

# ANTECEDENTS OF TRUST IN INTERNATIONAL JOINT VENTURES' (IJVS) PERFORMANCE IN DEVELOPING COUNTRIES: A REVIEW OF EMPIRICAL EVIDENCE

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## Abstract

*Trust in international joint venture has received much attention for the last 20 years. This study highlights the importance of social capital in international joint ventures (IJVs) in developing countries. This paper assesses the impact of antecedents of trust on performance of international joint ventures in developing countries, which is based on social exchange theory. Little attention has been paid to exploring the concept in IJV. The impacts of components of inter partner-fits and relational factors on trust and the effect of trust on performance of IJVs will be considered. In addition the impact of religion and country risk on level of trust in IJVs in these countries will be evaluated. A framework has been developed based on this review analyses and integrates empirical evidence in order to identify convergence and conflict in IJV. The paper addresses a problem of relevance to both international academics and practitioners in addressing managerial implications. It is hoped that the study will provide a meaningful implication to the process of selection of IJV partners.*

**Keywords:** *international joint ventures, trust, performance, commitment, partner fits factors, relational factor, religion, country risk*

## 1 Introduction

Progressively more companies are finding that it is more desirable, and often even essential, to compete globally in order to survive and to be successful. IJVs, as a kind of strategic alliances, are quite important for companies and managers to cope with this issue (Kwon, 2008).

IJVs as organisational entities which are formed and controlled by local and foreign firms are one of the most significant ways for expansion of international firms. IJVs can contribute to cost saving, risk sharing, transfer knowledge, acquiring new technology and goes over the core business lines. Also, the structure of IJV is more hierarchically and coordination and information processing cost are lower. Therefore IJVs are accounted for a large number of the firms in many countries in order to gain the required resources (Schrooten, 2009). Even though the expansion rate of IJVs has been decreased recently (Rahman, 2008), many scholars such as Ireland et al. (2002) stated that the popularity of IJVs is still a real fact. Also, according to Park et al. (2008) the rapid creation of IJVs is a worldwide phenomenon, and therefore this wave has been sweeping through a wide range of sectors.

There are many factors that lead to IJVs creation. But one significant motivation for companies' desire to start joint ventures, rather going it alone is an ambiguous picture of the problems relate to the development of relationships such as policies, culture, society and the environment. Another important reason for foreign companies that spire them to enter joint business venture in emerging countries, is due to the benefits from host government who gives many privileges to foreign companies which decides to make such investments. Especially, from Western companies that would

like to increase their performances in recent years, through joint venture with companies in developing countries (Buckley et al., 2009).

Although the alliances are becoming an attractive strategic opportunity, some strategic alliances have been reported to be unstable, ineffective and poorly performing (Bstieler and Hemmert, 2008; Fang et al., 2008; Lin and Wang, 2008). Sometimes, alliances are deemed to fail without achieving any strategic benefits due to cultural differences, trust and goals and strategies differences. Based on the study of the survival of IJVs in emerging markets, it has been proved that between 30% and 50% are broken up by the partners in the first 5 years (Meschi and Riccio, 2008).

Observers of IJVs have noted the importance of control mechanisms in developing predictability and the confidence that the other partner will behave in a way that is consistent with mutual benefits. Many observers have noted the distinction between formal controls (often related to majority ownership) and social control mechanisms. Formal control relies on hierarchy, planning, and reporting mechanisms with pre-specified behaviours or performance outcomes. On the other hand, social control entails the development of social relations and shared norms and values. Social controls, once established, were argued to be better suited to building partner cooperation in IJVs, reducing monitoring and contracting costs, and enhancing the flexibility and adaptability critical to long-term performance (Baughn et al., 2011). IJV research has repeatedly emphasized the importance of developing social capital, especially trust. Many scholars have recognised trust as a key factor in improving the performance of IJVs (Baughn et al., 2011; Mohr, 2004; Wai-Kit et al., 2007; Ng et al., 2007; De Jong and Woolthius, 2008; Wilson and Brennan, 2008; Deitz et al., 2010; Madhok, 2006).

There is a need for investigating antecedents of trust on performance of IJVs, especially in developing countries. This is due to firstly, the high rate of failure and secondly limited research in the area of IJVs in developing countries. The objective of the paper is to provide an empirical review of trust in IJV and to investigate the impact of a number of trust antecedents in IJVs and its effect on performance. In addition, this paper provides a critical review of trust to support the concept of this study. Also, to prepare a strong foundation of the study in developing countries. In order for this paper to achieve its objectives, two questions will be assessed as follows: (1) what are the factors that affect level of trust in IJVs in developing countries? (2) What is the outcome of trust in the case of IJVs? It is aimed that the result of this research will contribute to the validity of components of trust in social exchange theory in IJVs in developing countries. In addition, we assess the role of both religion and country risk in IJV partnership.

This paper has been divided into four parts. The first part provides an introduction of the reasons behind creating international joint ventures (IJVs) in developing countries. The second part presents the literature review which covers the theory used in this paper and background of other previous studies in the field of trust. The third part is the conceptual framework which explains the constructs, e.g. partner fits (which includes complementarity, compatibility and strategic bond and shared past), relational factors (which includes fairness, flexibility and two-way communication), religion and country risk (see figure 1). Further we will explain the methodology and in the final part a conclusion will be provided.

