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Effects of cultural ethnicity, firm size, and firm age on senior executives' trust in their overseas business partners: Evidence from China

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Abstract
We investigate trust relationships between senior business executives and their overseas partners. Drawing on the similarity-attraction paradigm, social categorization theory, and the distinction between cognition- and affect-based trust, we argue that executives trust their overseas partners differently, depending on the partners' cultural ethnicity. In a field survey of 108 Chinese senior executives, we found that these executives have higher affect-based trust in overseas partners of the same cultural ethnicity as themselves; cognition-based trust is associated with affect-based trust differently when overseas partners are of the same or different cultural ethnicity. We also examine the role of relative firm size and age in shaping intra- and intercultural trust. Relative firm size has a stronger negative effect on executives' cognition-based trust if their partners are of a different cultural ethnicity. Although firm age does not have a negative effect on executives' affect-based trust as hypothesized, we found firm age to be positively associated with affect-based trust for partners of the same cultural ethnicity. We discuss theoretical and practical implications of this pattern of inter- and intra-cultural trust on international business and networking (*guanxi*) dynamics in China.
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INTRODUCTION

Trust is an indispensable ingredient in effective business relationships. Defined as a confidence in the other party that entails, among various aspects, a willingness to be vulnerable toward others despite an uncertainty regarding their motives, intentions, and prospective actions (Chua, Ingram, & Morris, 2008; Dyer & Chu, 2000; Kramer, 1999; Mayer, Davis, & Schoorman, 1995), trust in business relationships has been shown to promote greater cooperation and richer information exchange, thus increasing the effectiveness of organizational activities such as resource acquisition and value creation (Aulakh, Kotabe, & Sahay, 1996; De Wever, Martens, & Vandenbempt, 2005; Dyer & Chu, 2000). Interpersonal trust between executives is especially critical across national borders, because the partners in these relationships rarely share norms and assumptions about how business works (Lane, 1997; Zaheer & Zaheer, 2006). Many cross-border business collaborations

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have faltered because of the parties' inability to build trusting relationships (Parkhe, 1998).

Despite the pivotal role of trust in cross-border business relationships, research is scarce on how trust develops between senior business executives and their overseas partners, who play a variety of important roles, ranging from suppliers and customers to collaborators on joint business ventures (Morgan & Hunt, 1994). Organizational scholars have examined interpersonal trust across cultural contexts, but their focus has been on comparing patterns of trust within cultures, and not on how members of different cultures trust each other (Chua, Morris, & Ingram, 2009; Doney, Cannon, & Mullen, 1998; Dyer & Chu, 2003; Huff & Kelley, 2003; Yuki, Maddux, Brewer, & Takemura, 2005). This research gap is complicated by the blurring of cultural and national borders in the wake of recent rapid globalization and massive human migration (Berry, 2008). Thus one's overseas business partners may or may not share the same cultural background as oneself.

This research addresses the research gap by examining the impact of cultural similarity on senior executives' trust in their overseas partners. We invoke two distinct but related theories that have been found to strongly influence interpersonal interactions, communication, and performance evaluation between social groups (e.g., Abrams & Hogg, 2004; Jackson et al., 1991; Tsui & O'Reilly, 1989): similarity-attraction theory (Byrne, 1971) and social categorization theory (Tajfel, 1981; Turner, 1987). The effect of demographic similarity, or social homophily, on interpersonal attraction and affect is one of the most robustly documented findings in the social sciences (Lott & Lott, 1964; MacDuffie, 2011; McPherson, Smith-Lovin, & Cook, 2001; Segal, 1974). Similarity-attraction theory posits that demographic similarity between two individuals (e.g., in age, gender, and culture) increases interpersonal attraction and liking (Byrne, 1971), because people with similar demographic backgrounds are more likely to positively reinforce each other's beliefs and attitudes (Byrne, 1971; Curtis & Miller, 1986; Gold, Ryckman, & Mosley, 1984; Jackson, Stone, & Alvarez, 1993). In the context of cross-border trust relationships, similarity-attraction theory implies that senior executives will find it easier to build rapport, and thus trust, with culturally similar overseas partners because of shared cultural understanding, references, and norms.

Cultural similarity does not merely elicit interpersonal attraction; it also serves as a cue for social categorization (Tajfel, 1981; Turner, 1987). According to social categorization theory, people sort themselves and others into social categories using cues that are salient to them, including cultural ethnicity, occupation, and religion (Tajfel, 1972; Tajfel & Turner, 1986). The categorization of self and others into "in-group" and "out-group" invokes various forms of bias, such as perceiving out-group members as less competent, trustworthy, and cooperative than in-group members (Brewer, 1979; Tajfel, 1982). This study focuses on social categorization based on cultural ethnicity. Cultural ethnicity is not only highly salient (manifested by outward appearances and language use); it also influences social interactions that in turn shape basic patterns of cooperation and reciprocity, and ultimately people's trust in each other (Putnam, 2000). Thus we expect that senior executives will be influenced by these biases when evaluating the competence and cooperativeness of culturally similar overseas partners.

