



The contract, accounting and trust: A case study of an international joint venture (IJV) in the United Arab Emirates (UAE)

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ABSTRACT

This paper reports on the results of a case study that examines the effect of the contract and accounting on inter-organisational trust in an international joint venture (IJV). The empirical setting of the research was an IJV relation between a United Arab Emirates (UAE) firm and its western partner. Data were gathered from multiple sources, including documents, observations, interviews and discussions with managers. The paper aims to explore the process of trust development and the role of the contract and accounting in this. We find that trust developed differently for the partners. Moreover the trust concerns of the partners were not the same. Based on this we conclude that trust was not automatically reciprocated. Instead it needs relating to other items such as the contract, accounting and also the institutional environment. The open-book accounting we observed could only be termed 'partial' because the western partner had access to the local partner's books but not the vice versa. But this partial open-book accounting created conflicts between the partners. We argue that developing one kind of trust through one particular medium may help one party but may damage the relationship between the partners.

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1. Introduction

This paper empirically examines the pattern and process through which an international joint venture (IJV) relationship was organised and managed. The aim of the analysis is to further our understanding of the process of trust development in inter-organisational relations. International joint ventures (IJVs) which typically involve autonomous firms collaborating towards some common objective are becoming increasingly prominent due to the globalisation of business and competition (Gummesson, 1995; Harbison & Pekar, 1997; Ritter & Gemunden, 2003). In less developed countries (LDCs), IJVs provide partners with access to new technology, expertise and capital while offering those in the developed world access to markets, raw materials and cheap labour (Chen & Chen, 2002; Dussauge & Garrette, 1999; Mohr & Puck, 2005).

In spite of these benefits, the failure rates of IJVs and other forms of international alliances have been considerable as has been widely documented (Fryxell, Dooley, & Vryza, 2002; Groot & Merchant, 2000; Perks & Sanderson, 2000; Southworth, 1995). This high failure rate has led to an increase in interest in understanding the managerial problems of these types of business relations (Bachmann, 2001; Berrell, Gloet, & Wright, 2002; Groot & Merchant, 2000; Kamminga & Van der Meer-Kooistra, 2007). The problems are compounded under IJV relations between developed countries and LDCs (Chalos & O'Connor, 2004; Perks & Sanderson, 2000). Park, Gowan, and Hwang (2002) for instance suggest that the majority of

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IJVs located in LDCs fail because of social rather than technical or financial factors. Furthermore, Warner (2003) concludes that the risks to doing business in LDCs are not only commercial but also social; with the issue of trust or mistrust being particularly important (Doney, Cannon, & Mullen, 1998). However this is likely to create a particular challenge for partners from developed countries who enter into collaborations with partners from LDCs since they have to understand and accept the fact that business decisions are highly likely to be conducted on the basis of social and personal relations, i.e. trust (Cyr, 1997).

The above argument suggests that the environment is important for managing the IJV relations. For example, Wicks and Berman (2004) argue that the environment affects how a particular level of trust is created and Beamish (1993) and Yan and Gray (2001) note that IJV controls may vary between developed countries and LDCs. It is possible for local partners in LDCs to rely significantly on trust because of the dominance of social factors in business relations in these environments. But the same cannot necessarily be said of partners from developed countries, especially from the West who are likely to want to conduct business on a more formal basis (see for instance, Cyr, 1997). In this case it is probable that the western partners would want to place more emphasis on formal mechanisms such as accounting and the contract¹ than social relations in managing the business relations.

Apart from the practical problem of managing these types of business relations identified above, there is also a theoretical issue that is worth considering. The literature has generally treated trust as reciprocal based on the assumption that, it is mutual and should develop for the sets of partners at the same time and in the same direction (Das & Teng, 1998; Nooteboom, 1996; Sako, 1991). An increase in trust by one partner for example, will lead to an increase in trust by the other partner and vice versa. But this argument can be questioned if the role of trust in managing the relationship is perceived differently by the partners. Trust development is also shaped by other factors such as accounting (Emsley & Kidon, 2007; Free, 2008) and the contract (Luo, 2002) and since the parties are likely to place different emphasis on these mechanisms, it implies that their effect on the development of trust is likely to be different depending on which partner you talk to. So in effect trust could develop differently for the partners. Unfortunately the majority of the previous studies on the subject of trust in IJVs tended to focus on the views of only one partner and therefore this issue has not been fully explored. There is the need for research that examines the perspectives of both sets of partners.

This study investigates how trust is developed in an IJV located in the UAE in which a western and a local UAE partner collaborate by focusing on the perspectives of both sets of partners. The context of the study is very interesting because it has been suggested that “personal relationships are very important in UAE and local businessmen and government officials prefer to deal with someone they know and trust” (Zoubir, 1999, p. 226). Trust forms the basis of most business dealings and is important in decision making in business networks in the country (El-Said & McDonald, 2001; Hutchings & Weir, 2006). Grant et al. (2007, p. 513) conclude that in the UAE “the ‘who you know’ practices can take precedence over established laws and regulations”. It would be interesting to see how business relations are managed between western and UAE partners in this context.

The paper sets out to address the following main research questions:

1. How did the different sets of partners perceive the role of trust in the IJV relationship?
2. How did trust develop for the different sets of partners and how was this influenced by the contract and accounting?²

We believe answers to these questions will contribute to our understanding of the process of trust development in IJVs located in LDCs in which partners from developed countries collaborate with partners from LDCs. The remainder of the paper is structured as follows. The next section presents the literature review and theory development. The research methods, including a brief background of the companies, are then presented. The case results incorporating discussions are presented in the section after this. The final section provides some concluding comments.

2. Literature and theory development

2.1. Trust and its dimensions

Trust has remained an elusive and difficult concept to define (Mayer, Davis, & Schoorman, 1995; Nooteboom, 1996), with some researchers suggesting that there is no consensus on what trust is (Seal & Vincent-Jones, 1997). Blomqvist (1997) explores this issue in a paper entitled “The Many Faces of Trust” which reflected the enormity of the problem. Nevertheless in order to explore the effect trust may have on IJV relations there is a need, at the very least, for some conceptualisation of trust. In this paper we draw on the work of Sako (1992) to provide this conceptualisation. Sako (1992) identified three main types of trusts, namely contractual trust, competence trust, and goodwill trust.³

¹ Accounting and the contract represent the main formal mechanisms in inter-firm relations (see for instance, Tomkins, 2001; Luo, 2002).

² By accounting we mean accounting and control practices. However for the purpose of simplicity we use the term accounting throughout the paper.

³ Though trust has also been classified into process, character and institution based (Zucker, 1986; Neu, 1991a, 1991b; Seal and Vincent-Jones, 1997) we adopt Sako's (1992) classification, as it fits in with the dimensions of trust that emerged from our empirical analysis. For example, as will be discussed later in the paper, the foreign partner's main concern was whether the local partner was going to honour the JV contract, while the local partner's main concern

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