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**Money can't buy me trust:**

**Evidence of exogenous influences crowding out process-based trust in alliances**

Jeppe Christoffersen, Assistant Professor<sup>a</sup>

Matthew J. Robson, Professor of Marketing<sup>b,\*</sup>

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<sup>a</sup> Copenhagen Business School, Solbjerg Plads 3, DK-2000 Frederiksberg, Denmark, Tel.: +45 38 15 23 27; fax: +45 38 15 23 21, e-mail: jc.acc@cbs.dk

<sup>b</sup> Leeds University Business School, University of Leeds, Maurice Keyworth Building, Leeds LS2 9JT, United Kingdom, Tel: +44 (0) 113 343 6348, mjro@lubs.leeds.ac.uk

\*Corresponding author.

## **Money can't buy me trust:**

### **Evidence of external intervention crowding out process-based trust in alliances**

#### **ABSTRACT**

In this study we investigate how external interventions shape process-based trust development in cross-border alliances. Specifically, we exploit a unique opportunity to observe the magnitude of external intervention through publicly available amounts of money given by the foreign, developed country partners' government to support alliances with local, developing country partners. Applying motivation crowding theory to trust processes, we develop theoretical logic explaining how and under what conditions such third-party financial support negatively affects the local partner's trust. Our assertions were tested using archival and survey data on 105 international strategic alliances. We find that amount of support is detrimental to local partner trust but that the negative relationship can be dampened via interaction between partners and agreement throughout these interactions. This shows a need for partners to think through trust development consequences of external interventions during the setting up of their alliances, in order to be able to act in a manner which promotes trust.

#### **Keywords:**

Keywords: Interorganizational Relationships, Trust, Process-Based Trust, Extrinsic Motivation, Intrinsic Motivation, External Intervention

## INTRODUCTION

The proliferation of international strategic alliances (ISAs) has generated much debate. ISAs are relatively enduring cooperative arrangements that use resources of independent firms, based in different countries, for the joint accomplishment of individual objectives (Robson, Katsikeas and Bello, 2008). Alliances offer potential benefits to firms but often fail to meet set objectives (Lavie, Haunschild and Khanna, 2012). In response, a major stream of work on ISA performance has emerged. Recent reviews show not only that trust is the performance driver most often tested (Christoffersen, 2013), but also that it is reliable in its influence (Krishnan, Geyskens and Steenkamp, 2015). Trust improves alliance outcomes as it lowers transaction costs, leads to faster decisions, and facilitates investment in relationship-specific assets (Heidl, Steensma and Phelps, 2014; Thorgren and Wincent, 2011).

The thrust of trust development research is guided by the two opposing logics of *economics* and *embeddedness* (Lado, Dant and Tekleab, 2008; Lui and Ngo, 2012). First, trust may be produced through alignment of partners' economic incentives. Firms may behave in a trustworthy manner due to credible commitments they have made (Katsikeas, Skarmeas and Bello, 2009). Second, the embeddedness view eschews cost–benefit calculations in favor of noncalculative aspects of exchange. When transactions are embedded within social relationships, trust emerges from the frequency and intensity of interactions between the partner firms' personnel (McEvily and Marcus, 2005).

Dyer and Chu's (2000) seminal study on trust development within international automaker–supplier relationships emphasized *process*-based trust as a neglected, third way to generate trust. Process-based trust development concerns *institutionalized processes for fairly and reliably dealing with a partner firm* (Zucker, 1986; Zaheer, McEvily and Perrone, 1998). Dyer and Chu (2000) identified that processes for selecting partners and responding to their problems were better predictors of trustworthiness than economic and embeddedness drivers.

Nonetheless, these authors' later retrospective (2011, p. 34) suggested: "...we have not seen much follow-up research ... on our notion of process-based trust."

Research on process-based trust development has argued that alliance partners should deploy stable and enduring, institutionalized exchange processes (Zaheer *et al.*, 1998). Indeed, experienced partners often formalize procedural frameworks and respective obligations in their alliances (Mayer and Teece, 2008). *External intervention*, however, can affect partner interactions (Hitt *et al.*, 2004; Abdi and Aulakh, 2012). For instance, partner firms' cross-border alliance processes may be rendered less reliable and more uncertain through state regulator interventions (Merchant and Schendel, 2000). Similarly, high-technology alliances usually involve sub-contractors and other external parties (Tiwana, 2008), whose work might shape what the main partners deem to be fair and reliable processes for interactions. Within systems involving interventions by *third-parties external to the ISA partnership*, trust based on fair processes is more difficult to deploy. The evident gap in knowledge concerning such process complexities prompts our study.

Our study contributes to the alliance management literature in three ways. First, while studies on process-based trust have established its criticality for effective cross-border alliances (Dyer and Chu, 2011), they are silent as to the deleterious effect of external intervention on such trust building. This is the first study to consider how external intervention undermines activities required to build generalized expectations and predictions concerning trust in ISAs. We exploit a novel opportunity to observe external intervention magnitude through publicly available amounts of money given to support alliances, and use this opportunity to examine how and under which conditions the specific influence alters trust perceptions. We examine a situation in which the start-up of ISAs between foreign (developed country) and local (developing country) partners is supported financially in a

development aid program by the foreign firm's government via reimbursements of some of the costs associated with particular activities.

Second, prior research (e.g., Hu and Chen, 1996) has revealed circumstances wherein government economic incentives do not yield superior alliance outcomes. Our study goes one step further in theorizing that increasing amounts of support can be *detrimental* to trust development. Trust processes involve incremental activities building toward long-term exchange outcomes. By extending motivation crowding theory (e.g., Deci, Koestner and Ryan, 1999) to alliances, we argue that financial support *crowds out* the motivation to engage in such processes. As per theory suggesting trust expectations evolve through mutually satisfying interactions (Rempel, Holmes and Zanna, 1985), we also assert that the crowding out effect can be dampened through *interaction* of the partners in early strategic processes of the alliance and their level of *agreement* during such interaction.

Third, our approach to theorizing trust demonstrates how researchers can respond to Zhong *et al.*'s (2014) call for depth and specificity in hypotheses on interorganizational trust development. We do so by recognizing that organizations cooperate via managerial boundary spanners and invoking psychological literature on motivation crowding and trust. We present results specific to financial support to alliances and local partner trust but forcefully demonstrate a more general point being that process-based trust development can be disrupted. We identified a pertinent external intervention—the inflow of financial support—which *most rational managers would welcome*, and show that the complexities of process-based trust can in fact make it detrimental.

## **THEORY AND HYPOTHESES**

### **Trust processes**

As trust has been addressed within different disciplines, including economics, psychology, and sociology (Rousseau *et al.*, 1998), it is not surprising that different conceptions of the phenomenon have been advanced. However, “nearly all conceptions begin with the recognition that, whatever else it may encompass, trust is fundamentally a psychological state characterized by several components, the most important of which is some sort of positive expectation regarding others’ behavior” (Kramer and Lewicki, 2010, p. 247). Many definitions contain some reference to willingness to be vulnerable (Kramer and Lewicki, 2010). As such, we perceive trust as “willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer, Davis and Schoorman, 1995, p. 712). In principle, trust is a psychological state offering a representation of how individuals understand their relationship with another party in situations that involve vulnerability (Dirks and Ferrin, 2001). In organizational settings, including alliances, the construct has been widened to apply it more generally to teams of managerial boundary spanners.

The literature presents different views on interorganizational trust developments. In an early economics-based perspective, this happens through alignment of incentives in the form of mutual and voluntary hostage giving/taking, functioning as credible commitments to the partnership (Katsikeas *et al.*, 2009). Almost simultaneous research from the sociological perspective presented transactions as embedded in rich social contexts (Lui and Ngo, 2012), in which the risk of social sanctions bars opportunism of the boundary spanners representing the partners (Dyer and Chu, 2000).

