The nature, antecedents, and consequences of joint venture trust

Andrew C. Inkpen* and Steven C. Currall†

*Thunderbird, The American Graduate School of International Management, 15249 N 59th Avenue, Glendale, AZ 85306-6000, USA
†Jones Graduate School of Management, Rice University, P.O. Box 1892, Houston, TX 77251, USA

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Abstract

Although trust has been identified as a critical factor in alliance management, rigorous conceptual and empirical developments of alliance trust have remained elusive. Our objective in this paper is to develop a conceptual understanding of joint venture (JV) trust. First, we define JV trust as reliance on another JV party (i.e., person, group, or firm) under a condition of risk. Reliance is volitional action by one party that allows that party's fate to be determined by the other party. Risk means that a party would experience potentially negative outcomes from the untrustworthiness of the other party. Thus, under a condition of risk, a JV partner's trust is signified by action that puts its fate in the hand of the other partner. Second, we review previous literature on trust and JVs and show that trust has been viewed from three different perspectives: structural, social, and psychological. Third, we develop a framework of the antecedents and consequences of JV trust. The factors considered as antecedents are: prior cooperative relationships, habitualization, individual attachment, organizational fit, and assessment of partner competence. Proposed consequences or outcomes of JV trust include forbearance, governance structures, relationship investments, increases in JV scope, and JV performance. From this framework, we identify various theoretical and methodological implications, and propose a research agenda. © 1998 Elsevier Science Inc.

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1. Introduction

Over the past several decades, there has been a substantial increase in the formation of both domestic and international strategic alliances. Strategic alliances have three important characteristics. First, the two (or more) firms partnering remain independent after the formation of the alliance. Second, alliances possess the feature of ongoing mutual interdependence, in which one party is vulnerable to the other (Parkhe, 1993). Mutual interdependence leads to shared control and management, which contributes to the complexity of alliance management and often creates significant administrative and coordination costs. Third, because the partners remain independent, there is uncertainty as to what one party is counting on the other party to do (Powell, 1996). As a result, alliances are frequently described as difficult to manage and highly unstable, which is why interpartner trust plays a key role in successful alliances.

Strategic alliances can have a variety of organizational arrangements, such as JVs, licensing agreements, distribution and supply agreements, research and development partnerships, and technical exchanges. The governance structures of the various forms are distinguished as either equity alliances or non-equity alliances (Hennart, 1988). Equity alliances involve the transfer or creation of equity ownership either through direct investment or the creation of an equity joint venture. Non-equity alliances neither involve transfer of equity nor do they usually entail the creation of a new organization. From a transaction cost economics perspective, quasi-market ties, like non-equity alliances, are the default mode for organizing alliances (Gulati, 1995). To explain the use of equity versus non-equity forms, researchers have argued that the problems of opportunism and uncertainty can be better handled with equity alliances. The rationale offered is that equity alliances usually result in the creation of new entities that require a hierarchical management structure. This structure can oversee the functioning of the alliance and handle contingencies as they arise (Gulati, 1995). Additionally, equity alliances can “provide a mechanism for distributing residuals when ex ante contractual arrangements cannot be written to specify or enforce a division of returns” (Teece, 1992:20).

This paper examines antecedents and consequences of trust in equity JVs, an alliance form that combines resources from more than one organization to create a new organizational entity (the “child”) distinct from its parents. NUMMI, a 50-50 equity alliance formed in 1984 between General Motors and Toyota, provides an example. In this JV, the partners brought together their complementary capabilities in automobile manufacturing and labor management to build an organization with its own management, board of directors, and staff. We focus on equity JVs for several reasons. First, the development of trust associated with equity JVs requires a depth of analysis not necessary for other types of alliances. Second, most of the conceptual and empirical research in the alliance area has dealt with equity JVs. Third, because equity JVs involve independent organizations, the identification of individual alliance managers and reporting relationships associated with interfirm trust is more apparent (and consequently, more amenable to empirical study) than in non-equity alliances, such as licensing agreements.

There is an extensive literature examining the role of trust as a key JV management issue and as a factor critical to successful JVs. Many researchers have argued that JVs should be established in a spirit of mutual trust and commitment (Beamish and Banks, 1987; Buckley

and Casson, 1988; Gill and Butler, 1996; Gulati, 1995; Harrigan, 1986; Madhok, 1995; Park and Ungson, 1997; Parkhe, 1993; Saxton, 1997; Yan and Gray, 1994). More generally, similar arguments have been advanced for interorganizational collaboration (Alter and Hage, 1993; Fichman and Levinthal, 1991; Gambetta, 1988; Granovetter, 1992; Jarillo, 1988; Johnson et al., 1996; Kumar, 1996; Powell, 1996). It has been posited, for example, that trust is advantageous because it strengthens interorganizational ties (Fichman and Levinthal, 1991), speeds contract negotiations (Reve, 1990), and reduces transaction costs (Bromiley and Cummings, 1993).

The article has three main goals. First, it presents a conceptualization of JV trust based on risk and reliance. Second, the article reviews previous literature on trust and JVs and shows that trust has been viewed from three different perspectives: structural, social, and psychological. Third, the article develops a framework of the antecedents and consequences of JV trust. The factors considered as antecedents are: prior cooperative relationships, habitualization, individual attachment, organizational fit, and assessment of partner competence. Proposed consequences or outcomes of JV trust include forbearance, governance structures, relationship investments, increases in JV scope, and JV performance. The article concludes with a discussion of future directions for new theory development and research methodology.

