

## 8 THE TRUST FACTOR IN CHINESE–GERMAN JOINT VENTURES

### IMPLICATIONS FOR JAPANESE CO-OPERATIVE VENTURES IN CHINA

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#### CREATING AND MANAGING INTERNATIONAL JOINT VENTURES IN CHINA

The People's Republic of China was the principal foreign direct investment recipient in developing countries throughout the 1990s, according to World Bank statistics (UNCTAD 1999). Adding the foreign direct investment inflow into Hong Kong to the Mainland figures, China has also become the third largest host for foreign direct investment in the world (USD 63.5 billion in 1999) following the United States and the United Kingdom (UNCTAD 2000, p. 50). Compared with previous years, this was a decline of nearly 10 per cent. This recent drop can be explained by more short-term factors, such as a slowdown of economic growth leading to a weaker local demand, reduction of excess capacity in certain manufacturing industries due to over-investment during the past decade (for example, garments and electrical appliances) and increasing competition for hosting outward foreign direct investment from neighbouring Asian countries. According to the World Bank, in the long run China can be

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expected to remain an attractive location for foreign direct investment, particularly in light of its accession to the World Trade Organisation (Drysdale 2000; Song 2000) and further liberalisation of various industry sectors (Lei and Huang 2000; UNCTAD 2000).

In emerging economies like China, international co-operative relationships are still the most common basis on which co-operation between host country and foreign partners is established, with foreign direct investment usually being incorporated into the equity of such co-operative ventures. In this chapter co-operative relationships are defined as the combination of resources from more than one company to create a new organisational entity in form of a joint venture (JV) that is distinct from its parent companies. For the purpose of our research, we concentrate on international or intercultural joint ventures (IJVs) with at least two parent companies of different nationality. IJVs are based in the home country of one of the partners, which we will call the local partner company (LPC). The partner operating outside its country of domicile is referred to as the foreign partner company (FPC).

In recent years IJVs have been promoted by the Chinese government, as they present an ideal form for securing rapid access to capital, technology and export markets within an economy in transition. The operating characteristics and performance of international joint ventures as a co-operative ownership option of investing abroad have been examined frequently in the literature on ownership strategies in international business (Yan and Luo 2001; Pausenberger and Nöcker 2000; Matthews 1999; Balling 1998; Herzig, Watrin and Ruppert 1997; Chowdhury 1992; Zielke 1992; Geringer and Hebert 1991; Contractor 1990; Contractor and Lorange 1988; Kogut 1988a; Reynolds 1984; Kumar 1975). Compared to wholly owned foreign enterprises IJVs offer substantial economic and political advantages for internationalisation strategies: investments and risks are shared, and some investment requirements can be eliminated through the use of the partners' existing infrastructure, such as local marketing and distribution resources. Sales volumes are also likely to be achieved more quickly in IJVs than through wholly owned foreign enterprises. In addition, the local partner's political position can be harnessed to great advantage. Overall, IJVs appear to offer greater revenues, lower costs and less financial risk than other market-entry options.

IJVs are indeed one of the most sophisticated ownership options in international business. Presuming that the goals of both partner companies connected with the IJV are not in conflict, the performance of IJVs depends mainly on qualitative variables such as individual personality factors of the dispatched personnel, organisational cultures, administrative styles and management philosophies. There are many problems

associated with IJV management. For example, issues of staffing, operating procedures, transfer pricing, local and international sourcing, technology selection, pricing cost and investment allocation, market priorities and management control. All these aspects pose potentially fatal obstacles to IJV survival, as confirmed by the literature and the statements of managers in our interviews

The hazards of IJV management are numerous, especially for Chinese–foreign ventures. The widespread assumption that this is a primarily a problem of mid-sized enterprises' foreign direct investment is not true, since major multinational companies operating in China also encounter huge obstacles. Furthermore, the fact that Sino–Japanese JVs also face severe difficulties (Hu and Chen 1996) shows that joint venture failures in China are not primarily due to a Western–Chinese culture clash.

The literature reveals that fundamentally diverging goals of the two parent companies produce tremendous difficulties in interorganisational as well as in interpersonal co-operation in the IJV. This goal incongruence may result from partners' dissimilar political backgrounds (Trommsdorff 1991). Chinese (state-owned) enterprises are used to operating in a socialist command economy, and their managers often maintain close relations with the Chinese Communist Party. In contrast, FPCs investing in China operate in market economies and have a strong orientation on sales and competition. While the FPC focuses on China as a market for their services or products, the LPC often follows the contrary strategy of positioning local products and services on the world market by means of the foreign partner's know-how and advanced technology (Child 1994). Problems in daily joint venture life often come from fundamentally different management styles: leading the staff in a participative or paternalistic way, open-aggressive or consensus-based problem solving (Herrmann-Pillath 1997) or problems from communicating in a foreign language (Trommsdorff 1991). Staffing practices also cause problems for IJVs in general: the expatriate manager's influence is limited to three to five years, depending on the individual assignment. As his ongoing career obviously depends on the results of the work during his stay abroad, he will tend to act according to the specific objectives set by the FPC. In contrast, since the Chinese managers stay in the IJV for a longer term, they need to orient themselves towards the LPC or their ethnic group (Peill-Schoeller 1994).

Empirical studies on JV success in China (Hu and Chen 1996; Dong, Buckley and Mirza 1997) point out the likelihood of unsatisfying performance both in hard terms (profitability, quality standards) as well as in soft factors (partner commitment, mutual understanding). Yan (2000) reports that the greater the length of time the IJV has been in operation,

the better its profitability tends to be. Especially for IJVs in China, it seems that the accumulated international business experience increases the confidence of the LPC and the FPC in the venture. IJVs that have relatively shorter experience often lack the skills to deal with operational problems in the Chinese market. Therefore, their chances of obtaining higher returns and meeting the financial objectives are not as good. This confirms previous research on the performance on JVs by Agarwal and Ramaswami (1992), and Contractor and Lorange (1988).