## **2 Literature review**

### **2.1 Social exchange theory**

There are different theories that have been discussed in order to explain the validity of IJVs relationship. These theories include transaction cost theory, the bargaining power theory, the resource-based theory and social exchange theory. Social exchange theory has received the most attention in the research of inter-firm relationship (Kwon, 2008).

Social exchange theory which described by Blau (1964, p.91) as “voluntary actions of individuals that are motivated by the returns they are expected to bring and typically in fact bring from others”.

According to social exchange theory, a mutual relationship is like a marriage and a steady relationship is associated with the improvement of trust (Liu et al., 2008).

It has been described by social exchange theory that trust is the most important key factor in relational exchange (Blau 1964; Lambe et al., 2001). Trust has been described as the belief in an exchange partner's reliability and integrity (Morgan and Hunt, 1994), the possession of credibility and benevolence (Geyskens et al., 1999), and a belief that a party's word is reliable and the obligation will be fulfilled (Blau 1964; Moorman et al., 1993).

As social exchange theory is based on "obligations" rather than contracts, trust is one of the most important aspects of this theory (Blau, 1968 p. 454). When one partner provides benefits for the other side, they trust that benefit will be returned or will be reciprocating. In fact, the mutual return of action that benefits the other partner through the time, created trust. Therefore, the procedure of forming trust produces obligations among exchange partners (Lambe et al., 2001).

Not only will the cost of writing and policing contracts be reduced by trust. But trust also motivates the partners to stick to the cooperation spirit and go further than the contract when facing ambiguity and doubts (Das and Teng, 2002; Miller and Rempel, 2004).

## **2.2 Background of international joint venture research**

In this section some noteworthy articles that are related to the concept of trust will be explored.

Boersma et al. (2003) is one of the scholars who studied the creation of trust in international joint ventures and develop a process model of trust building. In the analysis of four case studies, they discover that trust can be examined as both input and output in different stage of building process. Previous history, negotiation, commitment and execution were stated as the antecedents of trust. At every step, the outputs of trust will be the input of the next step.

Mohr (2004) also emphasises the necessity of trust with a more comprehensive approach by considering the relationship between control, trust, performance and the relations between the partner companies in IJVs. The result of the study shows the positive relationship between trust and performance and negative relationship between control and performance. Additionally, in the case of IJV which was regarded as successful by managers, show considerably better assessments of the interaction elements exchange, communication and adjustment (Mohr, 2004).

Thuy and Quang (2005) in the study on Vietnamese joint ventures, found a positive link between antecedents of trust (flexibility, cultural sensitivity, goal clarity, information exchange and conflict management) and trust and as the result performance of IJVs in Vietnam.

In order to reduce the weaknesses of other researchers which according to Madhok (2006) was the lack of linking trust and performance, Nielson (2007), tried multidimensional approach for measuring the performance of ISA in Danish companies. Nielson (2007) consider different constructs before the alliance is formed (pre-alliance formation factors) and during the process of alliance (post-alliance formation factors) and impact of them on multidimensional measurement of alliance performance. Nielson (2007) in his work stresses the important role of trust (amongst other factors) on performance of ISA one more time.

Wai-Kit et al. (2007) in their research of investigating the antecedents of trust in Chinese joint ventures, discovered that local reliance, cultural distance and experience of executives as an important antecedents of trust which affect on performance of IJVs. Deitz et al. (2010) in their research of IJVs stability investigate the impact of resource complementarity on trust. The result of their study proved a strong link between complementarity and trust. De Jong and Woolthius (2008) explored how the innovative cooperation of ISAA creates trust and how trust affects the performance of ISAs in Dutch firms. The advantage of their study is considering both antecedents and consequences of trust. De

Jong and Woolthius (2008) concentrate on inter-organisational trust as they consider for ISAA in general and particularly for high-tech cooperation, the activities of partner is more important than individual. They categorize antecedents of trust into four groups: a shared past, detailed contracts, interfirm openness and mutual dependence. They expected that in their model, that inter-organisational trust will have a direct impact on performance.

Bstierler and Hemmert (2008) investigated their research in vertical R & D partnership in South Korea and Austria. Communication quality and fairness were chosen for the factors that foster trust and history of conflict as a factor that obstruct trust as the previous work recommended that these play an important role in creating inter organisational trust (Mohr and Spekman, 1994; Morgan and Hunt, 1994). In addition, Bstierler and Hemmert (2008) include national culture as an important antecedent for creating trust.

Wilson and Brennan (2008) explored the effects of trust and commitments on performance of international joint ventures between the UK and Chinese companies. In this research a qualitative research was conducted in order to find out the impact of trust and commitment on performance of international joint ventures. It was discovered that trust is the most significant factor that affect on level of joint venture's satisfaction. In addition, Wilson and Brennan (2008) stated the importance of commitment on performance of IJVs as a significant factor along with trust.

Li (2008) investigated the impact religion on opportunism and as the result on performance of IJVs. He discovers that in the case of different religions, there will be more control and less trust between partners. This statement has been mentioned by different scholars such as Ruffle and Sosis (2007).

