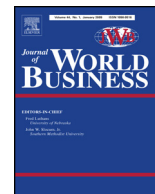




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Willingness to rely on trust in global business collaborations: Context vs. demography

Francis Bidault, Professor^a,
José R. de la Torre, Professor and J.K. Batten Chair in Strategy (Emeritus)^{b,*},
Stelios H. Zanakis, Professor (Emeritus)^b, Peter Smith Ring, Professor^c

^a European School of Management and Technology (ESMT), Schlossplatz 1, 10178 Berlin, Germany

^b Florida International University, Miami, FL 33199, USA

^c Loyola Marymount University, Los Angeles, CA 90045-2659, USA

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ABSTRACT

We examine how 712 executives from several countries, industries and backgrounds are willing to rely on trust (WTRT) when entering a collaborative venture where both partners are at risk. Presented with a specific partnership opportunity they were asked about the level of safeguards required to enter into an agreement. We test for the impact of contextual and demographic conditions and confirmed differences in WTRT between nationalities, but find that several contextual variables mediate this impact. Different nationalities treat three dimensions of trust (integrity, reliability, and benevolence) differently as they are shown to be time dependent. We conclude that context is as important as demography in determining an executive's WTRT.

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1. Introduction

The literature on the role of trust between and among organizations has increased dramatically in the last two decades. The demands of globalization and the added complexity and speed of technological change have forced corporations to undertake non-hierarchical solutions to competitive challenges in both product and geographic markets. This increased reliance on both joint ventures and non-equity collaborative agreements among global firms has driven both business and academia to attempt a better understanding of how these arrangements work and what can be done to increase their effectiveness (Dacin, Reid & Ring, 2008).

One line of this research focuses on the role of trust, whether as substitute or complement to contractual obligations (Das & Teng, 1998), in the governance of inter-organizational alliances. Most authors (e.g., Faems, Janssens, Madhok & Van Looy, 2008; Poppo & Zenger, 2002; Zaheer & Venkatraman, 1995) agree that whereas

the relationship between formal contracts and relational governance is complex and mutually supportive, there is nonetheless a critical role for trust in any business relationship. Less well understood is the issue of what factors determine the willingness of executives to rely on trust as their corporations approach an international collaborative project with another organization given the risks inherent in such exchanges (Ring & Van de Ven, 1992). This paper attempts to shed some light on this question by surveying a large number of middle and senior executives from around the world in terms of the degree to which they would be “willing to rely on trust” as opposed (or in addition) to specific legal and economic safeguards in defining the terms of collaboration for a specific business venture. Their individual responses are then tested against a number of contextual and demographic factors in order to assess to what extent differences in their background, experiences and information-processing capabilities affect the role that trust is allowed to play as a governance mechanism in such non-hierarchical international ventures.

Below we start by defining what we mean by a willingness to rely on trust (WTRT) as distinct from what is known as propensity to trust, and identify key contextual and demographic elements that may impact such a choice. In order to do this, we need first to

* Corresponding author.

E-mail addresses: bidault@esmt.org (F. Bidault), delatorrejoser@gmail.com (J.R. de la Torre), zanakis@fiu.edu (S.H. Zanakis), pring@lmu.edu (P.S. Ring).

establish the dichotomy of reliance on contracts versus reliance on trust as defined in the literature since we posit that an executive's WTRT can be measured in terms of their willingness to forego strong contractual obligations in an agreement. Next, we identify the main drivers that may influence individual choices in this spectrum, whether contextual or demographic. The following section presents a dynamic model of WTRT and a series of hypotheses regarding the determinants of such trusting behavior, its antecedents and the factors that might alter it at different stages in the design, negotiation and execution of a collaborative agreement. The next three sections deal with the research design and data sample, the data analysis and methodology and a discussion of the results. Finally, we present our conclusions, limitations and extensions suggesting possible further work in this important field.

2. Willingness to rely on trust

There is broad consensus on the interpretation that trust is "... a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions of behavior of another" (Rousseau, Sitkin, Burt & Camerer, 1998). One difficulty with this concept of trust is that it can refer to interpersonal as well as to inter-organizational relationships. While some authors (Dyer & Chu, 2011; Perrone, Zaheer, & McEvily, 1998) consider that these two levels are not comparable, others (Rousseau et al., 1998) argue the opposite. In addition, multiple theoretical approaches result in inconsistencies in conceptualization, operationalization, and measurement (Bachmann & Zaheer, 2008; Seppänen, Blomqvist, & Sundqvist, 2007).

