literature review and the supporting theories in Chapter Two. Literature in trust research disclosed that these four elements – *guanxi*, communication, resource interdependence and commitment have a connection with trust, but no investigations have looked at their relationship with trust in different time period in the IJVs. The eight sub-hypotheses explored these four elements that might support or might not support the development of earlier trust and later trust between the pre-four years and post-four years in the IJVs' lifetime.

H3a. *Guanxi* correlates positively with earlier trust.

H3b. *Guanxi* correlates positively with later trust.

Guanxi is a specific form of embeddedness practised in China. *Guanxi* can be envisaged as the cultural glue that holds people and networks together (Luo, 2000) and can be treated as social capital in China: it may be characterised by durability, or even “harder” connectivity (Ambler and Styles, 2000). China is often portrayed as a “relational society” (Styles and Ambler, 2003) with long-term orientation. Thus Styles and Ambler (2003) suggested that Chinese gradually apply *guanxi* and commitment (relational commitment and financial commitment) with new partners. *Guanxi* related activities require an in-depth knowledge of relational partners and their needs. *Guanxi* is significant for the development of inter-organizational relations in which the actors have no other foundation on which to establish trust in a society, like China, where social trust is relatively low and characterized by a particularistic culture. Even the effort for the minimum trust that a business alliance requires, which is normally taken for granted in the Western legal context, can be a difficult to achieve and is a time-consuming process in the Chinese-Western business context (Möllering, 2000). Therefore, the researcher decided to look into three aspects of *guanxi* in China, which defined the concept of *guanxi* in this research, to explore whether *guanxi* support the development of earlier trust and later trust. The following three questions were asked in the questionnaire to collect data for *guanxi*.

Guanxi

Measure	Items	Resource	Cronbach's alpha
<i>Guanxi</i> (scale 1-7: Strongly disagree - Strongly agree)	The industry of your firm is highly related to the industry of your foreign parent firm.	The researcher	0.69
	The changes of the industry of your firm are highly related to the policies of the China government.	The researcher	
	The changes of the industry of your firm are highly related to the support of the local government.	The researcher	

The researcher designed these questions based on the literature review and the knowledge as a Chinese.

Here in the above figure, question 1 was to find out the relation between the two partners and their market potential locally and internationally. Question two was to unearth the influence of the central government on the industry. Question three was to uncover how important the local government's support is. In China, these three aspects are important for a business to develop, so *guanxi* should have a positive correlation with earlier trust and later trust.

An IJV is the formal linkage used to stabilise exchange relationships in order to manage interorganizational interdependence (Pfeffer and Salancik, 1978). In an IJV, both partners need the other partner's resources though in different ways, hence, interdependence shapes the economic validation for the continuation of joint ventures. Ring and Van de Ven (1992) argued that trust emerges as a consequence of interactions over time. The partners' actions towards each other and the evolvement of action processes seem to be the key to understand parent companies and the IJVs' dependence and trust. Expectations concerning the other party, i.e. trust, could thus change substantially, leading to different types of actions than before. Therefore, the research intended to investigate the relationship with earlier trust and

later trust in two different times during the life-time of the IJVs with five questions which are essential to the continuation and development of the IJVs , details of the questions seen in the following figure.

H4a. Interdependence of resources correlates positively with earlier trust.

H4b. Interdependence of resources correlates positively with later trust.

Resource interdependence

Measures	Items	Resource	Cronbach's alpha
Resource interdependence (scale 1-7: Strongly disagree -Strongly agree)	The Chinese party relies strongly on the foreign party's technological or organizational skills, foreign capital resources.	Inspired by Daniel McAllister (1995)	0.82
	The foreign party relies strongly on the Chinese party's marketing, experience, and relations with government's resources.	Inspired by Daniel McAllister (1995)	
	Together we have invested a great deal in building up our joint business.	Aks Zaheer and his colleagues (1998)	
	Both of us have made a great deal of investment in this relationship.	Aks Zaheer and his colleagues (1998)	
	We each have separate ability that, when combined together, enable us to achieve goals beyond our individual reach.	Inspired by Young-Ybarra, C. and Wiersema, M. (1999)	

When the IJVs ‘enter into the same boat’, the parties are committed to each other as a trusting relationship requires a degree of commitment (Buckley and Casson, 1998). And relationship commitment and trust are key variables for successful relationships (Morgan and Hunt, 1994). Thus, the researcher intended to find out the relationship of commitment with earlier trust and

later trust in the young IJVs and the mature IJVs, which were defined in the questionnaire with four questions to test the following hypotheses as commitments are key for the success of IJVs in a trusting relationship, they should have a positive correlation with both earlier trust and later trust, hypotheses and details of questions for data collection are followed.

H5a. Commitment correlates positively with earlier trust.

H5b. Commitment correlates positively with later trust.

Commitment

Measure	Items	Resource	Cronbach's alpha
Commitment (scale 1-7: Strongly disagree - Strongly agree)	The foreign party always provides more contributions to the IJV after local party did so.	Inspired by Aks Zaheer and his colleagues (1998)	0.72
	The Chinese party always provides more contributions to the IJV after foreign party did so.	Inspired by Aks Zaheer and his colleagues (1998)	
	Our party is reluctant to make resource commitment to the IJV when specifications in the alliance agreement is ambiguous	Inspired by Aks Zaheer and his colleagues (1998)	
	We feel we cannot depend on our partner to fulfill its commitments to us.	L.L. Cummings & Philip Bromiley (1996) <i>The Organisational Trust Inventory</i>	

Better communication and the more open sharing personal information are recommended for the IJVs to enhance interdependency, hence, trust. This interdependency creates a form of interpersonal trust (Rolland & Chauvel, 2000). Does communication's change affect the development of earlier trust and later trust in the lifetime of the IJVs? The researcher used two questions in the questionnaire to collect data for answers to the hypotheses below. The participants were to answer these two questions:

Communication

Measure	Items	Resource	Cronbach's alpha
Communication (scale 1-7:Strongly disagree-Strongly agree)	We always keep the other party informed about events and changes that may affect the other party.	Young-Ybarra, C. and Wiersema, M. (1999)	0.70
	We feel that our partner is straight with us.	L.L. Cummings & Philip Bromiley (1996) <i>The Organisational Trust Inventory</i>	

H6a. Communication correlates positively with earlier trust.

H6b. Communication correlates positively with later trust.

3.4.1.4 The Sample Population

In line with the research objectives, the target population for testing the hypotheses included all forms of the IJVs that have experienced a cooperation relationship for more than six years (to allow for some maturity after the four-year deadline has passed). A sample frame was first categorised as table 3.4.1.4-1 below.

Table 3.4.1.4-1 Characteristics of Intended Companies

Characteristics	Description
1	All equity /co-operation IJVs with a foreign parent and a Chinese parent, which have had an IJV relationship for more than six years.
2	Both of the Chinese parents and the foreign parents have been in the same industries before they enter these IJVs.
3	Located in the Pearl River Delta economic zone (PRD), close to Hong Kong in Southwest China, which is one of China's leading economic regions and a major manufacturing centre.
4	Responding to the major sectors in this area (table 3.4.1.4-3), which are automotive, telecommunications, electronics and agro-based industries respectively.
5	Excluding those IJVs that have Taiwan as parent companies.

