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# **ROLE OF TRUST REVISITED IN INTERNATIONAL JOINT VENTURE (IJV) TOP MANAGEMENT TEAMS**

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## **ABSTRACT**

This study revisits and examines the role of trust at the group and firm level by examining trust in IJV top management teams (TMTs) and its impact on decision quality, decision implementation and goal attainment in IJV TMTs in Thailand. The primary data for the study were collected from a self-administered mail survey of 829 Thai-Foreign IJVs in Thailand. The sample consisted of 88 firms that operated in the following industries: agriculture, mining, light industries, metal working, electronics, chemicals and services. From the application of the Path Regression Analysis it was concluded that there were significant correlations between trust and cohesion, decision quality, decision implementation, and goal attainment. Communication frequency and cultural heterogeneity did not contribute much to predicting levels of trust among members of these teams.

## **INTRODUCTION**

Many researchers have noted the importance of trust in IJV relationships for IJV success (e.g., Hebert, 1994; Madhok, 1995; Parkhe, 1993). As Parkhe (1993: 307) writes trust is “*the behavioural lubricant that can improve a system’s operating efficiencies.*” The Fey (1995) study also confirmed that having trust between the Russian-Foreign IJV and its parents is extremely important for IJV success.

As such, research over the past decades on IJVs and strategic alliances has repeatedly argued that trust in the IJV relationship is essential for successful IJVs (Currall and Inkpen, 2002; Inkpen and Beamish, 1997). Child and Faulkner (1998) suggested that trust is particularly fragile in IJVs because the normal risk and uncertainty with JVs is increased because of the cross-national differences between partner firms with respect to culture, law, politics and trade policy. However, despite the attention given to trust in the IJV literature, “*trust remains an under-theorized, under-researched, and, therefore, poorly understood phenomenon*” (Child, 2001: 274). Particularly, collaborative trust at the person, group and firm levels has received limited empirical attention in the IJV literature. Multilevel trust has, however, been studied in other related literatures. Doney and Cannon (1997), for example, studied buyer-

seller relationships empirically and found that inter-firm trust differed from interpersonal trust. Zaheer, McEvily, and Perrone (1998) examined inter-firm and interpersonal trust, also in the buyer-supplier setting and identified JVs as an area where their research should be extended. Jeffries and Reed (2000) focused on relational contracting and explored the interaction between inter-firm and interpersonal trust for the success of inter-organizational relationships. In the JV literature, Barney and Hansen (1994) suggested that discrepancies arise between interpersonal trust and inter-firm trust because trust between partner firms' managers may be strong even though trust between partner firms is weak. Dyer and Chu's (2000) study of cross-border collaboration concluded that the issue of interpersonal and inter-firm trust should be examined in greater detail. Doz (1996) examined how alliances evolve and how trust at one organizational level impacts the development of trust at another level. Thus, given the widespread agreement that trust is critical for IJV performance, the issue of IJV trust and organizational levels is both relevant and under-explored (Currall and Inkpen, 2002). As such, this paper examines and revisits the role of trust at the group and firm level by examining trust in IJV top management teams (TMTs) and its impact on decision quality, decision implementation and goal attainment.

## **LITERATURE REVIEW**

Empirical studies of IJVs have consistently identified several factors that are associated with successful versus unsuccessful ventures (Ding, 1997; Inkpen and Beamish, 1997; Madhok, 1995; Yan and Gray, 1994). Results of these studies suggest that effectively managing an IJV depends on top managers' abilities to develop trust (Madhok, 1995) and work cohesively as a team as well as displaying a willingness to communicate, cooperate, and negotiate any disputes (Fey and Beamish, 2000; Smith et al., 1994). That is, previous research on IJVs suggests that the difficulties and the effects of differences among IJV managers are significantly reduced when levels of communication, trust, and cohesion are high (Amason, 1996; Fey and Beamish, 2001).

To develop the coordination, cooperation, and decision quality required to achieve IJV goals, then, IJV managers must overcome any negative effects of heterogeneity and become integrated as a team within a management culture that encourages frequent communication, trust, and cohesion (Julian, 2005). To do so, IJV managers must engage in the decision-making process in such a way that encourages quality decisions without facilitating dysfunctional conflict that would prevent the implementation of those decisions (Ding, 1997; Fey and Beamish, 2000).

