

## Active trust development of local senior managers in international subsidiaries

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### Abstract

How can overseas headquarters actively build the trust of their local senior managers? Building on the theory of active trust development, this study examines the roles of three strategies—localization, communication, and control—and their combinations in building the trust of local senior managers in international joint ventures (IJVs). On the basis of a survey of 138 IJVs operating in China, localization, communication, and control are important drivers of the development of local senior managers' trust in overseas headquarters. Furthermore, the joint use of localization and communication represents a potent strategic combination for trust building. However, a localization strategy coupled with intense control hinders trust development. The findings provide important implications for foreign investors hoping to build the trust of local senior managers in uncertain environments such as China.

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Relationship building between partners is a challenge for all cooperative alliances (Das and Teng, 1998; Dyer and Chu, 2000) but especially for international joint ventures (IJVs) in emerging economies, in which trust is particularly difficult to build because of the high degree of risk and uncertainty incurred by the cross-national differences between partners with regard to culture, politics, and trade policy (Atuahene-Gima and Li, 2002; Child and Faulkner, 1998). Because firms increasingly rely on IJVs as strategic vehicles to maximize the economic benefits of emerging markets, it has become critical for overseas companies to understand how to develop the trust of local senior managers in IJVs (Luo, 2002).

Researchers show great interest in trust, a form of social relations and processes that facilitates the coordination of exchanges. Various trust models have been proposed to illuminate how trust develops (e.g., McAllister, 1995; Rotter, 1971; Rousseau et al., 1998). Despite these efforts,

little systematic research has been done in the IJV context and trust “remains an under-theorized, under-researched, and therefore, poorly understood phenomenon” (Child, 2001, p. 274). In particular, the question of how companies actively build trust to strengthen their basis for cooperation in the global market remains unanswered.

Child and Mollering (2003) propose a model that conceptualizes active trust development as a strategy by which foreign investors cultivate their trust in local staff. Drawing on Child and Mollering's work, we examine the effectiveness of three strategies (i.e., localization, communication, and control) in enhancing local senior managers' trust in their overseas headquarters. We assess how the combinations of these strategies impact trust building. Such knowledge may help us provide managers with a better understanding of which strategies to use and how to use them jointly to develop the trust of their local senior managers. We select China as our research context, because the idea of active trust development is highly relevant in emerging economies such as China, where trust is crucial to business relations but the institutions that give rise to trustful relations (e.g., law, regulations) are still inadequate (Child

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and Mollering, 2003; Luo, 2002). Taken together, this study aims to contribute to extant literature by examining the strategic roles of localization, communication, and control and exploring the simultaneous use of these strategies in the trust building of local senior managers in IJVs in emerging economies.

## 1. Conceptual development

Scholars from various disciplines have investigated the concept and nature of trust from different angles. For example, the personality perspective, a classic approach, views trust as an individual characteristic and focuses on how individuals' trusting dispositions are developed and influence the generation of trust (Hardin, 1993; Rotter, 1971). Accordingly, individuals' propensity to trust represents the primary driver of the establishment of trust in an unfamiliar environment. The institutional perspective, in contrast, concentrates on situational factors (e.g., organizational and institutional structures and processes) to explain trust development. From this perspective, social institutions, such as regulations and laws, play the key role in trust building (Shapiro, 1987; Zucker, 1986). The sociological perspective suggests that trust evolves over time according to prior social interactions between exchange partners. Through ongoing interactions, exchange partners learn about each other and develop trust around norms of equity (Gulati, 1995). However, the rational choice perspective describes the development of trust in terms of an individual's calculative decision-making processes (Coleman, 1990; Gambetta, 1988). According to Gambetta (1988), the trustor's decision to engage in trust behaviors is made on the basis of whether the probability of receiving benefits from the trustee's actions is high enough. A perspective that challenges the rational choice viewpoint is the emotion-based framework, which draws on sociological and social psychological literature to posit that, to a certain extent, an individual's emotions give rise to trust (Mayer et al., 1995; McAllister, 1995).

The merits and contributions of these trust development models have been well acknowledged in the literature. However, these models view trust building from the viewpoint of the trustor (i.e., the trusting party) and overlook the role of the trustee (i.e., the trusted party). In our research context, the *trustor* is the local senior manager, and the *trustee* is the overseas headquarters, namely, the parent companies headquartered in a country outside China. Although trust development may be affected by the trustor's personality (personality model), cognition (rational choice model), affects (emotion model), exchange history (sociological model), and/or surrounding context (institutional model), the trustee also can play an active role in fostering a trust relationship (Giddens, 1994; Luhmann, 1988). As Luhmann (1988, p. 95) notes, "trust has to be achieved within a familiar world," and trustees can purposely shape

the trust process toward familiarization. Accordingly, we consider how trustees (i.e., overseas headquarters) can actively and strategically build the trust of their trustors (i.e., local senior managers).

### 1.1. Active trust development model

Recently, Child and Mollering (2003) advance their "active trust development" model, which defines trust as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another" (Rousseau et al., 1998, p. 395). According to their model, active trust development is an organizational strategy to build the foundation on which trust is based. Although various such strategies can be used, we focus on localization, communication, and control strategies because they are particularly relevant to international business activities (e.g., Das and Teng, 1998; Hu and Chen, 1996; Luo, 2002). In the IJV setting, trust building can be especially difficult because the context is ambiguous and uncertain and does not foster confidence. Giddens (1994) hence suggests that intense and intimate communication is necessary to trust development. Furthermore, promoting an effective localization program may reduce ambiguity and cultivate the familiarity that leads to trust (Child and Mollering, 2003). And tight control may decrease uncertainty and facilitate the knowledge transfer that gives rise to a foundation for trust building (Das and Teng, 1998). Thus, drawing on Child and Mollering's model, we study how overseas headquarters strategically build the trust of IJV local senior managers in their overseas headquarters through localization, communication, control. Extending previous work, we examine how these strategies, when used jointly, affect trust building of local senior managers.

### 1.2. Main effects of trust-building strategies

#### 1.2.1. Localization

Effective localization refers to "the development of job-related skills within the local population and the delegation of decision-making authority to local employees, with the final objective of replacing expatriate managers with local managers" (Wong and Law, 1999, p. 26), as IJVs in China have been doing rapidly (Fryxell et al., 2004). Localization programs help foster the trust of local staff members for several reasons. First, the local staff is a valuable resource for foreign firms through which they can gain access to local knowledge and the local market. Without such knowledge, it is difficult for foreign firms to penetrate existing personal and business networks in an unfamiliar market (Wong and Law, 1999). However, with an effective localization program, foreign firms and local staff can gain a better understanding of each other, which leads to familiarity and the grounds for trust development (Luhmann, 1988). Second, in the eyes of local managers, part of an expatriate's

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