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Expectations and Satisfaction in Trust Based Relationships

Gökhan ERTUG
Ben BENSAOU
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By

Gokhan Ertug*

And

Ben Bensaou**

* PhD Candidate at INSEAD, 1 Ayer Rajah Avenue SINGAPORE, 138676
E mail gokhan.ertug@insead.edu

** Professor of Technology Management at INSEAD, Boulevard de Constance, 77305 Fontainebleau Cedex E-mail ben.bensaou@insead.edu

ABSTRACT

This paper investigates the relationship between an actor's initial expectations of cooperation and commitment from its partner and the actor's subsequent level of satisfaction with the relationship. Drawing from Oliver's research on expectation disconfirmation (1977, 1980) we suggest that the signals of cooperation and commitments the partner displays prior to the relationship are negatively related to the actor's subsequent satisfaction with the relationship. The same partner's trustworthiness during the relationship, however, should be positively related to the actor's satisfaction. Empirical findings from a sample of 113 international joint ventures in East Asia support our hypotheses.

Keywords: Trust, satisfaction, interorganizational linkages.

Research on trust-based relationships in organizational contexts has surged over the last decade (Kramer & Tyler, 1996; McEvily, Perrone, & Zaheer, 2003; Rousseau, Sitkin, Burt, & Camerer, 1998). For good reason too, since "independent and tightly-coupled firms are giving way to interdependent, loosely-coupled networks and alliance forms" (Scott, 2003: x) and it is precisely in such forms of organizations, such as joint ventures, where interdependence is vitally important that trust becomes all the more essential (Das & Teng, 1998). A burgeoning research, theoretical and empirical, has examined the antecedents and consequences of intra- and inter-organizational trust with an emphasis on underlining that trust is desirable, since its presence results in economizing on transaction costs (Dyer & Chu, 2003; Zaheer, McEvily, & Perrone, 1998), fine-grained and extensive information sharing leading to synergy (Sitkin & Roth, 1993; Uzzi, 1997), and a reduction of cognitive load (Luhmann, 1979). Based on this overarching idea that trust makes parties better off, there have been studies on the factors that increase the level of trust in a relationship (Gulati, 1995) as well as the means to facilitate the emergence of trust, be it institutional (Zucker, 1986), contractual (Malhotra & Murnighan, 2002), or rewards-based (Ferrin & Dirks, 2003).

Recently, however, researchers have started investigating more nuanced aspects of trust. These include studies on contextual boundaries on the positive effects of trust, leading to circumstances where there can be "too much." Beyond a certain level, trust can have undesirable effects (Langfred, 2004; Gargiulo & Ertug, 2006; Szulanski, Cappetta, & Jensen, 2004). Likewise, arguments have been formulated on how the optimal level of trust is not necessarily equal to its maximal level (Lewicki, McAllister, & Bies, 1998; Wicks, Berman, & Jones, 1999). This recent line of inquiry questions the assumption that higher levels of trust are necessarily better for one or more parties in a relationship.

Our aim in this paper is to contribute to this emerging strand of research by studying the effects of a trustor's (pre-interaction) expectations about the commitment and cooperative behavior of a partner on the trustor's subsequent satisfaction with that partner. Contextual variables (Child & Mollering, 2003; Zucker, 1986), interaction frequency (Becerra & Gupta, 2003), and cultural similarity (Gulati, 1995) have been found to have positive effects on the development of trust or evaluations of trustworthy behavior. Even though these act as determinants of trust, similar levels of cooperative and trustworthy behavior under similar contexts might still give rise to different evaluations of how trustworthy an actor is (Dirks & Ferrin, 2001) and also, consequently, how satisfied a trustor is with a relationship. We argue that one way by which such differences might arise is through variations in the expectations of actors with respect to the cooperative intent and commitment of their partners. Different levels of expectations would lead to different assessments of and different levels of satisfaction with the same level of trust-related behaviors. Specifically, we will argue that higher levels of initial expectations will lead to lower levels of subsequent satisfaction.

When Davis, Schoorman, Mayer, and Tan (2000: 563) conclude that trustees can enhance their levels of trustworthiness in the eyes of trustors and that such enhancement would lead to a number of beneficial outcomes for the trustees, they sum up the literature well: Trustworthiness is a valuable resource for the trustee; the more, the better. Yet, there might be circumstances where this assertion needs qualification. We argue that whenever the trustor's post-interaction satisfaction matters for the trustee, it might not be in the best interests of the trustee to foster as high a (pre-interaction) trustworthy image as (s)he possibly can. We posit that trustors build expectations based on their pre-interaction impression of the trustee. In particular, they generate expectations about the prospective levels of commitment and cooperative behavior of the trustee,

since these are crucial components of trust-based relationships. These expectations set the context in which the trustor subsequently assesses the level of observed cooperative behavior by the trustee throughout the relationship. Thus, higher initial expectations about the trustee's behavior will lead to lower assessments of that behavior than will lower levels of expectations.

Drawing from expectation disconfirmation theory (Oliver, 1977, 1980; Oliver, Balakrishnan, & Barry, 1994), we link a trustor's satisfaction with a trust-based relationship to pre-interaction expectations about the trustee and, drawing from past research on trust, the trustworthiness of the trustee during the relationship. Specifically, we propose that while trustworthy behaviors of a trustee throughout the relationship will be positively related to its partner's satisfaction, the level of initial expectations about the trustee's cooperative intent and commitment will be *negatively* related to its partner's satisfaction. The suggestion is that the trustor should not be conceived as the only party who might have to worry about the dark side, the hazards, of trust (Granovetter, 1985; Gargiulo & Ertug, 2006; Wicks et al, 1999). The trustee should be concerned, too. In particular, the trustee should be wary of fostering unduly high expectations of its trustworthiness. Since higher expectations are more prone to be negatively disconfirmed than met or exceeded (Oliver et. al., 1994), their disconfirmation will have a negative effect on the trustor's satisfaction. We test our hypotheses on a sample of 113 international joint ventures operating in East Asia. In line with our hypotheses, we find that higher levels of signals by local parents (the trustees) that generate initial expectations of cooperative behavior and commitment lead to lower levels of post-interaction satisfaction of the multinational parents (the trustors). We also find that trustworthy behaviors by the local parent and its managers during the relationship are positive predictors of post-interaction satisfaction of the mutinational parent.