In examining senior executives' trust in their overseas business partners as a function of the partners' cultural ethnicity, we differentiate between cognition- and affect-based trust (McAllister, 1995). Cognition-based trust is founded on one's judgment of another person's technical competency and reliability; affect-based trust is grounded in one's care and concern for the other party's welfare and interests, and in the belief that these caring sentiments will be reciprocated (McAllister, 1995; Rempel, Holmes, & Zanna, 1985). This distinction is consistent with basic social-psychological research demonstrating that competence and warmth are key dimensions for determining intergroup behavior (Cuddy, Fiske, & Glick, 2007). Because recent research on trust relations in the workplace has found that patterns of cognition- and affect-based trust vary across cultural lines (e.g., Chua et al., 2009), the distinction between the two types of trust is crucial to a more nuanced examination of cross-border trust relationships. We use both similarity-attraction theory and social categorization theory to hypothesize about how cognition- and affect-based trust arise between culturally similar or dissimilar business partners.

We also draw on organizational theory to investigate how patterns of intra- and intercultural trust between individuals vary as a function of firm-level characteristics. Prior research in organizational theory has found that organizational characteristics such as firm size and firm age contribute to shaping managerial cognition and decision-making

(Evans, 1987; Freeman, Carroll, & Hannan, 1983; Haveman, 1993; Kimberly, 1976; Mintzberg, 1973; Shinkle & Kriauciunas, 2010; Sutcliffe & Huber, 1998). Although firm size and age have been studied extensively, little empirical research has examined how they influence the psychological processes that shape executives' trust in their business partners. By investigating how such organizational characteristics influence interpersonal trust, we seek to demonstrate that trust between business partners is influenced not solely by interpersonal considerations, but also by organizational-level contextual factors (Currall & Inkpen, 2002).

Our study makes three important contributions to understanding trust in cross-border business relationships. First, by integrating similarity-attraction theory and social categorization theory to differentiate between cognition- and affect-based trust, we clarify the psychological foundations of executives' trust in overseas partners of the same or different cultural ethnicity. Our study thus improves current understanding of cross-border intra- and intercultural trust. Second, our investigation of how trust varies with firm size and age adds empirical evidence that macro-level organizational factors influence the micro-level social exchange processes of senior executives. Third, our research has practical implications for companies with overseas partners by helping them to comprehend better the nature of, and impediments to, trust relationships.

We test our hypotheses by means of a survey of 108 senior executives in mainland China whose companies have business relationships with overseas partners of either the same or different cultural ethnicity (i.e., Chinese and non-Chinese). China is an especially apt field context, because of the large population of overseas Chinese (Chinese residing mainly in Hong Kong, Taiwan, and southeast Asia number around 60 million), which allows us to draw on a substantive population of overseas partners who share the cultural ethnicity of mainland Chinese businesspeople.[1] Meanwhile, non-Chinese corporations from the United States, the European Union, and Japan have invested heavily in China in recent years. These unique circumstances create an appropriate platform for studying cross-border intra- and intercultural trust; overseas partners of mainland Chinese executives may or may not differ from them in terms of cultural ethnicity.

THEORY DEVELOPMENT AND HYPOTHESES

Like any inter-organizational business relationship, cross-border business relationships involve a significant degree of mutual dependence. Partners in joint ventures share resources such as knowledge, technology, and production capabilities (Gulati & Singh, 1998). Suppliers depend on their partners to generate business; these partners in turn rely on their suppliers to provide components for timely production of goods. Such mutual dependencies create significant challenges in coordination, which are exacerbated by the fact that executives of firms residing in different countries (or geographical regions) often hold different mental models and assumptions about business operations and collaborations (Keller & Loewenstein, 2011). Differences in cultural background and values further complicate matters, because unfamiliarity with the other's culture increases the perception of uncertainty. Prior organizational research has consistently identified trust as a key solution to inter-organizational coordination problems (Gulati & Singh, 1998; Gulati & Sytch, 2007; Krishnan & Martin, 2006, Thompson, 1967). In this research we extend this line of theorizing, focusing on interpersonal trust between senior executives of firms and their overseas counterparts. We contend that patterns of trust vary, depending on cultural similarities between the partners, as well as on firm characteristics such as firm size and age.

Affect- and Cognition-based Trust in Overseas Partners

Much organizational and psychological research supports the argument that similarities between individuals promote interpersonal attraction and liking, thus enhancing relationships (Jackson, Brett, Sessa, Cooper, Julin, & Peyronnin, 1991; O'Reilly, Caldwell, & Barnett, 1989; Tsui & O'Reilly, 1989). For instance, Vecchio and Bullis (2001) found that subordinates experienced greater satisfaction with supervisors when they were similar in gender, race, or ethnicity. Similarly, Tsui and O'Reilly (1989) reported that demographic similarities had positive effects on affective ties between supervisors and their subordinates; demographic differences resulted in lower levels of attraction and less favorable evaluations of subordinates by managers.