## AN ECONOMIC ANALYSIS OF TRUST

### THE ROLE OF TRUST IN INTERNATIONAL JOINT VENTURES

In economic theory trust has not been a key factor in economic transactions (Humphrey 1998; Ripperger 1998; Albach 1980), but with imperfect information, bounded rationality, risk and uncertainty trust becomes an important issue. Trust between trading partners increases the predictability of mutual behaviour, as specific commitments made are honoured, while it facilitates dealing with unforeseen contingencies in a mutually acceptable manner. Thus, trust economises on the costs of bargaining, monitoring, insurance and dispute settlement.

Trust also reduces the complexity of social systems that are characterized by time asymmetry and incomplete information (Luhmann 1973), as trustor and trustee depend on each other. The trustor assumes that his trust will not be abused and in accepting the risk to trust becomes more vulnerable (Grunwald 1995; Lane 1998). Trust is an essential antecedent condition for the emergence of a successful co-operation in business (Smith, Carroll and Ashford 1995). The fundamental necessity for trust in IJVs is confirmed in the literature (Inkpen and Currall 1997; Inkpen and Beamish 1997; Madhok 1995; Parkhe 1993a, 1993b; Beamish and Banks 1987; Buckley and Casson 1988) and is mostly associated with an improvement in decision-making concerning strategic priorities, goals and management systems (Mead 1998).

A special challenge for research is how trust in relationships between IJV partners and staff is established and maintained, since this transcends the boundaries of the cultural and institutional systems which support trust through the sharing of a common social identity, norms of conduct and institutional safeguards such as the law. The fact that both partners in an IJV follow different assumptions of what can be taken for granted places particular difficulties in the way of creating trust-based relationships between them, over and above the tensions which might be expect-

ed to arise an IJV from the strategic aims of both partner companies. One of the more challenging areas for establishing trust arises when Asian and Western partners establish an IJV. Despite the less than perfect homogeneity among Western countries in the way they socially constitute and support trust relations (Lane and Bachmann 1996), Asia contrasts sufficiently in its cultural and institutional foundations with both North America and Western Europe as to present a particularly interesting comparison as well as a challenge for implementing trust sensitive management.

To explore the antecedent conditions that enable trust to develop, we must conceptualise trust as occurring in situations of social exchange between human beings where expectations can either be met or violated. 'To trust another person to produce a beneficial event X (or to suspect that another person will produce a harmful event Y) an individual must have confidence that the other individual has the ability and intention to produce it' (Deutsch 1960, p. 125). Ability refers to 'skills, competencies, and characteristics that enable a party to have influence within some specific domain' (Mayer, Davis and Schoorman 1995, p. 717), while the intention hints at a partner's refraining from opportunism to reach mutual benefit. Taken a positive rated ability for granted, the trustor expects that the trustee will act according to 'mutual benefit while refraining from unfair advantage taking' (Sako 1998, p. 89). The close distinction between confidence and trust also results in causal attributions after disappointment. In the case of inappropriate confidence an individual reacts by external attribution, taking sub-optimal circumstances into account. In the case of broken trust, on the other hand, the internal attribution regards the decision to trust the specific individual to be not suitable. Accordingly, we hypothesize that the development of trust among partners is based on individual commitment of the managers involved (H 1).

In the international management literature (Pausenberger and Nöcker 2000; Child 1998; Smith, Carroll and Ashford 1995; Kumar, Steinmann and Dolles 1993; Buckley and Casson 1988; Kogut 1988b), several writers have argued that international co-operative relationships develop through a number of stages. There are feedback loops in this process whereby the partners evaluate their experience and decide whether to continue their co-operation and, if so, in what form (Ring and van de Ven 1994). This development leads to our second hypothesis, that in the same way as international co-operative relationships develop over time, a corresponding evolution of trust will follow (H 2). The theoretical differentiation between calculative, cognitive and normative trust, as suggested by Lewicki and Bunker (1996), Lane (1998) and Child (1998), allows an analysis of this hypothesis such that the evolution of trust is integral to

this dynamic process of evolving co-operation between business partners.

For our further analysis we must conceptualise the role of calculative, cognitive and normative trust in IJVs (H 2), extending an inherently individual-level phenomenon (interpersonal trust) to the organisational level (interorganisational trust) (H 1).

#### *Calculative trust*

Calculative trust is based on calculations that weigh the cost and benefits of certain courses of action to either the trustor or the trustee (Lane 1998). Lewicki and Bunker (1996) argue that this form of trust is based on the assurance that other people will do as they say because the deterrent for violation is greater than the gains, and/or the rewards from preserving trust outweigh any from breaking it. In this view, trust is an on-going, market-oriented, economic calculation. Its value is derived by determining the outcomes resulting from creating and sustaining the relationship relative to the costs of maintaining or severing it. Trust based upon calculation is likely to apply particularly to relationships that are new and hence can only proceed on the basis of institutionalised protection or the reputation of the partner (Lane 1998). It may also be the only form of trust that can apply to arm's-length and hence impersonal economic exchanges. Sheppard and Tuchinsky (1996) describe this attitude towards trust as a policy of deterrence against opportunistic behaviour.