When the target population of the IJVs was categorised, the researcher followed the method of nonprobability snowball sampling to collect quantitative data for this exploratory survey since hard-to-identify groups and the total population listing is not fully available. The target population of the IJVs must meet the above eligibility criteria, so the researcher excluded those that are not IJVs; those IJVs that are too recently established with less than six year relationships of the IJVs; those IJVs that are not in Southwest China; those IJVs that have Taiwan as parent companies.

Table 3.4.1.4-2 Information of the Seven IJVs

Company	Foreign Ownership	Chinese Ownership	Size	Sector
1	39%	61%	300 employees	Telecommunications
2	65%	35%	250 employees	Telecommunications
3	45%	55%	500 employees	Automotive
4	49%	51%	400 employees	Electronics
5	45%	55%	800 employees	Sugar Refinery
6	45%	55%	800 employees	Sugar Refinery
7	90%	10%	1000 employees	Sugar Refinery

Table 3.4.1.4-2 shows some information of the seven IJVs in the sample population. They are those IJVs that were built on the foundation of Chinese state-owned enterprises of long history who had good accesses to the national markets and they were in the same industries as what they continue to produce in the IJVs. They had their own technicians and management systems but were in need of new financing sources to make the most of current and available resources. They wished also to adopt advanced production technology and it was known that foreign companies wished to enter China's market, to take advantage of low cost labour and materials and to expand existing techniques in the same industries from their home facility into China. All these seven foreign companies would be relying on a Chinese partner to deal with the significant aspects of the complex Chinese environment, the relations with

local and central governmental authorities, and their natural advantages in dealing with the local workforce, and so on.

Therefore, in these IJVs' cases, both the Chinese and the foreign companies have actually taken "high-trust" strategies (Child, 1998) in their cooperation relationships, which require mutually acceptable economic calculus or fair expectations. Thus if the requirements within the initial calculative stage can be met, the higher involvement of the partners makes it quite probable that their relationships can move onto a deeper foundation or, sadly, vice versa.

The sample population consisted of seven IJVs that are located in Southwest China - the Pearl River Delta economic zone (PRD) - which is one of China's leading economic regions and a major manufacturing centre. They are in automotive, telecommunications, electronics and agro-based industries respectively and respond to the major economic sectors in this area as shown by an economic survey of the region table 3.4.1.4-3 below.

These IJVs with a foreign parent and a Chinese parent have had co-operation relationships for more than six years, which indicate that they are all now in their maturing stage. Their first four years' cooperation period is defined as 'young' IJVs; then the 'young' IJVs enter into their maturing cooperation relationship, which is defined as mature IJVs.

The life-time of the IJVs of the research was split in line with the fieldwork findings derived from conversations with managers, and professional researchers in the IJVs area to below and above four years, categorising data which derive from the first four years of the IJVs operations as 'early', and after four years as 'late'. The start-up date of the cooperation of the

IJVs is a ‘critical event’, so this defined the beginning of the ‘early’ time zone. The selection of the ‘four year’ border to define the subsequent ‘late’ period was based on the assumption that most of the IJVs would start to produce and gain profits in their maturing phase (presumed to be after four years) and yet it was a practical choice (a) to allow enough time to go by allowing any ‘critical’ changes in working practices to develop and lead to maturity, and (b) not be so long a time since the start-up as to fall beyond the life-span of the IJVs.

Table 3.4.1.4-3 Performance of the ‘9 Pillar’ Industries in 2004

Industrial Output Value of 9 Industries	Gross Output (US\$ bn)	Proportion (%) in the Gross Industrial Output above Designated Size
All nine Industries	242.4	75.1
Three Fresh Industries	170.0	51.4
Electronic Information	90.1	27.9
Electric Equipment and Special Purposes Equipment	46.3	14.3
Petroleum and Chemistry	29.6	9.2
Three Traditional Industries	53.7	16.6
Textile and Garments	22.2	6.9
Food and Beverage	18.6	5.8
Building Materials	12.9	4.0
Three Potential Industries	22.7	7.0
Logging and Papermaking	7.7	2.4
Medicine	2.9	0.9
Motor Vehicle	12.1	3.8

Source: PRD Economic Profile www.tdctrade.com

3.4.1.5 Quantitative Research

Quantitative methods are research methods handling numbers and aspects that are measurable. The objective of quantitative research is to develop and utilize mathematical models, theories, and hypotheses concerning natural phenomena. The process of measurement is at the core of quantitative research because it provides the fundamental link between empirical observation and mathematical expression of quantitative relationships.

A quantitative research design allows flexibility in the treatment of data in terms of comparative analysis, statistical analysis, and repeatability of data collection in order to verify reliability. With survey questionnaires, the data concerned can be described numerically. The strengths of this approach may be summarised as follows:

Strengths
More objective in reliability and validity
Strong in measuring descriptive aspects
Allow replication and comparison
Utilise the deductive logic of the natural sciences

Quantitative research methods to measure trust requires participants to report how they perceive a specific other actor/s. The instruments used are predominantly compound Likert scales (Zaheer and Venkatraman, 1995). While the questionnaire was designed specifically for this research, the kinds of statements (questions), which usually reflect the context of the relationship are found in ...

- a) Larry Cummings & Philip Bromiley (1996) who designed the *Organisational Trust Inventory* to be used throughout organisations. Their items are phrased in somewhat general terms, for example: 'In our opinion, is reliable.'
- b) Aks Zaheer and his colleagues (1998) studied interorganizational relationships. They included items such as 'Supplier X has always been even-handed in its negotiations with us.'
- c) Daniel McAllister (1995) measured the perceptions between colleagues at work and so included items like: 'I can talk freely to this individual about difficulties I am having at work and know that s(he) will want to listen.'

Even though there are basic similarities between many trust measurement scales, it needs to be acknowledged that there are good reasons for why researchers keep constructing and validating new scales (Mayer and Garvin, 2005, quoted from Möllering, 2006). In particular, as long as there is no single generally accepted and universally applicable definition of trust and its concomitant constructs, researchers will adjust their scales and methods to the specific conceptualisation of trust that they favour, or to the individual context that they research on. Moreover, some researchers look for the challenge of improving on existing scales by replicating them and /or comparing them with refined, extended, shortened or if not modified versions (Möllering, 2006).

3.4.1.6 Operationalization of the Variables

The researcher utilized multi-item rather than single-item statements to operationalise the research variables, for instance, nine questions were asked instead of just one regarding earlier trust towards their partner company. This is the logic of 'domain sampling' (Judd et al, 1991, quoted from Brookes, 2006) and the implications are that measures with more items are more reliable (Nunnally, 1978, quoted from Brookes, 2006). In order to guarantee the internal consistency reliability of multi-item statements, Cronbach's coefficient alpha was tested before the questionnaires were sent out to participants.