In this research we argue that, when two individuals share a cultural background, there will invariably be common ground in the form of values, beliefs, and norms, even though research has demonstrated within-culture variances (Matsumoto, 2006; Oyserman, Coon, & Kemmelmeier, 2002; Schwartz & Bardi, 2001). Common ground promotes interpersonal understanding and attraction, which in turn elicit care and concern for the other party's well-being; thus individuals are more likely to develop affective bonds with partners of the same cultural ethnicity. In other words, the psychological and social processes associated with intra-cultural attraction enhance individuals' propensity to establish socio-emotional ties with others, to bestow trust on them, and to engage in trusting behavior themselves (Kramer, Brewer, & Hanna, 1995). Conversely, research has shown that intercultural anxiety inhibits the development of strong affective relationships (Stephan, Helms, & Haynes, 1995; Stephan & Stephan, 1985). Hence we hypothesize that among overseas business partners from diverse cultural backgrounds, executives will develop higher affect-based trust in those of the same cultural ethnicity as themselves.

Hypothesis 1: Cultural similarity influences trust development in cross-border business relationships, such that executives develop higher affect-based trust in their overseas partners who are of the same (as opposed to different) cultural ethnicity as themselves.

What about the effects of cultural similarity on cognition-based trust? Similarity-attraction theory is silent about the effect of demographic similarity on competence judgments *per se*, but social categorization theory offers some insight. Specifically, in-group bias may manifest itself in evaluations of competence and ability that could influence cognition-based trust.[2] This effect is dependent on the relative status of the group: social categorization research has shown that high-status groups, but not low-status groups, tend to exhibit a bias in favor of their in-groups when evaluating others' competence (Mullen, Brown, & Smith, 1992; Tajfel & Turner, 1979). Because of these moderating factors, we do not expect cultural ethnicity differences to have a direct effect on executives' cognition-based trust in their overseas partners.

Nevertheless, McAllister (1995) suggested that cognition-based trust serves as a foundation for affect-based trust, in that some level of the former is necessary before the latter can develop: an individual needs to assure him- or herself that the other party is reliable before making a socio-emotional investment in him or her. Given that cognition-based trust is founded on the predictability of others' behavior, dependability, and fairness (Rempel et al., 1985), a perception of high competence in an overseas business partner will reduce anxiety and uncertainty in transactions with him or her, promoting collaborations (Tschannen-Moran & Hoy, 2000). Furthermore, people's cognitive processes influence their judgments and inferences. When they perceive a business partner to be competent, other attributes of that individual, about which they might know little, are also interpreted as favorable owing to the "halo effect", the tendency to evaluate a particular attribute of an object in light of one's general impression of that object (Crane, 1965; Perrow, 1961). Thus, when executives perceive their overseas partners to exhibit high competence and reliability (i.e., cognition-based trust), this positive evaluation is likely to promote a belief in the intrinsic value of the relationship, in turn enhancing affect-based trust. Conversely, affect-based trust might exert positive effects on cognition-based trust, because a perception of the other's competence and skill is likely to be influenced by positive interpersonal affect and emotions. Indeed, Chua et al. (2009) have shown empirically that managers' affect-based trust has positive effects on cognition-based trust, and vice versa. Overall, prior theory and evidence suggest that the relationship between the two types of trust between business partners is likely to be reciprocal and positive in nature.

Hypothesis 2a: There is a positive association between executives' cognition- and affect-based trust in their overseas partners.

Although executives' cognition-based trust in overseas partners is likely to be positively associated with affect-based trust,[3] it may be more difficult for them to develop such affect-based trust in partners of different cultural ethnicity, because greater cultural dissimilarities are associated with less positive interpersonal attitudes, less frequent communication, and weaker affective bonds (McPherson & Smith-Lovin, 1987; O'Reilly, Snyder, & Boothe, 1993; Riordan & Shore, 1997). Differences in cultural ethnicity reduce executives' emotional attachment to and involvement with partners in affective exchanges. Consequently, executives are less likely to depend on overseas partners of different cultural ethnicity for socio-emotional support. Cultural differences also weaken any positive effect that affect-based trust exerts on cognition-based trust in business partnerships. Because executives have greater difficulty developing affect-based trust in overseas partners of different cultural ethnicity, the resulting lower level of affect-based trust is not likely to boost perceptions of the other party's competence and reliability greatly. In sum, we expect the co-occurrence of the two types of trust to be stronger among partners of the same cultural ethnicity.

Hypothesis 2b: The positive association between executives' cognition- and affect-based trust in their overseas partners is stronger for partners of the same cultural ethnicity than for those of different cultural ethnicity.

It is important to emphasize that this hypothesis differs from a premise put forth by Chua et al. (2009). That study compared patterns of cognition- and affect-based trust within two cultures, Chinese and American; the present study examines intra- and intercultural trust in interactions with overseas partners from diverse cultural backgrounds.