Some scholars such as Crosno and Dahlstrom (2008) and Hawkins et al. (2009) investigated the impact of country risk on level of trust in IJVs. Based on their finding in the case of country risk in the host country, there will be more possibility of opportunistic behaviour and as the result less trust between partners. There is also support for strong association of environmental uncertainty and relational norms (Paswan et al., 1998). Table 1 below shows some recent and important studies on IJVs.

Table .1 Presents the summary of some recent articles in the field of trust in IJVs.

Author	Aim of Research	Independent variables	Dependant variables	Empirical design	Main findings	limitations
Boersma et al. (2003)	Examining the development of trust in IJVs over the time	Previous history, executions, negotiations, commitments	trust	Four case study	Trust can be seen as both input and output	Just based on four case study and cannot be generalised
Wai-Kit et al. (2007)	How trust will improve the performance of IJVs	Local reliance, cultural distance, experience of executives,	Trust and performance	Survey questionnaire	Trust has a significant impact on achievement of IJVs' goals	There is no globally accepted measure of cultural distance
Nielson (2007)	Using multinational approach for measuring the performance of ISA	Prior experience, partner reputation, country risk, collaborative know-how, trust, protectiveness, complementarity, cultural distance	Alliance performance	Survey questionnaire	A significant relationship between alliance performance and host country risk as well as partner's reputation	antecedent variables utilized in this study do not constitute an exhaustive list of the potential influences on the different perceptive measures of alliance performance

Bstieler and Hemmert (2008)	Develop and test a model of factor which influence the formation of trust in R&D partnership in two different cultures	Communication quality, fairness and unsolved conflicts	trust	Questionnaire survey	Communication and fairness have a positive impact on trust and conflict has a negative impact	Data are collected from a narrow segment and cannot be generalised. Also there is difficulty in reaching full cross-cultural equivalence
Lin and Wang (2008)	Examining the effect of trust, legalism and ownership on level of IJV satisfaction	Trust, ownership and legalism	IJV satisfaction	Survey questionnaire	The relationship between trust, legalism and performance varies across cultures	Using cross-sectional data, more variables can be used in order to measure directly the nature of technology or industry
Wilson and Brennan (2008)	Investigate the impact of trust and commitment on performance of IJVs	Trust, commitment, cooperation and satisfaction	Performance	interview	It was proved that trust is the most important factor that affect the performance of IJVs	Difficulty in gaining data from Chinese side
De Jong and Woolthuis (2008)	Investigating the institutional arrangements of innovation process in high-tech alliances focusing on the role of trust	Shared past, inter-firm contracts, relational openness, mutual dependence	Inter-organisational trust and alliance performance	Survey questionnaire	Support the value of inter-organisational trust in durable business relationships	The data were collected from Netherland companies and cannot be generalised
Ybarra and Turk (2009)	Investigating the factors that contribute to the success of strategic alliances	Asset specificity, balanced asset, interdependence, duration, communication, shared values, relationship equity	Change in communication, change in asset specificity, change in dependence, learning and alliance performance via inter-organisational trust	Survey questionnaire	social exchange theory factors including communication, shared values and relationship equity will contribute to the development of trust and trust will improve the performance and learning of strategic alliances	The results of the study cannot be generalised as it was based on R&D department
Deitz et al. (2010)	Investigating the reason for failure of IJVs	Resource complementarity and trust	JV stability	Survey questionnaire	Resource complementarity and trust has a positive impact of stability of JVs	Data were collected just from one side

Table 1: A summary of previous research studies in the field of trust in IJVs

### 2.3 Research gap

The review of literature reveals several directions for future research in the field of trust in IJVs.

The literature on trust in IJVs presents the role of antecedents of trust and impact of trust on the level of performance which can be categorised in to three levels.

The first group talks about the antecedents of trust such as Boersma et al. (2003), Bstieler and Hemmert (2008), Gulati and Sytch (2008). The second group investigates the impact of trust on performance in inter-firm relationships such as Mohr (2004), Nielson (2007), Lin and Wang (2008), Wilson and Brennan (2008). Finally, the third category looks at both antecedents and consequences of trust such as Wai-Kit et al. (2007), De Jong and Woolthuis (2008), Ybarra and Turk (2009) and Robson et al. (2008).

Although there have been an extensive research which investigates the impact of trust on performance of IJVs. There has been limited empirical research on process of inter-organisational trust development in strategic alliances (Dyer and Chu, 2011; Gulati and Sytch, 2008; Ybarra and Turk, 2009; Thorgren et al., 2011).

In addition, Robson et al. (2008) stated, that there is a limited number of research which shows the positive relationship between trust and performance of strategic alliances. According to Robson et al. (2008) the review of literature about the impact of antecedents of trust on performance is mixed. Some studies found out that the positive relationship between trust and performance (Cullen et al., 2000, Lane et al., 2001) and some scholars stated the absence of relationship between trust and performance (Aulakh et al., 1996; Fryxell et al., 2002; Inkpen and Currall, 1997; Sarkar et al., 2001). Therefore, more investigation of the impact of trust on performance of IJVs needs to be done.