We overcome these difficulties by focusing on how individual executives express their willingness to rely on trust—choosing different degrees of risk allocation and legal and economic safeguards—when considering a specific global partnership proposal. In doing so we recognize that most decisions with regards to entering into collaboration are taken by corporate teams or in hierarchical structures where multiple executives exercise influence. We choose to focus on the individual precisely because the process that produces a final balance between trust and contractual safeguards involves individuals whose personal attitudes towards the role of trust in the venture's governance within a specific context will influence the outcome.

2.1. From propensity to trust to willingness to rely on trust

Propensity to trust is a general disposition held by individuals to extend their trust to others. It is a general inclination that is part of the individual's personality, not situation-specific, and influenced by life experiences and social interactions (Mayer, Davis & Schoorman, 1995). As such, it is an antecedent of the willingness that any person may have to rely on trust when faced with a specific set of risks in an exchange "prior to data on that particular party [or deal] being available" (Mayer et al., 1995, p. 716)). People with different developmental experiences, personality types and cultural backgrounds vary in their propensity to trust (Hofstede, 1980).

Similarly, McKnight, Cummings and Chervany (1998) argued that the initial formation of trust is based on three components: (1) an individual's disposition to trust, i.e., a general propensity to trust others; (2) institution-based trust derived from the social or legal environment of the transaction; and (3) cognitive-based trust developed as the individual collects data about the would-be partner. A person's base-level inclination to extend her/his trust in general is then moderated in its application to a specific deal first by the institutional context and then by any subsequent knowledge obtained regarding the trustworthiness of the potential partner.

The presence of safeguards in a contract is a function of many variables peculiar to the agreement, its industry, geographic location, the partners' history and prior experience, and individual preferences (Argyres & Mayer, 2007). This trade-off between an initial propensity to trust and the inclusion of safeguards is what Ariño, de la Torre and Ring (2001) call the "willingness to rely on trust." Their approach is consistent with Mayer et al.'s (1995) definition of trust as "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control the other party" (p. 712). They make a clear distinction between the acceptance of risk, an ex-ante "propensity to trust," versus the actual assumption of such a risk, which they call "behavioral trust" and which is difficult to foresee in contractual terms. In our interpretation, however, we narrow the number of dimensions and theoretical foundations, leaving it to future researchers to explore WTRT in other perspectives such as, for example, co-option, co-specialization and co-learning (Doz & Hamel, 1998).

2.2. Trust versus contracts

Contracts can be very detailed in terms of objectives, expected outcomes, resources contributed by each party, timing of commitments, and potential penalties in case of failure to deliver. Barney and Hansen (1994) noted that trust matters especially when contractual safeguards would be otherwise needed. A high willingness to rely on trust may, therefore, result in less formality in the governance of a partnership (Ariño et al., 2001; Gulati & Nickerson, 2008; Gulati, 1995; Madhok, 1995). A partner may even forego guarantees in certain circumstances where risks are perceived to be limited or negligible (Nooteboom, Berger & Noorderhaven, 1997). Zaheer, McEvily and Perrone (1998) found that "trust reduces the inclination to guard against opportunistic behavior" reducing negotiation costs and conflict. Similarly, in an analysis of buyer-supplier relationships in the auto industry in US, Japan and Korea, Dyer and Chu (2003) argued that trust allowed participants to economize on disputes (ex-post transaction costs) and, to a lesser extent, on negotiating and contracting costs. Finally, several authors (Muethel & Hoegl, 2012; Zaheer & Zaheer, 2006) point out that the level as well as the very concept of trust may differ from country to country. Thus, if trust is less available in certain national contexts or is understood differently, other mechanisms may be necessary to compensate for these differences.

Trust, however, should not be considered as a mere substitute to contracting. Poppo and Zenger (2002) observed that high trust is often associated with more extensive and complex contracts, whereas Alvarez, Barney and Bosse (2003) found that contracts may be used independently of other governance devices such as reputation, bargaining power or trust. An important addition to this debate was the introduction of different aspects of trustworthiness – integrity, reliability and benevolence – to the analysis (Lui & Ngo, 2004; Nooteboom et al., 1997). When trust is based on the expected benevolence of the trustee, it tends to act as a substitute to safeguarding, but when trust is based on the expected competence of the partner, it is often accompanied by greater safeguards, a distinction to which we shall return below.

It is important to note that firms that had collaborated in the past, thus inferring higher levels of mutual trust ex-post, would still include enforcement provisions in subsequent contracts (Reuer & Ariño, 2007), although they were more likely to simplify clauses that provide for information exchange or deal with coordination issues. After all, contracts are much more than a list of penalty clauses; they may also specify objectives, business expectations, commitments, circumstances that might impact

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