Effects of Firm Size and Age

Trust in cross-border business relationships is influenced not only by intercultural dynamics but also by organization-level characteristics. Prior research in organization theory has found that an organization's characteristics can influence its environment, strategy, and structure (Aldrich & Auster, 1986). Owing to differences in organizations' configurations and processes, executives in different organizations perceive the same environment in different ways (Hodgkinson & Johnson, 1994). Prior studies support the view that organizational characteristics affect executives' strategic decision-making processes (Mintzberg, 1973), inhibiting or enhancing managerial discretion (Finkelstein & Hambrick, 1990). In particular, firm size and age have been found to be especially important factors in shaping managerial cognition and decision-making (Evans, 1987; Freeman et al., 1983; Haveman, 1993; Kimberly, 1976; Shinkle & Kriauciunas, 2010). Large firms typically wield greater bargaining power (Luo, 2000), and therefore enjoy numerous advantages inaccessible to small firms (Peng & Heath, 1996). Hence executives in large firms may feel more powerful and of higher status than those in small firms. Firm age, on the other hand, reflects organizational legitimacy and institutional relationships (Park & Luo, 2001). Older firms are more entrenched in traditions and routines than younger ones, influencing executives' beliefs and attitudes toward change and novel situations (Fichman & Levinthal, 1991; Henderson, 1999).

These two variables have been studied extensively in organizational research (e.g., Dobrev & Carroll, 2003; Evans, 1987; Fredrickson & Iaquinto, 1989; Kimberly, 1976; Park & Luo, 2001; Shinkle & Kriauciunas, 2010; Sutcliffe & Huber, 1998), but we know little about how they influence micro-level psychological processes. Since organizational characteristics affect senior-level executives' perceptions of the external environment (Sutcliffe & Huber, 1998) and strategic decision-making process (Fredrickson & Iaquinto, 1989; Mintzberg, 1973; Papadakis, Lioukas, & Chambers, 1998), we argue that executives' cognition and attitudes toward business partners will be shaped by firm characteristics among other factors.[4]

Firm size and trust in overseas partners

Firm size has been considered an indicator of scale economies and market power, because larger firms have greater access to financial resources, knowledge, and general slacks, thus providing them with deep pockets for investment, and allowing them to absorb financial losses better than smaller firms (Park & Luo, 2001; Xin & Pearce, 1996). Consequently, larger firms are less sensitive to market uncertainty (Chandprapalert, 2000; Trevino & Grosse, 2002). Owing to their abundant resources and strong market position, larger firms enjoy more bargaining power with their business partners, and are thus better able to structure deals to their advantage (Pfeffer & Salancik, 1978). Smaller firms, by contrast, are more likely to be affected by fluctuations in the business environment (Beck, Demirguc-Kunt, & Maksimovic, 2005). Because small firms have less negotiating power with larger external partners (Xin & Pearce, 1996), they are especially preoccupied with establishing trusting relationships with their partners to avoid potential losses. Put differently, executives of smaller firms experience more vulnerability, and hence are more inclined to develop cognition-based in their partners. Conversely, we expect that the larger a firm (relative to its partner firm), the less motivated its senior executives will be to pursue a high level of cognition-based trust in their smaller overseas business partners. Executives of large firms experience less need to validate their foreign partners' reliability and competence, because any risks involved in the business relationship can be compensated via successful transactions with other organizations (Nooteboom, 1993). This is not to say that executives of large firms do not establish cognition-based trust in their partners. A certain level of cognition-based trust is a precondition for any business transaction to occur, but the degree of cognition-based trust built depends on relative differences in firm size. This argument is consistent with Gulati and Sytch's (2007) thesis that dependence asymmetries between firms influence the quality of their inter-organizational relationships.

The negative effect of relative firm size on senior executives' cognition-based trust in their overseas partners is likely to be stronger for partners of different cultural ethnicity. Because of salient cultural differences, senior executives may categorize themselves and their overseas partners into in- and out-groups. An outcome of such categorization is a perception of out-group members as less competent and cooperative than in-group members (Brewer, 1979; Tajfel, 1982). Specifically, when executives see themselves as enjoying power and status, they are likely to consider less powerful out-group members as even less competent. This effect is consistent with the finding that an in-group bias in the evaluation of competence and ability occurs largely for high-status groups but not for low-status groups (Mullen et al., 1992; Tajfel & Turner, 1979). Based on their social identification, high-status group members tend to differentiate themselves positively from out-group members (Turner, 1999), and to evaluate the latter as less competent than in-group members. Another way to think about this effect is from the reference point of smaller firms. Smaller firms have lower power and status, and are hence more vulnerable to the actions of the larger, more capable overseas partner firms. When the executives of these partner firms are of a different culture, and are therefore categorized as out-group members, the experience of vulnerability will be heightened because of even greater uncertainty regarding their intentions. In sum, we expect that the negative relationship between relative firm size and executives' cognition-based trust in their overseas partners will be stronger for partners of different cultural ethnicity.