Further, there has been little research examining whether or not the determinants of trust varies in different institutional (i.e., country) environments (Dyer and Chu, 2011). For example, most of the studies about inter-firm relationship are concentrating on USA, UK and China and there are few studies that concentrate on IJVs in developing countries. Additionally Seppanen et al. (2007), stated the need for more research on the link between trust and commitment. According to Cullen et al. (2000), trust and commitment are the social fabric of the relationship and the impact of both trust and commitment on performance should be investigated. There is limited empirical research on how trust can create commitment in the relationship of IJVs (Wilson and Brennan, 2008). Therefore there is more need for empirical investigation of trust and commitment in IJVs.

In order to avoid the lack of research on investigating antecedents of trust on performance of IJVs in developing countries, some factors in extant literature have been chosen as key antecedents of trust which are complementarity (De Jong and Woolthuis, 2008; Sarkar., 2001; Deitz et al., 2010; Pearce, 2001), compatibility (Sarkar et al., 2001; Ybarra and Turk, 2009; Morgan and Hunt, 1994; Johnson et al., 1997), strategic bond (Ren et al., 2009; Thuy and Quang, 2005), shared past (De jong and Woolthuis, 2008; Bstieler and Hemmert, 2008), fairness (Ren et al., 2009; Bstierler and Hemmert, 2008; Ybarra and Turk, 2009), flexibility (Thuy and Quang, 2005; Homburg et al., 2002) and two way communication (De Jong and Woolthuis, 2008; Bstieler and Hemmert, 2008; Ybarra and Turk, 2009).

In addition, we will investigate environmental uncertainty as an important factor in developing countries which has been neglected in most of studies (Crosno and Dahlstrom, 2008; Hawkins et al., 2009). Moreover, the impact of religion on trust which might be influential has been chosen for this paper (Li, 2008; Ruffle and Sosis, 2007).

The paper attempts to fill this gap in the research by concentrating on the factors that create trust and investigating the consequences of trust. Although not all the antecedents of trust are comprehensively covered in this paper, but the most frequent antecedents which are used by prior research studies for formation of trust have been collected for the purpose of this research.

### **3 Research model and hypotheses**

Although social capital can be seen as important in the functioning of any organization, it is easy to see why it has been emphasized in the IJV literature. The creation of a firm from two or more geographically separated partners itself gives rise to loyalty issues, potential for disagreement and battles for control. Trust has been recognised as a key relationship norm of a various inter-firm relationship including IJVs, under the social exchange theory (Kwon, 2008; Nielsen, 2007; Sarkar et al., 1997; Wu and Cavusgil, 2006). Then, what can create trust between partners in IJV relationship? In research on trust, it must be acknowledged that the antecedents and consequences of trust vary depending on the actors and the context in which the actors operate (Schoorman et al., 2007).

In this regard a model has been developed predicted on inter-partner fits factors (complementarity, compatibility, strategic bond, shared past), relational factors (fairness, flexibility, two-way communication), country risk, religion, commitment in partnership as shown in figure 1 (p.14). This model will address the importance of trust which leads to the success of IJVs in developing countries.

### **3.1 Partner-fit factors**

Partner-fit which is about the extent that partner in cooperation can cope with each other and realise expected synergy from the IJV. Inter-partner-fit is a complex and multidimensional conception which develop from a mixture of factors and it is included in strategic-fits, resource-fit, operational-fit, organisational-fit, and cultural-fit. In this paper the focus is on strategic-fit and organisational-fit.

Strategic and organisational fit is included in goal congruency between partners, previous experience, adequate of management skills, technical skills and human resources (compatibility), quality of the relationship, complementarity, management systems (Ozorhon et al., 2010).

#### *3.1.1 Complementarity*

Complementarity is about partner's effort in order to cover each other weaknesses especially regarding resources and capabilities.

One of the most important reasons for creating joint venture is partner's complementary regarding resources and capabilities. Thus, the basic principle of joint ventures creation is accomplishing of necessary skills that partners wouldn't be able to gain them on their own (Park and Ungson, 1997). Therefore, companies are looking for new resources to maximise benefits which can be gained through resource complementarity (Kwon, 2008; Chung et al., 2000).

Complementary technical skills and resources and mutual dependency are crucial to the successful implementation of a joint venture. This complementarity facilitates the achievement of various important tasks which requires completing the research project and makes it possible to achieve a richer range of data sites than are available. Also the competitive environment and risk of opportunistic behaviour in an IJV can be diminished when each partner can consider the joint venture and the other partner as a basis of mutual benefit (Teagarden, 1998).

Covering another party is very important in interdependency of partners and this can contribute in building trust (Deitz et al., 2010).

**H1.** The higher is the level of complementarity, the higher is the level of inter-organisational trust between partners.

#### *3.1.2 Compatibility*

Compatibility is an indicator of organizational harmonization between partners. Contributing to the compatibility of organizational culture are the management method, the organizational structure, personnel management policies, and types of decision-making (Kwon, 2008). Based on suggestion of some studies, partner fit is a crucial element to ensure successful IJV performance (Yan and Duan,

2003). Compatibility between partners in IJVs reduces costs of managing the IJV through improving transaction efficiency.

Compatibility shows harmony between partners in terms of cultural similarity. Organisation's cultural compatibility is included in management method, the organisational structure, personnel management policies, and types of decision making. Cultural similarity can make synergy in decision making, aims and goals between partners. When there is a cultural similarity and especially when it is high, partners understand each other better and it can decrease disagreement (Fey and Beamish, 2000).