#### *Cognitive trust*

A second basis for trust lies in the sharing of cognitions, including common ways of thinking, between the two partners concerned. This sharing of cognitions provides a basis for understanding the thinking of a partner and for predicting that person's actions. Clearly, some cognitive sharing is necessary for a calculative basis of trust (Zucker 1986). However, common cognitions provide the further reassurance that one can now reasonably predict other people on the basis of shared expectations. Normally, the individual can only be sure of sharing ways of thinking with others by getting to know them well enough. This aspect of cognitive trust is what Lewicki and Bunker (1996) have termed knowledge-based trust: knowing the other well enough that the other's behaviour is anticipatable. The assumption of rationality contained in the calculative view of trust is relaxed somewhat in cognitive trust, because the trust here is founded upon both the security and comfort that the partner is well-understood and is known to share important assumptions (Child 1998).

*Normative trust*

Normative trust depends on people sharing common values, including a common concept of moral obligation. Common values and norms of obligations can develop in a long-standing relationship where trust was originally created in an incremental manner (Lane 1998). Normative trust is likely to find a parallel at the more interpersonal level, what Lewicki and Bunker (1996) call identification-based trust: both parties effectively understand and appreciate the other's wants. This mutual understanding is developed to the point that each can effectively act for the other, or it enables a person to feel as well as to think like the other.

*Interpersonal and interorganisational trust*

The term interpersonal trust refers to the extent of an IJV manager's trust in his main counterpart in the partner company. In other words, interpersonal trust is the trust placed by the individual boundary-spanner in his opposite number at the partner's organisation (Zaheer, McEvily and Perrone 1998). The term interorganisational trust is defined as the extent of trust placed in the partner organisation by the members of a focal organisation. In more concrete terms, the extent to which IJV managers trust the IJV partner company.

Interorganisational trust has several economic advantages (Sydow 1998). Above all, trust may serve as an alternative control mechanism in interorganisational relations, where it substitutes or at least complements the market mechanism and hierarchical order (Bradach and Eccles 1989). Moreover, interorganisational trust is likely to enhance allocative efficiency when it encourages the disclosure of confidential information and reduces the costs of interorganisational transactions (Sako 1992).

We can assume that there will be only certain individuals, so called 'boundary-spanning agents' or 'trust guardians' (Child 1998, p. 253), that relate across the boundaries of co-operating companies. Their role in promoting trust between both partner companies is therefore a key one. The trust that exists between the LPC and the FPC will, to a large extent, come down to the quality of normative (mutual) trust that exists between those individuals involved. Bromiley and Cummings (1995) pointed out that optimal expenditures on control, monitoring and other kinds of transaction costs are partially a function of the probability of opportunism, which in turn depends on the level of trustworthy behaviour of boundary spanning agents (also Child 1998; Currall and Judge 1995). This confirms our assumption that trust is actually an interpersonal phenomenon, upon which the quality of interorganisational trust is founded. However, it should be noted that in the case of a frequent turnover of the

personnel allocated by the partners to an IJV, the opportunities for developing a trust-based co-operation between them will be diminished.

The rationale for a workplace relationship based on trust is that trust ensures a sound and co-operative working relationship between the partners. The higher the trust, the more efficient the IJV will be in transforming an input of co-operation 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 co-operative relationships (Madhok 1995). Thus, IJV performance should be viewed as a consequence of IJV trust, with more successful partnerships characterized by higher levels of trust (Inkpen and Currall 1997).

#### THE CHINESE PERCEPTION OF TRUST

Parallel to our conceptual model of trust development, we must take the specific Chinese perspective of trust in account. In Chinese, the word associated with trust is 'xin'. In interpersonal relationships, four word formations with 'xin' are commonly used (Wang and Yamagishi 1999): 'Chengxin' means to be true, sincere and deception, with the emphasis on trustworthiness as a personal trait. 'Xinren' means to trust, believe or to entrust someone else with something, while 'xinlai' means to place confidence in another person. 'Xinren' and 'xinlai' are very similar in stressing the degree to which a person is trustful of others. 'Xinyong' refers to trustworthiness or credit, which connotes being true, sincere and trustful. In traditional Confucian culture, being true or sincere (trustworthiness) is considered most important as a social norm, while trusting others (trustfulness) is of secondary importance. In real life, 'people face a dilemma of being sincere and trustful' (Wang and Yamagishi 1999, p. 368), whereas Chinese sayings seems to place mistrust in the foreground, for example, 'Treat each person like a guest, but guard against him like a thief' (Gabrenya and Hwang 1996, p. 310), or as demonstrated by the close distinction between 'sheng ren' (literally: raw/unboiled people, meaning stranger) and 'shu ren' (literally: cooked/done people, meaning acquaintance). The ancient '36 strategies of the Chinese' (Wee and Lan 1998) express mistrust even more strongly, making use of negative principles like intrigue, betrayal and deceit.

In Chinese society trust-based relationships within defined local groups, especially the family or the work units, 'danwei', (Hebel 1997), assume considerable importance as a means to protect people against the high level of opportunism, and hence low trust, that prevails within the country as a whole (Child 1998). The institutional environment in China still provides only few guarantees against the betrayal of trust. Historical-

ly, the Chinese have not been protected by a legal system that was independent of the state and supreme in its own right. In the absence of codified commercial law, merchants and producers were at the mercy of a system in which imperial officials and their acolytes could exercise arbitrary power through taxes, licensing fees, and restrictions on trade and travel. Even today, we find a close involvement of government agencies in business affairs. Local governmental agencies have powers to interpret regulations, issue licences and impose taxes, which furnish ample scope for negotiations and corruption. As Child (1998, p. 256) notes, 'the way that agreements are interpreted can depend on the influence or autonomy that the Chinese partner enjoys with higher authorities. The signing of a formal contract does not guarantee the end of uncertainty or even the conclusion of negotiation.'