Hypothesis 3a: Firm size influences trust development in cross-border business relationships such that the larger the firm relative to its partner firm, the less cognition-based trust its executives will place in their overseas partners.

Hypothesis 3b: The negative relationship between a firm's relative size and its executives' cognition-based trust in overseas partners is stronger for partners of different cultural ethnicity, as opposed to those of the same cultural ethnicity.

We have not developed a hypothesis on the relationship between relative firm size and affect-based trust, because the precise effect of power and status on socio-emotional relationships is still unclear. On the one hand, status and power can increase social distance between individuals, because powerful people tend to be uninhibited in their social behavior, and to see others as means to ends (Keltner, Gruenfeld, & Anderson, 2003), characteristics that are not conducive to affective bonds. On the other hand, power can also elicit positive affect and emotions in the person wielding it (Keltner et al., 2003), which can in turn have positive effects on interpersonal interactions. We will explore the interaction effect between relative firm size and partner type on affect-based trust in our empirical analyses.

Firm age and trust in overseas partners

Firm age is an important determinant of firms' legitimacy and routines, influencing executives' beliefs and attitudes toward change and novel situations (Hannan & Carroll, 1995; Luo, 2000; Sørensen & Stuart, 2000). Because firms' histories influence their senior executives' socialization, executives from older firms may perceive their overseas business partners' intentions, abilities, and expected behaviors differently than executives from younger firms; such differences in social knowledge in turn influence relationship building and thus trust (e.g., Jablin, 1987; Van Maanen, 1976; Van Maanen & Schein, 1979).

Organizational ecology research has long argued that the older the firm, the greater the inertia it experiences (Hannan & Carroll, 1995). Operating procedures and tasks in older organizations are likely to be so highly routinized, structured, and infused with specific values that existing approaches to getting work done are often adhered to on grounds of tradition. Senior executives of older organizations are likely to have been socialized in routinized approaches to conducting business, and hence to have developed certain schemata (simplified cognitive maps) to make sense of the environment (Hannan & Carroll, 1995). Pre-existing schemata molded by prior practices and knowledge may work well in familiar local contexts, but may not be well suited to dealing with partners from foreign countries. Also, executives with deeply ingrained routines and schemata may be resistant to novel and potentially uncomfortable situations, such as socializing with business partners from unfamiliar cultural-political contexts, because doing so requires confronting fundamental differences in values and assumptions (Louis, 1980). Hence we expect that executives in older firms will be less effective at developing socio-emotional bonds, and thus affect-based trust, with their overseas partners. Executives of younger organizations also have to deal with unfamiliar cultural norms and values when interacting with foreign business partners, but they should be comparatively more motivated to do so by their need to build effective network ties in order to overcome the liability of newness (Stinchcombe, 1965).

We further argue that the difficulty of building affect-based trust with overseas partners is accentuated for senior executives at older firms when these partners are of different cultural ethnicity. Similarities in personal interests, attitudes, and values, as encapsulated in cultural similarity, are the primary basis for interpersonal attraction (Byrne, 1971). Similarities in cultural background also reduce uncertainties during interpersonal exchanges and make others' behaviors more predictable, thus inspiring trust (Casson & Godley, 2000). Conversely, cultural dissimilarity is associated with differences in beliefs and values, resulting in less frequent communication, less positive attitudes (O'Reilly et al., 1993; Riordan & Shore, 1997), intercultural anxiety, and increased barriers to information-sharing and cooperation (Moreland, 1985; Stephan & Stephan, 1985). These phenomena make it more difficult to find solid ground on which to develop emotional bonds (Child, 1998). Hence we expect that cultural differences will exert greater negative influence on executives' development of affective bonds with culturally dissimilar partners than with culturally similar partners.

Hypothesis 4a: Firm age influences trust development in cross-border business relationships such that the older the firm, the less affect-based trust its executives place in overseas partners.

Hypothesis 4b: The negative relationship between a firm's age and its executives' affect-based trust in overseas partners is stronger for partners of different cultural ethnicity than for those of the same cultural ethnicity.

Does firm age influence executives' cognition-based trust in their overseas counterparts? Older firms typically possess strong network ties with important industry institutions (regulators, suppliers, and the like), giving them access to vital information and resources (Shinkle & Kriauciunas, 2010; Stinchcombe, 1965). Hence older firms may have less need for deep cognition-based trust with overseas partners. At the same time, older firms are slower at learning and adopting new practices, technologies, and innovation, owing to organizational inertia (Sørensen & Stuart, 2000). They might therefore rely more on overseas partners for new expertise and competitive advantages that they do not yet possess. Given that firm age can potentially influence organizational capability in different directions, we do not make a specific prediction about the effect of firm age on cognition-based trust in overseas partners.

METHODS

Research Setting, Participants, and Procedures

We collected data from Chinese companies that had business relationships with partners of both the same and different cultural ethnicity (i.e., Chinese and non-Chinese).

