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**The relationship between Trust and Control in International Joint Ventures (IJVs) – An empirical analysis of Sino-German Equity Joint Ventures**

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**THE RELATIONSHIP BETWEEN TRUST AND CONTROL IN INTERNATIONAL JOINT VENTURES (IJVs) – AN EMPIRICAL ANALYSIS OF SINO-GERMAN EQUITY JOINT VENTURES**

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**ABSTRACT**

Trust and control are recurring themes in the analysis of International Joint Ventures (IJVs). So far, however, researchers have mainly focused on analysing either trust or control as a prerequisite for the success of IJVs. Whereas one group of authors views a trustful relationship between the partners as crucial for the success of an IJV (Chen, Chen & Meindl, 1998; Cullen, Johnson & Sakano, 2000; Demirbag & Mirza, 2000), another group suggests that, to be successful in IJVs, partners should increase their control over the IJV to make sure their goals for the IJV are achieved (Groot & Merchant, 2000; Muramatsu, 1992; Schaan, 1983; Wang, Wee & Koh, 1999). If *both* groups are right, IJV partners should try to exert control and establish a trustful relationship at the same time to maximise the likelihood of success. This conclusion, however, leads to the counter-intuitive result that control and trust can exist simultaneously. In order to analyse the nature of the relationship between trust and control in IJVs, this explorative study presents three alternative views regarding the nature of this relationship which draw on theoretical arguments as well as interviews with managers of IJVs. The relationship between trust and control is then empirically tested using data gathered in a questionnaire survey of 110 German and Chinese managers of Sino-German Joint Ventures in the People's Republic of China. The results deepen the understanding of IJV management and broaden the empirical basis of existing research on this subject.

Keywords: Trust, Control, International Joint Ventures

## TRUST AND CONTROL IN INTERNATIONAL JOINT VENTURES

In recent years, the notion of *trust* in the context of inter-organisational co-operation has received increased scholarly attention (e.g. Alter & Hage, 1993; Fichman & Levinthal, 1991; Gulati 1995; Inkpen & Currall, 1997; Madhok, 1995; Park & Ungson, 1997; Parkhe, 1993a; Saxton, 1997). Within research on IJVs - as a specific form of inter-organisational co-operation - trust has advanced to an important explanatory variable for success (Beamish & Banks, 1987; Buckley & Casson, 1988; Madhok, 1995; Inkpen & Currall, 1997). The reason for the increased interest in the role of trust lies in the (assumed) positive influence a trustful relationship has on the success of inter-organisational co-operation in general and IJVs in particular (Inkpen & Currall, 1997; Mayer, Davis & Schoorman, 1995; Sarkar, Cavusgil & Evirgen, 1997; Schrader, 1993). Whereas the scholarly attention on trust in inter-organisational co-operation is a recent phenomenon, the importance of *control* for the success of IJVs has already been stressed in the late 1950s by West (1959). More recent analyses were carried out by Awadzi, Kedia & Chinat (1986), Beamish (1988), Geringer (1988), Geringer & Hebert (1989), Hébert & Beamish (1997), Killing (1983), Kumar & Esslinger (1998), Kumar & Khanna (2000), Newburry & Zeira (1999), and Schaan (1983). The theoretical basis for arguments suggesting a positive influence of control on the success of IJVs includes agency theory (Ramanathan, Seth & Thomas, 1997) and transaction cost economics (Dyer, 1997; Haury, 1989; Provan & Skinner, 1989).

If both groups of researchers are right, there would be either no relationship at all or a positive relationship between control and trust. This conclusion seems counter-intuitive. In existing research, however, trust and control are hardly ever entered simultaneously into analyses of IJV management. In the few cases, where authors have looked at both, trust is used as a determinant for the extent of control (Groot & Merchant, 2000; Wang, Wee & Koh, 1998) or the extent of control exerted by the partners is used as a factor affecting the level of trust (Aulakh, Kotabe & Sahay, 1996; Inkpen & Currall, 1997, 1998; Parkhe, 1998). Within those studies, the analysis of the respective dependent variable usually surpasses the discussion of the independent variable(s) by far. The first attempts to take a more balanced approach were made by Das & Teng (1998, 1999) and Kumar & Mohr (2001). These, however, were theoretical studies

and empirical evidence still lacks. Hence, this paper empirically explores the relationship between trust and control.