THEORY

Trust, Trustworthiness, and Satisfaction

A multitude of definitions of trust has been proposed. These vary in their emphasis from the cognitive to the emotional aspects of the construct; yet all focus on the trustor's *perceptions* of the trustee's intentions and behaviors. From among these definitions, we use Mayer, Davis, and Schoorman's definition of trust as "the 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" (1995: 712). Implicit in this definition as well as a central point in the conceptualization of many researchers is the idea that "[t]he need for trust only arises in a risky situation" (Gambetta, 1988; Mayer et. al., 1995: 711). One's trusting behavior, or risk-taking, within a relationship is then determined by the level of trust the trustor has in the other party, i.e., the trustee.

The literature highlights three factors that determine a trustor's level of trust in a trustee: (i) the trustor's propensity to trust, a near-constant disposition across situations (e.g., Gurtman, 1992), (ii) institutional factors that foster a trustworthy environment (Zucker, 1986), and (iii) actions or attributes of the trustee, or of the relationship, that lead the trustee to be perceived as more or less trustworthy (Bacharach & Gambetta, 2001; Mayer et. al., 1995; McAllister 1995). In this paper, we focus on the last set of factors; namely on the attributes of the trustee and of the relationship. We believe that variance in these factors lends itself more easily to systematic study since every relationship provides us with potentially different, hence useful, information. As well, the findings are unlikely to be anchored to one type of trustor or an institutional environment. Though, of course, these factors might also come into play independently or moderate the effects.

In addition to providing a broad and much-employed definition of trust, Mayer and his colleagues (1995) also provide a useful definition of trustworthiness. Trustworthiness consists of the trustee's benevolence, integrity, and domain specific ability; all as perceived by the trustor. These attributes have been used in empirical studies to reflect the trustee's characteristics, intentions, and behaviors (Becerra & Gupta, 2003; Davis et. al., 2000; Mayer & Davis, 1999). Furthermore, findings confirm that "the trustee's trustworthiness" is also a – if not *the* – major determinant of the level of trust in a relationship. Davis and his colleageus (2000) found that general managers' ability, benevolence, and integrity collectively account for 46 percent of the variance in employees' trust in them. Furthermore, Mayer and Davis (1999) found that the relationship between trust and performance appraisal for top management was fully mediated by the top management's trustworthiness, as measured by these three factors. Thus, a partner's trustworthiness is among the main determinants of another actor's trust in that partner.

There is sufficient evidence to formulate a positive relationship between the trustworthiness of one's partner and one's satisfaction. Since the trustworthiness of an actor is among the major determinants of a party's trust in that actor, we draw from research on trust as well as that on trustworthiness in drawing from past research to formulate our prediction. In one of the first studies to investigate trust in a managerial setting, Zand (1972) found trust in other members of one's group to be positively related to satisfaction with a meeting held by the group. Studying 103 selling alliances, Smith and Barclay (1997) found perceived trustworthiness for each other to lead to greater mutual satisfaction of partners. There have also been a number of studies that document a positive relationship between trust in colleagues or upper management and work satisfaction (Driscoll, 1978; Muchinsky, 1977; Rich, 1997). Finally, although not examining satisfaction per se, Schurr and Ozane (1985) used a bargaining experiment and found

that a buyer's trust in the seller was a significant predictor of favorable attitude toward the seller. These findings suggest that trustworthiness of a party is positively related to one's satisfaction with relationships with that party. In our setting of international joint ventures, trustors should be more satisfied with those relationships where the trustees act more trustworthily, as perceived by the trustor. Thus, we propose:

Hypothesis 1. The higher the trustee's trustworthiness during the relationship, the higher the trustor's satisfaction with the relationship.

The reason we use the phrase "trustworthiness during the relationship" rather than "trustworthiness" will become clear shortly and relates to the core contribution of our paper. While we predicted above that the trustee's trustworthiness during the relationship will be positively related to the trustor's satisfaction, we will also argue that how cooperative and committed the trustor expects the trustee to be will be negatively related to the trustor's subsequent satisfaction. The idea is developed in the following two sub-sections.

Initial Trust and Expectations

McKnight and his colleagues (1998) distinguish between "initial trust" and its subsequent change, fragility or robustness; what we will call "continuing trust." Initial trust captures the trustor's ex-ante, pre-interaction, trust while continuing trust captures her trust following some experience within the relationship. What is important for our purposes is the idea that the processes by which trust initially forms and by which it later develops might not necessarily be the same. McKnight and his colleagues conjecture that whether initial trust is subsequently

fragile or robust hinges on the trustor's experiential knowledge developed within the relationship, whereas initial trust is based more on signals.

McKnight and his colleagues' definition of initial trust is built to apply only to situations where the trustor does not have any prior experience with the other party: "applies to only new encounters between people" (McKnight et al., 1998: 474). This is an uncommon situation in international joint ventures or networked organizations in general. Without compromising the crux of their arguments, this definition can be expanded to accommodate the possibility that the trustor may have had prior experience with the other party. Such experience provides the trustor with more information to supplement the information embodied in other signals the trustee displays. These signals generally take the form of credible commitments (Williamson, 1983) and, intentionally or not, project the trustee's commitment and cooperative intentions, and thus affect the trustor's initial trust.

In the absence of direct knowledge of the trustee's cooperative intentions, the trustor needs to calibrate the level of risk she may be taking before engaging in actual risk taking (Mayer et al., 1995). We suggest that this judgment is formed on the basis of her information on the trustee, based partly on the signals the trustee is projecting. We focus on two sets of relationship-level factors highlighted by past research as being likely to affect the trustor's expectations about her partner's future behavior: Her prior experience with the trustee under similar circumstances and relationship-specific commitments the trustee invests in. We summarize each in turn.