Dyer and Chu (2000), building on Zucker (1986) and Zaheer *et al.* (1998), among others, subsequently established the process-based perspective; that interorganizational trust develops through consistency of firms’ actions. In comparison, trust development based on

the embeddedness perspective depends on socially meaningful personal interactions, while from the economic perspective trust depends on alignment of partners' economic incentives. Dyer and Chu (2000) unveiled that Japanese automakers build trust with US suppliers based on fair and reliable actions. These authors found that the consistent behavior of partner firms (process-based perspective), rather than shared social values (embeddedness perspective) or shared equity interests (economic perspective), better explained trust development.

Dyer and Chu's (2000) process-based perspective aligns with psychological views on trust development between individuals. For instance, Rempel *et al.* (1985, p. 96) noted that "trust evolves through mutually satisfying interactions". As such, the antecedent condition for trust is predictability of a partner's behavior as shaped by the consistency of their behaviors and an understanding of the reward contingencies underlying potential actions in the ISA.

Moreover, the notion of institutionalized processes for fairly and reliably dealing with a partner firm resonates with Child and Mollering's (2003) active trust. These authors suggest that without prior experiences of working with a partner from an emerging market, a developed country partner must *actively work on trust* by introducing its own micro-institutionalization in the form of practices that establish predictability and reliability (Child and Mollering 2003). This is needed as they face underdeveloped institutions and lack pre-existing embedded relationships (e.g., *guanxi*) that can substitute for institutional norms.

We advance knowledge by suggesting how the motivation to engage in processes of mutually satisfying interactions can be dampened by external intervention via financial support. This is the main effect considered below. Further, we examine how partner interaction during early activities aimed at developing alliance strategic processes and performing those interactions without disagreement can shield against the deleterious effect of external intervention, moderating the main effect.



### **Amount of support and trust**

*Main effect.* According to process-based logic, firms' processes for fairly and reliably dealing with a partner organization influence trust development. We argue that in the presence of high levels of financial support, these processes will not be approached in the same manner as they are for low levels of support. Substantial work in psychology asserts that extrinsic rewards *crowd out* intrinsic motivation, meaning that individuals do less of activities they find interesting and purposeful without extrinsic rewards (Deci, 1975). The effect arises as individuals will eventually attribute any interest in the activity to the reward, rather than to the original intrinsic motivation (Lepper, Greene and Nisbett, 1973).

Deci *et al.* (1999, p. 627) demonstrated in their meta-analysis of motivational approaches that crowding out effects are particularly strong when rewards are: 1) tangible (vs. verbal); 2) expected (vs. unexpected); and 3) contingent upon task-completion (vs. engagement contingent, performance contingent, and task non-contingent). Although the ISA setting is organizational rather than personal, we assume that alliance managers are individuals who in given situations deal with organizational issues as if they were personal. We draw the parallel that in alliances supported by the focal development aid program there are tangible rewards in the form of financial support (cf. 1 above). The project plan specifies exactly how much support each activity gives rise to making rewards highly expected (cf. 2 above). Finally, the project plan makes rewards contingent upon task completion (cf. 3 above). We therefore expect a negative impact of financial support (extrinsic motivation) on the activities normally performed to develop the relationship (intrinsic motivation).

Moreover, we argue that the crowding out of intrinsic motivation will decrease trust specifically, because the free-choice activities that would be performed to develop the ISA and that produce increases in trust between parties, are produced through an accumulation of prior interactions that are judged by the parties as being efficient and equitable (Ring and Van

de Ven, 1994). Accumulation of such interactions is less likely to take place when increasing financial support distorts the intrinsic motivation of the alliance partners to work normally to build their relationship. Partners instead focus on the short-term financial benefits that can be obtained from performing supported activities.

Cross-border alliances, including those of the focal development aid program, generally involve partners with a limited (if any) history of cooperation. In the absence of prior exchanges between two partners, trust foundations stemming from the accumulation of consistent behaviors would not exist. The emergence of process-based trust would rely upon the partners being *active* rather than *passive* from the outset of the alliance, and being *free* to set standardized processes that are diagnostic of trust and build familiarity and predictability in their interactions (Child and Mollering, 2003).

Based on motivation crowding theory, we posit that the hidden costs of reward (i.e., low trust) surface when the external intervention (i.e., amount of support) reduces managers' intrinsic incentives to act freely *across alliance development stages* (cf. Frey, 1997). In the focal development aid program, activities associated with negotiations, formation, and growth of the ISAs are reimbursed, impeding partners' reliance on micro-institutions to import standardized and consistent processes during these stages. Hence, extrinsic motivation is present during alliance stages where, under normal circumstances, partners' trust would develop incrementally (Inkpen and Currall, 1998).

Not only do the funded activities come at the expense of the ISA partners' efforts to actively work on trust, anecdotal evidence also suggests that they may disagree and haggle over the use of funds. According to our prestudy interviews with local and foreign partners as well as aid program representatives, the local partner typically wants support to finance equipment for themselves, while the foreign partner typically wants support to finance their training of the local partner. Such tensions provide an incentive for the partners to withhold

information or even misinform one another. Regardless of whether the partners negotiate selfishly, the mere possibility induces uncertainty, which decreases their willingness to put themselves at risk. This is expressed precisely by Lindsfold (1978, p. 773) who noted that “[a] person will be trusted if he appears nonmanipulative. If he is attempting to convince the perceiver to perform an act or espouse a belief and it appears that he is in a position to gain as a result, he will be less trusted than if his outcomes are apparently unconnected to the perceiver’s acts or beliefs”. With increasing amounts of support there is more at stake and the willingness to be vulnerable to the actions of the partner will naturally decrease

As partners typically find their own claims for funds fair, one or both of them may conclude that funds are being distributed unfairly. This issue of distributive fairness—referring to whether the distribution of outcomes and inputs of a given process is fair (Colquitt *et al.*, 2001)—is salient to the idea of fairly and reliably dealing with the counterpart within the process-based view of trust (Zucker, 1986). In this context, Robson *et al.* (2008) found that distributive fairness is a prerequisite for positive expectations that serve as the basis for trust in cross-border alliances. While distributive fairness does not in itself relate to the magnitude of the rewards and costs to be distributed, it is logical that distributive unfairness becomes of greater concern as the magnitude of costs and benefits increases.

The argumentation above implies that with increasing amounts of support: (1) intrinsic motivation to perform activities to develop the alliance will be crowded out and replaced by extrinsic motivation to think up activities that merit financial support; and (2) those activities that are crowded out are exactly those activities that develop trust and activities that replace them are those that obstruct trust. Activities that are judged by the parties as being efficient and equitable are replaced with others that entail more self-serving behavior. Using the words of psychologists researching trust in close relationships, the partners do not show “a

willingness to put [themselves] at risk.... sacrificing present rewards for future gains” (Rempel *et al.*, 1985, p. 96).

While we expect that amount of support will be negatively associated with the partners’ trust in each other, our hypotheses focus on the local (developing country) partner’s trust in the foreign (developed country) partner. We posit that trust issues are particularly salient to the local partner. The logic stems from pre-study interviews with local as well as foreign partners and concurs with Kramer (1996), who observed that in relationships between graduate students and their faculty advisors, trust concerns are more apparent to students. These actors code more transactions as diagnostic of trustworthiness and more easily remember instances of trust violation. Kramer attributed this difference to the greater dependency and vulnerability of students. In ISAs the local, developing country partner supposedly acts as a student learning from the foreign, developed country partner and has a student-like dependency and vulnerability. By contrast, the foreign partner receives reimbursements for their knowledge, similar to the way faculty advisors receive reimbursements for transferring knowledge to students. We thus propose that:

**HYPOTHESIS 1.** *Amount of support is negatively associated with local partner trust.*

***Moderation effects.*** The above view implied that support is most likely to distort intrinsic motivation in alliance relationships in which the initial conditions for trust are poor.