The remainder of the paper is structured as follows. In the ensuing section, the possibilities regarding the nature of the relationship between trust and control are discussed and exemplified by statements made by German and Chinese managers interviewed for this study. Subsequently, the empirical basis of the study is described in more detail and the constructs to measure trust and control are developed. The alternative relationships are then exploratively tested and the empirical evidence is discussed. The final section concludes the paper by summarising the main results and presenting implications for the management of IJVs as well as for future research in this area.

### THE RELATIONSHIP BETWEEN TRUST AND CONTROL

In principle, the relationship between trust and control can be seen in three different ways: (1) There is *no relationship* between trust and control, i.e. the development of trust between partners does not depend on the level of control the partners exert over one another *and* the level of control is not influenced by the existence of trust between the partners; (2) There is a *positive relationship* between trust and control, i.e. exerting control fosters the development of trust, *et vice versa*; (3) There is a *negative relationship* between trust and control, i.e. exerting control leads to a decline in trust and/or the development of trust reduces the level of control exerted by the IJV partners. For all of these possibilities, authors have presented theoretical arguments, although it has to be borne in mind - as outlined above - that so far only few authors have explicitly analysed the relationship between trust and control: hitherto most authors have focused exclusively on either control *or* trust and their respective determinants. We will look at each of the three possibilities in turn.

The *first possibility* is that there is no relationship between trust and control. The notion that trust and control could exist at the same time in IJVs was held by some of the managers interviewed as is exemplified by the following extract: "I trusted them [the Chinese side], but I nevertheless controlled everything. There is this proverb: trust but verify!" (German manager). From a theoretical perspective, Das & Teng negate any relationship between trust and control: "[T]he trust level and the control level jointly *and* independently contribute to the level of confidence in partner

cooperation" [italics in original] (1998: 496). According to these authors the level of confidence required by a partner should not be viewed as static, and an increase of the level of trust would therefore not necessarily lead to a reduction in the degree to which the partners exert control. As compared to other forms of inter-organisational co-operation, Das & Teng (1998) suggest that a high level of control as well as a high level of trust are necessary in the case of IJVs. The independence of trust and control is (indirectly) supported by studies, in which authors argued for a relationship between trust on control but did not find their arguments confirmed by their respective empirical analyses (Aulakh et al., 1996, Inkpen & Currall, 1997).

The *second possibility* is the existence of a positive relationship between trust and control. Some of the managers mentioned a positive influence of control on the level of trust: "For me, control is a prerequisite in order to trust and thus goes hand in hand with trusting" (German manager). Various authors assume that exerting control can help in building trust (Bhattacharya, Devinney & Pilluta, 1998; Haury, 1984; Sitkin, 1995; Womack, Jones & Roos, 1990): Sitkin (1995), for instance, argues that the establishment of formal rules and standardisation of processes facilitate the development, dispersion and institutionalisation of trust in organisations. Womack et al. (1990) stress the positive influence of mechanisms, which allow for monitoring and interpreting the behaviour of the partner, on the development of trust. In a similar vein, Bhattacharya et al. (1998) argue, that monitoring and the installation of reporting structures enable partners to check, whether the benefits that are expected from the co-operation have actually materialised, which would lead to trust. In these studies, exerting control is seen as a mechanism to document trustful behaviour and can thus lead to trust between the partners. Additionally, Haury (1984: 140) argues, that structures, which can protect from opportunistic behaviour of the partner create trust, as they would reduce the risks associated with making relationship-specific investments. In general, control is thus not seen as an alternative for trust but rather as a measure to develop and secure trust. So far, however, there is no empirical support for this positive relationship.