Especially the complex phenomenon of 'guanxi' management embedded in the specific framework of the Chinese political and industrial system signifies ambiguity and complexity in human interaction. The prevailing segmentation of Chinese society into 'danwei' implies an overlapping of the professional and the private spheres: working together often also means living together in corporate compounds. From an individual's perspective this separation results in a sharp distinction between insiders and outsiders. Already Weber (1947) stated that trust in China especially in business relations always used to be restricted to family ties (see also Redding 1990). Assuming the work unit to be a kind of family derivative, it is obvious that individuals – also taking a weak jurisdiction into account – will rely on trust solely when dealing with insiders rather than outsiders. This can be based on the fact that the Chinese build trust exclusively upon the concept of saving face. Since a pure concept of guilt is lacking in China's Confucian culture, consequences of an individual's negative behaviour, such as opportunism, can only be analysed in a social context: the threat of feeling guilty as a sanction mechanism in Western cultures is replaced by moral failure determined by the peer group – for example, the work unit where feelings of shame due to loss of face are elicited (Hermann-Pillath 1997). With the multilateral dependencies arising from the social 'guanxi' web, breaking trust with an insider may result in severe consequences, while breaking trust with an outsider might have no consequences at all.

#### IMPLICATIONS FOR RESEARCH

##### *Interpersonal and interorganisational trust*

Interorganisational trust builds on interpersonal trust. With regard to diverging goals of the partner companies, we evaluate the extent to which interpersonal relationships are affected by them. From this follows Hypothesis 1: As the development of trust among both companies is based on individual commitment of the boundary-spanning agents toward the counterpart manager, greater similarity between the expatriate and the local manager results in higher levels of trust.

##### *Development of trust*

Monitoring the development of trusting relationships, we evaluate whether, according to our theoretical framework, qualitative progress of trust between individuals is taking place in the course of a IJV's operating business. Hypothesis 2 states: In the same way as international co-operative relationships develop over time, a corresponding evolution of trust will follow by using the levels of calculative, cognitive and normative trust.

##### *Insider-outsider perspective*

For studying the relationships between Chinese and German managers in Sino-German JVs, a crucial factor for the emergence of trust towards the expatriates is whether German managers are considered to be insiders or outsiders from the Chinese perspective. Though the employees of different nationalities do not live together, they are at least tied by their working relationships in the IJV and need to trust their counterparts to some extent. Hypothesis 3 states. Higher levels of trust in the counterpart IJV manager result from being considered an insider.

#### SURVEY DESIGN AND METHODS

Our study required measures for calculative trust, cognitive trust and normative trust at the interpersonal and interorganisational level. To do this, we reviewed relevant literature to delimit construct domains, developed operational definitions and assembled them for use in semi-structured interviews in Chinese-German JVs in China. We implemented a qualitative case study approach for three reasons. First, German enterprises participating in a Chinese-German JV follow a strategy of local integration and usually send only few expatriates to China. Second, exploring many interpersonal relationships therefore would have also

meant analysing many corporate structures that would lead to distortion due to incomparable surroundings in different companies. Third, to cover the Chinese- as well as the German-specific perspective of trust using a quantitative method of analysis would have implied pressing the managers into categories possibly not suitable to cover every aspect of a cross-cultural survey.

Two Beijing- and Shanghai-based IJVs allowed us to conduct interviews with Chinese as well as German managers. Both German partner companies are stock companies in the technical maintenance field and the automotive industry. The LPCs were both state-owned and operating in the same industry. In total we interviewed ten German managers and ten Chinese managers in both JVs as qualified informants in Summer 2000. The boundary-spanning agents were mainly co-operating in a counter-part working relationship in a shared IJV area management.

We used the method of half-standardized interviews containing 22 questions aimed at stimulating the employees to describe freely their personal attitudes towards trusting behaviour and workplace relationships. This procedure was useful to meet the conditions of different people coming from different ethnic and professional backgrounds contributing to a varying timeframe set for the interview. A preliminary version of our questionnaire was reviewed and pretested by a panel of German experts and expatriates from Sino–German IJVs. At this stage, we eliminated several items and reworded several others. For final use, we also developed a Chinese version of the questions with items to parallel the German version. Our concern, especially about trust, was to ensure structural and semantic equivalence of terms between the two cultures. All interviews were tape recorded and transcribed. For evaluation we implemented the method of qualitative content analysis as proposed by Mayring (1995): The first step consisted of deducing trust relevant categories from the interviews following our presumptions. In a second step we formed a code scheme enabling us to classify the content of the interviews into our category headings for abstract generalization. We are aware that the sample size is quite small and that therefore the results must be interpreted with caution.

For cross-reference to Chinese–Japanese JVs, we analysed interviews conducted in Dalian, China, with Chinese managers in co-operative relationships with Japanese companies (see Dolles and Babo 2002, 2000). We also conducted 11 interviews with German and Japanese managers on the topic of trust in IJVs in 2000/2001 in German–Japanese JVs in different locations in Japan and Germany.

## KEY FINDINGS

### CALCULATIVE TRUST, COGNITIVE TRUST AND NORMATIVE TRUST ON THE INTERPERSONAL LEVEL

The results clearly show that all three types of trust exist in Chinese–German IJVs at the interpersonal level. By examining interdependence between the expatriate and his local counterpart on the calculative level, we found no evidence for unbalanced relationships. The typical dependence situation found in the group of expatriate managers was the lack of sufficient knowledge of the Chinese language. This situation enables the local counterpart manager to deal nearly exclusively with all business and leadership matters vis-à-vis local employees, customers, local authorities or other stakeholder groups. The personal contact to key persons, key departments and key resources of the LPC are to his advantage. As access to foreign production technology or product know-how is one of the most important reasons for Chinese companies to invest in an IJV, the LPC is dependent on the technical knowledge of the FPC. The expatriate's advantage is the control of all necessary links to the FPC. The manifestation of bilateral dependence creates a balance in the relationship. None of the partners will act opportunistically, as the threat of reverse sanction is continuously present.