2. The Nature of JV Trust

Previous definitions of trust have involved two principle concepts: (1) reliance (Giffin, 1967; Rotter, 1980) and (2) risk (Deutsch, 1962; Gambetta, 1988; Kee and Knox, 1970; Lorenz, 1993; Mayer et al., 1995). Thus, following Currall and Judge (1995), JV trust is defined as reliance on another JV party (i.e., person, group, or firm) under a condition of risk. Risk is volitional action by one party that allows that party’s fate to be determined by the other party (Zand, 1972). Risk means that a party would experience potentially negative outcomes, i.e., injury or loss (Isen et al., 1988; March and Shapira, 1987; Sitkin and Pablo, 1992), from the untrustworthiness of the other party. Thus, under a condition of risk, a party’s trust is signified by action that puts its fate in the hand of the other party. Drawing on Currall and Judge (1995), four dimensions of trusting action can be identified: (1) communication and information exchange; (2) task coordination; (3) informal agreements; and (4) surveillance and monitoring, which signifies the absence of trust. Although a complete explanation of each dimension is beyond the scope of this paper, all the dimensions are manifestations of “reliance on another party under a condition of risk,” and have been shown to apply to the JV context (Inkpen and Currall, 1997).

Risk is a precondition for the existence of trust, and the trustor must be cognizant of risk (Mayer et al., 1995; Sitkin and Pablo, 1992). The risk of negative outcomes must be present for trust to operate, and the trustor must be willing to be vulnerable. In the absence of risk, trust is irrelevant because there is no vulnerability. The greater the risk, the higher the confidence threshold required to engage in trusting action. There are various sources of risk in JVs. For example, a JV will often involve the exposure of key knowledge and technology resources to a partner. In this situation, there is risk that a partner will appropriate the resources as the basis for eliminating partner dependence and making the JV bargain obsolete. A sec-
ond type of risk is associated with the resources and efforts devoted to building a cooperative relationship. These resources and efforts will probably have no external value, and cannot be recovered if the JV terminates due to the untrustworthiness of the partner firm (Smith and Barclay, 1997). A third type of risk involves the inability of a partner firm to execute its share of the JV bargain. When a JV is formed, the partners must decide how tasks will be jointly performed. Before the partners have worked together, they have little information about each other’s skills. If one firm misleads the other into believing it can perform certain tasks when it cannot, it may be impossible to achieve the objectives set out by the JV agreement.

Table 1
Comparison of different treatments of JV trust

<table>
<thead>
<tr>
<th></th>
<th>Structural property</th>
<th>Social property</th>
<th>Psychological property</th>
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<tbody>
<tr>
<td>Underlying assumptions</td>
<td>Trust exists between the partner firms; specific managerial interactions are of minimal importance. Trust is mutual. Cooperation is associated with the generation of inter-partner trust. Trust and JV economic performance are linked.</td>
<td>Trust is a reflection of interwoven personal relationships that develop incrementally over time. Trust is a relationship characteristic. Trust and JV performance are often linked.</td>
<td>Trust is based on cognitive and emotional bases, which can only result through close interpersonal relationships. Trust is dependent on the managers who have responsibility for the management of the relationship. Trust and JV performance are rarely linked.</td>
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<tr>
<td>Implications of absence of trust</td>
<td>Opportunistic behavior, economic loss, and JV instability.</td>
<td>Ineffective firm interactions and a lack of cooperation; poor JV performance.</td>
<td>Personal vulnerability with implications for the JV and partner firms.</td>
</tr>
<tr>
<td>Level of analysis</td>
<td>Firm level.</td>
<td>Firm, group, or personal level.</td>
<td>Personal level.</td>
</tr>
<tr>
<td>Temporal sequence</td>
<td>Trust levels precede the organizational form.</td>
<td>Trust evolves over time; may be low levels of trust when the JV is formed.</td>
<td>Strong personal relationships may mean trust exists prior to formal JV relationship.</td>
</tr>
<tr>
<td>Enforcement</td>
<td>Legal, contractual, and formal controls.</td>
<td>Informal norms, obligations, and sanctions by organizational members.</td>
<td>Loss of managerial control.</td>
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<tr>
<td>Key research questions</td>
<td>What is the relationship between JV performance and trust? How does trust influence JV governance? How do formalized contracts enhance or diminish trust?</td>
<td>What role does trust play in the collaborative exchange process? How do managerial actions create a climate of trust?</td>
<td>Why are individuals within the partner firms willing to engage in trusting behavior? What happens to a JV when key JV managers leave, or are transferred?</td>
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2.1. Treatments of Trust in the JV Literature

In this section, we review the existing literature, studying trust from a JV perspective. Our review shows that trust has been viewed from three different perspectives: structural, social, and psychological. Table 1 summarizes the perspectives.