The *third possibility* regarding the nature of the relationship between trust and control is that there is a negative relationship between both, i.e. the existence of trust between the partners reduces the necessity of exerting control, and

exerting control has a negative impact on the level of trust between the partners. The majority of interviewed managers do seem to assume a negative relationship in their statements. In particular, those managers, who also stressed the role of trust between the partners for the success of the IJV, emphasised that there is no need for control if there is trust between the partners. When asked whether the German side exerted control over the IJV, a Chinese manager representing the Chinese side answered: "Since they have the majority, one could expect that they exert a lot of control. However, as they trust us, they don't intervene in the daily operations. The monthly reports are also minimal" (Chinese manager). In those few studies that analysed both concepts simultaneously, authors have suggested a negative or substitutive relationship (Inkpen & Currall, 1997; Inkpen & Currall, 1997; Madhok, 1995; Ring & Van de Ven, 1994). Trust can lead to a reduction in control, as it contributes to reducing the perceived uncertainty associated (a) with our partner's (future) behaviour and thus (b) with the achievement of our goals for the IJV. Parkhe (1993b), for instance, has shown, that the level of control and the degree to which a partner is seen as opportunistic are significantly positively correlated: a reduction in fear of opportunistic behaviour due to the development of trust should therefore lead to a diminished need for control (Inkpen & Currall 1998; Madhok 1995). Similarly, Ring & Van de Ven (1994) argue that a high level of trust reduces the need for installing contractual safeguards. Holmes (1991: 82) points out that "[...] trust forestalls the monitoring and evaluating of a partner's behaviour". Moreover, a low level of trust leads to a higher level of perceived uncertainty regarding the partner's behaviour and hence to attempts to counter this uncertainty by exerting control.

At the same time there are arguments for a negative influence of control on the level of trust. Argyris (1952) and Inkpen & Currall (1997), for example, suggest that exerting control implies that the controlling party has a low level of trust in the controlled party. Control can be seen as an indicator of distrust and accordingly obstructs the development of trust between the partners. Similarly, the demand for control over certain activities of the IJV might be interpreted as a signal that the requesting party views the other side as incapable and/or not trustworthy enough to carry out the respective task. Hyder & Ghauri (1993), for example, presented a case study of a Swedish-Indian IJV, where the insistence of one partner to control

some specific activities strained the relationship between the partner companies.

Overall, there is no unanimity either among researchers or practitioners interviewed for this study regarding the nature of the relationship between trust and control.

#### DATA AND METHOD

In order to exploratively examine the relationship between trust and control, a *two stage research design* was chosen. During the *first* stage, in-depth interviews were carried out with 27 German and Chinese managers. As suggested by Parkhe the need for more qualitative analyses results from the "lack of a strong theoretical core or an encompassing framework" (1993a: 227) for examining IJVs. Interviews were used to gather information regarding the nature of the relationship in question and to enrich theoretical arguments. Information gathered through the interviews was furthermore used to improve the quality of the constructs developed to measure trust and control. In addition to the qualitative research, a *second* stage consisted of a questionnaire survey to allow for a quantitative exploration of the relationship in question. To this aim, questionnaires were sent to 392 German-Chinese IJVs in the People's Republic of China, of which 110 usable responses were received (response rate 23.3%). By comparing early and late arriving responses, the possibility of a non-response bias was dispelled (Armstrong & Overton, 1977).

Sixty (54,5%) of the questionnaires were filled in by non-chinese representatives of the German side, 16 (14,5%) by Chinese representatives of the German side and 34 (30,9%) by Chinese representatives of the Chinese side. Seventy-three (66,4%) respondents held the position of General Manager, 24 (21,8%) were Vice General Managers and 10 (9,1%) functional managers. One respondent was chairman of the board, whereas three respondents (2,7%) did not give information as to their position in the IJV. On average, respondents have been working for the IJV for four years. From the respondents' positions and their experience it was assumed that all were familiar with the relationship between the IJV partners.

#### MEASUREMENT OF CONSTRUCTS

##### Measuring trust in IJVs

Although there seems to be agreement regarding the importance of trust for the functioning of social systems, so far no widely accepted definition of trust has emerged (Hosmer 1995).