Hypothesis 1 was investigated by measuring 9 aspects to gain information about earlier trust yielding an internal consistency reliability of 0.72 suggesting a good reliability in this scale of nine items. These nine aspects covered the detailed contents of what earlier trust is in this research for the purpose of the research as seen in 3.4.1.3 , and participants were asked these

questions in both questionnaire 1 and questionnaire 2 (see below for a note upon the operationalisation of the two questionnaires). Nine aspects were designed to explore hypothesis 2, its alpha was 0.69 suggesting acceptable reliability in this scale of nine items; the nine aspects gave details about what is later trust in this research as seen in 3.4.1.3 - raised in both questionnaire 1 and questionnaire 2.

Other questions were to measure those aspects that are supposed to collate with these two types of trust, such as resource interdependence, commitment, communication and *guanxi*.

The reliability of the scale of resource interdependence was tested by calculating a set of five relevant questions (Cronbach's alpha was 0.82), commitment with a scale of four items (Cronbach's alpha was 0.72), communication with a scale of two items (Cronbach's alpha was 0.70), *guanxi* with a scale of three items (Cronbach's alpha was 0.69).

The questionnaire was designed to determine the nature of trust in the young IJVs and in the mature IJVs. It was felt that the success of the questionnaire might be affected by the initial reaction of the receiver to the topic so it was crucial that the questionnaire should be well presented and should contain the minimum number of sensitive words like "trust", and the minimum number of open-ended questions.

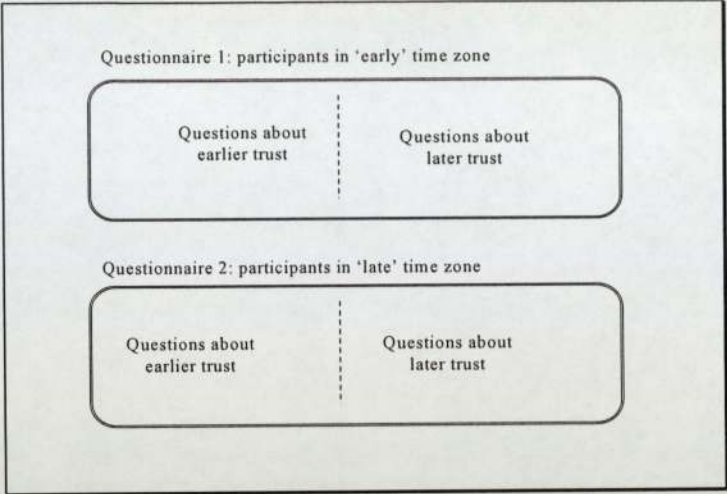
Initially a questionnaire of 67 questions was designed with respect to trust (in general), earlier/later aspects, predictability (of the partner) etc., and *guanxi*. The English language questionnaire was translated into Mandarin and back translated. Then the Chinese document was sent to a few professionals working in the IJVs in China and it was also piloted in the UK

with Chinese managers. This was to clarify whether the questions were answered in the way intended, so that meaningful inference could be made from the data. Several questions were dropped and others re-grouped. The resulting 32 questions were grouped in line with the feedback of piloting (having concern to the face validity and content validity).

Finally two questionnaires were constructed. It is important to remember that each questionnaire was identical to the other, but the participants were to place themselves in a different time zone as they responded to each. Initially participants were to set themselves back in time to the early days of the IJVs when 'earlier' trust was developing and they could only imagine what the future (later trust) might hold as they answered questionnaire one which measure earlier trust, later trust and other four elements pertinent through the first four years in the young IJVs. The second questionnaire which measure later trust, earlier trust after the four-years dateline as well as other four elements in the mature IJVs was to be answered from the present time zone following the 4-years watershed. Now participants were to answer what 'earlier' trust was like in retrospective way and to reflect on later trust as it is perceived in the present time, (see table 3.4.1.5).

The questionnaire is presented in Appendix 1.

Table 3.4.1.5 Different Time Zones for Answering the Questionnaires



3.4.2 Data Collection Process

The researcher employed three methods to collect quantitative data:

- 1. Collected on site.
- 2. Posted back by participants’ firms
- 3. Obtained by email directly from participants.

The three methods to collect data may result in slightly different responses because the second and the third methods could cause uncertainty within the minds of those who actually answered the questionnaires, while the ‘on site’ mode allowed the researcher to answer any queries as they arose. Further, the questions may not be answered honestly because of the highly sensitive nature of the data required. The participants may worry that their opinions were attributed to other particular organisations or individuals. To avoid these biases, the researcher guaranteed to keep all data in a confidential manner. These potential biases were noted above in ‘Methodology’.

The three methods were employed in the following order:

First, the questionnaires were faxed to those targeted companies to allow in-firm organisers to think about what they could do to support the research before the researcher started the journey from the UK. Then, with the support of the senior executives, ten participants or so of each company were selected at random from each company including presidents and managers. After a plenary introduction by the researcher to the research purpose and the requirements of answering questionnaires, the participants sat around and filled in both questionnaires one after another: the participants were told to place themselves in different time zone as they responded to each questionnaire. Initially they were to set themselves back in the early time zone of the young IJVs when 'earlier' trust was developing and they could only imagine what the future (later trust) might hold. The second questionnaire was to be answered in the late time zone with a retrospective consideration of the first four years' relationship in their company's lifetime to the present day (see table 3.4.1.5). Participants were allowed to discuss and to ask whatever questions concerning the questionnaires of the research. Within half an hour, all the participants had completed the questionnaires. The response rate is 100 % for this mode.

Second, some companies received the questionnaires, but could not offer the time to gather all the managers together. The researcher was invited to interview and discuss with a key participant usually the deputy president, and it was promised that a set of questionnaires would be delivered to all potential participants, who were to answer in the required manner. The questionnaires were later collected by the company and posted back to the researcher. This

achieved an 80% response rate due to some allocated managers being away from companies at that time.

Third, the researcher e-mailed the questionnaire to companies who said they were very busy. Even so they allowed very important participants - president and deputy president - and other managers to fill in the questionnaires. Some, before they completed the two questionnaires, sent enquires about the questionnaires by e-mail and they were reassured by e-mail. After completion the managers sent the questionnaires back by e-mail. The response rate herein was 100%.

Overall 73 participants from seven IJVs represented their companies who responded to the survey. They were selected because they have been working in the IJVs at the managerial level for longer than four years and have the experience of young IJVs and the mature IJVs, they were from the electronics, telecommunications, automotive and agro-based sectors located in Southwest China; the foreign partnering firms come from the UK (4), US (1), Japan (1), and one from Thailand. Table 3.4.2 gives details of the number of directors/managers/project managers and the details of methods taken.

Table 3.4.2: Number of Participants from Each Company and Methods Taken

Company	Number of participants & (service years in the IJVs)	Data source	Origin of foreign parent
1	12(4-6)	Face to face group activity	UK
2	10(4-6)	Face to face & Post	UK
3	10(4-6)	Face to face & post	USA
4	10(4-6)	Face to face & group activity	UK
5	8(4-6)	Email	UK
6	10(4-7)	Email	Japan
7	13 (4-8)	Face to face group activity	Thailand

3.4.3 Data Analysis Methods

The researcher understands this research is conducted as an exploration, looking for indications that further research might be deserved, and is also aware that if aggregate analyses showed significant results, a larger sample size is necessary. This would allow me to disaggregate the analyses into individual companies and different sectors.