2.1.1. JV trust as a structural property

As a structural characteristic of the JV relationship, JV trust is based on the underlying assumption that trust can exist between the partner firms. This perspective connotes a firm-level unit of theory and downplays the interaction between managers. Although firms cannot, strictly speaking, trust one another, just as they cannot cognize or have attitudes (James et al., 1988), firm-level treatments of trust are widely used in the JV literature (e.g., Buckley and Casson, 1988; Madhok, 1995). Gulati (1995) pointed to the existence of ties between firms in various industries, such as Italian textiles, French engineering, and American construction, as evidence of relational contracting (Williamson, 1985b) based on interfirm trust. The primary concern of those viewing trust as a structural concept is partner-opportunistic behavior that reduces the value of collaboration.

Various empirical studies have adopted the structural view (Gulati, 1995; Palay, 1985; Park and Ungson, 1997; Parkhe, 1993; Saxton, 1997). In the structural perspective, trust is linked with partner strategic motives, and efficient cooperation is associated with the generation of interfirm trust (Buckley and Casson, 1988). Beamish and Banks (1987) argued that with a foundation of trust, JV partners will be more willing to exercise the tolerance and perseverance necessary to see the JV through difficult times. Gulati’s study of repeated ties as the basis for future relationships adopted a structural perspective. According to Gulati, observing interfirm alliances over time suggests that repeated ties between firms engender trust that is manifested in the form of the contracts used to organize subsequent alliances (1995:105).

2.1.2. JV trust as a social property

A second view is that JV trust is a social property of the JV relationship. The social dimension of JV trust, as described by Madhok (1995:120), is based on the history of interactions between the partners that provides the social “glue” within which economic exchange occurs. Trust is viewed as a relationship characteristic. There are two key differences between the social and structural views. The first deals with the partnership implications associated with a lack of trust. In contrast to the structural view, which emphasizes that the lack of interfirm trust leads to opportunistic actions, the social perspective emphasizes that a lack of trust can lead to ineffective firm interactions and the absence of cooperation, resulting in poor JV performance. The presence of trust can facilitate the continuation of the relationship during intermittent periods of inequity (Madhok, 1995), and can make cooperation easier to implement (Nooteboom et al., 1997). In a study of 40 international JVs, Inkpen (1995) found that in 24 cases, the partners had previously collaborated. A second difference is that, under the structural view, trust is embedded in the partner relationship and, to some degree, can be a chosen characteristic of the JV based on a risk-based calculation. In contrast, trust as a social property is a product of ongoing interactions (Powell, 1996). Although expectations of trust reside in individuals, economic transactions between firms are often shaped by trading

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relationships based on trust. From this perspective, a social view of trust is a reflection of closely interwoven relationships that develop incrementally over time (Zaheer and Venkatraman, 1995).

2.1.3. JV trust as a psychological property

Some studies have examined the psychological underpinnings of trust between individual JV managers, the individuals who provide the linking mechanisms across organizational boundaries, namely, boundary role persons (Adams, 1976; Currall & Judge, 1995). We term this perspective trust as a psychological property. Thus, the unit of theory is the individual JV manager. Relational risk associated with a partner organization is considered from the perspective of the individual manager who enacts the relation with the partner firm (Nooteboom et al., 1997). The psychological approach to JV trust is consistent with recent interaction models whereby interfirm collaboration is studied in the context of a specific relationship between individuals (Heide and Miner, 1992; Kumar et al., 1993; Ring and Van de Ven, 1994).

The key assumption underlying the psychological perspective is that JV trust is based on strong cognitive and emotional bases that result from close interpersonal relationships. Therefore, trust in collaborative arrangements is largely dependent on the managers who have responsibility for the management of the arrangement. There is support for the importance of interpersonal trust in the development of interfirm trust. Macaulay described how close personal ties between individuals in firms contracting with each other could “exert pressure for conformity to expectations” (Macaulay, 1963:63). Ring and Van de Ven (1989) suggested that informal connections across organizations played an important role in the governance structure of interfirm transactions. As individual managers of partner firms develop trust in each other, the partnership structure may change as the relationship takes on more hierarchical characteristics, with less emphasis on formal coordination and compliance measures (Parkhe, 1993).

3. Antecedents of JV Trust

This and the following section examine the antecedents and consequences of JV trust by integrating the different perspectives of JV trust. The objective is a multi-level framework that incorporates managerial and firm-level variables (Fig. 1 shows directional relationships and Table 2 summarizes the concepts in the framework). As a starting point, it must be emphasized that negotiating and forming a JV initiates a dynamic relationship that, to be successful, will have to go through a series of transitions (Doz, 1996). Over time, as the partners and partner managers learn about each other and the JV becomes an operating entity, the level of interpartner trust will change. Trust requires familiarity and mutual understanding and, hence, depends on time and context (Nooteboom, et al., 1997:314). As the relationship ages, previous successes, failures, and partner interactions will influence the level of trust in the JV. Unlike most economic commodities, trust may grow rather than wear out through use (Hirschman, 1984). Trust may also decrease over the life of the relationship. For example, when a JV is formed, there is a subjective probability that a partner will cooperate. Experience will lead to adjustment of the probability, which in turn may lead to a shift in the level of
Table 2
Concepts in The Conceptual Framework

<table>
<thead>
<tr>
<th>Trust antecedents</th>
<th>Trust consequences</th>
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<td>Prior cooperative relationships between the partners</td>
<td>Partner forbearance</td>
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Habitualization:
- repeated interactions
- length of time the parties have worked together

Individual attachment:
- personal relationships between JV managers
- tenure of individual boundary spanning managers

Organizational fit:
- partner compatibility
- shared fate

Assessment of partner competence

Governance structures:
- coordination and monitoring costs

Relationship investments:
- initial relationship investments
- subsequent relationship investments

Increases in JV scope

JV performance

trust. To capture the dynamic nature of trust and to reflect the ongoing revision of trust, Figure 1 includes feedback effects from trust and the outcome variables back to the antecedents.