He needs my help. I have a good relationship and this is really important. Guanxi, guanxi, you know? And it is also the language. If you come from another country it is not easy – language and relationships. This is important and I know it – and he also knows it (V6C).<sup>2</sup>

He needs my know-how in dealing with production technologies – I mean modern production technologies from Germany (V14G).

As indicators for the existence of cognitive trust in IJVs, we searched for positive statements about personality characteristics of the local counterpart or the expatriate manager. In addition we looked for process-based experience about the acceptance of working styles, frequent communication modes and open information exchanges between the managers of the LPC and the FPC. One of the interesting points in this respect is that positive statements about working were only made by the local managers, whereas the expatriates complained about local workplace behaviour

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<sup>2</sup> Interviews with German managers end in 'G' and those with Chinese managers end in 'C'. Wording and grammar of the original interview transcripts have been corrected where necessary.

as confusing, not efficient and time consuming. Nearly all interviewed managers have a positive view of an open communication mode and open information exchange of relevant facts. In the interviews it was claimed that this positive attitude towards information sharing and problem solving serves as a basis for JV performance and success. We also received positive statements about expert knowledge and vocational qualification of the counterpart. Reliability was another issue in the context of cognitive trust. Reliability develops over the time. Nearly all participants we interviewed feel that after a sufficient amount of time they know their counterpart well, so that the other's behaviour is anticipatable and predictable. However, this does not mean that the actions of the other are always seen as positive. Reference was often made to the counterpart's loyalty to and dependence on their social network, which was regarded as unacceptable.

We talk about difficulties very frankly. Besides the professional part we also once discussed his personal problems. Our offices are very close together so it is also the small distance that enables us to interact easily (V18C).

He also told me confidential information. I often thought this is something one should not talk about frankly – information that would be rated as highly confidential from the German perspective, at least. This really influenced my trust in a positive way – to think that a trust relationship with him could arise (A7G).

We have interpreted statements concerning respectful and co-operative behaviour, the positive accomplishment of loyalty expectations, and the development of friendship as indicators of the development of normative trust.

There have been situations in daily work life where I thought that my colleague would leave me in a difficult situation. For example, if I ordered something without talking with him about it in advance, which happens sometimes. And I was so surprised that he still supported me in this moment. I never thought that he would do so (A2G).

And when he returned to Shanghai he brought a lot of presents to our office. He gave me a pen with my name on it. This made me really happy and I was so surprised. This really raised my trust in him, because he accepts my work. Because he shows understanding for my work and appreciates my efforts (V19C).

The positive findings are contrasted with statements that express negative impacts on trust. The partner's behaviour was sometimes interpreted

as uncooperative. The interviewed managers perceive three types of action that negatively influence the co-operative relationship: breaking of contracts, non-inclusion in decision-making, and wrong cultural behaviour.

And then he said he would deal with the subject, and I asked him not to deal with it. Then I went to a meeting which was cancelled, and when I returned after ten minutes he was dealing with the subject, and I got extremely mad at him (A3G).

I know the Germans. They are always on time, stingy and hate people from other countries. It is bad if they act rude without thinking, if they are arrogant and do not appreciate our effort (V19C).

We also clearly identified fields of mistrust of a cognitive and normative character between Chinese and German managers. On the cognitive level of trust, Chinese managers fear that expatriates are unable to think integrally and to behave according to Chinese society's requirements. Their German counterparts tend to criticise the perceived insufficient analytical skills of the Chinese. It seems to be more the German attitude to regard the local partner with mistrust from the very beginning. Especially the 'guanxi' web adds complexity to the social relationship and is closely connected with mistrust regarding parallel loyalties, the keeping of contracts, the transfer of relevant information and financial aspects.

I do not like to rely on him. If he does it himself he will fight for his way, and I do not want to rely on him. Sometimes if he deals with these things, he does something and I have to correct him. I have to be the trouble-shooter. I would do it better. Some bad things happened (A4C).

But there is still a dependency, even if the Chinese colleagues have the same view as oneself. They get orders from above which they will not tell us. There is a lot going on behind our backs (V11G).

In terms of normative mistrust we evaluated incongruences concerning goals, expectations and values. They are perceived by the Chinese as well as by the German managers.

Concerning work we do not share the same values. Quality of work or thinking in terms of quality – it is difficult for the Chinese to change that. So they stick to the level reached without changing anything. Our advantage is that we take the chance, talk about improvements (V11G).

I think this is related to our goal to take more management responsibility. We started early to localise management here. And we had five

German general managers here, and I think now it is time that the Chinese staff take over (V16C).

CALCULATIVE TRUST, COGNITIVE TRUST AND NORMATIVE TRUST  
ON THE INTERORGANISATIONAL LEVEL

On the calculative trust level, representatives of both partner companies know exactly the reciprocal dependency of their mother companies at the interorganisational level. Both Sino–German JVs were established in the 1980s. Due to governmental regulations at the time, IJVs were the only entry strategy for the Chinese market. In all cases investigated the strategic aim of the German parent companies was to enter the foreign market. On the local side, all companies mentioned that the FPC possesses product technology or production process know-how that is not available in the host country and that offers a gain of competitive advantage for the local partner against local competitors. From the Chinese perspective, the access to foreign capital also seems very important.

We want to do business in China, and without the Chinese side we will not get into the market – no chance. It is simply not a free market economy (V11G).

You know, now that the local partner is going down, they have big losses. But now with our new ability, we can get side-by-side as we also have foreign customers (A4C).