In the context of JVs, Saxton (1997) stated that when there is an organisational similarities between the partners trust will be built and improve as they will be more willing to share information and knowledge.

**H2.** The stronger the compatibility between partners, the higher is the level of inter-organisational trust between partners.

### *3.1.3 Strategic bond*

The strategic bond specifies goal congruence between partners in an IJV. Strategic bond means both sides should have common interest in their relationship with each other and share them, otherwise it can cause conflict and problem in IJVs (Kwon, 2008).

Goals illustrate end-state that organisations struggle to accomplish. They can be described as performance standards, quotas, work norms or deadlines to provide a direction and beneficial effect on the organisation's achievement (Erez and Kanfer, 1983).

In creating IJVs, the partners often have different goals or interests. Some of the interest and goals even have conflict with each other. No matter the differences between targets and goals, the partners must have a mutual intention to make a decision on how to incorporate with each other in the IJV. Having specific purpose and the details of the particular expected goals plays a considerable role in better performance of IJVs. Regarding this, Von Krogh et al. (1994) mentioned that having the specific goals allows the members to concentrate on the same idea and mission and it will be against close monitoring of member's behaviour. As it is described, having common goals and objectives are important for creating and sustaining trust between partners in the IJVs (Thuy and Quang, 2005).

Goal congruity decreases ambiguity about the other party's behaviour and will make personal connection in IJVs, thus increasing trust (Luo, 2001). On the other hand, disagreement in parents' goals causes an opportunistic environment (Luo and Park, 2004) and creates conflict (Luo, 2001).

**H3.** The stronger the strategic bond between partners, the higher is the level of inter-organisational trust between partners

### *3.1.4 Shared past experience*

Shared past between the partners of strategic alliances is one of the antecedents of inter-organizational trust. Having past experience or previous successful relationship with each other, and common relationships may result in inter-organisational trust (De jong and Woolthuis, 2008; Bstieler and Hemmert, 2008).

When a new IJV is formed, there might be some uncertainties between partners for working with each other, especially if they have had no previous collaborative relationship with each other. In contrast, new IJVs that start with prior relationship will not have the barriers for termination in the early stage of relationship. Prior relationships between IJV partners can create a primary base of inter partner trust and furthermore form the type of subsequent alliances. If there was a relationship between the companies in the past, they will have primary understanding about each other's skills and



competencies. Previous ties between the companies can form the situation for new exchange by decreasing uncertainty.

According to Parkhe (1993) in the case of prior relationship between partners, any expected opportunistic behaviour in new alliances between partners will be limited, there will be more trust and, consequently, the need for contractual safeguard will be reduced.

**H4.** The more shared past between partners, the higher is the inter-organisational trust.

### 3.2 Relational factors

Fairness, flexibility and two-way communication (the latter might include the implementation of ICT) have been categorised as relational factor in the case of IJVs (Thuy and Quang, 2005; Ferguson *et al.*, 2005; Yaqub, 2010).

#### 3.2.1 Fairness

Fairness in general, means that actions and criterion used for making and implementing decisions are unbiased, ethical, transparent and correctable (Boyd *et al.*, 2007).

The effects of fairness in IJVs have attracted research attention in recent years (Choi and Chen, 2007; Luo, 2008).

According to Johnson and Raven (1996), when partners realise and feel that they share everything such as profit, risk, information and both parties participate in decision making fairly. They trust each other more and they become closer to commit themselves to each other. Otherwise, if they feel, joint venture is not moderately managed, conflict will happen. Especially in some cases which competitors are partner each other; keeping a long term relationship is difficult without operational fairness (Kwon, 2008).

**H5.** The greater the fairness between partners, the higher is the level of inter-organisational trust between partners.

#### 3.2.2 Flexibility

Flexibility has been described as both parties should be ready for any changes in their relationship and they should adapt themselves with new situation (Kwon, 2008).

There are unpredicted problems that always encountered in most IJVs, especially as a result of changes in the competitive environment. In this situation, flexible attitude of each partner confirm the homeostasis of the partnership (Aulakh *et al.*, 1996).

As the IJV partners execute activities, they encounter different uncertainties, regarding for example the similarities and differences in the objectives of the JV partners, lack of knowledge about the resources of partners, and the way of combining resources of JV partner to achieve a mission (Thuy and Quang, 2005).

As the result of these ambiguities, concerning the procedure of the IJV, it is difficult to follow the wording of a legal contract. Thus, in order to moderate all possible conflicts and create reciprocal trust between parties, a flexible system should be sustained. Flexibility also produces the circumstances for creating an informal, friendly and trustful working environment in the IJV.

**H6.** The more level of flexibility that partners have, the more inter-organisational trust between partners.

#### 3.2.3 Two-way communication

Two-way communication in inter organisational partnership is defined as “formal and informal sharing of meaningful and timely information between partner companies” (Anderson and Narus, 1990, p.44).

Two-way communication helps partners to share information, transfer knowledge in an appropriate time and stop any misunderstand and incorrect expectation between partners. Two-way communication can solve the problem between parties and resolve dispute between them, especially in the case of different nationalities. These, in turn, will increase trust (Morgan and Hunt, 1994; Moorman et al., 1993). In addition, the probability of getting all information facilitates the partner companies to have a better deal with internal processes and external market condition (Kwon, 2008).