Accordingly, we consider the possibility that our main effect is moderated by the extent to which the relationship provides early opportunities for trust to develop. Specifically, we are inspired by Ring and Van de Ven’s (1994, p. 101) notion that trust is “produced through an accumulation of prior interactions that were judged by the parties as being efficient and equitable”. Such logic is in line with trust psychologists’ (e.g., Rempel *et al.*, 1985, p. 96) observations that, in close relationships, “trust evolves through mutually satisfying

interactions”. Both perspectives highlight the importance of an accumulation of interactions as well as some positive sentiment of mutual satisfaction or efficiency and equitability arising from these interactions. This suggests two aspects potentially moderating the negative impact of financial support on trust. The first is interaction, which we extend beyond previously used frequency of interaction (e.g., McAllister, 1995) by referring instead to its substance. As such, we define interaction as the extent to which alliance partners have participated jointly in early activities aimed at developing the alliance business case. The second is agreement, which, inspired by the literature on conflict, we define as absence of professional disagreement about the alliance task and processes (Jehn and Mannix, 2001).

As trust requires an assessment of the partner firm’s credibility and benevolence, the perceiver must have information about the counterpart’s past behavior. “Repeated interaction enables the party to interpret prior outcomes better, providing a basis for assessing predictability” (Doney and Cannon, 1997, p. 37). This assertion is supported by psychologists’ work on trust in close relationships suggesting that “such encounters give opportunities for shifting the focus from individual assessments of specific behaviors to overall evaluation of the qualities attributable to the partner” (Rempel *et al.*, 1985, p. 96). We previously argued that partners can lack an understanding of each other’s contributions, which gives rise to perceived distributive unfairness and low levels of trust (Robson *et al.*, 2008). With a better understanding of each other’s meaningful contributions, partners in an exchange situation will be more likely to perceive distribution as fair (Adams, 1965). To this point, interactions during early strategic activities of the alliance will increase understanding and the sense of joint contributions. Trust depends on attributions concerning the motives for others’ ongoing behavior that can be attributed confidently as a result of quality, formative interactions (Lewis and Weigert, 1985).

We therefore propose that partners that have interacted substantively within early strategy-making processes of the ISA will focus less on assessing individual actions in relation to the financial support provided. They will instead focus on overall evaluation of the qualities attributable to the partner and, thus, be less inclined to interpret behaviors as motivated by the extrinsic motivation of securing external support rather than intrinsic motivation of developing the alliance business. When partners have interacted substantively within early strategy-making processes of the ISA, this experience will militate against the negative influence support can have on trust development. Accordingly:

*HYPOTHESIS 2. Interaction positively moderates the association between amount of support and local partner trust.*

We expect that a situation characterized by disagreements about alliance tasks and processes (Jehn and Mannix, 2001) would give rise to uncertainty about the future course of the alliance and make partners alert to the possibility of the other serving own needs. Investigating the relationship between suspicion and trust, Fein and Hilton (1994, p. 167) found that “suspicion may cause perceivers to see the actor in a more negative light, even if the perceivers are not convinced that the actor’s behavior was indeed affected by ulterior motives”. The natural response to suspicion is competition. Once one partner engages in competitive actions, tensions deepen, giving rise to an escalating cycle of competition (Le Roy and Fernandez, 2015). Thus, disagreement at a professional level may give rise to an environment in which trust development faces less than stable conditions. Conversely, agreement about the course of the alliance business may produce positive sentiments of mutual satisfaction (Rempel *et al.*, 1985) and efficiency and equitability (Ring and Van de Ven, 1994). Such sentiments are more likely if partners have a shared and enduring view on

how the alliance work should proceed, in which case each partner would have positive sentiments about not only its own role and outcomes but also those of the counterpart.

We thus posit that partners that have achieved a high level of professional agreement about alliance tasks and processes are relatively unlikely to be suspicious about the motivations of each other when it comes to negotiations about financial support; which limits the negative effect of support on trust. If, on the other hand, partners do not agree on the overall course of the alliance, actions in relation to the financial support are likely to be interpreted suspiciously; and, therefore, the negative effect of support on trust would be unconstrained. As such:

*HYPOTHESIS 3. Agreement positively moderates the association between amount of support and local partner trust.*

## **METHODOLOGY**

### **Research context and data**

We study alliances supported by Danida (Danish International Development Agency) through its Business-to-Business (B2B) Program. The program aim is to promote long-term, commercially viable ISAs between firms in Danida's program countries and Danish firms in order to ultimately strengthen local business development. The B2B Program funds up to 90 percent of costs for specific activities in three phases of ISA development: *contact phase*, or studying the possibilities of a partnership (max. support = EUR 17,000 approx.); *pilot phase*, or forming the partnership (max. support = EUR 134,000 approx.); and project phase, or deepening of the partnership (max. support = EUR 671,000 approx.) (Danida, 2010).

Our use of the program is appropriate for three reasons. First, it provides a unique chance to study the relationship between an external intervention and trust, using publicly available information on the amount of support; information which is rarely revealed under other

circumstances. Second, since a principle of the program is that the local, developing country partners are supposed to learn from the Danish partners, the data allow us to study a student–teacher type of relationship similar to that studied by Kramer (1996); the student role of the local firm makes that partner particularly attentive to trust issues in the sense that this partner more easily remembers instances of trust violation. Third, the program has been applied in 23 developing and emerging economies and a diverse set of industries, enabling us to infer that results are not a function of country or industry idiosyncrasies.

In order to gain a better understanding of the research setting and issues, the lead author conducted 22 prestudy interviews. These interviews—with three Danida representatives, and ten foreign partner and nine local partner representatives, together spanning many industry and country settings—were conducted at the offices of the interviewee and lasted between one and two hours. Interviewees were encouraged to discuss the nature of support and its impact on alliance relationship processes. All interviews were recorded.

The prestudy interviews broadly supported our framing of financial support crowding out process-based trust development. In referring to the partner firm, one interviewee noted: *“They have no intention of actually doing what is in the description. They just want to see how much money they can get out of Danida.”* Another revealed: *“It would have been easier if there had been no support because the support hinders the flexibility. We would have been more successful, if we had not had that money. Because you have had that money, you have been tied to doing things in one specific way.”*

We started data collection by identifying ISAs through the website of Danida. In this, we focused on the Danish firms rather than on local partners from the many different countries covered by the B2B Program. Methodological contributions to cross-cultural research (e.g., Harkness, Van de Vijver and Mohler, 2003) and trust research (e.g., Welter and Alex, 2012) caution against using respondents with different cultural backgrounds, as doing so can give



rise to culture-driven variation in the measures that distorts results. We avoid such variation by using respondents from only one country. A total of 347 Danish firms were identified.

Following guidelines on data collection procedures (Huber and Power, 1985; Dillman, 2000), we contacted the firms prior to launching the survey to identify the manager most knowledgeable about the relevant issues. We spoke to this manager to motivate cooperation by explaining how the research could be relevant to his or her firm. In total, 199 agreed to receive an email invitation to participate in the survey. We followed up with emails and ultimately letters to ensure that the invitation had reached the relevant person and to remind that person of the survey. After the final round of reminders, 136 respondents had answered the questionnaire. We thus achieved a response rate of 68 percent of firms to which the questionnaire had been administered.