When investigating the relationship between team heterogeneity and creative problem solving, most previous studies have considered processes of uninational teams whose members were committed to or held loyalties to a single organization (Bantel and Jackson, 1989). However, managers who constitute an IJV TMT often come from separate or distinct cultures and have well developed beliefs and methods for dealing with the complexities of corporate decision-making. Thus, while excessive levels of trust and cohesion may lead to inferior decisions, theory posits that this outcome is not likely within IJV TMTs due to the complex nature of the heterogeneity found in such teams (Mueller, 1994).

As a consequence, managers with different backgrounds and organizational experiences are likely to have different attitudes and values and hold divergent points of view (Bantel and Jackson, 1989). Team member differences may encourage debate among managers to such an extent that communication problems and negative reactions by members to the team

experience (Roberts and O'Reilly, 1979) inhibit the development of cohesion and trust. These problems would tend to limit interaction among team members and the exchange of valuable information. As a result of this decreased communication and increased conflict associated with team heterogeneity it could negatively influence team decision-making processes and outcomes (Bantel and Jackson, 1989). Specifically, low levels of trust and cohesion and less frequent communication are likely to negatively affect the quality of decisions these teams generate (Knight *et al.*, 1999). However, prior relationships between firms provide a powerful counterbalance to cross-cultural differences (Park and Ungson, 1997). Prior relationships between partners create trust and familiarity (Gulati, 1995; Kogut, 1989; Park and Russo; 1996). Trust attenuates opportunistic behaviours and facilitates conflict resolution. Thereby, enhancing the quality of decisions these teams generate (Park and Ungson, 1997) that ultimately leads to improved performance.

The relevance of cultural and demographic team heterogeneity to this investigation is based on their effects on the group processes of cohesion, trust, and communication, and the resulting quality of decisions, effective implementation of decisions and, ultimately, on IJV goal attainment and performance (Kogut and Singh, 1988). Cultural and demographic heterogeneity have been found to negatively affect trust, cohesion, and the frequency of communication within multicultural teams because managers are either disinclined or unable to overcome their differences easily in order to function as a team (Barkema *et al.*, 1996). Some studies suggest that team heterogeneity positively affects decision quality because member differences tend to encourage the consideration of a wider range of alternatives during decision-making (Park and Ungson, 1997). At the same time, heterogeneity has been found to negatively affect implementing team decisions through its indirect influence on trust, cohesion, and communication frequency (Knight *et al.*, 1999). As such, heterogeneity is expected to directly but negatively affect trust, cohesion, and communication frequency, indirectly but negatively affect decision implementation, and indirectly but positively affect decision quality within TMTs.

Regarding the team process variables, research and theory on cohesion and its importance to team processes support the contention that frequent communication positively affects trust. Trust positively affects cohesion, and cohesion and communication frequency positively affect and reinforce each other (Fey and Beamish, 2000). All process variables positively and directly affect decision quality and decision implementation. Finally, high quality decisions and the implementation of those decisions have been found to positively affect the attainment of organization goals (Amason, 1996). As such, this study revisits and examines these relationships in multicultural top management teams of IJVs in Thailand.

## **RESEARCH DESIGN**

This study was based on the development and administration of a self-administered mail survey in Thailand. The study sample consisted of Thai companies that are in JV relationships with non-Thai firms. Each firm included in the study must exhibit two characteristics. First, no partner may have greater than 80 percent equity participation in the venture. Secondly, each partner must have greater than 20 percent equity participation (Makino and Beamish, 1998).

An initial list of 2,000 companies operating in Thailand was obtained from the Thai Board of Investment. From this list, a census sample of 829 companies was identified as containing foreign companies situated in IJV relationships with Thai companies which met the criteria

for inclusion in the study. The final sample of companies operated in the following industries: agriculture, mining, light industries, metal working, electronics, chemicals and services.

A three-step procedure was used to secure the return of the self-administered mail surveys. First, the survey instrument was translated from English into Thai, then back-translated into English to ensure that the intended meaning of the statements was accurate. To reduce confusion and ambiguity, the survey was pre-tested through personal interviews with the managing directors of 10 Foreign-Thai IJVs in Thailand, after which minor revisions to the survey were made.