Gulati (1995) found that the presence of past ties results in higher trust between alliance partners. Specifically, partners with former ties are more likely to use non-equity rather than equity-based forms, where the former type of arrangements is much more trust-based. The

presence of past relationships implies that the trustor found the partner, i.e. the trustee, trustworthy enough to initiate, or accept, another trust-based relationship. Conversely, if the trustor's past experience were to cast doubts on the trustworthiness of the other party, she would be less likely to engage in a new relationship where trust is essential. Similarly, McAllister (1995) found the frequency of interaction between two parties to be positively related to the affect-based trust one had in the other. Finally, consistent with these findings, Inkpen and Currall (2004) also propose as part of their conceptual framework that past transactions, with the qualification that those which are viewed as successful, will result in increased trust between parties to the relationship. Thus, the presence of prior ties leads to the parties' having greater trust in each other and expecting greater commitment and cooperation from each other.

Relationship specific assets that the trustee invests in constitute another signal of the trustee's commitment and cooperation. These are "credible commitments" (Williamson, 1983) since they increase the trustee's switching costs, raise exit barriers, and create strong incentives for him to secure maximum returns from these locked-in investments. For example, Skarmeas, Katsikeas, and Schlegelmilch (2002) found transaction specific investments – in the form of personnel, training programs, and facilities – to be positive predictors of an importer's commitment to his relationship with an exporter. Celly, Spekman, and Kamauff (1999) also note the importance of relationship-specific investments, in the form of technology and assets, in communicating an actor's cooperative intentions and conveying commitment to its partner. These studies add to the body of literature on transaction and relationship specific investments (e.g., Crawford, 1990; Leiblein, Reuer, & Dalsace, 2002; Weiss & Kurland, 1997), which study how investments made specifically for a given relationship and with substantially less value outside the relationship would signal a partner's cooperative intentions and commitment. The

presence of relationship specific assets by an actor, then, would lead its partner to expect greater levels of cooperation and commitment from that actor. Trustors who observe trustees making a greater investment in relationship specific assets would expect greater cooperation and commitment from those trustees.

Thus, we will focus on the existence of prior ties between actors as well as relationship-specific investments by the trustee as drivers of the trustor's (pre-interaction) expectations about the trustee's subsequent cooperation and commitment in the relationship. In the next section we discuss how such expectations are related to satisfaction and formulate our second hypothesis.

Expectations and Satisfaction

Psychologists have long contended that we make evaluations not in an absolute manner but rather in comparison to reference points (e.g., Kahneman & Tversky, 1979; Oliver, 1977). Expectations, beliefs about a future state of affairs (Olson, Roese, & Zanna, 1996), have been shown to influence subsequent attention to and encoding of information related to that belief (e.g., Stern, Marrs, Millar, & Cole, 1984), interpretations of such information (Jussim, 1989), as well as subsequent attributions (Bond, Omar, Pitre, Lashley, Skaggs, & Kirk, 1992). Once expectations have been formed, they can be confirmed or disconfirmed by subsequent experience. Disconfirmation in turn can be positive (exceeding the expectations) or negative (falling short of expectations). Such disconfirmation affects the level of satisfaction with the outcome of the target of that expectation (Oliver, 1977, 1980). Using an experimental setup, Oliver and his colleagues (Oliver et. al., 1994) found that negative disconfirmation of one's expectations about an outcome lead to dissatisfaction with that outcome. Similarly, Puffer and Weintrop (1991) found the level by which annual earnings fall short of board expectations to be a better predictor of CEO turnover than other, more objective, measures such as security returns

and accounting ratios. More recently, too, Rhee and Haunschild (2006) suggest that one reason why automakers with higher reputations might suffer more as a result of product recalls is that customers expect higher-quality products from these automakers and perceive a stronger breach, expectancy-violation (Burgoon & LePoire, 1993), when automakers with higher reputations announce recalls.

We draw upon expectation disconfirmation theory (Oliver, 1977; Oliver et al., 1994) to study how signals which relate to one's commitment and cooperative intent – how expectations regarding these – affect the other party's satisfaction with the relationship. According to expectation disconfirmation theory, individuals formulate expectations of outcomes and the perception of actual outcomes triggers a comparison of the outcomes and these expectations. This comparison, then, is the main determinant of satisfaction or dissatisfaction (Oliver et. al., 1994: 255). The implication for the setting we study is that in trust-based relationships, the trustor forms ex-ante expectations about the future cooperative behavior of the trustee, which she then compares to her experience within the relationship. A negative disconfirmation occurs when the trustee's behavior falls short of the level of cooperation and commitment the trustor expected. This disconfirmation then affects the trustor's satisfaction with the relationship, above and beyond the (objective) performance outcome of the relationship. Indeed, Oliver and his colleagues (1994) found that negative disconfirmation *fully* mediated the relationship between the absolute level of an outcome and a party's satisfaction with that outcome.

That actors entertain aspiration levels and compare outcomes to these aspiration levels is also one of the most enduring contributions of Cyert and March's seminal book (1963). They posit that performance expectations in a particular area and time period set the context in which outcomes are assessed and categorized. Outcomes that fall short of aspiration levels, i.e., which

lead to negative disconfirmation, result in dissatisfaction and trigger search processes (e.g., Greve, 2003). Speaking more directly to our concerns, Oliver and his colleagues (1994) found that higher expectations, because they were harder to attain, increased the likelihood of negative disconfirmation. Similarly, we argue that, all else equal, trustors working with trustees who have displayed signals that lead the trustor to have higher expectations about the trustees' level of commitment and cooperation will lead to negative disconfirmation and consequently a lower level of satisfaction in the trustor. Thus, we propose:

> *Hypothesis 2. The higher the initial expectations of the trustor about the prospective commitment and cooperative behavior of the trustee, the lower the trustor's satisfaction with the relationship.*

Our hypotheses imply that a trustor's satisfaction with a relationship will be determined not only by her perception of the trustee's actual behavior, i.e., his trustworthiness, but also by the level of expectations she had formed at the beginning of the relationship. These expectations are confirmed or disconfirmed, positively or negatively, by what the trustor experiences over the course of the relationship and such disconfirmation is one of the main determinants of her satisfaction. We thereby draw attention to two key antecedents of the trustor's satisfaction with a relationship: (i) her ex-ante expectations based on prior experience or signals of cooperation and commitment the trustee displays and (ii) her perception of his trustworthiness based on her experience in the on-going relationship.