In a post hoc check, we excluded 18 managers who answered that they had not been “personally involved” with the ISA since its inception. Such involvement was necessary for obtaining valid responses for the moderator variables interaction and agreement, particularly. We dealt with missing observations through list-wise deletion and lost six more, reaching 105 observations that could be used in the statistical analyses. These pertained to ISAs in 17 of the 23 countries originally covered by the program: Vietnam 27, Egypt 12, Bangladesh 11, Ghana 9, Uganda 8, South Africa 5, Bolivia 4, India 4, Zimbabwe 4, Malaysia 4, Mozambique 4, Kenya 3, Tanzania 3, Thailand 3, China 2, Nepal 1, and Zambia 1.

While the high response rate serves to lower the risk of nonresponse bias, we tested for such bias in two ways. First, we used Armstrong and Overton’s (1977) procedure, which is based on the assumption that subjects who respond less readily (i.e., late respondents) are more like nonrespondents. We split the sample in half based on response time and performed t-tests for differences between the two samples’ means across the items tapping the hypothesized and control variables. None of the differences was significant (at  $p < .05$ ).

Second, we compared our sample ISAs with a group of 70 randomly selected (one in three of the 211) nonrespondents in terms of the key variable, amount of support, and found no significant difference. Thus, nonresponse bias is not a problem in this research.

## Measures

*Hypothesized variables.* Whereas *amount of support* was an exact figure in Danish Krone found in archival information produced by Danida, measures for local partner trust, interaction, and agreement had to be collected through questionnaire items (see Appendix). The survey questions were developed initially on the basis of a thorough review of the literature, and were then scrutinized by three academic subject experts as well as by a senior Danida administrator. On the basis of their comments, we reworded questions or terms that were considered ambiguous. Next, the adapted version was tested on ten potential respondents (i.e., Danish alliance managers). This last step resulted in only minor revisions to the questions.

*Local partner trust* was assessed by the foreign (Danish) partner who was asked to report their perception of the local partner's trust in the foreign partner. This approach assumes that the foreign partner's assessment of local partner trust would be affected by actual trust behaviors of the local partner, as the integrative nature of alliance work gives rise to partners continuously signaling trust to their counterparts (Krishnan *et al.*, 2015). This is in line with the alliance literature, where trust measures frequently rely on a single informant to comment on others' trust. For instance, in Fang *et al.* (2008) a joint venture manager assesses 1) the trust between him/her and the other partner's representative in the joint venture management team; 2) the trust between his/her employer and the other parent company; and 3) his/her employer's trust in him/her. Further, the approach is in line with longstanding trust research in social psychology where partner-reported measures have been employed on the grounds

that: partners signal their trust through behaviors during particularly intense interactions (e.g., conflict discussions) (Gonzaga *et al.*, 2001); and self-reported measurement of own trust in others is a poor reflection of actual trust (Glaeser *et al.*, 2000).<sup>1</sup>

As a starting point for the development of the local partner trust scale, we identified measures used in the alliance literature, which revealed a diversity of approaches. Nonetheless, we found Muthusamy, White, and Carr's (2007) trust scale particularly appealing for two reasons. First, the measure captures one partner's trust in the other, rather than trust between the alliance partners. Second, it encompasses trust's multifaceted nature by referring to ability-, benevolence-, and integrity-based dimensions of trust as defined by Mayer *et al.* (1995). This quality is attractive given that McEvily and Tortoriello (2011, p. 24) noted in their review of the trust literature that one of the few aspects on which organizational scholars agree concerns the definition of trust outlined by Mayer *et al.*'s (1995) conceptualization. Consequently, based on Muthusamy *et al.* (2007) and, in turn, Mayer *et al.* (1995), our three-item trust measure reflects the multifaceted nature by including one item relating to each facet.

We sought to obtain a measure of the extent and substance of *interaction* between the partners rather than tap the relational quality of interaction. As such, we avoided asking about joint participation, mutual involvement, cooperation, or other phenomena with relational connotations. Our measure of interaction is based on the interaction term of the two partners' participation in initial alliance strategy-making process. First, we asked three questions about local partner participation in each of three early strategic activities as well as three questions about foreign partner participation in the same activities. We then calculated an interaction item for each of the three activities by multiplying the two partners' participation scores,

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<sup>1</sup> See, for instance, Glaeser *et al.* (2000, p. 826), who compared self-reported trust and trust behaviors in an experimental setting and found that of "twelve different attitudinal measures, all but two have no statistically significant covariation with the actual amount of trust in [their] experiment".

since the product term reflects the extent of simultaneous participation and thus interaction through the given activity (Kim and Hsieh, 2003). To capture *agreement*, we reversed Jehn and Mannix's (2001) disagreement measure tapping task, process, and relationship conflict. For present purposes, we used three items relating to whether there had been task and process conflict. We did not employ items tapping relationship conflict as we sought to capture professional rather than personal or emotional opinions of the partners.

*Control variables.* The survey included questions to tap several differences between the ISAs in order to generate suitable variables that control for partnership characteristics potentially affecting the amount of support and/or local partner trust. To identify potential differences, we scrutinized all available material about the aid program and employed our prestudy interviews. Due to the large number of controls, individual theoretical rationales for including each are not reported here. Measures of the controls are reported in the Appendix.

One group of controls are prealliance, intrapartner variables including *local partner size*, *foreign partner size*, *local partner international experience*, *local partner alliance experience*, *foreign partner international experience*, and *foreign partner alliance experience*. A second group of controls are prealliance, interpartner variables that potentially reflect fit: *prior experience working together*, *vertical relatedness*, *horizontal relatedness*, *resource similarity*, and *cultural similarity*. Third are variables focusing on the initial set-up of the alliance, including one for *equity alliance* (dummy) and four tapping the business model (*local to foreign sales*, *foreign to local sales*, *joint selling in local market*, and *joint selling in non-local market*). Finally, we included extra variables relating to initial interpartner dealings: individual *local partner participation* and *foreign partner participation*, as well as *aid agency participation* (i.e., active participation of Danida in the ISA).

### **Common method variance**

Common method variance (CMV) concerns in the study are reduced as the main antecedent variable, amount of support, is objectively measured. Nevertheless, since the moderator and dependent variables were measured in the key informant survey, we employed procedural remedies recommended by Podsakoff *et al.* (2003) to lessen CMV bias. First, we carefully developed and pretested individual items to avoid item ambiguity that can stimulate CMV. Second, we attempted to reduce respondents' motivation to edit their responses to be more socially desirable by promising anonymity and urging them to submit honest answers, or refrain from answering if questions were deemed too sensitive. Third, the survey included several questions not relevant for this study, making it difficult for respondents to predict relationships between predictor and criterion variables and edit their responses accordingly.

## **ANALYSIS AND RESULTS**

### **Measure validation**

Before testing the hypotheses, we evaluated the multi-item measures by including all the assumed constructs in a measurement model to be tested using Generalized Least-Squares estimation in the SAS procedure Proc Calis. Table 1 reports standardized loadings and average variance extracted (AVE) and composite reliability scores for each multi-item variable. The fit indices generally show an acceptable fit ( $\chi^2_{(239)} = 270, p > 0.05$ ; RMSEA = 0.03; NNFI = 0.89), all loadings are high and significant ( $p < 0.01$ ) and all the measures' AVEs are well above the recommended 50 percent threshold (Fornell and Larcker, 1981). Further, composite reliability for all measures is well above 0.7. The measurement model results thus offer evidence of convergent validity.