We identified sample firms from the *China Basic Statistical Units Yearbook* (National Bureau of Statistics of China, 2006), which lists registered business enterprises in China. With the help of the China Ministry of Commerce and the State-Owned Assets Supervision and Administration Committee, the highest-level legislative body governing Chinese firms, we further identified Chinese firms that had partnership experiences with both overseas Chinese and non-Chinese companies between 2004 and 2006. We developed our questionnaire in English, translated it into Chinese, and then back-translated it to ensure clarity (Brislin, 1970).

We collected data in two stages. First, we sent an introductory participation-request letter and summary of the proposed research to a random sample of 500 firms located in the 12 economically developed provinces along the east coast of China, where the majority of the country's FDI originates. Initially 145 senior executives agreed to participate; we collected data in two rounds of on-site interviews with 121 Chinese executives, none from the same firm. We then scheduled interviews with senior executives (presidents/CEOs/COOs/VPs)[5] responsible for their firms' strategic development, and with those intimately familiar with their firms' relationships with overseas partners.

We asked each respondent to name two senior executives at overseas partner firms; one of the named executives was to be of Chinese ethnicity and the other of non-Chinese ethnicity. The overseas partners selected could be either customers, suppliers, or joint business collaborators that had helped their company generate the largest sales in the three years prior to data collection in 2006. Senior executives reported that they typically communicate with these overseas partners on a monthly and sometimes even weekly basis. During the 1- to 2-hour on-site interviews, executives completed questionnaires containing key measures for our study. Of the 121 questionnaires, 108 were usable, resulting in 216 responses about Chinese executives' relationships with overseas Chinese and non-Chinese partners respectively. The main industries represented were consumer products (32%), manufacturing (31%), medicine/pharmaceutical (16%), and information technology (14%). Types of firm ownership included publicly listed (53%), privately owned (18%), joint venture (23%), and state- and collectively owned companies (6%).[6]

To control for non-response bias, we randomly selected 500 Chinese firms from the databases provided by the China Ministry of Commerce and the State-Owned Assets Supervision and Administration Committee, and used an unpaired *t*-test to examine the mean difference between responding firms and obtained-sample firms on key firm characteristics (duration of operations and financial performance); no significant differences were found. Further, we ran Kolmogorov–Smirnov's nonparametric test to check whether the two groups differed significantly. Again, no significant differences were found, indicating no significant non-response bias.

Measures

We used Likert-type measurement scales for our constructs, adopting most of them from prior studies. We modified some measurement items to suit our study's context. Development of the new items was informed by field studies, which included semi-structured interviews with senior executives prior to our on-site interviews. Our Chinese research partner, China Capital University of Economics and Trade, provided valuable feedback on a pilot version of the questionnaire, and helped us to refine key constructs and choose wording appropriate for the Chinese cultural setting.

Cognition- and affect-based trust

Using a 5-point Likert scale (1=strongly disagree, 5=strongly agree), we measured cognition- and affect- based trust in keeping with McAllister's (1995) study. For cognition-based trust, respondents rated the extent to which:

(1) they could rely on the overseas partner to complete a task with professionalism and dedication;
(2) the overseas partner had the knowledge and competence needed to get tasks done;
(3) the overseas partner had been fair during their working relationship;
(4) the respondents had been skeptical about information provided by the overseas partner (reverse-coded); and
(5) the respondents could negotiate with the overseas partner on an equal footing about each other's responsibilities.

These items (Cronbach's α=0.79) embody the reliability, fairness, and competence aspects of cognition-based trust. For affect-based trust, respondents rated the extent to which:

(1) they and the partner shared ideas, feelings, and hopes;
(2) the partner responded constructively and caringly to their problems;
(3) they and the partner shared the same goals;
(4) they shared their problems and difficulties with the partner; and
(5) they and the partner had emotional investments in their working relationship.

These items (Cronbach's α=0.81) embody affect, shared interests, and willingness to be emotionally vulnerable, all aspects of affect-based trust. We chose these items because they had the highest factor loadings on McAllister's (1995) trust scale (above 0.80), and were relevant to our research context of interpersonal trust – the extent of an executive's trust in his/her overseas partner.

Partner type

We asked each respondent to name two senior executives at overseas partner firms that had helped their company generate the largest sales in the three years prior to data collection in 2006; we specified that one of the named executives be of Chinese ethnicity and the other of non-Chinese ethnicity. The overseas Chinese partners identified were mainly from Hong Kong (61%), Malaysia[7] (19%), Singapore (15%), and Taiwan (5%). We considered Hong Kong Chinese business partners as overseas partners because, despite the reunification of mainland China and Hong Kong in 1997, people from these two places continue to have separate social identities (Brewer, 1999; Hong et al., 2003). Hong Kong Chinese tend to differentiate themselves from the Chinese mainlanders, and prefer a Hong Kong identity to a Chinese identity (e.g., Hong et al., 2003). Moreover, Hong Kong as a special administrative region has its own business and legal infrastructure, which is distinct from that of mainland China (Sin, Tse, Yau, Chow, & Lee, 2003). The non-Chinese partners were mainly from the United States (37%), Japan (22%), United Kingdom (10%), Germany (8%), Canada (4%), Norway (3%), and South Korea (2%). We then asked the respondents to evaluate trust (cognition- and affect-based) in their relationships with each of the two executives. The partner-type variable was captured with dummy codes (1=overseas Chinese partners, 0=overseas non-Chinese partners).