The predicament for a potential partner, i.e., the trustee, is that even though sending strong signals and setting high expectations might assist him during the selection process, to be

selected from among numerous candidates, these same expectations may hurt him later. They may hurt him because such expectations are more difficult to fulfil and thus are more likely to result in lower satisfaction levels for the trustor. Such dissatisfaction, in turn, might make it more difficult for the trustee to establish further relationships with the trustor. Furthermore, through the trustor's communicating her dissatisfaction to her network, it is also likely to produce an unfavorable reputation for the trustee.

METHODS

Setting and Sample

We test our hypotheses in a setting where trust is relevant, important, and likely to evolve over the life of the relationship: international joint ventures. Joint ventures are considered a hybrid form of governance where high levels of trust and cooperation by both parties are necessary for successful coordination of activities and high performance (Das & Teng 1998; Inkpen & Currall, 2004; Williamson 1991). Moreover, there is a significant element of risk-taking, in particular for the investing partner, who allocates highly valuable tangible and intangible assets into a jointly owned enterprise. This form of governance creates a situation where the trustor relinquishes the full control and authority over key strategic and operational decisions she naturally has in a wholly-owned company.

The investing parents in our sample are large multinationals who send their expatriate managers to co-manage a joint venture that operates in the local parent's market. It is worth noting that a critical mass of the staff of these joint ventures are sent either by the local parent or newly hired locally. Our empirical setting aligns well with the proposed (Deutsch 1958; Gambetta 1988) and tested condition (Malhotra & Murnighan 2002) that "acts of trust, and attributions of trustworthiness, can be made only in situations in which the partner has both the

incentive and the opportunity to exploit the actors, but instead behaves benignly" (Molm, Takahashi, & Peterson, 2000: 1403). The investing parent, the trustor, accepts to be vulnerable to and dependent on the local parent and its management team, i.e., the trustee. Typically, the much larger multinational parent brings in proprietary technology, knowledge, and capital while the local parent provides access to the market, local labor market, and connections to the government and other local institutions. Regarding the ownership structure of the joint ventures in our sample, on average, multinational parents had 11.5 percent greater equity in the joint venture than did the local parents and in only 16.8 percent of the joint ventures did the local parent hold greater equity than did the multinational parent.

The absence of trust has more severe consequences in relationships between dissimilar and geographically distant partners (Gulati, 1995). This idea is captured well in our sample international joint ventures where the investing multinational parent comes from developed industrial markets in Japan, Korea, the U.S.A., and Western Europe and the local parent comes from developing markets in Asia, geographically ranging from India, China, and Malaysia to the Philippines.

Sampling followed the same procedure in all countries. We first interviewed a senior executive at the multinationals' corporate headquarters (e.g., the head of a business division or of the international business division) or Asian regional headquarters (e.g., the head of Asia for the business division or the regional manager) to negotiate participation and obtain a comprehensive list of their joint ventures in Asia. We then submitted our wish list, consisting of their international joint ventures that have been operating in the manufacturing sector for at least three years. For each of the selected joint ventures, the multinational corporate contact identified the most competent key informant, typically the most senior manager sent by them to the joint

venture (most commonly a member of the board of the joint venture, its CEO, COO or Finance director). We sent out a total of 300 questionnaires to these senior managers, of which 113 were returned and contained sufficient information to be used in the statistical analysis, for a 38 percent final response rate.

Measures

Dependent variable: Satisfaction is the main dependent variable in expectation disconfirmation theory, both in formulation (Oliver, 1977) and in practice (e.g., Oliver et al., 1994). Satisfaction is also among the widely employed dependent variables in studies of trust. A six-year old review by Dirks and Ferrin (2001) listed 12 studies that empirically examine the relationship between trust and satisfaction. We used a four-item scale (α = .76) to capture our key informant's (a senior manager sent to work in the joint venture by the investing, multinational, parent) level of satisfaction with the operations and performance of the joint venture. The items of this scale, along with the items of all other scales, are listed in the Appendix. In developing this scale we drew on those used by Lin and Germain (1998) as well as work by Crosby, Evans, and Cowles (1990), and Ganesan (1994).

Trustworthiness. To measure trustworthiness, we employed the three dimensions of trustworthiness outlined by Mayer and his colleagues (1995): The trustor's perception of the other party's benevolence, integrity, and domain specific ability. In addition, in response to Zaheer, McEvily, and Perrone's (1998) and Currall and Inkpen's (2002) calls to include both inter-organizational and interpersonal levels of analysis in studying trust, we measured the trustor's perception of both the other parent, i.e., the trustee, as an aggregate and unitary actor as well as the managers of the other parent working with her in the joint venture. We used multiple items to measure each of the three dimensions posited by Mayer and his colleagues (1995) to

underlie trustworthiness.[1] Since our hypothesis is about the aggregate construct of trustworthiness, however, we used a single, aggregated, variable for trustworthiness by using the sum of these items (e.g., Becerra & Gupta, 2003, who also use this approach). Hence, we have an eight item scale each to measure the perceived trustworthiness of the local parent organization (α = .86) and the perceived trustworthiness of the local parent's managers working in the joint venture (α = .91).

Signals of prospective cooperation and commitment. To operationalize the construct for the independent variable in Hypothesis 2, i.e., trustor's expectations regarding the trustee's prospective cooperation and commitment, we draw from research on joint ventures and that on transaction or relationship specific investments, focusing on indicators that signal a party's commitment and prospective cooperation. We use such signals, associated with the trustee, as indicators of the pre-interaction expectations of the trustor. In other words, our measures of the expectations of the trustor are indirect in that they are based on signals related to or projected by the trustee. For this reason, we select three signals that have both theoretical grounding and have been empirically verified to be related to higher levels of prospective commitment and cooperation: The existence of a prior relationship of similar nature between the parties, the trustee's equity in the joint venture, and the number employees working for the joint venture that were sent or hired by the trustee.

As we have noted, Gulati (1995) documented that the existence of prior alliances increases trust between parties. At the interpersonal level of analysis, McAllister (1995) similarly found that frequency of interaction is associated with higher levels of affect-based trust. We used

[1] We measured integrity and benevolence with three items each and ability by two items for both the other, local, parent and the managers hired by that parent.

"the existence of similar cooperative arrangements with the other parent prior to the creation of this joint venture" as one initial source of knowledge about the commitment and trustworthiness of the trustee. We created a dummy variable that was coded 1 if the trustor, the multinational parent, had similar arrangements with the trustee, i.e., the local parent, prior to the current joint venture and 0 if not.