### **Table 1 goes about here**

In order to assess discriminant validity for each multi-item variable, we squared its correlations with the other multi-item variables and compared these against the relevant

AVEs. All squared correlations were considerably below the AVEs, which suggests the measures reflect different constructs (Fornell and Larcker, 1981). We then performed Harman's single-factor test using a CFA procedure to appraise the level of CMV in the data. The fit indices show a very poor fit of this model to the data ( $\chi^2_{(274)} = 1413, p < 0.0001$ ; RMSEA = 0.20; NNFI = 0.21), while the AVE for this latent variable is at 15 percent, which is far below the lowest AVE of the individual multi-item measures. Hence, CMV is not a dominant cause of our survey data pattern (Korsgaard and Roberson, 1995, Podsakoff *et al.*, 2003). Moreover, the likelihood of our hypothesis tests, specifically, being affected by such bias is very low as each uses archival and survey data.

### **Hypothesis testing**

Having validated the multi-item measures, we averaged the items for each of the variables to enable hypothesis testing in a hierarchical moderated regression setting. The combination of three conditions makes hierarchical moderated regression more appropriate than structural equation modeling (SEM) and allied techniques. First, the complexity of the empirical model, which includes numerous control variables, militates against analytical procedures that require an appropriate ratio of sample size to the number of parameters estimated (Bentler and Chou, 1987). Second, our theoretical model involves neither several dependent variables nor mediating variables, but rather moderation, which makes it amenable for testing in a hierarchical moderated regression setting. Third, regression procedures can be used to control for selectivity bias; in this case, the possibility that amount of support is a choice variable that is assigned systematically by managers based on alliance characteristics. Table 2 displays the descriptive statistics and correlations for all variables used in our regression analyses.

**Table 2 goes about here**

Table 3 shows the results of hypothesis testing via hierarchical moderated regression models. A mean-centering technique was used to avoid variance inflation. Indeed, none of the variance inflation factor estimates for the effects in the regression models reached 2; they are well below the recommended ceiling of 10 (Kutner, Nachtsheim and Neter, 2004). The results suggest the main effect of the amount of support on local partner trust is negative (Model b:  $\beta_{\text{Amount of support}} = -0.23$ ,  $t = -2.65$ ,  $p < 0.01$ , and Model c:  $\beta_{\text{Amount of support}} = -0.32$ ,  $t = -3.48$ ,  $p < 0.01$ ). As such, Hypothesis 1 is supported. Model c also shows that this relationship is positively moderated by interaction ( $\beta_{\text{Amount of support} * \text{interaction}} = 0.23$ ,  $t = 2.21$ ,  $p < 0.05$ ) and agreement ( $\beta_{\text{Amount of support} * \text{agreement}} = 0.22$ ,  $t = 2.31$ ,  $p < 0.05$ ), in support of Hypothesis 2 and Hypothesis 3, respectively. Figure 1 presents the plots of these interactions (Aiken and West, 1991). Together, the three exogenous study variables contribute well in terms of explaining variation in local partner trust.

Of the 21 control variables, 7 are significant at the  $p = 0.10$  significance level or lower in model c. Foreign partner size, local partner alliance experience, and aid agency participation are negatively related to local partner trust, whereas local partner participation, foreign partner participation, interaction, and prior experience working with each other are positively related to local partner trust.

### **Table 3 and Figure 1 go about here**

#### **Robustness check**

We theorize that the amount of support is independent of other characteristics of partnerships that may also affect trust. Nevertheless, the possibility exists that the amount of support is assigned systematically based on characteristics that also affect trust (e.g., size or relatedness). Hence the amount of support might represent a choice variable not randomly assigned across the sample. Following Garen's (1984) approach for selectivity-bias

correction with a continuous choice variable, we first constructed a selectivity-correction term from an amount of support regression equation and, in a second stage, included the correction term in the local partner trust equation.

In the first-stage model, we used all control variables that could be considered to affect allocation of support; that is, prealliance, intrapartner variables (local partner size, foreign partner size, local partner international experience, local partner alliance experience, foreign partner international experience and foreign partner alliance experience), prealliance, interpartner variables (prior experience working together, vertical relatedness, horizontal relatedness, resource similarity, and cultural similarity), and variables related to the initial set-up of the alliance and its strategy (equity alliance, local to foreign sales, foreign to local sales, joint selling in local market, and joint selling in non-local market). In the second stage we used our hypothesized variables along with the remaining control variables (local partner participation and foreign partner participation, as well as aid agency participation). Following Garen (1984) we also included the residuals from the first-stage model as well as the residuals multiplied by the amount of support.

Table 4 shows the result of this robustness test. The F-value (0.95) and adjusted  $R^2$  (-0.01) of the first-stage model reveals that amount of support certainly did not seem to be explained by the suggested variables. This indicates that our original analysis is robust. What is more, the second-stage model suggests that the hypothesized variables were significant and in line with our expectations ( $\beta_{\text{Amount of support}} = -0.39$ ,  $t = -1.72$ ,  $p < 0.10$ ;  $\beta_{\text{Amount of support} * \text{interaction}} = 0.19$ ,  $t = 2.21$ ,  $p < 0.05$ ;  $\beta_{\text{Amount of support} * \text{agreement}} = 0.27$ ,  $t = 2.59$ ,  $p < 0.05$ ). The terms involving the residuals from the first-stage model were non-significant ( $\beta_{\text{residuals}} = 0.05$ ,  $t = 0.20$ ,  $p > 0.10$  and  $\beta_{\text{residuals} * \text{amount of support}} = 0.00$ ,  $t = 0.03$ ,  $p > 0.10$ ), suggesting unobserved factors in the first-stage model of support allocation have no significant effects on the



support–trust relationship. Therefore, self-selection does not appear to be a problem in testing the study hypotheses.

**Table 4 goes about here**

## **DISCUSSION**

The process-based perspective of trust development (e.g., Zucker, 1986) asserts the importance of partner firms interacting through fair and reliable processes. The premise of this study is that processes may be rendered less fair and reliable by a particular external intervention—namely, a governmental sponsor’s financial support. We draw on motivation crowding theory to predict that the prospect of support crowds out free-choice activities that would normally be performed to develop the alliance. Indeed, the crowded out activities are replaced by others that entail more self-serving behavior in haggling over support. Our results confirm that amount of support is negatively associated with local partner trust. We also observe that partners interacting via joint participation in the early phases of their alliance can reduce the negative effect of amount of support on local partner trust. Similarly, we find that if partners achieved professional agreement in setting up the alliance, trust is also less likely to be negatively affected by the financial support.

The study’s contribution to knowledge is threefold. First, the vast majority of trust development studies are guided by the logics of aligning alliance partners’ economic incentives or embedding their exchanges within relationship-rich settings (Lui and Ngo, 2012). Although the relatively few studies on process-based trust (e.g., Child and Mollering, 2003; Dyer and Chu, 2011) have established its importance for building effective cross-border alliances—even between partners with limited cooperative history—the dampening effects of external intervention on such trust are unknown. Our study is the first to consider

how external intervention undermines partners' efforts to activate trust by introducing practices that build stable expectations and predictions in their alliance interactions.

Second, the study is novel in extending tenets of motivation crowding theory (e.g., Deci *et al.*, 1999) to the alliance context. The findings broadly support our assertions that intrinsic motivation to perform activities to develop the alliance will be crowded out and replaced by extrinsic motivation to think up activities that merit financial support; and that crowded out activities are exactly those activities that build trust, while activities replacing them undermine trust. Our theorization takes into account that support is more likely to diminish intrinsic motivation in an alliance relationship in which the conditions for trust generally are poor (i.e., low interaction and agreement).

Third, our approach to theorizing trust demonstrates how researchers can add depth and specificity to hypotheses on trust development. In this context, Zhong *et al.* (2014) theorized that the duration of an alliance is related to trust development but also observed that unobserved moderators potentially underlie the association. Our study echoes that deeper insights can be surfaced by considering that organizations consist of individuals and supplementing theories on interorganizational trust development with theories about individuals and their motivations and ensuing reactions. This point is illustrated by the combination of motivation crowding theory and theory on interpersonal trust leading to conditional hypotheses and findings.