Many research studies recommend that a high quality communication with an external partner supports the development of trust and is a key element to that partnership success. Quality communications between partners will let them realise that partner is caring and concerning about the relationship and thus promote trust in joint ventures partnerships (Bstieler and Hemmert, 2008).

**H7.** The better and stronger communication that partners have, the higher is the level of inter organisational trust. This will include the use and compatibility of information and communication technologies (ICT).

### 3.3 Religion

One of the challenges that had been brought to business as a result of globalization is that, as companies develop their market internationally through cross-border alliances, they need to cope with the issue of partners from different countries with different religious background. This is observed in the developing countries and in particular in Middle East.

There are many researchers who explores the influence of cultural distance between partners on trust level (Brouthers and Bamossy, 2006; Lu, 2007; Makino et al., 2007) as a cross-border strategic alliance is about partner companies from different countries. Even though religion has formed people’s values and cultures during history, however, not much empirical research had been done on how religion affects trust in international joint ventures.

The reasons for study religion are:

- 1) Dominant religion of nations is different and recently in the world, there has been a religious revivalism (Ali et al., 2005)
- 2) There is an impact on manager’s behaviour and business ethics based on religion.
- 3) There is a limited research about the religious values that might contribute different business models.

Religion can be defined as people’s connection to God. It can also be defined as those standards of behaviour and belief, which blind us (Miller, 1995). According to Kohlberg (1981, p.336) there is a straight connection between religious and ethical judgment: ‘religion is a conscious response to, and an expression of, the quest for the ultimate meaning for moral judging and acting’. The principle of religious conducts including its followers on ethical, moral and social behaviour (Tan and Vogel, 2008). Religion also through psychological bases, improves trust (distrust) between (between) societies (Ruffle and Sosis, 2007).

In this paper, the relationship between religion and trust will be evaluated through transaction cost economics (TCE). One of the key features of TCE is opportunistic behaviour of partners.

Transaction costs are related with the costs that associated with different issues of dealing with other companies, such as cost of monitoring other side to confirm that what they are doing, cost of identifying what companies should do, and imposing the particular conditions (Williamson, 1975).

The opportunism indicates that people consider their own interest and take advantage of circumstances if they are not controlled by the market (e.g., by a particular contract that can prevent them from behaving opportunistically).

There is a risk of failure of IJV which is caused by opportunistic behaviour of the partners. In the case of lack of trust between partners which might be due to different religions, the international joint venture will be failed or at least a costly safeguard will be required in order to stop opportunistic behaviour of the partners which will result in high transaction costs.

In contrast, inter organisational trust decreases the partner's need to control each other and will result in lower transaction cost. In addition, trust positively affects the development of the cooperation; therefore enhance the benefit of collaboration.

**H8.** The more similarity between partners' religion, the less control and higher inter-organisational trust

### 3.4 Country risk

Country risk has been defined as instability of the political, economic, and social elements of the target country (Henisz, 2000). Gatignon and Anderson (1988, p.315) describe country risk as 'generally understood to mean the extent to which a country's political, legal, cultural, and economic environment threatens the stability of a business operation'.

Even though the research topic of country risk is more relevant than ever (Henisz, 2000), there has been little attention to this topic in developing countries, and it has been mostly explored in developed countries.

#### 3.4.1 Political and Legal Factors

Political risk states a condition in which the rapid and unpredictable changes in politics, will effect on the political environment of strategic alliances and as the result brutal impact, such as risk of being nationalised and that of war. If the alliance between partners is in a country with unstable and high level of political risk, government and policies, the risk of operation of the foreign side will increase and therefore will influence the stability of the alliances. In the case of high level of disparity between different country's legal systems, implying some of the items in the contract will be difficult. To give a simpler explanation, the more that legal system of the countries are different, the more they will face a problem for implementing the items of contract and the possibility of legal conflicts will be more between partners and alliance will finally fail (Ji and Huang, 2010).

In such uncontrollable circumstances, partners in joint ventures will response to this situation with behaving more opportunistically to reduce their respective exposure to external turbulence (Luo, 2007).

The relationship between trust and the dimensions of environmental uncertainty and opportunism is very important. It has been proved in the literature that relational norms (trust) and opportunism have a negative relationship with each other in an exchange relationship (Crosno and Dahlstrom, 2008; Hawkins et al., 2009). There is also support for strong association of environmental uncertainty and relational norms (Paswan et al., 1998).

**H9.** The higher is level of country risk in the host country, the more opportunistic behaviour and lower level of inter-organisational trust

### 3.5 Commitments

Mohr and Spekman (1994) defined commitment as the keenness of joint venture partners to put forth attempt on behalf of the joint venture relationship.

As trust forms the fundamental of social embedded exchange, it is necessary for the partners to earn mutual trust in order to keep the long-term relationship of the partners (Yaqub, 2010; Siddiqui, 2010).

When trust is created between partners in the relationship, it will create willing in partners for continuous relationship and improvement through the allocating more time and resources to the companies (Morgan and Hunt, 1994). Therefore, trust is an essential antecedent for improving commitment which is especially important in the joint relationship as the result of differences between partners, their culture and the geographic of the involved partners (Leonidou et al., 2006 and 2010; Skarmeas et al., 2002).