3.1. Prior Cooperative Relationships

The precariousness of new organizations has been discussed extensively in the organizational literature, beginning with Stinchcombe's (1965) arguments about the liability of newness. Stinchcombe suggested that the survival of new organizations is influenced by the strength and duration of personal and interorganizational relationships. When a new JV organization is created, the partners may have initial uncertainties about working together, particularly if they have had no prior cooperative relationship. On the other hand, new JVs that start with an existing stock of "relationship assets" may begin with a honeymoon period that effectively buffers the firm from early dissolution (Fichman and Levinthal, 1991). Previous
cooperative ties between JV partners can generate an initial base of interpartner trust and also shape the form of subsequent alliances (Gulati, 1995). If firms have worked together in the past, they will have basic understandings about each other's skills and capabilities (Heide and Miner, 1992). A history of relations between firms can shape the context for new exchange by reducing uncertainty.

Experienced partners can forgo the relationship building processes that will be necessary for partners working together for the first time (Parkhe, 1993). A partner's cooperative history allows each partner the opportunity to assess the ability and willingness of each to follow through on its promises. Parkhe (1993) found that the presence of a prior history of cooperation between alliance firms limited their perception of expected opportunistic behavior in new alliances and, as a result, reduced the necessity for contractual safeguards. Based on their findings from a study of 186 JVs, Park and Ungson (1997) observed that prior cooperative experiences promoted longevity in JVs. Park and Ungson inferred that prior experiences contributed to a trusting relationship.

3.2. Habitualization

In addition to the formal ties between firms that occur through prior alliances, firms can learn about each other through interaction. The familiarity and mutual understanding that develop through interactions based on social exchange has been termed habitualization (Nooteboom et al., 1997). The key elements in habitualization are repeated interactions and the length of time the parties have worked together. In contrast with the prior relationships variable, which deals with interactions that occurred before JV formation, habitualization reflects the ongoing and continuing relationships associated with the current JV.

Continuing business relationships often become overlaid with social content that generates strong expectations of trust and forbearance (Granovetter, 1985). A social context provides the environment within which economic exchange can be initiated (Larson, 1992). The passage of time lays the foundation for future expectations based on shared norms and values and hence, greater trust (Fichman and Levinthal, 1991; Granovetter, 1992). According to Parkhe (1993:803), “The older a relationship, the greater the likelihood it has passed through a critical shakeout period of conflict and influence attempts by both sides.”

Several theories suggest that cooperative behavior between firms increases with the length of the relationship. Interaction over time may lead to commitment (Deutsch, 1962) and to the development of relationship-specific assets, such as a partner's knowledge of the other's procedures and values (Levinthal and Fichman, 1988). This implies that when firms repeat transactions with partners over time, as they will in a typical JV, an opportunity is created for the development of interpartner trust. Ring and Van de Ven (1992:489) argued that reliance on trust by organizations can be expected to emerge between business partners when they have successfully completed transactions in the past and they perceive one another as complying with norms of equity.

3.3. Individual Attachment

Individual attachment reflects the socialization by individuals during their involvement in exchange activities. Personal relationships between JV managers can serve to shape and
modify the evolving structure of interorganizational collaboration (Jarillo, 1988; Ring and Van de Ven, 1994) and should be viewed as critical to the establishment of trust between partner firms (Yoshino and Rangan, 1995). According to John Browne, CEO of British Petroleum, "you never build a relationship between your organization and a company. ... You build it between individuals" (Prokesch, 1997:155). JV managers, responsible for the day-to-day operations of relationships between the JV partners, foster trust by building one-on-one relationships with partner managers and by developing a familiarity with the partner's strategy, organization, and culture. Partner firm managers may initiate a relationship based on personal knowledge and trust that, in the early years of the JV, provides a buffer against the normal pressures of collaboration. It is not uncommon in JVs for senior managers in the partners to take an active interest in the JV process and make a commitment to working with top managers from the partner firm(s).

Individual attachments will likely be closely related to the tenure of individual boundary-spanning managers involved in the JV (Seabright et al., 1992). A high turnover of managers can lead to a loss of relationship continuity and a reduction in individual attachment. Ring and Van de Ven (1994) suggested that personal bonds of friendship can lead to norms of group inclusion and escalate the commitment by parties to a cooperative relationship. They proposed that, over time, the likelihood of termination of interorganizational relationships decreased because economic exchanges become transformed into socially-embedded relationships. On the other hand, Seabright, et al. (1992) suggested that individual attachments are important early in a relationship but diminish in significance with persistence of the relationship. A potential problem associated with attachment is that when alliances rely on trust based on personal bonding, problems may arise if personal loyalties deviate from organizational interest (Nooteboom, et al., 1997). This can occur because, as Ring and Van de Ven (1994) noted, alliance relationships at the person level, such as personal ties and friendships, will often be different than those based on work role relationships.