Relative firm size
We defined the size of the respondents' firms and their foreign partners' firms by number of employees (Rao & Naidu, 1992), using the categories employed by the US Census Bureau and the standard industrial report of the National Bureau of Statistics of China:

(1) fewer than 1500 employees;
(2) 1501–2499 employees;
(3) 2500–4999 employees;
(4) 5000–10,000 employees; and
(5) more than 10,000 employees.

We used these categories because exact numbers of employees were not publicly available for all the firms in our study. We computed relative firm size by subtracting the overseas partner firm's size from the respondent's firm's size.

Firm age
We defined firm age as the number of years the firm had been in existence.

Control Variables

Relationship duration
Prior research has suggested that it takes time for business partners to develop the interpersonal relationships necessary to generate trust (e.g., Dyer & Chu, 2003; Kotabe, Martin, & Domoto, 2003; Sako, 1991). Research has also reported a positive relationship between relationship duration and mutual commitment (Morgan & Hunt, 1994). We controlled for relationship duration, operationalized as the total number of years the partners had done businesses with each other.

Executive tenure
The upper-echelon perspective (Hambrick & Mason, 1984) holds that top executives are themselves firm-specific resources; they exert great influence on their firms' strategic approaches to doing business, for example, relying on informal agreements founded on personal ties vs contractual agreements (Finkelstein & Hambrick, 1990; Hambrick & Mason, 1984). Accordingly, we controlled for executive tenure, operationalized as the number of years the responding executive had worked at the company.

Firm ownership
A firm's form of ownership might impact on how its executives engage their foreign partners. Publicly owned firms are subject to more public scrutiny: thus their senior executives might be highly motivated to maintain trusting relationships with their key overseas partners. We captured the type of firm ownership with dummy codes (1=publicly listed firms, 0=otherwise). We did not distinguish further between types of ownership, because more than half of our sample consisted of publicly listed firms; since state-owned firms made up a small proportion of our sample (6%), we did not distinguish state-owned from non-state-owned businesses.

Relative return on investment
It is widely accepted that trust between partners reduces transaction costs, improving firm performance (e.g., Dyer & Chu, 2003; Zaheer, McEvily, & Perrone, 1998). On the other hand, past performance affects people's expectations, and exerts a significant effect on trust (Dirks, 2000): hence past firm performance could have an impact on executives' trust in their overseas partners. We used firms' relative return on investment to measure firm performance. Following Clark and Montgomery (1999), we measured performance using a competitor-centered performance-measurement approach: we asked respondents to compare their corporation's performance with that of its three largest direct competitors in its major product market, using a 5-point scale (1=much lower, 5=much higher). Adding this control variable

enabled us to address a potential endogeneity issue in the model specification.

Industry effect

Prior studies have found the occurrence of asymmetric protection in industries where transaction-specific assets and skills are important (e.g., Nishiguchi, 1994). As a result, some industries may receive more institutional protection than others, owing to their strategic importance to a country's economic development. These industries' institutional endowments could in turn influence how senior executives develop trust with their overseas partners. We thus controlled for the type of industry each firm belonged to. The categories were finance/banking, consumer products, medicine/pharmaceutical, media, manufacturing, information technology, and others. We captured industry effect with dummy codes.

Geographical proximity

Given that our overseas Chinese samples (i.e., Hong Kong, Taiwan, Malaysia, and Singapore) are generally located closer to mainland China than our non-Chinese samples (e.g., US and Canada), one alternative explanation for our result might be that geographical proximity eases communication, thus facilitating certain forms of trust development. To rule out this alternative account, we controlled for the physical distance (in kilometers) between mainland China and the country in which each overseas partner resided.

Preliminary Analyses and Analytical Strategy

We conducted confirmatory factor analysis (CFA) using structural equation modeling (AMOS) on the trust measures, and found that cognition- and affect-based trust represent two distinct dimensions of trust. Specifically, results indicated that a two-factor model (χ^2=135.2, df=88, $p<0.01$; GFI=0.97; AGFI=0.86; CFI=0.98; RMSEA=0.04) fitted our data well. The estimated correlation between the two factors was 0.42 ($p<0.05$). Based on the factor loadings of the two trust variables, we computed the factor score for affect-based trust with five items (factor loadings above 0.80). Likewise, we computed cognition-based trust with five items (factor loadings above 0.80). Given that the two types of trust were positively correlated, we controlled for one type when the other was the dependent variable. The variance inflation factors (VIFs) showed no indication of multicollinearity among the variables. The highest VIF value was 2.16, well below the rule-of-thumb level of 10 (Cryer & Miller, 1994).