Data collected via survey questionnaires was loaded in to SPSS version 12.1. Afterwards, the data of the nine questions from questionnaire 1 named 'earlier trust 1' were aggregated and computed into one variable using the computations of SPSS version 12.1.

The formula is that: mean of earlier trust 1 = $\frac{\text{sum of nine items}}{73}$ because there were 73 participants, so the sum was divided by 73.

And then applied the same formula to the data of nine questions from questionnaire 2 named earlier trust 2.

The same method was employed to transfer and compute the nine questions for later trust 1 and later trust 2 separately into one variable, and then applied to the rest of other variables in turn - the three questions testing *guanxi*, the five questions for resource interdependency, four questions concerning commitment, and two questions relating to communication were all transferred and computed into one variable one after another. Now SPSS was ready to do further testing.

The researcher chose to use T-Test because this tool is insensitive to the population distribution being (or not) normal. Earlier, the reliability coefficient of each variable was tested

(Cronbach's alpha) and they all were found to be significant. Generally, variables in the research were all tested at the 95% confidence interval to check if any difference detected between the two groups was not simply due to chance. That is to say, to test the significance, statistics set a subjective risk level. In most social science research, the "rule of thumb" is to set the alpha level at 0.5. This means that five out of a hundred we would find a statistically significant different between the means even if there was none.

The T-test allows the researcher judge the difference between their means relative to the spread or variability of their scores when compared the differences between scores for two groups. The t-value will be positive if the first mean is larger than the second and the negative if it is smaller.

$$t_{(N-1)} = \frac{\bar{d}}{sd / \sqrt{N-1}}$$

The formula for calculating t - test is:

\bar{d} refers to mean difference between each pair of scores. To calculate this subtract each score in earlier trust 2 from that in earlier trust 1, i.e. $(X_1 - X_2)$; it is important to subtract consistently and to note any minus scores. Now add these differences, taking into account the minus signs, and then divide by the number of differences to give the mean difference. N is the number of participants with is 73; sd is the standard deviation of the differences.

$$\bar{d} = \frac{\sum(X_1 - X_2)}{N}$$

The formula for this is:

Next we need to calculate the standard deviation of the differences using the formula:

$$sd = \sqrt{\frac{\sum d^2}{N} - \bar{d}^2}$$

Or computer software such as SPSS routinely prints the significance test results showed above in the formula.

The paired-sample T-test was chosen because it allows the comparison of the mean scores before (pre-dateline) and after (post-dateline) across the questions the subjects completed. It informs the differences between the two variables for each case, and tests to see if the average difference is significantly different from zero. T-values were found to be statistically significantly different between these two mean scores through the two different time zones in line with the hypotheses H1 and H2.

The researcher foresaw this is an exploratory research – simply to evaluate whether there is the need to extend the research scope and going deeper if significant results were found. The analysis was therefore based on aggregated mean scores over all seven IJVs. However, if the sample size were larger (more time consuming, more costly) it would have been possible to disaggregate the analyses into different economic sectors and even to individual companies. For this exploratory research it was deemed that the initial risk was too great to rush to detail before establishing there was a significant effect to research.

The researcher used correlation analysis to find out if two variables may associate, or were related. The Pearson Correlation coefficient was computed to evaluate the relationships as stated in the hypotheses H3a, H3b, H4a, H4b, H5a, H5b, H6a, and H6b. The hypotheses H3a,

H3b, H4a, H4b, H5a, H5b, H6a, and H6b were tested utilising data collected from questionnaire two.

To calculate correlation is because it can inform if the relationship is a positive or negative relationship. A negative correlation means that, when one variable is higher in value, its associated variable tends to be lower. A positive correlation means that, when one variable is higher, the other variable also tends to be higher. For example, one might expect the correlation between education and income to be positive. Or a negative correlation might describe the association between the value of a computer and its age. The closer the correlation coefficient is to plus 1 or minus 1 the stronger the association.

Chapter Four

Results and Analysis

Chapter three covered the research methodology, research design, hypotheses generation, the sample population, the operationalization of variables, data collection process and data analysis methods. This chapter presents the results of the analyses of the quantitative data collected via survey questionnaires relating to the two major hypotheses and their eight sub-hypotheses developed from the theoretical framework in chapter two. Figure4.1 and figure 4.2 illustrate the assumptions used in the research. This chapter examines each of these hypotheses in turn and then discusses the results.

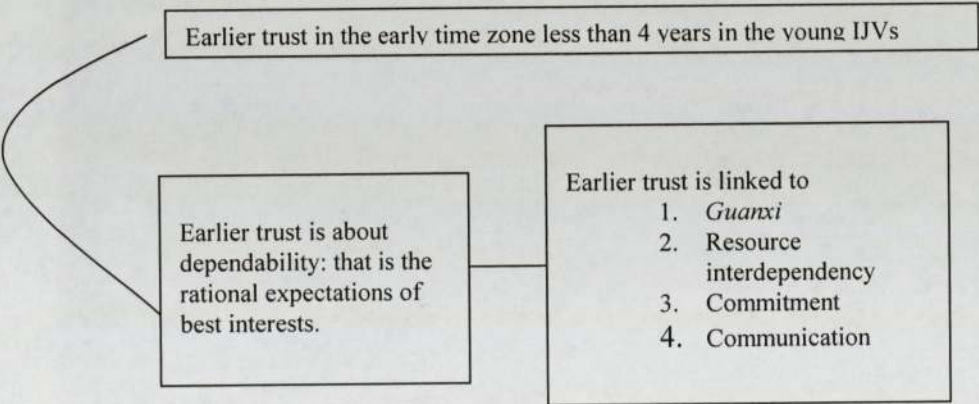


Figure. 4.1. Earlier Trust

In Figure 4.1, it is assumed that earlier trust plays an important role in the setting up of an IJV and when the IJV develops as it progress, earlier trust increases. The rationale of this

assumption rests on the socially embedded, subjective, and optimistic natures of interactions within and between the IJVs that involve trust relationships. Meanwhile resource interdependence, commitment, embeddedness of *guanxi* and communication may associate positively with earlier trust.