3.4. Organizational Fit

In a discussion of mergers, Jemison and Sitkin (1986) introduced the concept of organizational fit to describe the similarities between organizations in terms of organizational culture, human resource policies, and administrative processes. In mergers with a strong fit between the firms, organizations are more likely to work well together and successfully integrate their human resources. In the JV context, Saxton (1997) argued that organizational similarities between the partners help establish trust and enhance the appropriability of knowledge necessary to form the basis for a common frame of reference. In turn, learning can help offset cultural differences (Barkema et al., 1996) that often exist in international JVs. Inkpen (1995) found that a lack of compatibility between JV partners, particularly with regard to expectations about venture profitability, frustrated learning processes, which, in turn, contributed to breakdowns in trust.

Organizational fit and partner compatibility will evolve from a variety of factors, including similar corporate cultures and values, compatible control and decision-making systems, common time horizons for performance assessment, and convergence of strategic goals for the JV. A problem with the concept of partner compatibility is the difficulty of measurement,
given the range of factors that contribute to organizational compatibility (Osborn and Hagedoorn, 1997). For example, Park and Ungson (1997) examined organizational complementarity and JV dissolution. The variables used to measure complementarity between the partners included national culture, strategic direction, age, size, competition between the partners, and operational overlap. Competition between the partners and operational overlap were the only significant predictors of dissolution, suggesting that organizational fit should be viewed from the perspective of partner economic motivation.

Another factor that contributes to organizational fit is the concept of shared fate. In ecological theory, shared fates indicate interdependence in that the outcome of one party is influenced by the actions of the other (Barnett & Carroll, 1987). The belief that both partners share a similar fate in their JV may help bind them together. For example, Inkpen (1995) examined JVs in the automotive components industry. Many of these JVs supplied Japanese automakers and, because they were new organizations, were under tremendous pressure to meet the demanding quality and delivery requirements of their customers. As both partners struggled to support the JV’s efforts, their shared fate helped the JV managers establish open and communicative relationships.

3.5. Assessment of Partner Competence

Trust involves risk associated with reliance on another party. Brockner et al. (1997) suggested that because trust is based on the expectation that the trustee will perform certain desired behaviors, the trustor must believe that the trustee has both the desire and ability to perform the behavior in question. Without that belief, trust will be absent. This perspective can be extended to the JV context. Before a firm is willing to rely on another firm to perform critical JV tasks, there must be an assessment of that firm’s competence and skills. If the firm is viewed as competent, there may be a willingness to trust. A firm viewed as incompetent will be too high a risk and, as a result, trust will likely not develop.

A firm’s assessment of its partner’s competence will take into account the partner’s reputation. Hill (1990) suggested that parties will try to avoid entering an exchange with another party who has a questionable reputation and, if the reputation is questionable, additional security may be required to offset the additional risks. Although a knowledge of the reputation associated with a potential firm’s past behaviors is desirable to obtain, frequently this information will not exist in the public domain (Parkhe, 1993). For international JVs in particular, it is often difficult to obtain reliable information about potential partners. In the absence of information on partner past behavior, it will be difficult to form an assessment of partner competence.

4. Consequences of JV Trust

If trust exists between JV partners, the partners will have signified this trust by engaging in trusting action, which we defined as reliance on another party under a condition of risk. In the absence of trusting action by the partners, there is no evidence that trust exists. In this section, we propose several consequences of JV trusting action. Our objective is to identify outcomes that occur as the result of trust. For example, we predict that as trust develops in a
JV, the partners will be more willing to make relation-specific investments. In turn, new investments will help sustain the level of trust, which could lead to further investments. Therefore, just as there are feedback loops from trust back to the antecedents, there are also feedback effects from consequences back to trust (see Fig. 1).

### 4.1. Forbearance

The risk of partner opportunistic behavior plays a pivotal role in all alliances, not because all economic agents behave opportunistically all the time, but because it is difficult to differentiate those that do from those that don’t (Parkhe, 1993). The risk stemming from opportunism has two dimensions: the probability that Partner 1 will behave opportunistically, and the extent of loss incurred by Partner 2 if Partner 1 does (Nooteboom et al., 1997). Firms that refrain from acting opportunistically are said to forbear. In a truly cooperative JV, mutual forbearance is an essential feature of the relationship. Forbearance, like trust, evolves through interactions between alliance managers. It is the alliance managers that must make the decision, on behalf of the partners, to refrain from acting opportunistically.

With growth in trust, there is an increasing willingness to put oneself at risk and to increase commitment to the JV. Partners who trust one another and show good faith in their behavior are unlikely to engage in opportunistic behavior. Buckley and Casson (1988) argued that JVs with a reputation for mutual forbearance enhance their chances of future success. They reasoned that a party with a reputation for forbearance gives partners a greater incentive to forbear themselves, because it increases the likelihood that, if they forbear, the venture as a whole will be a success. Alliance managers who have observed in their counterpart managers a willingness to refrain from opportunistic behavior are more likely to engage in trusting behavior.

We acknowledge the reciprocality of the trust and forbearance relationship. Trust can lead to forbearance, which in turn can lead to increased trust. However, in a young JV, the partners may know very little about each other and consequently, there may be little trust. Therefore, we view trust more as an outcome than as a precondition of an alliance. This outcome will lead to various consequences, one of which is partner forbearance.