Suggestions as to how to define 'trust' were made by authors, such as Dunn (1988), Gambetta (1988), Hagen & Choe (1998), Lewicki, McAllister & Bies (1998), Madhok (1995), Mishra (1996), Rotter (1980), Sabel (1993), Zand (1972), and Zucker (1986), but 'trust' remains "[...] a term with many meanings" (Williamson, 1993: 453). As a result of the lack of a common definition of trust, there is also a wide variety of indicators and constructs used by researchers to measure trust (e.g. Bromiley & Cummings, 1996; Cummings & Bromiley, 1996; Nyhan & Marlowe, 1997; Ring & Van de Ven, 1992). In their analysis of existing empirical studies, McKnight & Chervany (1996) found that so far trust has been conceptualised using a multitude of single dimensions or combinations of dimensions, such as competence, expertness, predictability, morality, goodwill, responsiveness, etc. For this study, three dimensions were chosen, which were mainly used in psychological or sociological research *and* were also frequently mentioned by the interviewed managers when talking about the level of trust between the partners.

As a *first dimension* of trust, existing research as well as interviewees stress the importance of '*integrity*' (Creed & Miles, 1996; Johnson, Cullen, Sakano & Takenouchi, 1996; Mayer et al., 1995; Mayer & Davis, 1999). 'Integrity' refers to the general match between the partner's declared intentions and the course of action eventually taken by him, which can lead to a reputation of reliability or predictability. In the case of IJVs, integrity can be evidenced by the level to which partners comply with contractual obligations or other agreements: The trusting partner assumes that his opposite will stick to agreements.

As a *second dimension* of trust, various authors used the notion of '*benevolence*' (Anderson & Narus, 1990; Johnson et al., 1996; Mayer et al., 1995; Mayer & Davis, 1999). If a partner is seen as benevolent, he is expected to refrain from opportunistic behaviour. However, the perception of benevolence is not limited to the belief that our partner will not act opportunistically, but also entails the perception that he has an intrinsic interest in furthering *our* objectives, i.e. benevolence includes the "[...] expectation that the other party may take initiatives (or use discretion) to utilize new opportunities to our advantage, over and above what was either explicitly or implicitly promised" (Blois 1999: 199). Trust thus becomes more than merely "[...] a negative promise not to harm the interests of the other party" (Hosmer 1995: 392).

As a *third dimension* of trust, researchers, such as Busch & Wilson (1976), Copeland & Griggs (1986), and Mayer & Davis (1999) and practitioners identify the importance of 'competence'. Trust in social exchange situations not only means that the opposite party is expected to support - or at least not obstruct - our goal achievement; it also includes the belief that the partner is actually capable of doing so. Trusting thus implies that the opposite side is regarded as having certain competences and resources which increase the likelihood that our goals for the IJV are achieved (Wicks, Berman & Jones, 1999). These competences and resources may include management-know-how, technology, contacts to government departments, etc.

After analysing the dimensions of trust, the question "Who trusts whom?" in IJVs has to be answered. Whereas socio-psychological research views trust as the characteristic of an *individual*, studies on IJVs examine the trust between *organisations*. Many authors do not account for the differences between these perspectives and - when analysing trust between companies - recur on research that has its focus on inter-personal trust without giving reasons for this transfer (Blois, 1999; Dwyer, Schurr & Oh, 1987). However, these authors have to accept the criticism of anthropomorphising organisations, i.e. transferring human characteristics on non-humans, in our case (partner-) companies, which Rousseau (1985) calls a cross-level fallacy. Therefore, other researchers, such as Blois (1999), Dyer & Chu (2000), Child & Faulkner (1998), and Aulakh et al. (1996) argue that the existence of trust is possible only on the individual level: The statement that "a company trusts" is seen as an abbreviation of the statement "one or more managers of this company trust" (Blois 1999: 203). Similarly, Child & Faulkner (1998: 56) argue that "[...] the trust that can be said to exist between the organizations will to a large extent come down to the quality of mutual trust that exists between [...] individuals": Hence, in this perspective, it is not companies that trust; more accurately, trust refers to "[...] the extent to which there is a collectively-held orientation by organizational members toward the partner firm" (Zaheer, McEvily & Perrone, 1998: 143). This notion is reflected in attempts to grasp the concept of 'organisational trust' in empirical studies, in which the perception of trust held by one or more representatives of an organisation is normally used as a proxy for the 'collectively-held orientation' of the employees/managers of an organisation. This, however, presumes the representativity of the perceptions of single