Partners with the commitment mostly consider long-term rather than short-term benefits. In this situation the level of conflict is lower between partners and consequently high level of commitment will affect performance and satisfaction of the partners (Demirbag and Mirza, 2000). It has been stated that in the existence of commitment both partners can achieve individual and joint goals without having opportunistic behaviour issue (Mohr and Spekman, 1994).

**H10.** The more trust between partners, the more commitment they have to the IJV

**H11.** Commitment has a positive impact of performance of IJV

### 3.6 Trust and performance:

Trust has been recognised as one of the most important factors that affect on performance of IJVs (De Jong and Woolthius, 2008; Krishnan et al., 2006; Zaheer et al., 1998).

Managers are finding out the importance of mutual trust in the success of strategic alliances. Formal contracts are very essential in performance of international joint ventures and they present the basic need for partners' collaboration. But these formal contracts are not enough for the relationship. Thus, informal contract, based on trust, has been proved to be a powerful element in the success of international joint ventures.

Trust is a way to raise cooperation, develop flexibility, decrease the cost and boost the knowledge that can be transferred (Hitt et al., 2003). Trust makes reciprocal understanding easier and benefits both partners, and therefore it is assumed that trust has a direct impact on performance of IJVs (Brouthers and Bamossy, 2006; Luo, 2001; Ng et al., 2007; Robson et al., 2008). Experience has proved that in the lack of trust, international joint ventures will collapse (Nielson, 2007).

The performance of IJVs has been categorised as the following categories: survival, financial outputs, overall satisfaction, achievement of individual or joint goals, and learning. However, there is a significant argument about the validity and reliability of these performance measures (Krishnan et al., 2006).

As subjective measures are difficult to track (Bucklin and Sengupta, 1993) and normally they are sensitive in nature for many organisations to reveal for researches (financial and duration), in this paper we will concentrate of objective measures (satisfaction, goal achievement and learning).

**H12.** Trust has a positive impact of performance of IJVs

### 3.7 Conceptual framework

The conceptual framework of the study is consist of inter-partner fit (shared past, complementarity, compatibility and strategic bond), relational factors (fairness, flexibility and two-way communication), religion and country risk, commitment, trust and performance. Based on the framework, the impact of components of inter-partner fit, relational factors, religion and country risk on level of inter-organisational trust will be investigated. Additionally the relationship between inter-organisational trust and commitment which is a mutual relationship will be assessed. Finally, the impact of trust and commitment of performance of IJVs (satisfaction, goal achievement and learning) will be evaluated. The figure 1 shows the framework of this study.