Drawing from research on transaction cost analysis and studies on commitment, we used two other variables to capture the trustee's commitment and cooperative intent by measuring investments that are difficult to recover (Williamson, 1975). These were the ratios of staff and equity the trustee contributed at the creation of the joint venture. The trustees' concern for maximizing the return to these specific investments and the fact that such investments raise the opportunity costs of exit reduce the possibility of opportunistic behavior and increase commitment to the relationship (Skarmeas et. al., 2002).[2]

The greater the trustee's share of equity, the more he has to lose from a negative outcome in the relationship. Therefore, he is likely to be more committed and cooperative, in order to ensure the effective operation of the joint venture. Similarly, the employees the local parent sends to staff the joint venture develop knowledge and skills specific to the present relationship, which then raise the opportunity cost of exiting from or defaulting on the relationship. The to-be specific human capital the local parent decides to invest in the new relationship therefore

[2] It might be argued that these two variables measure the local parent's, i.e., the trustee's, control over the joint venture rather than signalling its prospective levels of cooperation and commitment. Thus, the multinational parent, i.e., the trustor, might be less satisfied not because of higher levels of expectations but rather because the local parent, i.e, the trustee, has too much control over the joint venture. We investigate this possibility in the results section and, as will be considered in detail there, our results suggest that it is *not* the control mechanism that is driving the results.

constitutes another indicator of the intention to cooperate and commit to the success of the joint enterprise. To put this figure into context and make it comparable across joint ventures of different size, we normalize it by dividing the number of employees directly hired by the local parent, i.e., trustee, by the total number of employees. The share of equity is already a ratio and thus no normalization was necessary. We believe that these two variables, ratios of staff and equity, capture what Bacharach and Gambetta (2001) refer to as cues that signal one's intention to cooperate.[3]

To mitigate the risks of common method bias and retrospective reconstruction that might afflict one-time, same respondent, data collection, we selected these three variables so that they were objective and observable at the beginning of the joint venture.

Control variables. To isolate the effects of expectations and trustworthiness on satisfaction, we control for variables that might affect satisfaction and also be related to our key independent variables. Specifically, we control for environmental (market growth), inter-organizational (similarity between the two parent companies) and organizational – joint venture – level factors (age of the joint venture; average profit over the last three years) expected to affect trust or satisfaction or mediate the relationship between them.

Even though Oliver stipulated (1980) and found (Oliver et. al., 1994) that satisfaction disconfirmation fully mediates the relationship between objective performance measures and satisfaction, others have found direct effects of performance on satisfaction. Tse and Wilton

[3] One can counter by arguing that joint venture partners not willing to cooperate could still manipulate these signals, by hiring more employees or investing in equity, and portray themselves in a more favourable light. These actions, however, would cost them substantially more than they would cost partners with "true" cooperative intentions since the payoffs to both partners from a joint venture depend largely upon the cooperation of both parents (Das & Teng, 1998).

(1988), for example, found that performance exerts a direct effect on satisfaction above and beyond its effects through positive or negative disconfirmation. Thus, we might expect greater levels of satisfaction with those joint ventures that perform better. We use the average profit throughout the last three years to control for performance.[4] We also control for a crucial environmental factor, market growth, which was measured by responses to a single item. Parents of joint ventures operating in growing markets might be more satisfied with the operations and performance of the joint ventures than are parents of joint ventures that operate in saturated or shrinking markets, since growing markets present fewer immediate threats and fewer opportunities for problematic issues to gain salience.

We also control for two characteristics of the joint venture, similarity of the parents and age of the joint venture. Lin and Germain (1998) found that cultural similarity and relationship age have significant and positive effects on satisfaction in international, US-Chinese, joint ventures. The idea that "like likes like," homophily, underlies most arguments made for the effects of similarity on satisfaction with a given relationship. We control for age because of a stipulated positive effect that might come about as a result of either of two processes. One is that parties learn about each other's strengths and weaknesses and adapt as they interact more frequently (Whitener, Brodt, Korsgaard, & Werner, 1998; see also McAllister, 1995 and Becerra & Gupta, 2003). The other is that the observed relationship between age and satisfaction results from self-selection: parties who are unsatisfied with a relationship quit and therefore among the surviving relationships one is more likely to see satisfaction in older relationships. Age is measured by how long, in years, the joint venture has been operating while similarity is measured through a six item scale (α = .87).

RESULTS

[4] For the few joint ventures younger than three years, the variable measures average profit level since inception.

Table 1 displays the descriptive statistics, the correlation matrix, and the reliability figures. The joint ventures in our sample are relatively old, profitable, and operate in growing markets. The few correlations that are above a rather low arbitrary threshold of .30 ($p < .001$) appear where one would expect them, e.g., between either of the trustworthiness measures and satisfaction and also between these measures and similarity. In none of our models is the average variance inflation factor (VIF) greater than 1.4 or the largest VIF greater than 2.1. These figures are well below conventional thresholds and suggest that multicollinearity should not be affecting our results.

Insert Table 1 about here

Table 2 displays the results for the ordinary least squares (OLS) regression models we estimated, first with only the control variables (model 1), then adding the trustworthiness variables (models 2), and, finally, adding the signals of commitment and cooperation, singly and together (models 3-6). The joint ventures in our data represented 12 countries of operation and 18 industries. These two categories produce a total of 56 country-industry groups. Since observations within each such group might not be independent, we used the *cluster* option in STATA 9 to adjust the standard errors of estimates to account for possible non-independence within each group. There were an average of 2.02 observations in each such country-industry cluster, with a minimum of 1 and a maximum of 10 observations. None of the results we will present, regarding our hypotheses, change if we were to cluster for either countries of operation or industries instead.

The results provide consistent support for our hypotheses and also confirm the independent effects of the two trustworthiness measures. Model 1 includes only the four control variables. Trustors in our sample report greater satisfaction with the relationship in (1) joint ventures with a greater similarity between the cultures and management practices between the two parent companies, (2) older joint ventures, (3) more profitable joint ventures, and (4) joint ventures operating in higher growth markets. The rationale for including these variables was spread across different literatures and was based also on their face validity. The results from model 1 show their inclusion to be well founded and relevant for a better understanding of satisfaction with the operation and performance of joint ventures.