### 4.2. Governance Structures

The nature and form of JV governance structures evolve over time as the JV strategy evolves and partners interact. The level of trust between the partners will influence the choice of governance structures. Non-contractual safeguards are more likely when there is a high level of trust between the partners. For example, in cases of high trust, the JV agreement can be very incomplete because of the low perceived opportunism. Governance costs under conditions of distrust will be greater and procedures will be more formal, such as more detailed contract documentation, more frequent board meetings, closer scrutiny by lawyers, and more communication between partner headquarters and the JV. These procedures will result in additional transaction costs to the JV partners (Dyer, 1997). Parkhe (1993) found support for the hypothesis that elaborateness of safeguards and the perception of opportunistic behavior are directly related.

As the fear of opportunism fades because of the development of mutual trust, there may be a reduction in coordination and monitoring costs. Thus, trust has efficiency implications.
Dyer (1997) argued that trust itself should be viewed as an efficient governance mechanism in interfirm relationships. Gulati (1995) made a similar argument, suggesting that firms may substitute trust for contractual safeguards when they form repeat alliances. Nooteboom et al. (1997:318) challenged this view, stating that “trust can only be considered an instrument of governance in a limited sense: it contributes to risk reduction, but it cannot be instituted instantaneously. If trust is not already present, it has to be built by developing bonds or shared norms and values.” Our view is that the level of trust is a determinant of the governance structures that evolve in a JV. As a high level of trust develops, safeguarding procedures and monitoring costs can be reduced. The optimal governance structure will depend on various factors, such as alliance objectives, the level of investment, technological conditions, and partner time horizons. For example, in new alliances between firms without any common cultural background or prior interactions, the basis for trust may be absent when the alliance is formed. In this case, the partners may have no choice but to rely extensively on contracts and monitoring. As interactions increase and attachment develops, trust may increase, at which point monitoring may no longer be necessary. Based on a study of continuity in distribution channel dyads, Anderson and Weitz (1989) stated that trust increased the stability of relationships and reduced the need for special relationships. Ring and Van de Ven (1992) suggested that when trust between partners increases over time, there will be a greater reliance on alternative governance structures emphasizing relational contracts over market or hierarchical contracts.

4.3. Relationship Investments

The formation of a JV requires an investment in relation-specific assets. The risk associated with some of these JV assets is that they may have limited alternative uses in the event of JV termination. In the language of transaction cost economics, this is a problem of asset specificity (Williamson, 1985), which is the degree to which an asset can be deployed productively elsewhere. Some assets, such as trucks, machinery, or human resources, can be used elsewhere in the event a JV agreement is terminated. Other assets will be specific to the JV and have no alternative use. Asset specificity can take many forms and involve a variety of assets: physical sites, human capital, plant and equipment, and brand names. Although investing in specific assets is always a gamble, without them, the JV may be unable to develop the necessary complementary competencies for success (Nooteboom et al., 1997). The challenge for firms before alliance startup is to determine the level of investment and associated safeguards necessary to create a viable operating entity. At this point, relation-specific assets represent a risky decision supported by expectations that the present value of discounted future payments from mutual cooperation will exceed their costs (Parkhe, 1993:805). The more likely a firm expects its JV partner to behave opportunistically, the greater will be the firm’s reluctance to make relation-specific investments. Based on our conceptualization of trust, the willingness to make relation-specific investments before commencing the JV is an aspect of trusting action. In that sense, the willingness of one partner to invest in specific assets can be a powerful signal of behavioral intentions.

Preserving asset values will always be a goal of JV partners. In the absence of detailed understanding of the partner, firms may be unwilling to make commitments to a JV without de-
manding an economic "hostage" (Williamson, 1983). The exchange of economic hostages can preclude the emergence of opportunism. In many international market entry JVs, the local partner is expected to provide the physical facility. The foreign partner's technology often becomes a hostage because, in the event of JV termination, the local partner may be able to preserve asset values by employing the technology in an autonomous operation. The foreign partner's hostage may be its access to local knowledge (Inkpen and Beamish, 1997). In some instances, partner commitment may be manipulated by demanding high mutual investment of assets; for example, "If I am going to build a new plant, you must pay for the machinery." Or, the parties may find it advantageous to impose mutual barriers to exit. An interesting question is the relationship between economic hostages and trust. Our view is that since hostages provide initial protection from opportunistic behavior, the presence of hostages will usually create an environment in which trust has a better chance of developing, which in turn will lead to a more cooperative venture. As Williamson (1983) argued, efficiency purposes are often served by hostages. Nevertheless, when hostages are unilateral or one partner believes that a hostage was "demanded," probably by the stronger partner, a hostage may have the appearance of an arbitrary exercise of power.

Subsequent to the JV formation, the partners often will be faced with additional investment decisions involving expansion or shifts in strategic direction. We propose that the willingness of JV partners to make subsequent investments in relation-specific assets will be related to the level of interfirm trust that has developed over the life of the JV. There are two differences between initial investments prior to JV startup and subsequent investments. First, young alliances often rely on hard, formal, deterrent-dominated governance since they have yet to develop a soft, informal, trust-based understanding between the partners (Parkhe, 1993). By the time subsequent relation-specific investments are required, the partners will have worked together and a high or low level of trust will be established. Therefore, subsequent investments will be able to take into account the relationship history. Second, subsequent investments, unlike initial investments, will have less of a "make or break" impact on JV performance. Dyer (1997) described how Japanese automakers and suppliers often make symmetrical investments that increase interdependence. Dyer found that the level of investment in relation-specific assets deepened over time as a high level of interfirm trust was established and after the initial relation-specific investments were made. The investments increased the expectation of future interaction, leading to a pattern of cooperative behavior.