Secondly, an introductory letter and a copy of the revised survey were sent to all managing directors' of companies who met the criteria to be included in the sample. The letter and all instructions and statements contained both English and Thai renditions. In an effort to increase the response rate, a stamped envelope addressed to a colleague at Bangkok University - who agreed to collect the completed questionnaires - was included in the mailing.

Thirdly, four weeks after the questionnaires were received by the recipients, several attempts were made to contact each recipient via telephone to answer possible questions and to encourage participation. Eighty-eight individual responses were received, a 10.6% response rate. This response rate is normal for most mail surveys (Groves, 1990; McDougall, Covin, Robinson and Herron, 1994). Also similar response rates have been reported in prior international marketing research (Kaynak and Kuan, 1993) with sample sizes of 53 being reported (Mintu-Wimsatt and Calantone, 2000). Considering the sample was drawn from a developing country where the first language is not English, and where many of the respondent's primary language is not English, the response rate is even more acceptable. Every possible mechanism was incorporated into the study's methodology to ensure a higher response rate and 10.6 percent was the maximum response rate possible. Finally, it is acknowledged that U.S. based mail surveys achieve a higher response rate, however, according to Churchill (1987) a response rate above 10 percent is acceptable for mail surveys.

A multi-item questionnaire was used to collect the data. The research instrument was designed to measure two independent (cultural and demographic heterogeneity), three process (cohesion, trust, and communication frequency), and three dependent (decision quality, decision implementation, and goal attainment) variables.

Items employed to measure demographic heterogeneity included team member's age, level of education, functional specialization, and length of team tenure. Items measuring cultural heterogeneity included member nationality, primary language spoken, country of education, and organizational culture background (parent organization affiliation, if any). Each of the eight items was a self-report measure. All of the items employed to measure the two types of heterogeneity were categorical in nature. Therefore, Blau's (1977) index of heterogeneity ( $1 - \sum p_i^2$ ) – where  $p$  is the proportion of group members in a category and  $i$  is the number of different categories represented in a team – were used to construct the two separate measures of demographic and cultural heterogeneity.

Two measures were constructed to evaluate how frequently team members communicated with each other. Each measure used a seven-point Likert-type scale ranging from (1) "1-5 times a week" to (7) "more than 30 times a week." The first measure was based on subjects' responses of how frequently they communicated with other team members via seven of the

most common types of communication media used in a business context (Russ, Daft and Lengel, 1990) as well as in social situations. For the second measure, respondents were requested to indicate how frequently they communicated with their respective team mates who were affiliated with a parent organization versus team mates with no such affiliation. Higher scores on these measures indicated more frequent communication among members. The coefficient alpha for communication frequency was .87, well above the .70 level suggested by Nunnally (1978).

Through a content analysis of managers' suggestions and two previous studies of managerial trust, Butler (1991) developed the Conditions of Trust Inventory which includes one general, overall measure of trust proven to be reliable in several different contexts. Therefore, this measure of trust was included in the questionnaire and consisted of four response items, one that is reverse scored to provide scale continuity. Higher scores indicated the presence of trust and lower scores reflected its absence. Generally, the four items required respondents to indicate the degree to which other members of their respective teams could be trusted. The coefficient alpha for trust was .71.

A four-item cohesiveness index developed by Seashore (1954) was used to assess this construct. Seashore's (1954) index defined cohesion into four dimensions: (1) how readily members defended other team members from outside criticism, (2) how well members helped each other on the job, (3) how well members got along with each other, and (4) how well members stuck together as a team. Because Seashore's (1954) index did not measure cohesion relative to the group task, a fifth measure was added to reflect the commitment of members to the group task: (5) how well members coordinated their work toward common objectives. The coefficient alpha for cohesion was .76.

As decision quality, decision implementation and goal attainment were related to effective group processes during decision-making, these measures were grouped together in the questionnaire following a statement that requested subjects to respond based on decisions that their TMT had made during the last six months. While keeping items measuring these three constructs together in a group, individual items were alternated on the questionnaire to reduce the effect of respondent bias. Again, seven-point Likert-type scales ranging from (1) "strongly disagree" to (7) "strongly agree" were provided for responses for all items measuring these variables.