By questioning aspects of cognitive trust on the interorganisational level, we found statements in the interviews concerning superior technology, advanced management systems and the good reputation of the partner company. It was astonishing that all of the German executives had expressed mistrust towards the LPCs, whereas the Chinese managers did not seem to mistrust the FPC.

But in the world and in the co-operation the brand of the foreign partner is quite popular – so I think this will be a continuous co-operation (A1C).

And that is why I trust the foreign partner. There are Germans who have a very good understanding of the product and the quality. You must admit this (A10C).

Concerning internal payment, if they have to pay 40 million, they approach us two days later saying, ‘sorry, we do not have the money – we cannot pay’. They pretend to support us, but the local partner is eager to impede us in daily life. I have to admit that I do not trust any of the local partners (A8G).

After we had approved the internal payment of the money they said we could do it but without a bill. We told them that we need a bill to prove where the money has gone, but they said only without a bill, 'otherwise we will not support you' (A3G).

Elements of normative trust on the interorganisational level were not identified in our samples.

## DISCUSSION

The primary goal of our research was to explain how trust in co-operative relationships develops over time, how trust appears at the interpersonal and interorganisational level, and how these two levels of trust are inter-related. Implications for trust-sensitive management of Japanese–foreign JVs will be given.

### THE INTERPERSONAL LEVEL OF TRUST

In our survey we identified all three forms of trust on the interpersonal level between German expatriates and Chinese senior managers which we placed into the layers of calculative, cognitive and, to a lesser extent, normative trust (Hypothesis 2). Our theoretical assumption that calculative trust dominates interpersonal relationships at the beginning was verified in our interviews. In IJVs in which boundary-spanning agents work closely together, it is the knowledge of reciprocal dependency which gives partners security and the feeling that they are not mistrusted by the others. There is clear evidence from our interviews that all managers are aware of this reciprocal dependency. Whereas the German expatriate contributes his expert knowledge and his close relationship to the FPC, the local manager possesses all the necessary information about the local staff, the local infrastructure and the relationship to the LPC. Both boundary-spanning agents are also part of the larger network of their own ethnicity, with informal information sharing among their groups.

Cognitive trust is based on continuous accumulation of information about the counterpart. In this sense it is understandable that all participants in our survey feel that they can trust the other, because they assume that they can anticipate the behaviour of the other. The statements given support our assumption that cognitive trust will emerge after a certain period of time. It takes time to acquire detailed knowledge about the capabilities, the working attitude and the personality of the counterpart manager. Nevertheless, our data also indicate the emergence of trust

towards the counterpart manager owing to personal characteristics apart from the workplace relationship, such as social background, hobbies and family.

Indications of normative trust were frequent in our survey. The reason is that the development of normative trust will take much longer than cognitive trust. However, overseas assignments of expatriates are often of short duration. International assignments of German companies are from three to fourteen months on the short side and three to eight years at the longest. German companies still consider China a developing country with hardship conditions for expatriate managers, which leads to much shorter international assignments. It is thus not surprising that normative trust was not frequently encountered in the Chinese–German JVs investigated.

The survey revealed that the German expatriates in our survey were far from being included in the Chinese ‘danwei’ structure and therefore cannot be considered as insiders (Hypothesis 3). However, we found quite a few expressions of trust by the Chinese managers towards the German expatriates. This implies that according to our definition, the expatriates also do not fit into the category of outsiders, as this group is not trusted at all. Obviously a kind of hybrid culture of trust is developing in the IJV. By co-operating in daily IJV business, the German managers automatically come into contact with the Chinese managers and their business network. However, a sharp distinction between business and private – probably influenced by the Western style of life – is also adopted by the Chinese employees in the IJV regarding the managers of the FPC. So the private sphere is not touched, which leads to a differentiation of trust in the IJV and corresponds to our finding of a hybrid culture of trust in the IJV.

In our survey, it was primarily the German staff that expressed mistrust towards the workplace behaviour of their counterparts. The former fail to place the inefficiency and laziness that they perceive into a motivational context. Without much reflection they seem to project the traits of a ‘modern’ Western business culture onto the Chinese working environment. The Chinese managers, on the other hand, complained in the interviews that the behaviour of the expatriates was culturally inappropriate. Expatriates generally see their role as introducing Western management expertise into Chinese–German IJVs, which does not allow for informal local management practices. In fact some Western management practices can cause difficulties in establishing relationships with the local counterpart in China or the staff of the IJV. These include confrontations during meetings – leading to loss of face by local participants – and insistence on local managers assuming individual responsibility for ac-

tions, which exerts pressure on local staff. Both tendencies indicate insufficient intercultural training programs before assignment from the FPC, as well as from the FPC resulting in negative impacts on trusting behaviour and performance.

The findings of our research suggest thus far that especially within the context of a local culture that attaches high value to transactions based upon personal relationships, as in China, trust-sensitive management of co-operative ventures should focus on the interpersonal level. This may be achieved through careful selection of personnel, intercultural training, longer assignments or a policy of human resource management in which repatriated managers continue to be in charge of matters related to 'their' overseas IJV. Without continuity at the top management level of the LPC and FPC, as well as the IJV, there is the risk of 'corporate amnesia' (Inkpen and Beamish 1997; Turpin 1993), in which executives in both parent companies forget the original motivation for this international co-operative alliance and past lessons from their personal relationships.