Insert Table 2 about here

In model 2 we add the two trustworthiness variables. Both trustworthiness of the managers of the local parent and the trustworthiness of the local parent itself are positive predictors of satisfaction, supporting Hypothesis 1. The more trustworthy the senior manager of the multinational perceives the local parent and its managers to be, the more satisfied (s)he will be with the operation and performance of the joint venture. Trustworthiness of the parent, as an aggregate entity, has a more significant and stronger effect probably because it is a broader construct that captures all of the non-manager related trustworthiness attributed to the local parent. Since the correlation between these two variables was .64, we also entered them separately to see if this had an affect on the estimates. The results, regarding the hypothesized effects, were the same across all the models. These models are not presented to save space.

In models 3 through 5 we introduce the three pre-interaction signals of cooperative intent and commitment. Each of the three variables is a negative and significant predictor of satisfaction. In support of Hypothesis 2, the existence of prior relationships of similar nature with the local parent, the local parent's share of employees, and its (share of) equity in the joint venture are all negatively related to the satisfaction of the trustor, i.e., the multinational parent. Finally, we enter all three variables together in model 6. The results remain much the same. The two trustworthiness variables are positive and significant predictors of satisfaction while the three expectation generating signals are negative and significant predictors of satisfaction.

To return to the control variables, the coefficients of two of the four control variables retain their directions and significance across the models; namely, the growth of the market in which the joint venture operates and the age of the joint venture. The senior managers of the multinational are more satisfied with joint ventures operating in growing markets as well as with joint ventures that are older. The positive effect of profit, marginally significant in model 1, disappears with the inclusion of the two trustworthiness variables. The effect of similarity, on the other hand, changes to negative with the inclusion of the two trustworthiness variables. In unreported analyses, we found that the effect of similarity on satisfaction was fully mediated by the trustworthiness variables, singly or together.

It might be argued that in measuring the local parent's equity and share of employees in the venture, we are conflating possible signals and commitments with instruments of control and power. Thus, the negative effect we found might be due not to the higher level of expectations set by higher ratios of equity and employees invested by the local parent but rather due to higher levels of influence exerted through these channels, such that the multinational parent has a harder

time steering things its way and is therefore less satisfied. We checked whether this might have been the case by constructing and including two other variables in our analyses.

We first note that in only 11.5 percent of the cases did the local parent have a higher level equity than did the multinational parent, and on average the multinational parent's equity was 16.8 percent higher than that of the local parent. Still, we constructed a dummy variable that was 1 if the local parent had a higher level of equity than did the multinational parent and 0 otherwise. This dummy variable is correlated .59 ($p < .001$) with the *local parent's equity in the joint venture* measure. If we add this dummy variable to model 6, none of our results for the hypothesized effects change, while the dummy variable has a marginally significant ($p < .10$) positive effect. If we take out *local parent's equity in the joint venture* from model 6 and enter this dummy variable instead, the results for the remaining hypothesized variables remain the same while this dummy variable has a negative coefficient that is not at all significant (a *t*-test of .15, $p > .85$). Thus the dummy variable that indicates local parents which could exercise influence through their level of equity (which have a greater level of equity than does the multinational parent) has no effect at all on satisfaction. This, together with the result that adding this dummy variable to model 6 changes none of our results, leads us to conclude that it is not such "control" that leads to lower satisfaction but rather the expectations of commitment associated with higher levels of equity invested in the joint venture.

To see whether the local parent's share of employees might be driving down satisfaction not through higher levels of expectations but rather through mechanisms of control, we constructed a similar ratio for board of directors. This variable was the ratio of the local parent's directors on the board of directors of the joint venture. If the ratio of employees can be a means of control, ratio of directors on the board of directors should be an even more potent instrument

of control. Thus, if the negative effect of ratio of employees is due to such exercise of control, we should see a similar effect for the ratio of board of directors. This ratio, however, has a non-significant ($p > .40$) positive coefficient; whether we add it model 6 or we take out *the ratio of employees hired by the local parent* and substitute it instead. Thus here, too, it seems that the negative effect is due not to the local parent's exercising influence and making it more difficult for the multinational to do things it own way but rather to the higher levels of expectations of commitment set by the ratio of equity and employees invested by the local parent.

Our results confirm that the local parent's trustworthiness, measured at two levels of analysis and based on behavior in the on-going relationship, has a positive effect on satisfaction. On the other hand, pre-interaction signals of cooperation and commitments the local parent displays have a consistently *negative* effect on satisfaction with the relationship.

DISCUSSION

This paper investigates the role of a trustor's ex-ante expectations about a trustee's cooperative intent and commitment on the trustor's subsequent satisfaction. We argued that a trustor forms expectations about the cooperative intentions of her partner based on her prior experience with him and signals and commitments he displays at the beginning of the relationship. These expectations then impact the trustor's subsequent satisfaction such that higher levels of initial expectations lead to lower levels of satisfaction. Thus, a trustee eager to be selected among other candidates by displaying many and high levels of factors signaling commitment and cooperation may inadvertently set himself to do worse later. The statistical analysis on a primary data set of 113 international joint ventures confirm the negative effect of initial expectations as well as further validating the somewhat established positive effect of trustworthiness on satisfaction. As different from much prior research, we treated the trustee as

an active player in the development of trust in relationships. This underlines the fact that the dark side of trust might relate not only to whether a trustor is placing too much trust in a partner, but also to whether the trustee is setting too high expectations at the outset – resulting in subsequent dissatisfaction of the trustor. Further, in line with Zaheer, McEvily, and Perrone (1998), we employed both the inter-organizational and interpersonal levels of analysis and found that trustworthiness at both levels has a positive effect on satisfaction.