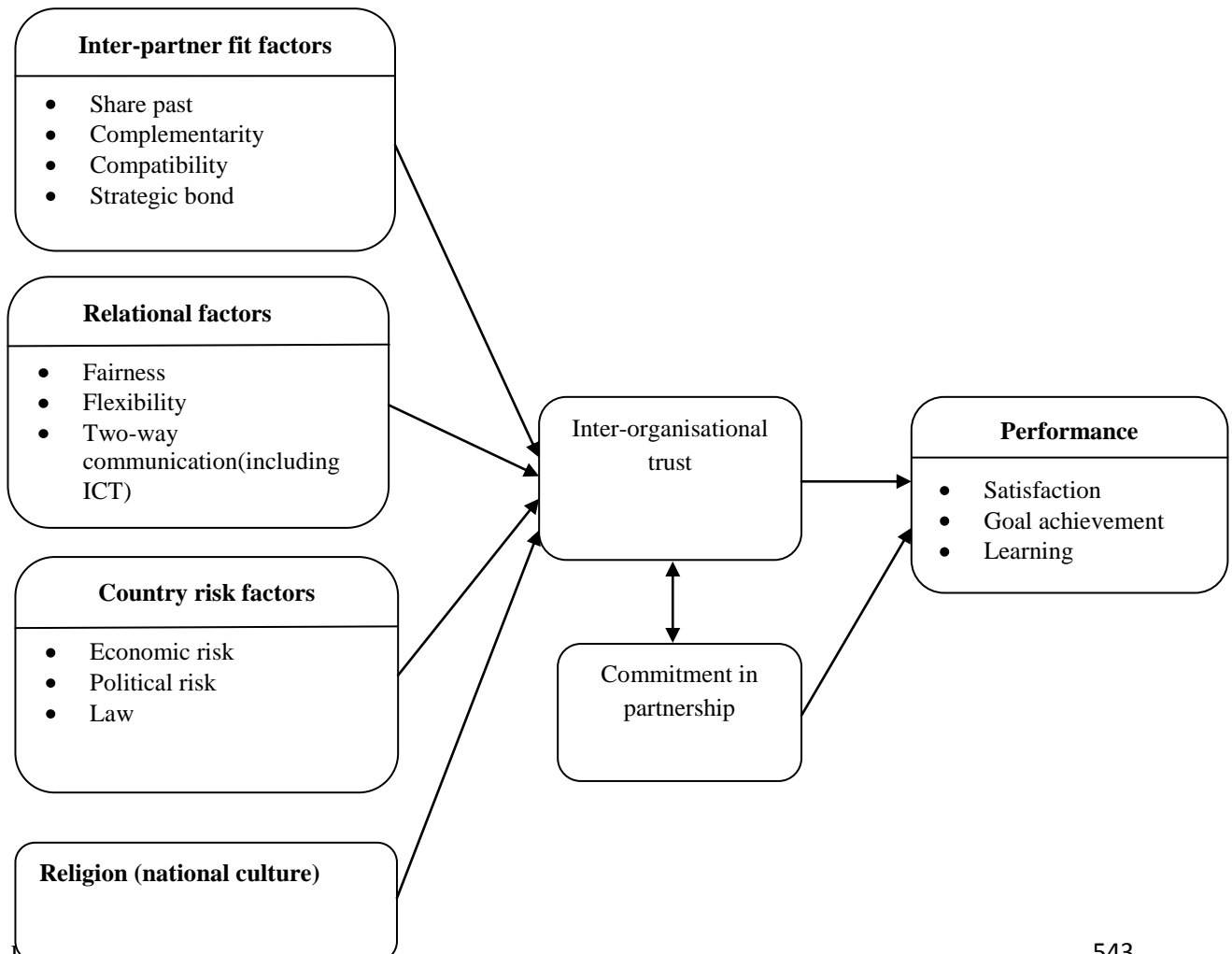


Figure 1: Conceptual framework of IJV

## 4 Methodology

A significant number of articles have been published on IJV, but there is still no systematic and comprehensive review. This paper follows the principles for systematic review addressed by Tranfield, Denyer and Smart (2003). In similar construct there are many articles on trust in IJVs, there is not much systematic and comprehensive reviews. In this research, the relationship between independent and dependent variables will be measured. Initially, the research started from the review of large number of literature and a conceptual approach was developed in order to conduct an empirical examination. Some examples of the reviewed literature are included in table 1. In addition, the conceptual framework has been developed with supporting theories to formulate and develop the hypotheses in order to help in understanding and investigating the relationship between the four independent variables (e.g. inter-partner fit, relational factors, country risk factors, and religion “national culture”) and three dependent variables e.g. inter-organisational trust, commitment in partnership, and performance). The adopted procedure for this research is a quantitative approach for collecting and analysing data.

In the field of methodology, there are two main paradigms in research which are positivist and phenomenological (Hussey and Hussey, 1997). Positivist is recognised as scientific and it is quantitative and phenomenological is recognised as non-positivist and it is qualitative. Both of the approaches have positive and negative effects of different field of research, but the main concern is the same. Also, based on philosophical point of view, the paradigm in positivism is deductive, start with developing hypotheses from theory and followed by collecting data, and on the other hand, phenomenological is an inductive approach, which is based on finding a case and monitoring relationships and at the end creating a theory for the case. Cavana et al. (2001) argued that quantitative research start with supporting theory, create hypotheses, data collection and analysis and as the result accept or rejection of hypotheses. On the other hand, phenomenological approach starts with observing what is happening, analysing the themes and as the result developing theory.

In this study, the intention of the researcher is to investigate the factors that affect level of trust and performance of IJVs. A quantitative approach will be used, as it is one of the most important approaches in business and social science methodologies. The study will be an empirical study in which a survey questionnaire will be applied for collecting data. This research will be conducted in the Chemical Industry of IJVs in developing countries. The data will be collected from a sample of 300 senior managers such as CEOs, directors or vice directors of the IJVs who are responsible for the company’s overall performance and for the success of the venture. In order to analyse the data and to obtain statistical measure, the software package (SPSS) will be used to test the hypotheses and to find out if any relationship between independent and dependent variables exists. Before the data collection process, a pilot study will be conducted in order to measure the reliability of the questions, language used in the survey and the time needed to complete the survey.

## 5 Conclusion

In this paper the empirical evidence on trust in IJVs were reviewed and a discussion of current definition and understanding of the problem of IJVs in developing countries to explore the extended concept of IJV. A review of the key literature is presented which gives insight and direction to an understanding of the antecedents of IJVs which helps in developing a conceptual framework for future testing. A number of conclusions can be drawn from this research. First, the proposed framework aims at investigating the impact of antecedents of trust on performance of IJVs in developing countries. The impact of components of inter-partner fits, relational factors, religion and country risk on level of inter-organisational trust and the effect of trust on performance of IJVs will be

evaluated. Second, while the current literature provides a solid theoretical foundation for understanding key concepts that highlights the problems that IJVs face, the next stage is a need to move towards a deeper level of understanding of the component states that includes many factors (see figure 1) of IJVs, namely the cognitive and effective factors within the states of IJVs. The states and factors that make up IJV need to be explored and a practical framework has been developed which enables the states and the factors in figure 1 to be verified and measured.

Finally, IJVs will increasingly be influenced by social interactions between local and international partners in the development of IJVs. This will lead to managerial implications stem from this literature review and the proposed framework.

We investigated these issues by constructing an appropriate questionnaire which will be sent to managers of developing countries that have formed IJVs in the last 20 years. It is hoped that the results of the questionnaires will be statistically analysed using the appropriate statistical methods and measures. Any possible findings would constitute a valuable contribution to international academics and practitioners with regard to the complex concept of trust. Also, this research will provide insight for the managers who are willing to invest in IJV in developing countries.

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