THE INTERORGANISATIONAL LEVEL OF TRUST AND ITS INTERDEPENDENCE  
WITH THE INTERPERSONAL LEVEL

Interorganisational trust was emphasised infrequently in our sample. We seldom encountered statements by LPC managers about personal trust in the technical knowledge of the German expatriate resulting in interorganisational trust in the high technical standards of the FPC. Culturally insensitive or inappropriate personal behaviour of the expatriates leads to mistrust in the organisational capacity of the FPC by the local staff, because it is assumed that the FPC has carefully selected its expatriates. The German expatriates, for instance, do not normally consider 'guanxi' or face-saving to be acceptable norms of business practices. Within IJVs, the 'guanxi' in China may require favouritism in the selection of new employees or in the allocation of contracts for supplies, and it may involve what foreigners regard as corruption.

Our hypothesis 1 that interorganisational trust derives from interpersonal trust was partly confirmed. Statements by Chinese managers indicate that the quality of work of individual employees of the partner organisation is transferred to the interorganisational level. Obviously, trust is generalized in some cases. However, deficits in personal interaction also influence the organisational level of trust. To demonstrate the insufficiency of the assumption that the influence of the interpersonal on the interorganisational level is a 'one-way street', we need to have a closer look at the interpersonal level again. At first glance, two statements of the same individual employee concerning trust in the interpersonal relation

appeared to be diametrically opposed, expressing a specific subtype of trust, on the one hand – ‘I am sure he will also pass on all relevant information’ (A3G) – followed by a statement of mistrust, on the other – ‘When information involves employees, he always suffers temporary Alzheimer’ (A3G).

Analysing this bewildering phenomenon, we evaluated the organisational framework that influences the interpersonal relationship. We discovered that an incongruence of strategic goals between the FPC and the LPC heavily influences the trusting personal relationship at the management level. In general, disagreement between both partner companies about the mission of the IJV leads to a lack of direction, and hence to some amount of mistrust at the interorganisational and interpersonal level. Such a conflict situation can only be extremely dysfunctional. Neither the foreign nor the local values about work or interpersonal relations control the situation in the IJV. There is no clear set of short-term or even long-term goals for the individual managers and the IJV. Rather, uncertainty prevails as each group of managers seeks to impose its assumptions about human behaviour and proper workplace practices onto the IJV. In addition to these clashes at the management level, the local employees in some cases expressed ambivalence as to what is expected of them. Should they do business as usual under customary local norms, or should they attempt to adapt to the often strange and different practices of the FPC. Such an environment in an IJV is often unstable, laden with mistrust, and likely to be ineffective.

The interorganisational impacts on interpersonal trusting relations can be evaluated using two moderating variables: a parallel loyalty of the managers and the temporary character of an expatriate’s assignment. Loyalty is directed toward the counterpart manager as well as toward the own ethnic group and/or company of origin. In light of the temporary nature of the co-operation, loyalty towards the own ethnic group is naturally the stronger tie. Problems arise if a strategic goal incongruence affects the personal relationship from top management in either the FPC or the LPC. Our interviews confirmed that interpersonal agreements or oral contracts on the interpersonal level must frequently be readjusted due to organisational constraints. Our theoretical considerations led us to assume that such cases will lead to a climate of diminished trust or even mistrust, where reestablishment of trust may be impossible.

However, our findings do not support this assumption: breaking individual contracts and agreements did not automatically lead to mistrust at the interpersonal level. The close distinction between confidence and trust provides the rationale. While breaking of trust is attributed internally, the consequences of unsuitable confidence are attributed externally.

The determinants of an individual's actions depend not only on ability and intention but also on social environment and situational factors (von Rosenstiel 1988). Obviously the manager affected by a breaking of an agreement takes these factors into account and attributes the problem externally. In the course of time, a continuum is developed including levels of trust and mistrust in the same field of co-operation regarding external factors to determine the counterpart's behaviour.

On the calculative level of interorganisational trust we find clear evidence for strategic decision-making by the FPCs concerning market entry strategies, partner selection criteria, the appropriate level of technology, use of capital and the reputation of partner companies. In the initial stage of going international, it is extremely important, through careful planning, to get the basic calculus for the IJV right. This careful planning takes time and provides an opportunity for a degree of mutual confidence and respect to develop between the main negotiators at the interpersonal level, which leads to trust at the interorganisational level when the IJV starts operations. The LPCs contribute the local knowledge from the outset. During IJV formation, the Chinese partner deals nearly exclusively with legal, official planning and domestic financial matters. When the IJV is in operation, the contribution of the Chinese partners is closely linked to operational networks, such as domestic sales, supplies, human resource management and infrastructure. However, once an IJV is in operation, the FPC progressively gains sufficient access to the local knowledge. For reciprocal dependency on the calculative level, this implies that the bargaining power of the LPC will gradually diminish, depending on both the criticality of that knowledge and how fast the FPC learns.

The surprising emergence of mistrust at the cognitive level towards the LPCs in our research might be explained by the fact that the LPCs investigated are still state-owned enterprises. The German expatriates claim that the LPCs still provide a broad spectrum of social services ranging from housing to medical care to funerals. This practice of human resource management is transferred to the IJV, which results in an expanded payroll, sometimes unnecessarily high-wage payments, problems with overstaffing and difficulties in personnel recruitment. All these factors contribute to the impression that the foreign investor must provide the 'iron rice bowl' for the employees of the IJV and to some extent to the personnel of the LPC, too. Choosing a IJV partner from the new emerging private enterprises involves a partner selection strategy that must cope with this problem (Dolles 2000).

For a foreign company interested in maintaining a stable, long-term IJV, our findings clearly suggest that goal discrepancies on the interorgan-

isational level should be avoided and compatibility in operational and technical capabilities aimed at. The German companies listed as their main strategic objectives gaining a strategic position in the Chinese market, the attraction of the domestic market and the opportunity for long-term profit. The Chinese companies are looking for technology transfer, production techniques and management expertise. Such differing goals and objectives could become critical issues in the Chinese–German IJVs investigated. Goal integration in a trust-sensitive management of IJVs is therefore a must for successful IJV management, as is a suitable fit between the organisation's individuals and those of the IJV itself. This means that both IJV partner companies need to understand the culture, goals and values of the other party, and apply this information towards a trustworthy collaboration. This widening of the trust-sensitive management of IJVs increases the likelihood that the most important goal of both partners and IJV – profitability – can be achieved.