For decision quality, each respondent was asked to rate the overall quality of decisions his team made, the quality of alternative decisions his team considered, as well as the quality of alternative decisions the team chose. The coefficient alpha for decision quality was .65 indicating modest reliability even though .60 is acceptable for a three-item scale (Anderson and Coughlan, 1987). For decision implementation, respondents were asked to assess how well they understood the decisions their team made, their degree of commitment and support for those decisions, and the degree of assistance each provided to implement their team decisions. The coefficient alpha for decision implementation was .87. Finally, for goal attainment, respondents were asked to indicate their perceived degree of consensus among their team members on venture goals, their level of understanding of which goals were more important, and their perception of whether their team successfully reached its goals. The coefficient alpha for goal attainment was .83.

## DATA ANALYSIS

A path model incorporating all of the possible relationships was developed and analyzed. Path regression was used to test the model and all model linkages were tested. In this study demographic and cultural heterogeneity were the exogenous variables. Communication frequency, trust, cohesion, decision quality, decision implementation, and goal attainment were the source variables. Regression equations were used to identify significant causal relationships or paths among the variables. Path coefficients for the model are found in Table 1 below.

**Table 1 - Path Regression Results**

| Dependent Variable      | Explanatory Variable | Standardized Coefficients | R <sup>2</sup> |
|-------------------------|----------------------|---------------------------|----------------|
| Communication Frequency | Constant             | 2.33                      | .39            |
|                         | Cultural Hetero.     | -.89*                     |                |
|                         | Demographic Hetero.  | 1.21                      |                |
| Trust                   | Constant             | 6.41                      | .69            |
|                         | Cultural Hetero.     | .00                       |                |
|                         | Demographic Hetero.  | 1.59*                     |                |
|                         | Com_Freq             | -.28                      |                |
| Cohesion                | Constant             | 4.81                      | .81            |
|                         | Demographic Hetero.  | .43                       |                |
|                         | Cultural Hetero.     | -.08                      |                |
|                         | Trust                | .53*                      |                |
| Decision Quality        | Constant             | 1.98                      | .97            |
|                         | Trust                | -.65**                    |                |
|                         | Cohesion             | 1.20**                    |                |
|                         | Com_Freq             | -.30**                    |                |
|                         | Cultural Hetero.     | -.20                      |                |
|                         | Demographic Hetero.  | 1.17**                    |                |
| Decision Implementation | Constant             | 1.07                      | .98            |
|                         | Trust                | -.81**                    |                |
|                         | Cohesion             | 1.45**                    |                |
|                         | Com_Freq             | -.08                      |                |
|                         | Demographic Hetero.  | .74*                      |                |
|                         | Cultural Hetero.     | -.00                      |                |
| Goal Attainment         | Constant             | -1.11                     | .98            |
|                         | Decision Implement.  | 1.21**                    |                |
|                         | Decision Quality     | -.20                      |                |

\*  $p < .05$  \*\*  $p < .01$

As expected, there were significant correlations between trust and cohesion, decision quality, decision implementation, and goal attainment. Regressing trust on the control variables, cultural and demographic heterogeneity, and communication frequency produced a significant R<sup>2</sup> of .69 ( $p < .01$ ). While not apparent in the correlation pattern, demographic heterogeneity is the only significant predictor of trust in the regression analysis. Unexpectedly, the more diverse a team was with regard to demographics, the higher the level

of trust reported. Communication frequency and cultural heterogeneity do not contribute much to predicting levels of trust among members of these teams.

Neither measure of heterogeneity was significantly correlated with cohesion. However, trust, decision quality, decision implementation, and goal attainment all had significant associations with cohesion. Regressing the control variables, trust, and both types of heterogeneity on cohesion yielded a significant  $R^2$  of .81 ( $p < .01$ ). However, the only significant predictor of cohesion was trust. Increased levels of trust were positively associated with increased levels of cohesion, but neither of the heterogeneity measures were significant predictors of cohesion.

The control variables, trust, cohesion, communication frequency and the heterogeneity variables were further regressed against decision quality and yielded a significant  $R^2$  of .97 ( $p < .01$ ). For these IJV teams, trust, communication frequency, cohesion, and demographic heterogeneity were significant predictors of decision quality. Higher levels of communication were associated with lower levels of perceived decision quality. Unexpectedly, trust was also associated negatively with decision quality. Cohesion, however, was positively associated with decision quality. Finally, greater demographic heterogeneity was associated with better decision quality.