Our study has its limitations. We employed a survey to capture the respondents' assessments of the expectation generating signals, trustee's behavior throughout the relationship, and satisfaction with the relationship. To mitigate the problems of retrospective reconstruction and common methods bias we anchored the questions about the pre-interaction period (expectations) on objective pieces of information, e.g., equity, number of staff hired, and the existence of a prior relationship. The stability of the effects across the four models, in particular the non-straightforward and consistently negative effects of expectations – singly and together – may also alleviate worries about the extent of common methods bias. Nevertheless, the possibility of inflation of the observed relationships due to common methods bias, in particular between the two trustworthiness variables and satisfaction, remains. Also, cross-sectional studies cannot conclusively establish causality. For example, it is possible that respondents who were more satisfied with the operation and performance of a joint venture evaluated the other parent and its managers as being more trustworthy. On the other hand, though possible, we think it is highly unlikely that respondents who were less satisfied with the operation and performance of a joint venture would wrongly recall whether their company had had a previous relationship with the other parent or the other parent's equity or contribution of staff.

Most directly, our results suggest that even though appearing more trustworthy might help a trustee stand out during the selection process and may subsequently result in greater information sharing (Butler, 1999; Uzzi, 1997) and lower transaction costs (Barney & Hansen, 1994; Dyer & Chu, 2003), at the same time it may make it more difficult for the trustee to live up to these expectations the trustor had formed at the beginning of the relationship. This implies that the research on optimal trust (Wicks et. al., 1999) and more generally on both the positive and dark-sides of trust needs to incorporate the trustee as an equal and active party into their conceptions, counterbalancing the traditional focus on the trustor. Put another way, the problems associated with trust are not only a matter of a trustor's placing too much trust in her partner and facing greater risk of being exploited, for instance, but also a matter of a trustee's eliciting unduly high levels of expectations of trustworthiness, which are then more likely to be negatively disconfirmed and lead to lower levels of satisfaction in their partners. A trustor's satisfaction with the performance and operations of trust-based relationships are shaped both by ex-ante expectations and the actual behavior, trustworthiness, observed within the relationship.

An actor's satisfaction with a party, in turn, will have both direct and indirect effects for the future opportunities available to that party. Directly, an unsatisfied trustor is unlikely to initiate or accept future relationships of similar nature with the trustee, some of which might have been beneficial for the trustee. An indirect, but no less important, effect relates to the reputation of the trustee. The trustor may spread the word of her dissatisfaction within her network and share with others her disappointment with the trustee, thereby hampering the trustee's prospects of finding suitable future partners or being considered for lucrative partnerships (Granovetter, 1985; Raub & Weesie, 1990).

Another implication of our results is that as desirable as it is, it may be rather difficult to maintain a high-trust environment if the attempt to do so involves setting up an environment where actors' initial trust for, and thus expectations from, each other are high (Hardin, 2001). A trustee with a lot of trust placed in him has to consistently display a correspondingly high level of trustworthiness to maintain satisfaction, by meeting or exceeding the expectations, and trust within the relationship. A more robust strategy might be to start with *relatively* low, though certainly satisficing, levels of trustworthiness, leading to corresponding levels of expectations – which expectations, owing to their lower levels, would be more likely to be met or exceeded and keep the parties satisfied – and build up trust over repeated interactions that meet or exceed the trustors' expectations. Ambitious beginnings might be more fragile than auspicious.

Seemingly in contrast with our arguments and results is Robinson's (1996) finding that a breach of psychological contract leads to a lower decrease in employees' trust for their employer for employees whose initial level of trust is high. This suggests that relationships characterized by higher levels of initial trust may be more resilient than relationships with lower initial trust. To reconcile our findings with Robinson's we suggest the following testable proposition: While the effects of a breach may be less drastic for high-trust relationships, these same relationships, by the higher level of expectations they engender, might make it more likely for such breach to occur. Thus, an examination of the frequency and the gravity of (recognized or acknowledged) breaches would be helpful in putting these pieces of the puzzle together and providing a better understanding of how initial levels of trust relate to psychological contract breaches.

Our arguments and findings about the effects of pre-interaction signals of trustworthiness bring out another interesting point. While projecting a certain level of trustworthiness is doubtless crucial for one to make it through the selection process for any type of trust-based

relationship, such as joint ventures, that same high level of expected trustworthiness *then* makes it more difficult to ensure the other party's satisfaction with the relationship. We explored this mechanism with respect to initial signals of trustworthiness, i.e., expectations, and post-interaction satisfaction. The implication is that potential trustees should pay attention to the prospect of repeated partnerships. The more one can foresee participating as a player in a certain web of relationships over time, the more crucial it becomes to strike the right balance between projecting oneself as trustworthy enough to secure the deal but not so high as to make fulfilling the associated expectations, and keeping one's the other party satisfied, increasingly more difficult.

Finally, based on the amount of variance the four control variables explain and the consistently significant effects of profitability, age, and market growth, it is clear that future research on trust and trustworthiness should pay closer attention to performance. Apart from profitability, our results show that the growth of the market the joint venture operates in also plays a significant role on satisfaction with a relationship. We believe such measures of performance should be controlled for, perhaps to a greater extent than they have been, in studies of satisfaction and, particularly, of the effects of trust. Where available, researchers should collect performance and other capability data in addition to data on domain-specific ability required to do the job, which is already a dimension of trustworthiness. Gathering the data would allow researchers to gain greater insight into the effects of these more general performance and ability variables on trust as well as on variables such as risk-taking behavior or satisfaction. Most importantly, it would also allow them to see whether their findings on the effects of trust are robust to the inclusion of such general performance measures. This is important as we suspect

that performance and ability measures are likely to be positive predictors both of trust and most independent variables of interest in research on effects of trust.

CONCLUSION

In this study we used insights from Oliver's expectation disconfirmation paradigm (Oliver, 1980; Oliver et. al., 1994) to study the effects of pre-interaction expectations on satisfaction. Confirming both of our hypotheses, we found that the level of signals of cooperation and commitments the trustee displays prior to the relationship are negatively related to the trustor's subsequent satisfaction with the relationship, while the trustee's trustworthiness during the relationship is positively related to such satisfaction. We have drawn attention to (1) the importance of expectations in trust relationships and, particularly, to satisfaction with such relationships, (2) the active role of the trustee in trust-based relationships, and finally (3) how one can indeed have too much of good thing and, as is beginning to become more and more clear in light of recent research (e.g., Langfred, 2004; Szulanski et al., 2004), that we might need to curb our enthusiasm and present a more balanced perspective on the phenomenon of trust. Even though research is gaining momentum with respect to this final point, we are still in need of empirical studies focusing on the first two points to refine our knowledge of the nature of trust.