#### IMPLICATIONS FOR JAPANESE–CHINESE INTERNATIONAL JOINT-VENTURES

Our survey of Japanese–German IJVs revealed several noteworthy differences to Chinese–German JVs that might also touch on the performance of Chinese–Japanese co-operative ventures.

With regard to the antecedents of trust, it was mentioned in the Japanese interviews that the interpersonal relationship is crucial for creating a successful co-operative relationship with Japanese companies. Even if there is basic congruence in goals and objectives as well as overall suitability of both partners on the organisational level, without a personal-relationship commitment and an open two-way communication, trust will certainly not develop. For commitment the collaborating partner in the IJV must not only be willing to express his long-term interest in the co-operative venture but also to take affirmative action that demonstrates willingness to act on promises. By doing this, the expatriate will personally enter a 'trust cycle' where trust begets trust. Conversely, should the Japanese managers perceive a violation of their trust by the expatriate, they will quickly turn to distrust. This behaviour does not work too well in the Chinese context, where Japanese managers in IJVs face the same problems as German managers in dealing with the frequent readjustment of interpersonal agreements or breaking of oral contracts by the local managers.

The commitment to interpersonal trust in Japanese–German IJVs was much higher than in the Chinese–German IJVs as indicated by the degree of information exchange and long-term stable relationships between managers in the IJV as well as between the top Chief Executive Officers

(CEOs) in the FPC and the LPC. In light of our argument that boundary-spanning agents in IJVs can have a direct influence on alliance performance, we suggest that the influence of the boundary spanning agents in Japanese–German IJVs is considerably higher than in Chinese–Germany IJVs.

For the Japanese it is necessary to demonstrate trustworthiness over time. However it should be noted that long-term trading in itself is not sufficient to develop mutual trust in relationships. The relatively quick turnover of expatriates in German–Chinese IJVs was not encountered in Japan, where the expatriates tend to stay for a longer period of assignment (two to six years compared to five to six years or even longer), which supports the necessity of establishing a personal relationship and leads to higher cultural sensitivity on the part of the expatriates. Given that Japan is a high context culture (Fukuyama 1995), culturally sensitive behaviour may communicate to the Japanese an aura of trustworthiness that goes beyond verbal communication and leads to a mutual understanding between both partners. This does not work for the Chinese situation, because Japanese assignments in China are even shorter than the German (one to two years), which does not allow for the development of a personal relationship with the local managers. This finding is in line with the observations made by Yan (2000) that the frequent replacement of expatriate managers appears to damage the performance of IJVs and is regretted by the Chinese managers. Complaints were expressed by the Chinese managers also about not being informed in advance of the turnover and the reasons the FPCs' reasons to replace the foreign manager.

With regard to our hypothesis concerning the development of trust, we clearly identified that trust in Chinese–German IJVs develops through the levels of calculative, cognitive and normative trust. In analysing Japanese–German IJVs, we found that the Japanese companies are more predisposed to trusting their partners than the German companies, as indicated by the need for informal and formal mechanisms of partner control. This finding puts our theoretical framework in reverse order for the Japanese point of view, which starts co-operative relationships from a normative view of trust and puts calculative aspects of trust last. A Japanese CEO in our interviews made the following distinction:

The Germans normally trust their business partner on the premise of proper economic facts, such as turnover or sales volume. The Germans clearly state that they did not come to Japan to participate in a coffee party, they want to do business straight away. From the Japanese point of view, we expect first to establish a personal relationship, a kind of mutual understanding of the other first, before talking

about business. Business figures really do not affect the development of trust between both partners at the very beginning (3F503).

Sako (1998, 1992) and Dore (1983) came to similar conclusions in their studies on Japanese and British companies. This is an indication of prevailing business norms, which are determined by societal-level cultural values. Societal norms may be self-reinforcing. Over time, a history of good experience with trusting behaviour in Japan may have promoted the diffusion of trust. This finding is supported by the research of Yamagishi and Yamagishi (1994) and is in line with our results.

In trying to see implications for Japanese–Chinese IJVs in China, we might think that with the placing of personal relationships in the foreground, it is probably the Japanese approach of dealing with co-operative relationship that might work better in the Chinese social environment, which is highly complex and hence uncertain from a Western perspective. The relatively frequent turnover of Japanese expatriates, however, does not support this assumption. Chinese managers in Japanese–Chinese IJVs also complain about the behaviour of the Japanese expatriates as being culturally unsuitable. The balanced reciprocal dependency found in the German–foreign cases on the calculative level is not found in Japanese–Chinese IJVs because of the Japanese Chinese language skills (at least the ability to read and write Chinese characters). Therefore, the Chinese managers feel much more dependent on the expatriate, which might cause negative motivational effects. Beyond this impression, there is evidence that senior positions in Japanese–Chinese IJVs are mainly held by Japanese managers, and local managers are not encouraged to strive for career development opportunities. In Chinese–German IJVs, in contrast, Chinese managers seem to be restricted to the areas of personnel, domestic sales, purchasing and deputy general managerships. One of the Chinese–German IJVs in our survey had parallel organisational structures with all senior positions jointly held by a German and a Chinese manager. This approach of creating an equal working environment is perceived as having great advantages for Chinese professionals working in an IJV and might be the key to successful trust-sensitive IJV management in China.

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