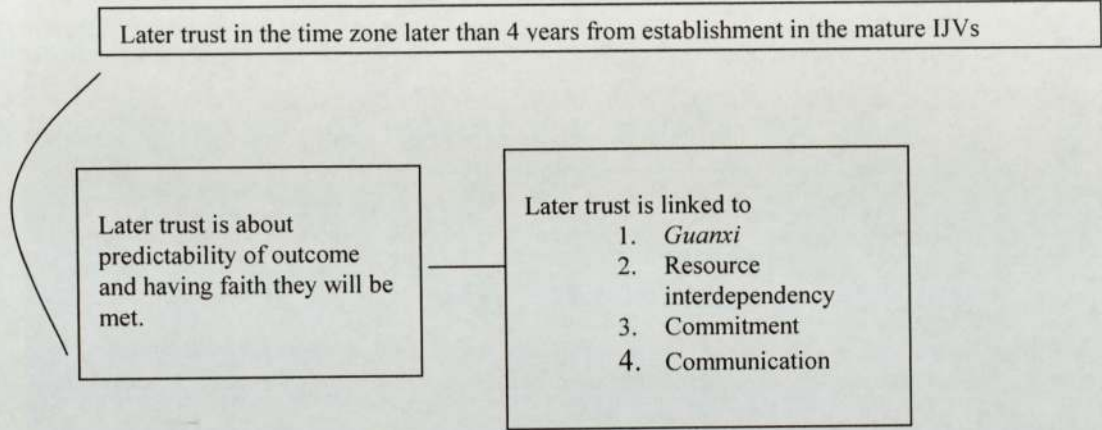


Figure. 4.2. Later Trust

In Figure 4.2, later trust changes in the mature IJVs – after four years from establishment. There are two possibilities: on the one hand, if the accumulated knowledge of the other partner helped better predict the others’ fulfilment of their economic expectations and build up the faith in each other, later trust may thus increase. On the other hand, if rational expectations turned out to be unfulfilled or not matched, later trust may decrease. Whether later trust increases or decreases, this research proposes that commitment, communication, embeddedness of *guanxi*, and interdependence of resources between partners still play their role in the mature IJVs.

4.1 Examinations of the Two Major Hypotheses

The quantitative data was collected from March to May of 2004 employing the following three methods: note the response rate were satisfactory.

1. Collected on site (100% response rate)
2. Posted back by organisers (80% response rate)
3. Obtained by email (100% response rate)

The sample population were from seven IJVs. The 73 participants responding to this survey have been with the IJVs more than four years; they have experienced earlier trust and later trust in the lifetime of the IJVs, these IJVs are located in Southwest China - the Pearl River Delta economic zone (PRD). The companies are in automotive, telecommunications, electronics and agro-based industries respectively, and their foreign parents come from the UK (4), US (1), Japan (1), and Thailand (1), details were seen in table 3.4.2 of Chapter 3.

The researcher examined hypotheses in the following order:

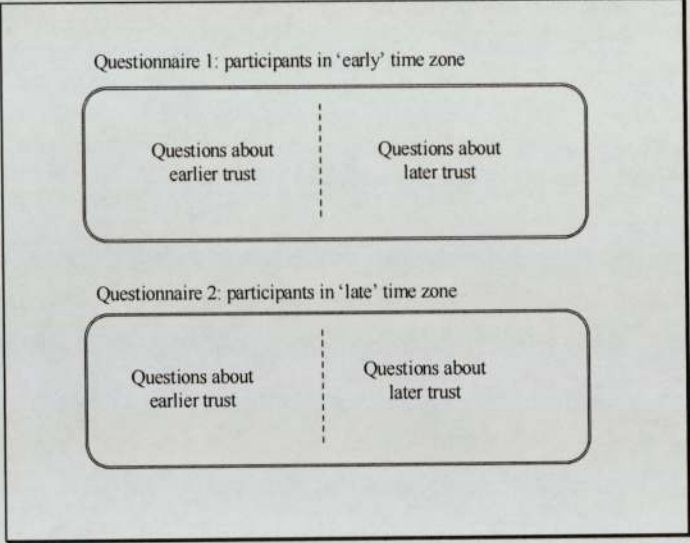
H1. The mean score of earlier trust increases through the first four years since establishment in the young IJVs.

H2. The mean score of later trust changes after four years establishment in the mature IJVs.

Remember that two questionnaires were presented to the participants, and they are identical to each other. In the first questionnaire they were asked to put themselves back to the early time zone to think 'how it was like through the first four years in the young IJVs and thus their

responses upon earlier trust were as though they actually were in the start-up phase of the young IJVs; and their responses upon later trust were in the form of ‘looking forward in time’. In the questionnaire two the participants answered the questions in a retrospective way. Thus they could review how they experienced earlier trust in the young IJVs and they can respond on how they experience later trust at the present time. The following analyses look at the changes in the perception of (a) earlier trust as seen in questionnaire one vs. questionnaire two; and (b) a similar analysis with respect to later trust.

Table 4.1 Different Time Zones for Answering the Questionnaires



4.1.1 Examination of Hypothesis 1

Chapter 3 discussed earlier trust operationalised by nine questions as in the research questionnaire (appendix 1). The questionnaire was designed with a seven Likert scale, and all the 32 questions were listed randomly. Participants had no idea which question is about earlier trust and which question is about later trust. They answered the questionnaire 1 then questionnaire 2 which were identical to each other. Earlier trust is proposed to exist from the

very beginning of the IJVs, and it was expected to build to increase within the defined 'early' period - less than 4 years from establishment in the young IJVs.

Before t-test analysis, the researcher, using computer software SPSS, first of all input the data of the nine items from questionnaire 1 about earlier trust into SPSS, got the mean score as one variable (called earlier trust 1), then computed the data of the nine items from questionnaire 2 about earlier trust to one variable – the mean score of the nine items (called earlier trust 2). Then performed paired-sample T-test. The t-value will be positive if the first mean is larger than the second and the negative if it is smaller. Computer software SPSS routinely print the significance test results. As we know when compared the differences between scores for two groups, the T-test allows the researcher judge the difference between their means relative to the spread or variability of their scores, detailed process can be referred to 3.4.3.

Table 4.1.1 indicates the results of paired-sample T-test of the mean score of earlier trust (mean = 4.6315) gained in the questionnaire one, when the participants initially cast their thoughts back to the early time zone - four years in the young IJVs when 'earlier' trust was developing. That was a lower mean score than that of earlier trust (mean = 4.9178) derived from the questionnaire two in the late time zone when participants had a retrospective consideration of the first four years' relationships in their company's lifetime. There is a positive change between these two scores gained from two questionnaires answered in different time zones, the mean difference of earlier trust disclosed by paired-samples T-test through the four years period in the young IJVs is 0.28630, and this difference is highly significant with $p < 0.001$ and $df = 72$. The result of analysis confirms the hypothesis H1.

Table 4.1.1 Output from the Paired-samples t-test
Paired Samples Statistics: Earlier Trust Through the Four Years in the Young IJVs

	Mean	N	Std. Deviation	Sig.	Std. Error Mean
Earlier trust 1	4.6315	73	0.54540	0.000	0.06383
Earlier trust 2	4.9178	73	0.53290	0.000	0.06237

Mean Differences: Earlier Trust Through the Four Years in the Young IJVs

	Mean	df	t	Sig. (2-tailed)
Earlier trust through the four years in young IJVs	0.28630	72	3.390	0.000

Examination of Hypothesis 2

Later trust is operationalised by nine questions as in the survey questionnaires (appendix 1). The process of translating the questionnaire into data, then into statistical analyses was in the same manner as the researcher used for earlier trust 1 and earlier trust 2 above.