managers (Blois 1999), i.e. that from their views inferences can be made concerning the level of trust held by other managers of the organisation in question. In order to ensure this representativity, Inkpen & Currall (1997) suggest that the chosen managers should (1) be familiar with the development of the IJV and (2) have a non-trivial influence on the shape of the inter-firm relationship. These demands are generally best met by managers, who occupy so-called boundary spanning roles, i.e. in particular general or vice general managers. Due to the extensive knowledge these managers have regarding the relationship and their significant potential to influence it, the level of trust held by these managers can be seen as an adequate indicator for the trust existing between IJV partners.

In contrast to 'giving' trust, the recipient of trust does not necessarily have to be an individual. Luhmann (2000), for instance, distinguishes between person- and system-trust. Whereas person-trust is aimed at individuals, system-trust refers to the trust in abstract systems of relationships (Krause 1996). Thus, organisations can be recipients of trust. Equally, existing research on inter-firm cooperations, frequently views companies as entities, which can receive trust (Buckley & Casson, 1988; Madhok, 1995). For our purpose, trust can therefore exist towards the representative of the IJV partner as well as towards the partner company as a whole.

To sum up, in this study, trust is seen as consisting of the three elements: integrity, benevolence and competence. If company A trusts company B, A assumes that (i) B sticks to agreements (integrity), (ii) B refrains from acting opportunistically and has an active interest in A achieving its goals (benevolence), and (iii) B is capable and has the resources to support A in achieving its aims (competence). Additionally, it is assumed that company A can (dis-) trust the representatives of company B as well as company B as a whole. Finally, we believe that the 'collectively-held orientation' of managers of company A towards B can be inferred from the perceptions of the individual representatives of company A.

Alberternst (2001), Mayer et al. (1995) and Mayer & Davis (1995) suggested various items to measure the three dimensions integrity, benevolence and competence. From these items, those with the greatest explanatory power as evidenced in the empirical analysis of Alberternst (2001) were chosen. The selected items were measured using 5-point Likert-type scales. As

these studies examined trust *within* organisations, the items to measure the three dimensions of trust were modified using information from the interviewees to account for the focus on inter-organisational trust. To account for the two levels of trust - 'manager vs. manager' and 'manager vs. partner company' - the items were used with reference to the representative of the partner company as well as with reference to the partner company as a whole. Using both levels of trust furthermore allows for triangulating the measurement of trust (Nunnally & Bernstein 1994). The reliability for the constructs was .86 in both cases (Cronbachs Alpha) and thus above the acceptable level of 0.7 suggested by Nunnally (1976).

### Measuring control in IJVs

The extent to which a partner of a IJV exerts control can be viewed from *two different perspectives*. First, the extent of control can - as is the case within the prominent concept of joint venture (JV) control presented by Geringer & Hebert (1989) - refer to the interaction between the headquarters of a JV partner and the JV itself. Thus, the focus is put on the question, in how far the management of the IJV is being influenced by the headquarter(s) of the respective partner company(ies), i.e. the level of autonomy granted to the IJV (Harrigan & Newman, 1990; Kumar & Esslinger, 1999; Kumar & Khanna, 2000; Kumar & Seth, 1998; Lyles & Reger, 1993). The subject of autonomy certainly is of relevance to the managers interviewed: "Sometimes I have the feeling that I live on the moon. It has advantages and as long as no serious problems occur and there are some positive results in the end, they leave us in peace" (German manager). Another German manager stated that, "I'm completely free to decide as I wish. I do report on the direction we're going, but as long as nothing crucial happens, they do not influence decision-making here. I think they understand very well that they do not understand the business here in China as well as we do."

This first perspective is the one most frequently used in research on control in IJVs. Control within the relationship between headquarter(s) and IJV management can on the one hand include a comparison of the planned and the actual development of the IJV using various indicators, such as sales volume, etc., i.e. the monitoring of the IJV by the headquarter(s). On the other hand, control can refer to the level of influence exerted by the headquarter(s) on decision-making of the IJV management. This reflects the classic idea of

control by French & Raven (1959), who see control as a process by which an individual or group influences the behaviour of another individual or group using power or authority.