## **POLICY IMPLICATIONS**

Governments in developed countries commonly have policies to incentivize their firms' cross-border activities aimed at penetrating untapped, high-growth markets. However, ISAs involving a new and unfamiliar local partner are inherently risky (Gulati, 1995). A history of fair and reliable processes between partners may be substituted in a new relationship by fair

initial negotiations and distribution of contributions and rewards. In this context, public policy makers should note that processes of allocating external funds to ISAs across their development stages can create perceived imbalances between the partners and obstruct trust building efforts. The findings show that amount of support is likely to influence local partner trust negatively; which is an issue for foreign governmental sponsors insofar as such actors are more remote from, and less visible to, them. Policy makers might derive advantage from accommodating the views of local alliance partners in their financial aid programs, and avoid approaches that initially favor the foreign alliance partner but preclude the development of a shared sense of trust with the local counterpart.

Alliance managers interested in external support should consider how this could affect the dynamics of their relationships. In particular, amount of support is likely to influence negatively local partner trust, particularly in cases where the firms lack an alliance foreground characterized by substantive interactions and professional agreement underpinning the direction of the alliance and its work. One less than intuitive implication is that firms should not necessarily try to obtain the highest possible share of the funds. A second, more intuitively appealing implication is that distributive fairness should be explicitly addressed up front. This need not necessarily involve modifying distributions of the funds themselves, but could be limited to discussions aimed at developing a clear understanding of both partners' task contributions in relation to the funds. Indeed, our results suggest interaction and agreement shield against unfavorable external intervention effects. Irrespective of the amount of support an ISA receives, the partner firms should maintain a focus on nurturing their relationship through intrinsically motivated activities that would be performed most effortlessly in the absence of support.

## **LIMITATIONS AND FUTURE RESEARCH**

The present study focused on where prestudy interviews indicated we could most clearly understand the phenomenon of extrinsic motivation crowding out trust development. While we consider our focus on development aid support appropriate for this initial probing, it naturally restricts generalizability. Such a limitation necessitates future work on how trust development may be disrupted by external interventions that are not specifically financial or governmental. One option is to consider more complicated support scenarios in which foreign and/or local governmental sponsors provide economic and/or noneconomic incentives (Hu and Chen, 1996). It would also be advantageous for work on interventions to examine alliance partnerships nested within an ongoing consortium that involves other organizational actors' interventions, and third-party ties in multilateral alliance projects (Tiwana, 2008; Heidl *et al.*, 2014). Researchers might fruitfully investigate what happens to the partners' intrinsic motivation and perceptions of what is considered fair and reliable when an alliance business experiences an unexpected resource gain from the network of one of the alliance partners (cf. Gopalakrishnan *et al.*, 2008).

A useful test of the robustness of motivation theory to changes in the model would involve studying effects of amount of support on other dependent variables that target alliance uncertainties. To this point, only 44 percent of our sample adopted formal equity alliance structures that come with greater safeguards suited to the risks of doing business in developing markets (cf. Gulati 1995). Future studies should investigate whether the particular form of external intervention affects ISA partners' risk attitudes and crowds out work routines that develop structural as well as relational safeguards.

Our treatment of moderation drew from theory (Rempel *et al.*, 1985) suggesting trust expectations build through agreeable interactions that are participative during early cooperation processes. Notwithstanding our significant moderation findings, additional research is needed to understand wider circumstances that might condition external

intervention effects on process-based trust development in ISAs. For instance, the deleterious effects of external interventions on process-based trust in ISAs might be reinforced or offset by other forces from the institutional environment of developing economies, which are often tightly governed by sociopolitical institutions such as nongovernmental organizations, local community groups, and business organizations (Li and Zhang, 2007).

A limitation of the study lies in that we assessed local partner trust using the foreign partner's perception of this construct. In line with the trust literature (e.g., Fang *et al.*, 2008; Zhong *et al.*, 2014), this approach assumes trust in alliances possesses a characteristic of intraorganizational sharedness as partners continuously signal trust to their counterparts (Krishnan *et al.*, 2015). Nonetheless, future research would benefit from also measuring trust at the local level despite the practical difficulties of doing so; surveying managers from 17 developing countries in our case.

Finally, while we limited ourselves to hypotheses about local partner trust, foreign partner trust may be influenced somewhat similarly. We refrained from developing this perspective as recent work demonstrating asymmetrical trust development (Korsgaard, Brower and Lester, 2014) suggests a need to develop hypotheses separately for local and foreign partner trust. We considered this too complex for the present study's first probing of the phenomenon of interest. All the same, considering foreign partner trust, as well as the potential for trust asymmetry—that may or may not be linked to *faultlines* (cf. Heidl et al., 2014) concerning developed and developing country partners' characteristics—seems a promising route to enhancing the richness of the theoretization.

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**Table 1:** Measurement model ( $n = 105$ )

Construct		Standardized loadings	Avg. variance extracted	Composite reliability
<b>Local partner trust</b>			<b>57%</b>	<b>0.79</b>
	Trust, ability-based (a)	0.68		
	Trust, benevolence-based (b)	0.67		
	Trust, integrity-based (c)	0.89		
<b>Resource similarities</b>			<b>53%</b>	<b>0.85</b>
	Similarities, financial resources (a)	0.63		
	Similarities, human resources (b)	0.92		
	Similarities, organizational resources (c)	0.78		
	Similarities, physical resources (d)	0.63		
	Similarities, technological resources (e)	0.65		
<b>Cultural similarities</b>			<b>79%</b>	<b>0.97</b>
	Similarities, values and beliefs (a)	1.00		
	Similarities, practices and behaviors (b)	0.71		
<b>Agreement</b>			<b>75%</b>	<b>0.90</b>
	Disagreement, tasks (reversed) (a)	0.93		
	Disagreement, process (reversed) (b)	0.89		
	Disagreement, goals (reversed) (c)	0.76		
<b>Interaction</b>			<b>79%</b>	<b>0.92</b>
	Participation, idea, local * Participation, idea, foreign (a)	0.92		
	Participation, planning, local * Participation, planning, foreign (b)	0.93		
	Participation, implementation, local * Participation, implementation, foreign (c)	0.81		
<b>Local partner participation</b>			<b>83%</b>	<b>0.94</b>
	Participation, idea, local (a)	0.87		
	Participation, planning, local (b)	0.95		
	Participation, implementation, local (c)	0.91		
<b>Foreign partner participation</b>			<b>77%</b>	<b>0.91</b>
	Participation, idea, foreign (a)	0.84		
	Participation, planning, foreign (b)	1.00		
	Participation, implementation, foreign (c)	0.77		
<b>Aid agency participation</b>			<b>85%</b>	<b>0.94</b>
	Participation, idea, aid agency (a)	0.86		
	Participation, planning, aid agency (b)	0.97		
	Participation, implementation, aid agency (c)	0.93		