Table 4.1.2 indicates the results of paired-sample T-test that the mean score of later trust (mean = 5.0731) gained in the questionnaire one (the participants initially set themselves back to the early four years in the young IJVs when 'earlier' trust was developing and they could only imagine what the future (later trust) might hold). This mean score was higher than that of later trust (mean = 4.5282) collected in the questionnaire two (when the participants were in the late time zone with a retrospective consideration of the first four years' relationships in their company's lifetime). There is a negative change between these two later trust mean scores gained from two questionnaires answered in different time zones. Its mean score

difference disclosed by the output of paired-samples T-test in the mature IJVs is minus 0.5449, and this difference is highly significant with $p < 0.001$ and $df = 72$. The result of analysis confirms the hypothesis H2.

Table 4.1.2. Output from the Paired-samples t-test

Paired Samples Statistics: Later Trust in the Mature IJVs						
		Mean	N	Std. Deviation	Sig.	Std. Error Mean
Pair 2	Later trust 1	5.0731	73	0.57054	0.000	0.06678
	Later trust 2	4.5282	73	0.65336	0.000	0.07647

Paired Differences: Later Trust in the Mature IJVs

	Mean	df	t	Sig. (2-tailed)
Later trust through the four years time zone	-0.54490	72	-10.349-	0.000

4.2. Examinations of the Eight Sub-hypotheses

There were 73 participants for the survey. To examine the correlation proposed in the following sub-hypotheses, the researcher only used the data gained from the questionnaire two answered in the late time zone of the IJVs (the participants reviewed ‘early’ and ‘a present-day’ retrospectively). That is to say, the researcher only used ‘earlier trust 2’ and ‘later trust 2’ from above to investigate their relationship with the four elements. Data for these four elements were also taken from questionnaire two. Before correlation analysis, the researcher, using computer software SPSS, first of all, input the data of the three items from questionnaire 2 about *guanxi* into SPSS, got the mean score as one variable (called *guanxi* 2), then carried

out correlation test. The same treatment was done in turn to other three elements. After that the correlation test followed: ‘earlier trust 2’ correlated ‘*guanxi* 2’; ‘later trust 2’ correlated with ‘*guanxi* 2’; and so on, detailed process can be referred to 3.4.3. Results can be seen in table 4.2.

H3a. *Guanxi* correlates positively with earlier trust.

H3b. *Guanxi* correlates positively with later trust.

H4a. Interdependence of resources correlates positively with earlier trust.

H4b. Interdependence of resources correlates positively with later trust.

H5a. Commitment correlates positively with earlier trust.

H5b. Commitment correlates positively with later trust.

H6a. Communication correlates positively with earlier trust.

H6b. Communication correlates positively with later trust.

4.2.1 Correlations Between Earlier Trust and *Guanxi*, Later Trust and *Guanxi*

Table 4.2 the Pearson coefficients of correlation shows the relationships between earlier trust and *guanxi*, later trust and *guanxi* in this population sample. These results of analyses are not statistically significant, and so the hypotheses H3a and H3b were rejected.

4.2.2. Correlations Between Earlier Trust and Interdependence of Resources, Later Trust and Interdependence of Resources

Table 4.2 shows the result of Pearson coefficient of correlation between earlier trust and interdependence of resources that is significant at the 0.01 level. The results also point out that interdependency of resources is significantly associated to later trust at the 0.05 level. However, interdependence of resources has a better correlation with earlier trust than that with later trust. These evidences positively support the hypotheses H4a and H4b.

4.2.3. Correlation Between Earlier Trust and Commitment, Later Trust and Commitment

Table 4.2 shows the coefficient of correlation between commitment and earlier trust, which is not statistically significant with a coefficient of 0.010. And the correlation coefficient between commitment and later trust is also not statistically significant with a coefficient of 0.110 in this population sample. These evidences are contradicted with the hypotheses H5a and H5b.

4.2.4. Correlation Between Earlier Trust and Communication, Later Trust and Communication

Table 4.2 demonstrates the results of Pearson coefficient of correlation between communication and earlier trust, communication and later trust of this sample population. These results show a strong statistically significant at the 0.01 level. The hypotheses H6a and H6b are confirmed.

Table 4.2 Pearson Correlation Coefficient: Earlier Trust/Later Trust and *Guanxi*, Resource Interdependence, Commitment, Communication

	<i>Guanxi</i>	Resource interdependency	Commitment	Communication
Earlier Trust	0.159	0.358(**)	0.010	0.595(**)
Later Trust	0.058	0.240(*)	0.110	0.443(**)

** Correlation is significant at the 0.01 level (2-tailed).
 * Correlation is significant at the 0.05 level (2-tailed).

4.3 Discussion of the Results

The results of the analyses hold important implications for organizational theories of trust and research on international joint ventures. In particular, this research demonstrates how the concepts of earlier trust and later trust can be meaningfully conceptualized at the interorganizational level. The researcher believes it is important that the concepts can be explicitly operationalised in an empirical model of trust in IJVs in Southwest China. This research makes an important contribution in this direction by conceptualizing distinct forms of earlier trust and later trust in the IJVs that are relevant to the longevity of the IJVs, and by testing the model empirically utilizing multi-items rather than single-item statements to operationalise the research variables such as: asking nine questions instead of one regarding earlier trust towards their partner firm (see appendix 1).

Table 4.1.1 shows the results of the paired-samples T-test of earlier trust through the four years of the young IJVs. The research model takes an optimistic view proposing that earlier trust in the young IJVs is a developmental process to increase trust to a level which has the function of reducing the transaction cost, enhancing the interdependence of partners, creating closer relationships, and generating commitment; and that earlier trust is the foundation of developing later trust. It is suggested that in order to create an initial atmosphere of earlier trust, the IJVs directors and managers should start by exploring the economic expectations held of each other as fairly as possible in the young IJVs. When expectations are met, earlier trust earns respect, and it may allow later trust to be developed.

The paired-samples T-test results in table 4.1.2 indicate that later trust changes negatively in the mature IJVs. The decrease of later trust in the mature IJVs implies that the accuracy of predictability of what the other partner is doing and will do is becoming lower. These findings echo Lewicki and Bunker (1995; 1996) who suggested that trust does not simply grow stronger over time but the 'frame' in which the actors consider trust changes as trust develops.

Later trust shares some similarity with cognition-based trust (Lewis and Wiegert, 1985, McAllister, 1995) and some similarity with what Lewicki and Bunker called 'knowledge-based trust'. Later trust is supposed to amplify knowledge and information that accumulates over time through repeated interactions, making the parties' behaviour more predictable, and so they have more faith in what they would meet and do. But the findings in the survey don't support this argument. It is likely that the decrease of later trust (as found) weakens the open communication channel, because the association between later trust and communication is getting weaker as the IJVs progress into maturing stage.

The results reported here illustrate the value of adopting a time-based perspective for researching earlier trust and later trust in interorganizational relations. The dynamics underlying any trust relationships are complex and multi-faceted given that both parties simultaneously occupy the roles of trustor and trustee.