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APPENDIX

Items in Scales

For all items, the response options ranged from 1, "strongly disagree," to 7, "strongly agree."

The trustor's (multinational parent's) satisfaction with the operation and performance of the joint venture (α = .75).

What is your general evaluation of the workings of this joint venture?

(1) I am very satisfied with the level of cooperation in this joint venture, (2) I am very satisfied with the financial performance of this joint venture, (3) I am very satisfied with this joint venture's contribution to my parent company, (4) If asked for my opinion I would strongly recommend my parent company to consider the other parent for another joint venture.

The trustor's perceived trustworthiness of the managers employed by the local parent (α = .91).

Do you agree or disagree with the following statements about the manager(s) sent by the other parent and closely working with you in this joint venture?

(1) Their managers are the kind of people who keep their promises, (2) They would not intentionally neglect their responsibilities even when they are not observed, (3) The managers sent by the other parent are highly competent in the job they are supposed to do, (4) I find them top level managers by any standard, (5) They are the kind of people who would make extra efforts well beyond their own assigned duties, (6) They are the kind of people who would take time to help colleagues even when it is not part of their job, (7) They are the kind of people who would easily hurt others to serve their own interest (reverse coded), (8) They would easily change their standpoint when the situation shifts in their favour (reverse coded).

The trustor's perceived trustworthiness of the local parent (α = .86).

Do you agree or disagree with the following statements about the other parent?

(1) The other parent will stick to the promises they made in the contract even if it may cost them, (2) The other parent company may violate the contract if it were in their interest (reverse coded), (3) The other parent is a highly competent partner, (4) The other parent may not always be capable of performing its responsibilities in the partnership (reverse coded), (5) Even if it is not required by the contract, the other parent will readily make extra efforts to move the joint venture forward, (6) The other parent's commitment to the partnership goes far beyond what they promised in the contract, (7) If the situation changed to their benefit, they would readily demand changing the terms of the contract (reverse coded), (8) The other parent would be quite prepared to take advantage of a situation not covered in the contract, even if it could hurt our side (reverse coded).

Market growth.

What is your general evaluation of the market in which this joint venture operates?

Declining market	1	2	3	4	5	6	7	Growing market

Similarity of the parents (α = .87).

How similar are the two parents in the following aspects?

(1) Home country's culture, (2) Corporate culture, (3) Organizational structure, (4) Accounting practice, (5) Human resources practice, (6) Decision making processes.

TABLE 1

Means, Standard Deviations, Correlations, and Reliabilities [a]

Variables	Mean	s.d.	1	2	3	4	5	6	7	8	9	10
1. Satisfaction of the multinational	16.25	5.38	(.75)									
2. Trustworthiness of the managers employed by the local parent	37.60	9.60	.52	(.86)								
3. Trustworthiness of the local parent	33.97	9.44	.58	.64	(.91)							
4. The ratio of employees hired by the local parent	0.19	0.33	-.37	-.30	-.35							
5. Local parent's equity in the joint venture	0.42	0.16	-.10	.11	.12	-.01						
6. Prior experience with the local parent[b]	0.46	0.50	-.12	.17	.15	-.06	.08					
7. Market growth	5.14	1.29	.23	.15	.13	-.15	.12	.08				
8. Age of the joint venture	9.61	10.92	.30	.29	.30	-.20	.21	.03	-.08			
9. Average profit of the joint venture over the last three years	9.07	12.60	.18	.04	.10	-.04	.02	-.16	-.11	-.03		
10. Similarity of the parents	15.68	6.04	.28	.50	.55	-.29	.17	.12	.12	.31	-.06	(.87)

[a] $n = 113$, correlations greater than |.18| are significant at $p < .05$. Reliability coefficients, alpha, are in parentheses.

[b] Coded as 1 if there were similar prior arrangements between the parent organizations and 0 otherwise.

TABLE 2

Results of OLS Regressions Predicting Satisfaction of the Multinational [a]

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Trustworthiness of the managers employed by the local parent		.136 * (.071)	.130 * (.066)	.134 * (.071)	.151 * (.068)	.143 * (.063)
Trustworthiness of the local parent		.229 ** (.085)	.211 ** (.087)	.227 ** (.077)	.241 ** (.081)	.223 ** (.076)
Ratio of employees hired or sent by the local parent			-2.543 * (1.150)			-2.217 * (1.108)
Local parent's equity in the joint venture				-7.882 ** (2.723)		-7.074 ** (2.566)
Prior experience with the local parent					-2.350 ** (.747)	-2.198 ** (.697)
Market growth	1.063 ** (.353)	.765 * (.315)	.693 * (.306)	.900 ** (.310)	.786 ** (.294)	.843 ** (.278)
Age of the joint venture	.137 * (.055)	.084* (.038)	.076 * (.037)	.107 * (.043)	.080 * (.032)	.094 ** (.035)
Average profit of the joint venture over the last three years	.098 + (.051)	.064 (.053)	.061 (.055)	.068 (.053)	.047 (.049)	.050 (.051)
Similarity of the parents	.155 * (.077)	-.116 (.074)	-.130 + (.074)	-.093 (.068)	-.116 + (.066)	-.107 + (.061)
Constant	6.143 ** (1.912)	-.150 (1.938)	1.850 (2.063)	1.980 (2.266)	.032 (1.864)	3.674 (2.319)
R^2	.232	.442	.462	.493	.487	.547
F	9.52 ***	17.14 ***	15.07 ***	23.80 ***	21.74 ***	26.44 ***

[a] n = 113. Two-tailed tests for control variables and one-tailed tests for hypothesized effects. Robust standard errors, clustered for industry-country groups, are in parantheses. Compared to the nested models, all models provide an improvement in fit ($p < .05$) – except Model 3 ($p < .06$).

+ $p < .10$ * $p < .05$ ** $p < .01$ *** $p < .001$

Europe Campus
Boulevard de Constance,
77305 Fontainebleau Cedex, France
Tel: +33 (0)1 6072 40 00
Fax: +33 (0)1 60 74 00/01

Asia Campus
1 Ayer Rajah Avenue, Singapore 138676
Tel: +65 67 99 53 88
Fax: +65 67 99 53 99

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