

# Developing trust in vertical product development partnerships: A comparison of South Korea and Austria

Ludwig Bstieler<sup>a,1</sup>, Martin Hemmert<sup>b,\*</sup>

<sup>a</sup> *University of New Hampshire, Whittemore School of Business and Economics, Durham, NH 03824, USA*

<sup>b</sup> *Korea University, School of Business, Anam-dong, Sungbuk-gu, Seoul 136-701, Republic of Korea*

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## Abstract

We develop and test a model of factors proposed to influence the formation of trust in R&D partnerships in two different cultures. We suggest that specific relational behaviors (communication quality, fairness, and unresolved conflicts) impact trust formation and that national culture has a direct and a moderating effect on trust development. Results of a study of 100 vertical product development partnerships in South Korea and Austria show that communication quality and fairness have a positive effect and unresolved conflicts have a negative effect on the amount of trust developed. We also find a lower amount of trust developed in South Korean partnerships compared to partnerships conducted in Austria. In Austria, the positive effect of communication quality and the negative effect of unresolved conflicts on trust formation are stronger than in South Korea. Overall, the impact of the three relational factors is much stronger than the direct and moderating influence of national culture in the R&D partnerships studied, indicating that the relational elements of trust formation might be more universal than country specific.

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## 1. Introduction

In this article we examine trust-building mechanisms in vertical product development partnerships in two culturally different countries: South Korea (subsequently: Korea) and Austria. A vertical partnership is a project-based collaboration between a manufacturer and a customer or a supplier partner for the development of new products (Anderson & Narus, 1990). Considerable research has demonstrated the crucial role of trust in buyer–supplier relations (e.g., Anderson & Narus, 1990; Doney & Cannon, 1997; Dyer & Chu, 2000). With few exceptions, however, trust formation has not

been studied in vertical R&D partnerships and tested to see if its central role generalizes across cultures. In an age of globalization, such collaborations have become an important strategy element (Hagedoorn, 2002), reflecting a tendency of manufacturers to more closely involve supply chain partners into product innovation (Håkansson, 1990; Poe & Courter, 1993).

The significant challenges involved in making these partnerships work cause many to fail or break down prematurely and inflict financial damage on both partners (Dyer, Kale, & Singh, 2004). In collaborative new product development in particular, there is a need for a balance between protecting the proprietary interests of the firm and establishing trust with the partner company (Littler, Leverick, & Bruce, 1995). There is a mutual transfer of strategic information and sensitive technological knowledge between partners, but relatively weak incentives to prevent misappropriation (Das & Teng, 2001; Dutta & Weiss, 1997). As a

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\* Corresponding author. Tel.: +82 2 3290 2605; fax: +82 2 922 7220.

E-mail addresses: [ludwigb@christa.unh.edu](mailto:ludwigb@christa.unh.edu) (L. Bstieler), [mhemmert@korea.ac.kr](mailto:mhemmert@korea.ac.kr) (M. Hemmert).

<sup>1</sup> Tel.: +1 603 862 3306; fax: +1 603 862 3383.

result, vertical collaborative R&D brings with it positive aspects, but also a certain degree of vulnerability to exploitation. This vulnerability makes collaborative development more uncertain and risky than any other buyer–supplier relationship. Contracts usually do not cover every possibility and are unlikely to significantly reduce this vulnerability. Rather, it is the formation of appropriate trust between the partnering entities that will contribute to reducing this transactional uncertainty.

For the purpose of this study we adopt the widely accepted definition of trust as a psychological state comprising the intention to accept vulnerability based upon one party's positive expectations of the intentions or behavior of another party in situations that are interdependent or risky (Rousseau, Sitkin, Burt, & Camerer, 1998). Trust development is based on different processes, such as calculative, prediction, intentionality, capability, or transference (Doney, Cannon, & Mullen, 1998). All these processes imply a party's willingness to accept vulnerability based on the expectation that it can rely on the other party (Morgan & Hunt, 1994) to fulfill its obligation. Trust can reduce uncertainty and allow each partner to concentrate on fulfilling its actual task within the collaboration. Because of the people-oriented nature of partnerships, research on buyer–supplier relations suggests that the formation of inter-organizational trust is strongly determined by relational factors (Atuahene-Gima & Li, 2002; Dyer & Chu, 2003).

National culture likely will emerge as an important element in how trust is developed within such partnerships. Research on the effect of culture and the behavior of individuals or firms has focused on issues including leadership (House, Hanges, Javidan, Dorfman, & Gupta, 2004); attitudes towards cooperative strategies (Steensma, Marino, & Weaver, 2000); the timing of investment decisions (Li, Lam, & Qian, 2001); or the choice of entry mode (Kogut & Singh, 1988). Yet, the impact of national culture on inter-organizational trust formation in R&D partnerships largely remains unexplored.

National culture may directly determine the inclination to trust a partner. Because of cultural features, such as how individuals are socialized, the achievable level of trust in inter-organizational relations may vary between countries (Dyer & Chu, 2003; Fukuyama, 1995; Huff & Kelley, 2003). In addition, cultural differences may influence how inter-organizational trust processes evolve and support or harm those processes (Doney et al., 1998). This proposition, however, has not yet been empirically tested and appears to be an open area of research and analysis.

This study is an attempt to integrate research on inter-organizational trust formation and the role national culture plays in this process. We test a model of how certain relational elements, including communication quality, fairness, unresolved conflicts, and national culture affect the development of trust in two different cultures. We expect to contribute to the literature: (1) by assessing the relative importance of national culture as compared to relational factors for trust formation in R&D partnerships; (2) by examining the direct and moderating effects of national culture on trust; (3) by contrasting how trust evolves in European and East Asian new product development partnerships.

## 2. Theory and hypotheses

We argue that trust formation in R&D partnerships depends on certain relational behaviors that foster or impede the creation of an engaging environment within which the partnership can succeed. As will be explained presently, two constructs that are expected to promote trust formation – communication quality and fairness – and one construct that is expected to have a detrimental effect on trust development between partners – unresolved conflicts – were selected for inclusion because prior work suggests that these play a central role regarding trust formation in such inter-organizational arrangements (e.g., Mohr & Spekman, 1994; Morgan & Hunt, 1994). Additionally, we propose that national culture has a direct and moderating influence on trust formation.

### 2.1. Mechanisms of inter-organizational trust development

Instant trust rarely will be achieved in any relationship when the other party is not well known. Rather, information needs to be accumulated and exchanged regarding the other partner's objectives, expectations, or intentions. The time and resources required for this process to occur can be conceptualized as transaction cost (Williamson, 1993) or as an investment in social capital (Adler & Kwon, 2002).

Communication in a partnership can be defined as the formal as well as informal sharing of meaningful and timely information between firms (Anderson & Narus, 1990). Research on inter-organizational relations has emphasized the importance of a quality communication to resolve disputes, align perceptions and expectations, and get the job done efficiently (Morgan & Hunt, 1994). More specifically, a quality communication, characterized by a timely, accurate,

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