Aside from viewing the extent of control within the relationship between headquarter(s) and IJV management, it is also possible to analyse the extent of control in the context of the relationship between the partners. In this second perspective, the extent of control refers to the level to which one partner exerts control over the IJV vis-à-vis the other partner (Bleeke & Ernst, 1991; Das & Teng, 1998; Tomlinson, 1970; Killing, 1983; Kogut, 1989). The interviews carried out suggest that it is this perspective of control that is most important to the partners, whereas the control of the IJV management by the headquarters is seen as more of an internal problem of the respective partner. In this second perspective, the term 'partner' thus includes not only the headquarter of the partner company but also the manager and employees it sends as representatives to the IJV. For this reason, the extent of control in this study is seen from the second perspective, i.e. the control exerted within the relationship between the IJV partners.

Control in this second perspective involves monitoring as well as influencing the behaviour of the partner and/or outcomes of this behaviour. The partner's actions are monitored in order to detect deviations from expected behaviour in order to secure that one own's goals for the IJV are not obstructed and/or are more likely to be achieved. As opposed to the first perspective, influence in the second perspective aims not only at the actions of the partner company or their representatives, i.e. the way in which they carry out certain tasks; it additionally includes the possibility of deterring the partner from carrying out specific IJV activities, e.g. by appointing selected personnel to specific positions.

The extent of control can be measured in two ways: Firstly, it can be measured by letting managers evaluate the extent to which they exert control over various aspects of the IJV management (direct measurement) (Killing, 1983; Lecraw, 1984). Secondly, the extent of control can be measured by using proxies, such as the partners' seats on the board or their respective capital share (indirect measurement) (Yan & Gray, 1996; Child, Yan & Lu, 1997). However, as Schaan (1988) has pointed out, these latter measures are unsuitable to evaluate the degree of control exerted by IJV partners, since even partners with

only a minority stake have means to exert control over the activities of the IJV.

Thus, the first way of directly using the managers' assessment of the level of control exerted over the IJV was used. Managers were asked to assess the extent of control their side has over four strategic areas of the IJV (strategic planning, profit distribution, re-investment decision and appointment of senior management positions of the IJV; Cronbachs alpha .87) and over ten operative areas (sales planning, product/price-policy, distribution, product programme, production, quality management, procurement, personnel, R&D and accounting; Cronbachs alpha .96). The selection of these ten areas was guided by information taken from the interviews as well as by existing literature on control in IJVs by Child & Yan (1999), Child et al. (1997), Geringer & Hebert (1989), Hebert & Beamish (1997) and Lin, Yu & Seetoo (1997). To reduce the complexity of the analysis, the items were combined into two constructs that reflect the extent of a partner's control over strategic decisions and over operative decisions respectively.

#### RESULTS AND DISCUSSION

The explorative analysis consisted of calculating simple correlation coefficients between the constructs. The results are shown in table 1.

The correlations between the trust constructs and the level of control over *strategic issues* of the IJV are significantly negative. On this basis, the arguments implying that there is no or a positive relationship between trust and control respectively are not supported. Similarly, in contradiction to these views, the correlation between the level of trust in the partner company as a whole and the level of control over *operational issues* is significantly negative. The correlation between the level of trust in the management of the opposite firm and the level of control over operational IJV activities - although negative - is not significant. The latter result would lend some support to the view that there is no relationship between the two constructs. Although, only three of the four

coefficients calculated are negative on a statistically significant level, the empirical results point towards a negative relationship between the level of trust and the degree of control in IJVs.

Hence, within the German-Chinese IJVs analysed for this study, trust and control did not exist to the same extent at the same time. The results thus contradict the prediction of Das & Teng (1998: 496), according to which a firm wishing to have a higher confidence level "may pursue changing both trust and control simultaneously and in a parallel fashion, without any zero-sum complementarity constraints linking trust and control". Rather, the empirical data implies that there is some form of 'zero-sum complementarity' between trust and control in the German-Chinese IJVs studied. The results therefore are more in line with the results of an empirical study by Parkhe (1993b) in which a negative relationship between the extent of the perception of opportunistic behavior and the level of contractual safeguards was supported.