$\chi^2_{(239)}=269.94, p>0.05; RMSEA=0.03; NNFI=0.89$

Table 2: Means, standard deviations and correlations (n = 105)<sup>a</sup>

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
1 Local partner trust	4.34	0.59																						
2 Amount of support	2.60	1.34	-0.19																					
3 Local partner size	3.51	1.80	-0.11	0.01																				
4 Foreign partner size	2.96	1.75	-0.17	0.01	0.36																			
5 Local partner international experience	2.67	1.39	-0.22	0.02	0.16	0.02																		
6 Local partner alliance experience	2.70	1.17	-0.22	-0.02	0.26	0.06	0.39																	
7 Foreign partner international experience	4.12	1.09	0.16	0.04	0.19	0.20	-0.15	-0.18																
8 Foreign partner alliance experience	3.81	1.14	0.10	-0.02	0.17	0.21	-0.05	0.12	0.47															
9 Prior experience working together	1.84	1.17	0.10	-0.10	0.03	0.11	0.14	0.03	0.15	0.15														
10 Vertical relatedness	3.40	1.29	0.03	0.01	0.04	0.10	0.06	0.12	-0.04	0.08	0.06													
11 Horizontal relatedness	3.24	1.23	0.02	0.13	0.08	0.16	0.07	0.02	0.06	0.09	0.01	0.10												
12 Resource similarities	2.23	0.85	0.06	0.08	0.06	-0.01	0.25	0.25	-0.06	0.08	0.14	0.14	0.22											
13 Cultural similarity	2.95	1.00	0.10	0.07	0.00	-0.02	0.14	0.17	-0.05	0.07	0.25	0.11	-0.06	0.30										
14 Equity alliance	0.44	0.50	0.09	0.21	-0.28	-0.19	-0.05	-0.01	-0.21	0.03	-0.06	-0.02	-0.03	0.09	0.04									
15 Local to foreign sales	2.68	1.78	0.02	-0.07	0.18	0.02	0.01	-0.23	0.00	-0.12	0.05	-0.04	0.21	-0.04	-0.08	-0.16								
16 Foreign to local sales	2.32	1.63	-0.10	-0.12	-0.03	0.21	-0.03	0.00	0.09	-0.03	0.16	0.05	-0.13	0.00	-0.04	-0.15	-0.19							
17 Joint selling in local market	3.52	1.58	0.11	-0.02	-0.15	0.05	0.00	0.17	0.10	0.14	0.03	0.14	0.19	0.07	0.12	0.05	-0.40	0.25						
18 Joint selling in non-local market	2.98	1.63	0.01	-0.05	-0.10	-0.15	0.15	-0.08	-0.03	-0.02	0.08	-0.09	0.10	0.18	0.07	0.21	0.19	-0.17	-0.18					
19 Interaction	16.50	6.07	0.20	0.00	-0.05	-0.07	-0.13	-0.12	-0.02	-0.13	0.01	-0.09	0.13	-0.04	-0.08	0.00	-0.03	-0.04	0.15	0.02				
20 Agreement	3.16	1.16	0.15	0.00	-0.03	-0.05	-0.03	0.05	0.07	0.10	0.13	-0.01	-0.15	0.00	0.18	0.02	-0.03	0.14	-0.09	0.01	0.02			
21 Local partner participation	3.63	1.08	0.18	0.06	-0.14	-0.11	0.13	0.18	-0.04	0.05	0.18	0.18	0.00	0.20	0.34	0.01	-0.12	0.12	0.30	-0.03	0.10	0.32		
22 Foreign partner participation	4.49	0.70	0.11	0.15	-0.19	-0.11	0.04	-0.03	0.09	0.03	-0.09	0.15	-0.04	-0.06	0.09	0.14	-0.03	0.06	0.14	-0.02	-0.40	0.14	0.28	
23 Aid agency participation	2.64	1.25	-0.17	0.08	0.07	-0.07	-0.05	0.00	0.05	-0.04	0.16	0.08	0.04	0.05	-0.03	-0.26	0.13	0.22	0.16	-0.14	0.02	0.06	0.29	0.14

<sup>a</sup> Correlations with absolute value greater than .16 are significant at the 0.10 level. Means and standard deviations reported here are raw scores

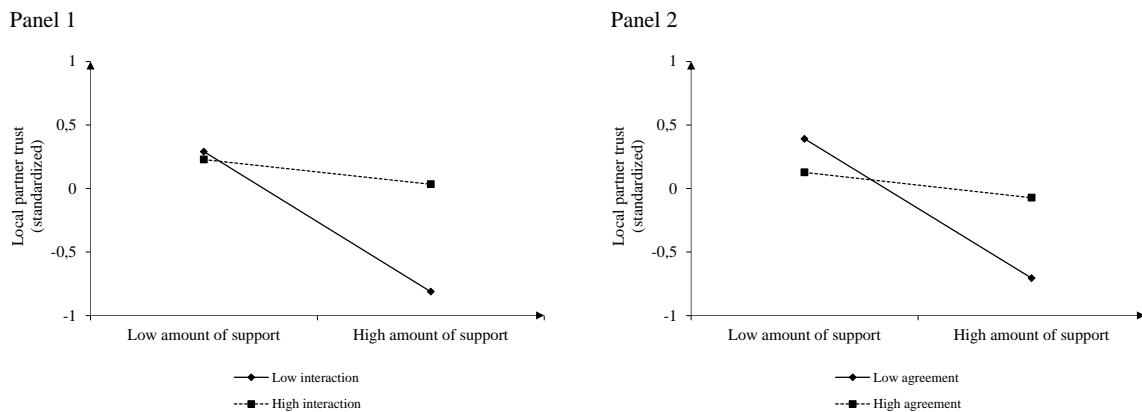
<sup>b</sup> Amount of support is in Million DKK. DKK is pegged at DKK/EUR 7.45

**Table 3:** Ordinary least squares moderated hierarchical regression analysis (n = 105)

Variables	Local partner trust					
	Model a		Model b		Model c	
H1 (-) Amount of support			-0.23 **	-2.65	-0.32 **	-3.48
H2 (-) Amount of support * interaction					0.23 *	2.21
H3 (+) Amount of support * agreement					0.22 *	2.31
Control variables						
Local partner size	0.07	0.59	0.08	0.75	0.07	0.79
Foreign partner size	-0.19 *	-2.38	-0.17 *	-2.10	-0.17 *	-2.24
Local partner international experience	-0.19 †	-1.92	-0.16 †	-1.68	-0.14	-1.46
Local partner alliance experience	-0.14	-1.35	-0.17	-1.65	-0.16 †	-1.68
Foreign partner international experience	0.08	0.80	0.12	1.10	0.05	0.44
Foreign partner alliance experience	0.06	0.43	0.03	0.25	0.08	0.69
Prior experience working together	0.15 †	1.76	0.12	1.44	0.16 *	2.01
Vertical relatedness	0.02	0.25	0.02	0.20	-0.03	-0.31
Horizontal relatedness	-0.04	-0.47	-0.01	-0.05	-0.04	-0.49
Resource similarities	0.15	1.64	0.16 †	1.80	0.13	1.52
Cultural similarity	-0.02	-0.21	0.01	0.11	0.02	0.28
Equity alliance	-0.03	-0.35	0.04	0.43	-0.07	-0.81
Local to foreign sales	0.13	1.55	0.09	1.09	0.13	1.54
Foreign to local sales	-0.09	-1.01	-0.12	-1.38	-0.06	-0.78
Joint selling in local market	0.16	1.31	0.12	1.09	0.09	0.98
Joint selling in non-local market	-0.08	-1.05	-0.11	-1.41	-0.12	-1.61
Interaction	0.20 *	2.35	0.21 *	2.43	0.20 *	2.46
Agreement	0.09	0.85	0.09	0.88	0.09	1.06
Local partner participation	0.13	1.19	0.14	1.29	0.21 *	2.03
Foreign partner participation	0.18 †	1.92	0.20 *	2.29	0.29 **	3.60
Aid agency participation	-0.35 **	-3.67	-0.30 **	-3.22	-0.36 **	-3.92
n	105		105		105	
R <sup>2</sup>	0.33		0.37		0.44	
Adjusted R <sup>2</sup>	0.16		0.21		0.27	
df	21		22		24	
F	1.95 *		2.23 **		2.61 **	