While this research contributes to the understanding of the concepts earlier trust and later trust in two periods of time in the IJVs, it also reports interesting patterns of correlation between other aspects as follows -

Table 4.2 illustrates the result of Pearson coefficients of correlation between earlier trust and *guanxi*, later trust and *guanxi*. The results regarding H3a and H3b show weak relations between earlier trust and *guanxi*, later trust and *guanxi*. The correlation does not indicate causation per se, though the assertions of Thorelli (1986) and Williamson (1993) suggest that trust has been regarded as a critical component of a social or work network. Trust within Chinese networks is based on what the Chinese know as *guanxi*. It is significant within work units, and even more so for the development of inter-organizational relations in which the actors have no other foundation on which to establish trust in a society where institutional guarantees and protection are weak (Luo, 2000). There is a risk involved in offering favours through which it is hoped to build up *guanxi*. Thus trust within Chinese networks has an important basis in relational interpersonal calculus (Child, 1998). Boisot and Child (1996) further suggest that important transactions within the Chinese, business systems are governed by tacit norms and expectations which accompany these trust-based *guanxi*, rather than by the more codified rules characteristic of transactions regulated either by hierarchical rules or by laws of contract applied to market dealings more typically seen in western systems.

Table 4.2 also illustrates the results of correlation between earlier trust and interdependence of resources, later trust and interdependence of resources. These analyses support the hypotheses H4a and H4b. The findings are also supported by resource dependency theory (Pfeffer and Salancik, 1978), which suggests that interdependence shapes the economic validation for the continuation of joint ventures and is the formal linkage used to stabilise exchange relationships in order to manage interorganizational interdependence. Dependency is important at the initial stage of any IJVs. It is the reason to bring firms together in joint cooperation with each other

because of resource scarcity. But when the IJVs are getting mature, dependency becomes less important, as seen from the lower level of correlation in this maturing stage compared to that in the early stage (see table 4.2).

Table 4.2 also illustrates the results of Pearson coefficient of correlation between earlier trust and commitment, later trust and commitment. The results weakly support the hypotheses H5a and H5b. These evidences are not strong enough to support the literature as Buckley and Casson (1998) assert that a degree of commitment is required for a trusting relationship.

The findings of these two types of trust with *guanxi* and commitment are a surprise, given the earlier trust increases through the first four years since the IJVs establishment, and later trust decreases after four years in the mature IJVs. These findings call for future researches.

Table 4.2 shows the results of Pearson coefficient of correlation between earlier trust and communication, later trust and communication, i.e. H6a and H6b. The association of communication with earlier trust is stronger than that with later trust in the IJVs. These findings may explain the results of the hypotheses H1 and H2.

Earlier trust increases through the first four years in the young IJVs. This is likely because of the stronger association between open communication and earlier trust, thus open communication creates channels in the young IJVs to transmit information and knowledge. More importantly, this will enable problems to be dealt with in a timely fashion, which may enhance earlier trust. Indeed, for firms entering the IJVs, Rolland & Chauvel (2000) have recommended the IJVs to communicate and share personal information to enhance

interdependence, and this interdependence creates one type of interpersonal trust. The lowering of the correlation coefficient between later trust and communication (as found) may explain the reduction of later trust after the four-year boundary through the mature IJVs. Hence, it is important for the IJVs directors and managers to keep improving their communication between partners in order to maintain and develop both types of trust.

Conclusions and Implications

5.1 Conclusions of the Exploration

The key insights emerging from this research are that earlier trust and later trust both play their roles in the IJVs over the two periods of time since the establishment of the IJVs. Bear in mind that the research set an arbitrary dateline of four years after establishment to denote ‘early’ and ‘late’ periods, which is showed in table 5.1. It was found that

Earlier trust increases through the four-year boundary in the young IJVs.
Later trust decreases after the four-year boundary in the mature IJVs.

Table 5.1 Mean Scores of Earlier Trust and Later Trust Through the Two Periods of Time

Questionnaire 1: participants in ‘early’ time zone	
Questions about earlier trust, score = 4.6315	Questions about later trust, score = 5.0731
Questionnaire 2: participants in ‘late’ time zone	
Questions about earlier trust, score = 4.9178	Questions about later trust, score = 4.5282

Note: ‘score’ is the average of 73 participants in all cases

Trust first begins on the basis of a market-oriented, economic calculation whose value is derived by determining outcomes resulting from creating and sustaining the relationship relative to the costs of maintaining or severing it (Lewicki and Bunker, 1996). Their three-stage model suggests a “stage-wise evolution of trust” (ibid, 1996: 124) in which trust develops gradually as the parties move from one stage to another. This research reviewed trust as a two-stage model – earlier trust and later trust, and the findings suggest that earlier trust in the young IJVs develops to increase but later trust becomes weaker after four years of cooperation relationships between the IJVs’ partners. Therefore these findings echo Lewicki and Bunker (1995; 1996) who suggested that trust does not simply grow stronger over time. But trust changes over time, either increases or decreases.

Other results from this research indicate the relationships of these two types of trust with -

(a) Communication.

When earlier trust increases, it shows a stronger relationship with communication; when later trust decreases, it shows a lower relationship with communication.

(b) Interdependence.

Earlier trust has stronger association with interdependency of resources in young IJVs and later trust has a less strong association with interdependency of resources in the mature IJVs.

(c) *Guanxi*.

The results show that *guanxi* is weakly related to both earlier and later trust and these results suggest that the IJVs directors and managers maybe haven’t realised the importance of the effect of the embeddedness of *guanxi* on both earlier trust and later trust. The findings might suggest that the IJVs are not strongly related to the policies

of the China central government, and also that the IJVs are not highly related to the support of the local government, either (appendix 1 – Survey questionnaire).

(d) Commitment

The results show that commitment is weakly associated with both earlier and later trust.

5.2. Limitations of the Research

This thesis presented a preliminary framework (figure 2.3) with the categories, built upon the logic, induction and literature. From the research findings, a number of weaknesses in this original conceptual framework become obvious.

Firstly, the fundamental nature of this research is cross sectional, different industries could have different economic expectations in the young IJVs and in the mature IJVs. The researcher understands when the sample size is larger it is possible to disaggregate the analyses into individual companies and different sectors. However, this research was conducted as an exploration, looking for indications that further research might be warranted if aggregate analyses showed significant results: which it has. For the moment the analyses yield important findings that add to the literature, and to the practice of joint ventures in the Pearl River Delta region in Southwest China. It is understood that the scope of research needs to be extended to give broader results. Secondly, the time boundary (pre-four years and post-four years) drawn for the young IJVs and the mature IJVs since establishment is arbitrary. Since the longevity of the IJVs are different, this point needs further testing to ascertain whether it is the best dateline to divide earlier trust from later trust.