4.4. Increases in JV Scope

When a JV is formed, the agreement will establish the strategic breadth of the entity, partner tasks, interface design, and usually, the expected duration of the agreement. Doz (1996) described this stage as the alliance initial conditions, the conditions that establish the alliance scope. In turn, the scope will influence the JV structure, assignment of management, the establishment of administrative policies, and the initial relationship between the partners. After start-up, the scope and objectives of JVs often change as strategic priorities shift and as trust between the partners increases. We propose a positive relationship between scope and the development of interpartner trust. Initially, partners may be uncertain about their partner's competence and reputation. As the JV ages and trust develops, the partners may decide to in-
crease the JV scope. We have observed a Japanese–American JV that started with a scope largely independent of its American parent. Over a number of years, the JV became less independent as ties between the two partners increased. Plans were underway between the partners to explore several new international options. Both parents realized that pooling their knowledge made sense, given the ongoing consolidation in their industry. It should be noted that in the event of a lack of trust or a situation of declining trust, the partners may decide to reduce the JV scope and limit their risk.

Often, firms place limits on the scope of their JVs because of market uncertainties and limited information about their partner. For example, many firms entering China for the first time establish JVs with very narrow scopes and limited capital. If the JV is successful and trust develops between the partners, the scope is usually increased after a few years. Doz (1996) suggested that an underdefined, excessively emergent strategic context can undermine cooperation. We would argue that trust can mitigate the potential problem of an emergent strategic context.

4.5. JV Performance

The trust–performance relationship has been discussed extensively in the JV literature. The rationale for the relationship is as follows. Trust ensures a sound and cooperative working relationship between the JV partner firms. The higher the trust, the more efficient the JV will be in transforming an input of cooperation into a collaborative output (Buckley and Casson, 1988). A foundation of trust, although time-consuming and expensive to create, can contribute to the sustained continuation of cooperative relationships (Madhok, 1995). As trust increases and the fear of opportunism fades, there is a declining role for contractual safeguards, leading to lower compliance and coordination costs (Parkhe, 1993). This is consistent with our field interviews with JV managers, where we often heard statements such as, “The most important factor in the success of our venture is trust between the partners.” A lack of trust in a cooperative relationship can lead to a situation in which one or both partners believe their alliance efforts are unproductive, resulting in a downward spiral of poor performance, and dissatisfaction with the relationship (Smith & Barclay, 1997).

Although it has generally been argued that trust leads to performance (e.g., Harrigan, 1986; Saxton, 1997), the argument that performance leads to trust has merit as well. Yan and Gray (1994) suggested that performance may have a feedback effect on trust. Poor performance may cause distrust between the partners, which leads to poor long-term JV performance (Killing, 1983). A firm’s review of past JV results, in comparison with expectations, can lead to a firm’s prediction of the extent to which the partner firm will follow through on its current promises (i.e., is trust in the partner warranted?). If JV performance is worse than expected, JV partners are likely to question the competence and capabilities of their partners. The level of trust in the relationship will therefore suffer accordingly. Thus, when JV managers say, “Our relationship is built on trust,” they may mean that because performance outcomes exceed expectations, neither partner has questioned the actions and motives of the other. As we heard from a manager experienced in JV management, “Nothing improves an alliance relationship better than making money.”

The strongest empirical support for the trust-to-performance relationship in an interfirm context can be found in the marketing literature on channel relationships (e.g., Aulakh et al.,
Despite numerous conceptual arguments, there is limited empirical support in the JV literature. Using perception of opportunistic behavior as a proxy for trust, Parkhe (1993) found a strong relationship between perception of opportunistic behavior and alliance performance. Inkpen and Currall (1997) found support for the argument that trust has an indirect effect on performance mediated by forbearance. In their qualitative study of United States–China JVs, Yan and Gray (1994) identified trust as a mechanism that moderated the relationship between formal management control and JV performance. Both Park and Ungson (1997) and Saxton (1997) found a positive relationship between antecedents of trust and alliance outcomes.

4.6. Summary

A primary objective of this paper was to develop an empirically testable framework of JV trust with a focus on trust's antecedents and consequences. Development of the JV trust concept been impeded by a simplistic view of trust and its relationship with other organizational concepts. Most attempts to measure trust empirically have looked at trust and its relationship with one or two concepts, usually in a unidirectional manner. In developing the conceptual framework, our objective was to show that trust is both an outcome and an antecedent concept, and in doing so, demonstrate that it is not a cliché to say that trust is the most important factor in JV management.

5. Directions for Future Research

5.1. Theoretical Issues

Although we believe the conceptual framework to be comprehensive, additional theoretical issues require further investigation. The existing JV literature tells us much more about firm-level trust antecedents and consequences than about those at the individual level. Clearly, research that focuses on individual-level variables, such as managerial friendships and social ties, needs to be expanded. The antecedents of firm-level actions may be very different than the antecedents of individual-level actions. However, a research approach that attempts to understand the simultaneous influence of both sets of variables has the best chance of producing the greatest insight about how trust develops in JVs. For example, the problem of partner opportunism has been the focus of much of the JV literature. This stream of literature would be more informative if it enabled an understanding of how individual managers interact and how trust at the managerial level influences the probability of partner-opportunistic behavior.