The empirical results imply that partners that exert a high level of control over the IJV do not trust their partners to the same extent. This could be due to the existence of a functional relationship between the two variables or their common dependence on one or more other factors. At the same time, IJV partners that trust their opposite do not seem to exert a high level of control. Assuming that there is indeed a functional or causal relationship between trust and control, i.e. the correlation between the variables is not caused by one or more underlying other variables, there are two possible consequences regarding the relationships between trust and success on the one hand and control and success on the other hand, which are - as outlined above - both seen as positive in existing literature, although by different authors. *Firstly*, the results would imply that trust is positively, and control negatively related to the success of the IJV. It might be the case, for instance, that trust enhances the success, whereas exerting control reduces the IJV's success directly or indirectly via

TABLE 1 – TRUST AND CONTROL – EMPIRICAL RESULTS

	Strategic Control (N=107)	Operative Control (N=95)
Trust in IJV managers appointed by the partner	-0.35**	-0.13
Trust in partner company as a whole	-0.42**	-0.25*

\* p < .05

\*\* p < .01

obstructing the development of trust between the partners. An additional explanation might be that success leads to the development of trust, whereas a lack of success leads to distrust and increased control between the IJV partners. *Secondly*, the result would also make sense if there is a positive relationship between the level of control and the success of the IJV and a negative relationship between trust and success. These two consequences would contradict either the proponents of trust (Aulakh et al., 1996; Chen et al. 1998; Cullen et al. 2000; Demirbag & Mirza 2000; Lyles, Sulaiman, Barden & Kechik, 1999; Ramaseshan & Loo, 1998; Smith, 1997) or the advocates of the role of control for the success of IJVs (Muramatsu 1992; Wang et al. 1999) and thus warrant further studies to clarify the interdependencies between trust, control and success of IJVs.

Irrespective of the real cause of the negative correlation found, the results suggest that partners have to make a choice between striving for a maximum of control over the IJV or developing trust between the partners. For this reason, decisions have to be taken whether scarce management resources are used for increasing control or for developing trust between partners. In addition, IJV managers have to take into account that increasing control over the IJV vis-à-vis one's partner might lead to a reduction in trust while the development of trust might reduce the need for control. The extent, to which this 'crowding-out' effect is accepted or actively sought by partners, will ultimately depend on whether they regard trust or control as more conducive for achieving their goals for the IJV.

### CONCLUSIONS

This study has analysed the relationship between trust and control in IJVs. This has been regarded as important, as different groups of authors see a high level of trust between the partners as well as a high degree of control over the IJV as crucial for the success of an IJV, which in turn would require that there is no or a positive relationship between trust and control. The results of this explorative analysis within German-Chinese IJVs, however, show a negative relationship between trust and control.

The study has combined qualitative and quantitative methods in order to enrich theoretical arguments with information taken from interviews with IJV managers. This methodology allowed for the development of measurement constructs that more closely reflect the issues of concern to IJV

managers. The constructs developed showed high levels of reliability and thus lend themselves for future analyses of 'trust' and/or 'control' in IJVs or other forms of inter-firm co-operation. Regarding the operationalisation of control only one of the dimensions suggested by Geringer & Hebert (1989) was used (extent). Future studies should also analyse the relationship between other dimensions of control (mechanisms, focus) and the level of trust. It may be the case that different mechanisms of control have a different impact on the level of trust and/or are influenced differently by the existence of trust between the partner companies.

The relationship between trust and control was analysed for the specific case of German-Chinese IJVs. The nature of the relationship might be different for IJVs between partners from the same countries because cultural differences may cause trust and control to become substitutes. Within JVs between two or more German companies on the other hand, control and trust might exist at the same time because of the shared cultural background of IJV partners. Future research should analyse the impact cultural factors have on these variables which are vital for IJV management. Similarly, other contingencies should be included in the analyses of the relationship between trust and control in order to find out if there are conditions under which trust and control can exist at the same time in IJVs. In addition, this stream of research should be extended by comparing the trust-control-relationship in different forms of inter-firm cooperation.

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