The control variables plus trust, cohesion, communication frequency, and heterogeneity were next regressed against decision implementation. The  $R^2$  was .98 ( $p < .01$ ). Results for decision implementation were similar to those found for decision quality. Trust was negatively associated with decision implementation, and cohesion and demographic heterogeneity were positively associated with decision implementation. Finally, regressing the control variables, decision implementation, and decision quality against goal attainment yielded a significant  $R^2$  of .98 ( $p < .01$ ). Decision implementation was positively related to goal attainment.

Interestingly, the level of communication activity did not necessarily increase levels of trust. The mean level of communication frequency was quite low (2.71,  $std=1.46$ ), lower than one might have expected given the likely necessity of increased communication for resolving ambiguities and conflicts of interest. This might signify that these managers believed that greater levels of communication were desirable. These results are somewhat different than those of Jackson *et al.* (1991), where reduced communication and increased conflict were associated with greater demographic diversity.

The building of trust seemed to be more dependent on the differences in age, education level, functional experience, and parent organization affiliation. However, the results were not as expected. Differences in age, level of education, affiliation with a parent organization, and type of functional experience were associated with greater levels of trust. Perhaps, these differences were perceived by respondents as strengths rather than as points of contention.

## DISCUSSION

In this study, the development of cohesion was dependent only on trust. Neither cultural nor demographic heterogeneity was a direct, significant predictor of cohesion. Rather, these results suggest that the effects of heterogeneity manifest themselves primarily through other variables that mediate the relationship between heterogeneity and cohesion.



A common assumption in the management literature is that heterogeneous teams tend to yield higher quality decisions than do homogeneous teams because members tend to bring unique contributions and perspectives to the decision making process (Wiersema and Bantel, 1992). In this study, such an assumption was supported, at least for the effects of demographic heterogeneity. One might have expected that not only demographic but cultural differences among a team's members might encourage argumentation and debate to such an extent that they inhibit managers from effectively defusing dysfunctional conflict (Barkema *et al.*, 1996). Apparently, the levels of mutual trust within these teams provided managers with a mechanism to translate their differences into effective decision-making. The same pattern of results was found for the effects of demographic heterogeneity on decision implementation. High levels of demographic heterogeneity lead to perceptions that decisions were implemented effectively. This is contrary to research that suggests that such a decision making team may initially perform its task well and make high quality decisions, yet "burn itself up" in the process by generating so much divisiveness and conflict among members that they are unwilling or unable to communicate effectively and work together in the future (Barkema *et al.*, 1996).

In summary, the effects of heterogeneity were not always as expected. Instead of a negative influence on decision quality and implementation (Bantel and Jackson, 1989), demographic heterogeneity was associated with greater levels of trust and improved decision quality and implementation. It may be that different perspectives, brought about by experience, wisdom, and different functional view points helped increase the level of confidence managers had during their decision making and implementation activities (Wiersema and Bantel, 1992). Levels of trust, perceived decision quality and decision implementation were all reasonably high. As such, it was concluded from this study the level of trust evident in a Top Management Team plays a significant yet indirect role in goal attainment and ultimately IJV performance in Thailand.

#### **STUDY IMPLICATIONS AND DIRECTIONS FOR FUTURE RESEARCH**

The results of the study suggest several areas for future research on IJV teams and heterogeneity. Clearly, the study should be replicated with larger samples and IJVs from different cultures. The presence of heterogeneity in IJV top management teams and its relationship to the communication patterns and group processes which determine organizational performance (and other outcomes) is an under-researched topic and should be a fruitful area for further research. Moreover, the relationship between different types of heterogeneity and group outcomes requires more empirical work because some types of heterogeneity seem to cause different types of effects than others. Future research efforts could also investigate parent firm and IJV team contexts concurrently. Other competitive environments could be sampled, particularly high-growth, complex and unstable environments. In such environments, greater heterogeneity might have different effects on managers than those reported here. Finally, future empirical efforts could utilize longitudinal designs to overcome the cross-sectional nature of the current work.

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