In terms of partner objectives and performance measurement, all JVs will be asymmetric to some degree. Asymmetric partner dependence has been considered in various alliance studies (e.g., Doz, 1996; Inkpen and Beamish, 1997). Further research is needed on the notion of asymmetric trust. The framework developed in this paper looks at trust from the perspective of both partners, but does not specifically consider the case of trust that is asymmetric, i.e., one partner trusts more than the other. Additional research is also necessary on the evolution of trust. How is trust sustained once it is established? What factors lead to a depletion of trust? How fast or slow does trust become depleted in the event of poor organizational
fit or lack of individual attachment? Does trust evolve in stages? Early exchanges and prior history are crucial for establishing the foundation of trust. After the foundation is established, what factors are most important, and does initial trust differ from “older” trust? If trust is not faithfully reciprocated by one partner, what are the implications for cooperation and alliance performance?

Finally, in a study of organization networks and embeddedness, Uzzi (1997) raised the issue of trust as a heuristic. Uzzi found that in embedded ties, trust was unlike the calculated risk of arm’s length transacting (Williamson, 1994). With heuristic-based processing, information on the trustee is not systematically compiled as it would be for calculative risk-based trust assessments. Instead, respondents in Uzzi’s (1997:43) study described their interfirm relationships with statements such as “It’s a personal feeling,” and “Trust is the distinguishing characteristic of a personal relationship.” Trust involved the exchange of assets that were difficult to price but enhanced the cooperating firms’ competitive positions. With JVs, there is a need to consider whether trust is calculative, heuristic, or a mixture of both. Perhaps trust develops early in a relationship through calculative risk assessments. As individual attachments increase and barriers break down, trust may adopt the character of a heuristic.

5.2. Methodological Issues

Although trust has been discussed extensively in the JV literature, it has defied precise measurement and assessment. Based on our review of the literature, we offer three reasons for this situation. One reason is the ubiquitous nature of the trust concept. We would argue that few organizational concepts are discussed as frequently by practitioners and academics as trust. As a result, researchers interested in the trust concept are confronted by a voluminous, largely conceptual literature, spanning multiple disciplines. A second reason is that in empirical studies of JV trust, there has been an overdependence on single key informants. This use of single key informants has limited the ability of researchers to probe multiple dimensions of the concept. Additionally, even if researchers identify multiple informants who are competent, a perceptual agreement problem may exist because these informants may have systematically different perceptions based on different roles (e.g., an informant who has been involved in a JV from the start-up, versus an informant who has been brought in later to run the operations of a JV). Moreover, perceptions of trust may be heavily influenced by differences in informants’ personality traits and by biases of social construal or attribution.

A third reason is concept stretching. Osigweh (1989:582) stated that “concepts are broadened in order to extend their range of applications, they may be so broadly defined (or stretched) that they verge on being too all-embracing to be meaningful in the realm of empirical observation and professional practice.” As an example of concept stretching, Saxton (1997) examined the influence of relationship characteristics on alliance performance. Trust was identified as an important relationship characteristic. Saxton found positive relationships between alliance performance and two independent variables: the degree of shared decision making, and strategic similarities between alliance partners. Saxton stated that these variables were “presumed to reflect trust and commitment,” (1997:455, emphasis added) and suggested that, given the difficulties of measuring trust, the ability to successfully share in decision making could be considered a condition or determinant of trust.
We propose that to advance empirical work, JV trust researchers must first address two fundamental issues in studying JV trust, namely, "trust by whom?" and "trust in whom?" Addressing this question would provide insights into different organizational levels of trust. Thus, studying interfirm trust will require different methodologies than studying interpersonal trust between JV managers. For example, interfirm trust may involve aggregation of interpersonal trust data across numerous JV managers from partner firms. Such an approach using multiple informants would depart from previous researchers' reliance on single informants. Additionally, future empirical work should develop additional dimensions of JV trust. As issues of level become clearer, future researchers should build developmental models of how trust emerges between JV managers, groups of JV managers, and JV partner firms. Further quantitative analysis techniques might also be developed to capture other properties of relationships (e.g., reciprocity and asymmetry) involving JV partners. Overall, sharpened conceptualizations and measures of JV trust across multiple levels will reduce concept stretching and pave the way for a more textured understanding of the JV trust concept.

5.3. Conclusion

Many JV studies have emphasized the role of interpartner trust, with the implicit assumption that trust is critical for JV success. Nevertheless, rigorous conceptual and empirical developments of JV trust have proved elusive. This article's objective was to deepen the understanding of JV trust and provide a foundation for further empirical development. Toward that end, we have used a definition of JV trust as "reliance on another party under a condition of risk." Preliminary empirical exploration has shown that the definition is valid in the JV context (see Inkpen and Currall, 1997). This definition, coupled with the concepts and relationships developed in the current article, provides the basis for further empirical study. Given that the number of alliances and JVs continues to grow, understanding trust, how it develops, and how it influences JV outcomes will surely be an important research issue.

References


