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An integrated perspective of social exchange theory and transaction cost approach on the antecedents of trust in international joint ventures

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ABSTRACT

This study investigates the antecedents of trust in International Joint Ventures (IJVs). Building on social exchange theory (SET) and transaction cost theory (TCT), we develop an integrated framework in which trust development requires two sets of antecedents: (1) social antecedents (prior alliance experience with partner, partner's cultural sensitivity and reputation, inter-partner communication, expected longevity of the IJVs), and (2) structural antecedents (interdependence, ownership share, resource complementary). The developed framework is tested using web-survey data collected from 89 IJVs established by Nordic firms in Asia, Europe and America. Empirical data analysis based on structural equation modelling suggests that a partner's cultural sensitivity and reputation, inter-partner communication, and expected longevity are the social antecedents from SET that enhance trust. From TCA, the structural antecedent of resource complementary develops trust, while balanced interdependence and balanced ownership are unrelated to trust. These findings have important implications for managers planning to form and manage IJVs.

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1. Introduction

Several firms achieve their strategic goals in today's international business environment by developing international joint ventures (IJVs). Despite their frequent use, IJVs often result in significant managerial dissatisfaction in their operations (Hsieh, Rodrigues, & Child, 2010). Studies recognize that trust plays a key role in improving the performance of IJVs (Kwon 2008; Nielsen & Nielsen 2009; Nielsen 2007; Silva et al., 2012). In an extensive review of previous research on the influence of social exchange theory (SET) on inter-firm relationships, Kwon (2008) reports that development of trust has been viewed from different perspectives. Previous research concentrates mainly on antecedents of social capital, consequences of social capital on the success of IJVs, or simultaneously on the effect of both on the success of IJVs. International business literature also confirms that little systematic empirical research has been done to investigate how firms create and develop trust in an IJV relationship (e.g. Hennart & Zeng 2005; Silva et al., 2012). Prior to this work, Inkpen and Currall

(1997: 311) explicitly voiced that 'there is a limited understanding of the nature and mechanisms that firms use to build and maintain a relationship characterized by trust.' While trust is considered an under-researched area in the field of IJVs, proponents of the Transaction Cost Approach (TCA) acknowledge a lack of research on the structural variables of IJV performance and state that process-based studies on IJV performance which focus on commitment, communication and trust have neglected the role of structural variables in explaining IJV performance (c.f. Hennart & Zeng 2005). They also identify that performance has been regressed on trust without controlling for structural variables, and this raises the likelihood that the variance in performance attributed to process variables may in fact be due to structural conditions. A recent study by Lioukas and Reuer (2015) also raises this issue. They suggest identifying the specific conditions that give rise to the development of trust in an inter-organizational relationship.

However, trust may be a double-edged sword in inter-organizational relationships when partners pursue common goals in an IJV. Most IJVs are formed on the basis of shared or common goals between the partners. In such similar setting, trust may impact on performance; however commonality of goals may also make the partners susceptible to opportunistic behaviour from the

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partner. Hennart and Zeng (2005: 113) from a study by Zand (1972) state that 'trust arises when the parties are willing to increase one's vulnerability to another whose behaviour is not under one's control'. They further comment on this and maintain that 'willingness to be vulnerable (i.e. arising from trust) will obviously be greater if the partners have the same goals, or if the structure or the contractual stipulations of the joint venture limit the extent to which they can be opportunistic'. Therefore while commonality of goals implants trusts in an IJV relationship, simultaneously it effects on susceptibility to opportunistic behaviour from partners. This directs our attention to investigate structural conditions facilitating or not facilitating trust development in IJV relationships.

In this study we aim to create an understanding of the antecedents of trust development in IJVs, not solely on the basis of Social Exchange but integrating it with the TC approach. We state that exploring antecedents of trust in IJVs from social exchange theory may present a partial view when partners are embedded in the structure of the IJV within a similar setting and with shared goals. Hennart and Zeng (2005) and Parkhe (1998a, 1998b) suggest that in addition to social factors, it is necessary to investigate the structural factors as antecedents of trust in IJVs. In IJV setting, social factors alone may not be sufficient for developing trust between IJV partners.

A review of the prior scant empirical research on the antecedents of trust in IJV literature finds it fragmented and indicates the need to ascertain antecedent's integration. Firstly, previous studies from the perspective of social exchange theory have proposed social antecedents of trust grounded in a range of different theoretical perspectives (c.f. Kwon 2008). Some other studies add new antecedent variables to extend social exchange literature, but fail to provide a theoretical explanation of the origins of the antecedents of trust in IJVs. For instance, some of these antecedents from various theoretical backgrounds are: distributive fairness and partner similarity (Robson, Katsikeas, & Bello, 2008), goal congruence, cultural similarity, resource complementary, fairness, flexibility, and communication (Kwon 2008), collaborative know-how and knowledge protectiveness (Nielsen & Nielsen 2009), shared values, communication and opportunism (Silva et al., 2012). Therefore, we state that the analysis of antecedents of IJV trust, either derived solely from SET or from a structural basis in TCA, is partial, imparts a cross-sectional view of IJVs' development and therefore a comprehensive framework that integrates social as well as structural factors as antecedents of trust is warranted.