Finally, some of the 73 participants probably didn't answer their survey questions frankly. The researcher employed three methods to collect data, though the response rates are satisfactory. Bias in data collection could have affected the results of the analyses, especially the results that relating to the correlation between earlier trust and *guanxi*, later trust and *guanxi*. The data are not disaggregated into Chinese and non-Chinese managers and their responses are mixed together on a topic that is distinctly Chinese in origin and operation: a larger data set and disaggregation would resolve this matter. In a similar sense, aggregation may have affected the results of the correlation between earlier trust and commitment, later trust and commitment.

5.3. Future Work

The limitations provide possibilities for the future research.

- Future qualitative observation, conversing, participation and interpretation would allow the cognitive and affective components of earlier trust and later trust to be explored in greater depth.
- Some effort on a triangulation of quantitative and qualitative methods would be worthwhile to further understand the conceptualisation and relationships between earlier trust and later trust.
- A larger data set would support deeper analyses.

5.4. Theoretical Implications

This research is the first to examine the role of earlier trust and later trust in Sino-joint ventures covering two time periods following their establishment. This research makes an important contribution to theory by conceptualising the distinct forms of earlier trust and later

trust that are relevant to the longevity of Sino-joint ventures, and by testing empirically the conceptual model. The findings indicate that earlier trust in the young IJVs increases through the first four years, then later trust after the four-year dateline decreases.

These findings support Lewicki and Bunker (1995; 1996) who suggested ‘that trust does not simply grow stronger over time but the ‘ frame’ in which the actors consider trust changes as trust develops’. The results of this research have enriched the trust literature and also the management philosophy relating to international joint ventures.

Additionally, the research has examined some of the elements suggested by the literature that are associated with trust such as communication, interdependence of resources, commitment and *guanxi*, which allow a new understanding of the relationships between earlier trust, and later trust with those four elements.

5.5. Implications for Directors and Managers

The framework and findings may help remind companies of the reality of potential problems and prepare directors and managers for active problem solving. Although it is still too early to generalise a set of broadly applicable “best practices” for others to follow, it is definitely not premature to summarise lessons from the established Sino-IJVs and draw attention to the barriers that may hinder the process of the Sino-IJVs. In this sense, the findings offer a unique way of considering methods of how to ensure the longevity of Sino-IJVs.

- When a contract is signed, both parties have to “put themselves in the same boat”. As expectations about economic interests of the IJVs are alive in each party, it would be

reasonable to consider that an increase of earlier trust would be the key to fulfill the expectations relating to economic interests for each party. And also it is natural to consider that it would be a critical factor in laying a foundation for nurturing later trust. In order to maintain the initial atmosphere of earlier trust the IJVs' directors and managers should explore the expectations of economic interests held by each other as fairly as possible in the early stage of the IJVs, and work on these concepts consistently. They should rely on each other to abide by the IJVs' management agreement and constantly seek greater cooperation opportunities within their current partners to enhance interdependence of resources. This is simply because in the IJVs each party has separate abilities that when combined together enable the IJVs to achieve goals beyond their individual reach. In trying to reach each party's expectations of economic interests, earlier trust earns respect. In the young IJVs, directors and managers should communicate effectively and openly inside and outside the working setting via the embeddedness of *guanxi* - even if foreign managers do not intuitively understand *guanxi*. To do this they each ought to keep the other party informed about events and changes that may affect the other party.

- The research findings also suggest that directors and managers should be (1) known to reliably make good faith efforts to behave in accordance with prior commitments; (2) make adjustments (e.g., as market conditions change) in ways perceived as "fair" by the exchange partner; and (3) not to take advantage of an exchange partner even when the opportunity is available (Mayer et al, 1995). According to the context of the transaction theory, trust would be expected to emerge in the above situations where there is the perception of the other party being "trustworthy".

- In the mature IJVs directors and managers should keep open their communication with other partners. And they should promote the predictability of other partners and get more familiar with the patterns of the other partner's behaviour and attitudes. Directors and managers should have faith in the other partner and rely on them to behave in certain ways. When the interdependence of resources become less important, compared with that in the young IJVs, directors and managers should widen/deepen the scope of cooperation. They should search for potential economic interests of their IJVs by working together and sharing knowledge through the embeddedness of *guanxi*. These should enhance the dependence between parties over time because interdependence shapes the economic validation for the continuation of joint ventures. The directors and managers should develop personal relationships among colleagues and hence actively develop later trust.
- In the mature IJVs, directors and managers from both partner companies should gradually apply *guanxi* and commitment (relational commitment and financial commitment) with each other. For Chinese partners, once formed, these relationships are more difficult to break than a poor implementation of a formal agreement. This *guanxi*-mode provides the base for the co-existence of relational and transactional behaviours in Chinese business (Styles and Ambler, 2003) as trust within Chinese networks is based on what the Chinese know as *guanxi* (Möllering, 2006) and which may be approached by managers through 'reasoning, routines and reflexivity'.

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Appendix

Appendix 1: Survey Questionnaire

Earlier trust	We have found that our partner company is unusually dependable from the very beginning.
	The partner firm in our alliance can be trusted to make sensible IJV decisions
	Both parties in our alliance have a high level of mutual trust in various activities.
	Both parties in our alliance can rely on each other to abide by the alliance management agreement
	We worry about the success of joint projects with our partner company
	We think our partner meets its negotiated obligations to our organization
	We plan to document all aspects of our negotiations with our partner
	We feel that our partner negotiates joint expectations fairly.
	We each are constantly seeking partnering opportunities.

Later trust	When we encounter difficult and new circumstance, my company does not feel worried or threatened by letting our partner company do what it wants
	My company is familiar with the patterns of behaviour our partner company has established, and we can rely on them to behave in certain ways.
	The partner firm always stands by its word even when this was not the best interest for it.
	The partner firm never uses opportunities that arise to profit at our expense
	Both parties in our alliance have a high level of mutual trust in various activities.
	Both parties in our alliance can rely on each other to abide by the alliance management agreement
	We think we can accurately predict what the partner firm will do.
	We feel that the local/foreign manager takes advantage of people who are vulnerable.
	We feel comfortable about our partner's willingness to stick to our schedule

Resource interdependence (Joint problem-solving arrangements)	The Chinese party relies strongly on the foreign party's technological or organizational skills, foreign capital resources.
	The foreign party relies strongly on the Chinese party's marketing, experience, and relations with government's resources.
	Together we have invested a great deal in building up our joint business.
	Both of us have made a great deal of investment in this relationship.
	We each have separate ability that, when combined together, enable us to achieve goals beyond our individual reach.
<i>Guanxi</i> (Embeddedness)	The industry of your firm is highly related to the industry of your foreign parent firm.
	The changes of the industry of your firm are highly related to the policies of the China government.
	The changes of the industry of your firm are highly related to the support of the local government.
Commitment	The foreign party always provides more contributions to the IJV after local party did so.
	The Chinese party always provides more contributions to the IJV after foreign party did so.
	Our party is reluctant to make resource commitment to the IJV when specifications in the alliance agreement is ambiguous
	We feel we cannot depend on our partner to fulfil its commitments to us.
Communication (Fine-grained information transfer)	We always keep the other party informed about events and changes that may affect the other party.
	We feel that our partner is straight with us.