†p &lt; 0.10; \*p &lt; 0.05; \*\*p &lt; 0.01

**Figure 1:** Interaction and agreement as moderators of the relationship between amount of support and local partner trust



**Table 4:** Regression analysis following Garen's approach for selectivity-bias correction with a continuous choice variable (n = 105)

Variables	Amount of support		Local partner trust	
	First-stage model		Second-stage model	
Local partner size	0.06	0.58		
Foreign partner size	0.03	0.32		
Local partner international experience	0.11	0.92		
Local partner alliance experience	-0.12	-1.01		
Foreign partner international experience	0.15	1.40		
Foreign partner alliance experience	-0.11	-1.17		
Prior experience working together	-0.11	-1.36		
Vertical relatedness	0.01	0.06		
Horizontal relatedness	0.17	1.63		
Resource similarities	0.05	0.38		
Cultural similarity	0.11	1.35		
Equity alliance	0.27 *	2.51		
Local to foreign sales	-0.12	-1.32		
Foreign to local sales	-0.08	-0.79		
Joint selling in local market	-0.11	-1.00		
Joint selling in non-local market	-0.16	-1.49		
H1 (-) Amount of support			-0.39 †	-1.72
H2 (-) Amount of support * interaction			0.19 *	2.21
H3 (+) Amount of support * agreement			0.27 *	2.59
Interaction			0.25 **	3.03
Agreement			0.11	1.12
Local partner participation			0.20 †	1.86
Foreign partner participation			0.28 **	3.04
Aid agency participation			-0.27 **	-2.80
First-stage residuals			0.05	0.20
First-stage residuals * amount of support			0.00	0.03
n	105		105	
R <sup>2</sup>	0.15		0.29	
Adjusted R <sup>2</sup>	-0.01		0.22	
df	16		10	
F	0.94		3.91 **	

†p &lt; 0.10; \*p &lt; 0.05; \*\*p &lt; 0.01

## APPENDIX

In the survey respondents were asked to relate their answers to an alliance partnership supported through Danida's B2B Program. Where the respondent's firm participated in more than one relevant alliance, they were asked to select the alliance of which they were most knowledgeable. The numbers correspond to the numbers in the correlation matrix presented in Table 2. The letters in multi-item measures correspond to the items in Table 1. All measures, except for *Amount of support*, were obtained through the survey.

1) *Local partner trust (from (1) 'strongly disagree' to (5) 'strongly agree')*

- a) The local partner has trusted that the Danish partner had the skills and abilities needed in the partnership
- b) The local partner has trusted that the Danish partner was concerned about the well-being of the local partner
- c) The local partner has trusted that the Danish partner followed moral and principles that the local partner finds acceptable

2) *Amount of support: information obtained from Danida*

3) *Local partner size: logarithm of local partner employees at the start of the project*

4) *Foreign partner size: logarithm of local partner employees at the start of the project*

5) *Local partner international experience (from (1) 'strongly disagree' to (5) 'strongly agree')*

At the beginning of the partnership the local partner had considerable partnership/alliance experience

6) *Local partner alliance experience (from (1) 'strongly disagree' to (5) 'strongly agree')*

At the beginning of the partnership the local partner had considerable partnership/alliance experience

7) *Foreign partner international experience (from (1) 'strongly disagree' to (5) 'strongly agree')*



At the beginning of the partnership the Danish partner had considerable partnership/alliance experience

8) *Foreign partner alliance experience (from (1) 'strongly disagree' to (5) 'strongly agree')*

At the beginning of the partnership the Danish partner had considerable partnership/alliance experience

9) *Prior experience working together (from (1) 'strongly disagree' to (5) 'strongly agree')*

At the beginning of the partnership the partners had considerable experience doing business with each other

10) *Vertical relatedness (from (1) 'strongly disagree' to (5) 'strongly agree')*

From the beginning of the partnership the local partner and the Danish partner have been related vertically (i.e. the local partner could use the Danish partner's outputs as inputs or vice versa)

11) *Horizontal relatedness (from (1) 'strongly disagree' to (5) 'strongly agree')*

From the beginning of the partnership the local partner and the Danish partner have been related horizontally (i.e. operated in the same industry or shared significant amounts of inputs, competencies and/or customers)

12) *Resource similarities (from (1) 'strongly disagree' to (5) 'strongly agree')*

- a) From the beginning of the partnership the local partner and the Danish partner have had similar financial resources (e.g. cash flows and debt capacity)
- b) From the beginning of the partnership the local partner and the Danish partner have had similar human resources (e.g. management and staff skills and competencies)
- c) From the beginning of the partnership the local partner and the Danish partner have had similar organizational resources (e.g. systems and routines)
- d) From the beginning of the partnership the local partner and the Danish partner have had similar physical resources (e.g. buildings and equipment)
- e) From the beginning of the partnership the local partner and the Danish partner have had similar technological resources (e.g. ability to produce high quality products/services)

13) *Cultural similarity (from (1) 'strongly disagree' to (5) 'strongly agree')*

- a) From the beginning of the partnership the local partner and the Danish partner have had similar values and beliefs
- b) From the beginning of the partnership the local partner and the Danish partner have had similar practices and behaviours

14) *Equity alliance (coded 1 if answer to question below was 2, 0 if not):*

Please indicate which of the following best describes the most recent form of the partnership?

- 1) The Danish partner bought a shareholding in the local partner
- 2) A separate company was established in which both the local partner and the Danish partner bought a shareholding
- 3) No separate company was established and the Danish partner bought no shareholding in the local partner
- 4) No answer applies

15) *Local to foreign sales (from (1) 'strongly disagree' to (5) 'strongly agree')*

The local partner should sell products or services to the Danish partner

16) *Foreign to local sales (from (1) 'strongly disagree' to (5) 'strongly agree')*

The Danish partner should sell products or services to the local partner

17) *Joint selling in local market (from (1) 'strongly disagree' to (5) 'strongly agree')*

The partners should join forces and sell products or services to the local market jointly

18) *Joint selling in non-local market (from (1) 'strongly disagree' to (5) 'strongly agree')*

The partners should join forces and sell products or services to the Danish or other non-local markets jointly

19) *Interaction (from (1) 'strongly disagree' to (5) 'strongly agree')*

- a) The local (Danish) partner has participated actively in the development of the basic idea
- b) The local (Danish) partner has participated actively in the planning done to transform the basic idea into an actual plan

- c) The local (Danish) partner has participated actively in the implementation done to transform the plan into action

20) *Agreement (from (1) 'strongly disagree' to (5) 'strongly agree')*

- a) The local partner and the Danish partner have had professional disagreements about which activities and tasks should be performed [reverse-coded]
- b) The local partner and the Danish partner have had professional disagreements about which partner should perform given tasks [reverse-coded]
- c) The local partner and the Danish partner have had professional disagreements regarding the goals of the partnership [reverse-coded]

21) *Local partner participation (from (1) 'strongly disagree' to (5) 'strongly agree')*

- a) The local partner has participated actively in the development of the basic idea
- b) The local partner has participated actively in the planning done to transform the basic idea into an actual plan
- c) The local partner has participated actively in the implementation done to transform the plan into action

22) *Foreign partner participation (from (1) 'strongly disagree' to (5) 'strongly agree')*

- a) The Danish partner has participated actively in the development of the basic idea
- b) The Danish partner has participated actively in the planning done to transform the basic idea into an actual plan
- c) The Danish partner has participated actively in the implementation done to transform the plan into action

23) *Aid agency participation (from (1) 'strongly disagree' to (5) 'strongly agree')*

- a) Danida has participated actively in the development of the basic idea
- b) Danida has participated actively in the planning done to transform the basic idea into an actual plan
- c) Danida has participated actively in the implementation done to transform the plan into action