The integrated view of the antecedents of trust in IJVs investigates the structural antecedents of inter-partner trust in IJVs from a transaction cost approach, while social antecedents are investigated by means of SET. SET presents five social factors: prior alliance experience with partner, partner reputation, communication, cultural sensitivity, and expected longevity of the IJV (Parkhe, 1998a, 1998b). TCA focuses on the structural factors of interdependence, ownership share and resource complementarity (Hennart & Zeng 2005). Broadly, we consider antecedents as the preliminary factors and processes that lead towards the development of trust in IJVs. An a priori contribution of the study is that it investigates the capability of five social factors from SET to develop trust between IJV partners. While the individual importance of these variables has been mentioned in earlier studies, their simultaneous effects have not yet been analysed. In addition, we provide empirical evidence of the SET antecedents and three structural factors from TCA in the development of trust between IJV partners. The remainder of this paper is organized as follows. In the next section, the theoretical background to the research is presented, along with the development of specific research hypotheses. This is followed by a description of the research methodology and results. After presenting the discussion and

implications of the results, the paper concludes with some managerial implications, limitations and suggestions for further research.

2. Theoretical background and research hypotheses

2.1. Social antecedents of trust

SET is a sociological theory initially developed to analyse people's social behaviour in terms of exchange of resources. Blau (1964: 91) defines social exchange as 'voluntary actions of individuals that are motivated by the returns they are expected to bring and typically do in fact bring from others'. Trust is the fundamental principle of social exchange and the backbone of interpersonal and inter-organizational relationships (Dyer & Chu 2011). Theory suggests that trust acts as a bond between IJV partners in managing IJV relationships (Das & Teng 2002).

As a key governance mechanism in IJVs, trust concerns the willingness of a partner firm to accept the vulnerability of another partner firm (i.e. to rely) in an IJV relationship, based on the positive expectations/beliefs of the counterpart's reliability, fairness and goodwill (Dyer & Chu 2011; Krishnan et al., 2006). This view spans two fundamental aspects of trust that are proposed in the SET literature. First, trust is conceptualized as a behaviour, or behavioural intention, that reflects a reliance on the IJV partner under a condition of risk, and therefore involves vulnerability on the part of the trustor (Mayer, Davis, & Schoorman, 1995; Inkpen & Currall 1998). This perspective suggests that, in the absence of vulnerability perceptions, a venturing firm's trust is unnecessary because outcomes are inconsequential for the trustor (Parkhe, 1998a; Robson et al., 2008). Second, trust is conceptualized as a belief or expectation about an exchange partner's trustworthiness that results from its reliability, fairness and goodwill (Dyer & Chu 2011; Krishnan et al., 2006). There is a broad consensus that trust is clearly a sociological phenomenon that primarily emerges among individuals, however, it can also be established between organizations if 'the positive expectations of the intentions or behaviour of another [organization]' are shared by a dominant coalition of the individuals in both organizations engaged in the IJV (Zaheer, McEvily, & Perrone, 1998).

SET has also widely contributed to theory building on the antecedents of trust in IJVs (e.g. Inkpen & Currall 1997; Kwon 2008; Parkhe, 1998a, 1998b; Silva et al., 2012). According to SET, trust emerges through social interactions between exchange partners (Blau 1964). The proponents of SET in IJV literature (e.g. Parkhe, 1998a, 1998b) argue that trust is likely to be produced in an inter-organizational setting like IJVs through the social processes of backward looking (i.e. prior alliance experience with the partner, reputation), current interactions (communication, cultural sensitivity), and forward looking (i.e. expected length of relationship). In the following, we explore each of these social factors and derive hypotheses.

2.1.1. Prior alliance experience with the partner

IJVs are not always discrete and independent transactions. Indeed, on many occasions firms engage in multiple sequential alliances over time whereby a particular IJV may be preceded by a history of alliance cooperation between the partners (e.g. Boersma et al., 2003; Nielsen 2003). From a SET perspective, the formation of a new exchange (i.e. an IJV) after having an exchange (i.e. an alliance) in the past is accompanied by the development of mutual trust between partners. Prior alliance experience facilitates the partnering firms to increase their knowledge of each other's organizational processes, resources and capabilities and develops common practices and routines regarding information exchange, conflict resolution and cooperation (Zollo, Reuer, & Singh, 2002).

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