Because our data are nested (each executive from a given firm rated his or her trust in two overseas business partners, one of the same and the other of different cultural ethnicity), analyses that do not take into consideration the non-independence of data could misrepresent the effects of our predictors (Klein, Dansereau, & Hall, 1994). To address this issue, we used random-effects regressions (a form of hierarchical linear models) to analyze our data. We chose the random-effects models because they allow for estimation of both within- and between-firm effects on trust. This is important, because our predictors – firm size and age – were measured at the firm level. We noted that random-effects models assume that the individual specific effects are not correlated with other independent variables, an assumption that we found to be valid for our data (Hausman, 1978).

Although our sample size (N=216) does not fall into either the small-sample-size ($N<50$) or large-sample-size ($N>1000$) category, we conducted statistical power analyses to examine whether the observed relationships are meaningful. Following Hair, Black, Babin, and Anderson's (2010) suggestion, we conducted power analyses, and found our sample size within the recommended range of the effect size (a power level of 0.80) with a moderately significant level (α=0.05). The statistical power analyses indicate that the examined variables could deliver meaningful effects.[8]

RESULTS

The descriptive statistics and bivariate correlations among the key variables appear in Table 1. Table 2 reports the regression results. Models 1–3 and Models 4–6 report the analyses of affect- and cognition-based trust respectively. Models 1 and 4 are the base models, which investigate the effects of the control variables on affect- and cognition-based trust. Model 2 adds the predictor variables of cognition-based trust, partner type, relative firm size, and firm age, with affect-based trust as the dependent variable. Model 5 adds the same set of predictors into the regression for which cognition-based trust was the dependent variable. Models 3 and 6 test the interaction effects (trust × partner type; relative firm size × partner type; firm age × partner type) with affect- and cognition-based trust as the dependent variable respectively.

The results in Model 2 indicate that affect-based trust was significantly higher in overseas partners

Table 1 Descriptive statistics and correlations

	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12
1. Affect-based trust	3.93	0.18	3	4	1.00											
2. Cognition-based trust	4.19	0.69	2	5	0.18*	1.00										
3. Partner type	0.50	0.50	0	1	0.14*	−0.36*	1.00									
4. Executive tenure	5.76	2.01	3	15	0.03	−0.17*	0.00	1.00								
5. Relative return on investment	2.45	0.57	2	4	−0.18*	−0.55*	0.00	0.20*	1.00							
6. Industry type	4.89	1.71	1	8	0.16*	0.07	0.00	0.08	−0.01	1.00						
7. Firm size	2.82	0.31	2	4	−0.22*	−0.39*	0.00	0.23*	0.63*	−0.12	1.00					
8. Firm age	22.11	14.07	7	74	0.01	−0.29*	0.00	0.51*	0.42*	−0.09	0.39*	1.00				
9. Firm ownership	3.98	1.00	1	6	−0.16*	−0.09	0.00	0.08	−0.10	−0.03	0.03	−0.09	1.00			
10. Relationship duration	7.52	5.04	0.6	24	0.05	0.34*	0.17*	-0.011	−0.42*	−0.15	−0.34*	−0.18*	−0.07	1.00		
11. Partner-firm size	3.68	0.56	1.5	4.5	−0.29*	−0.01	0.12	−0.13	0.02	−0.14	−0.01	0.03	−0.11	−0.01	1.00	
12. Geographical proximity	5094	3610	9622	11,172	−0.07	0.09	−0.66*	0.02	0.12	0.11	0.09	0.02	0.10	−0.24*	−0.09	1

N=216; *$p<0.05$.

whose cultural ethnicity was the same as that of the executives interviewed (b=0.33, $p<0.01$), thus supporting Hypothesis 1. Hypothesis 2a predicted that affect-based and cognition-based trust would be positively associated. Models 2 and 5 provide strong evidence for this hypothesis, in that the relationships between cognition-based trust and affect-based trust were positive and significant (Model 2: b=0.24, $p<0.01$; Model 5: b=0.16, $p<0.05$). Further, as Model 3 shows, cognition-based trust was more strongly associated with affect-based trust for overseas partners of the same cultural ethnicity (b=0.64, $p<0.01$) than for those of different cultural ethnicity (b=0.08, n.s.). This pattern of interaction is shown in Figure 1. Interestingly, we found a different interaction effect between partner type and affect-based trust on cognition-based trust in Model 6 (b=−0.83, $p<0.01$). This interaction is such that affect-based trust had a stronger association with cognition-based trust for different-culture partners than for same-culture partners. We will examine this unexpected finding in the Discussion section. Overall, support for Hypothesis 2b is mixed.

Hypothesis 3a proposed that the larger a firm's relative size, the lower would be its senior executives' cognition-based trust in their overseas partners. Model 5 provides strong support for this hypothesis: relative firm size had a significant negative coefficient in the analysis of cognition-based trust (b=−0.39, $p<0.01$). Hypothesis 3b is supported by Model 6, which shows a significant interaction effect between relative firm size and partner type (b=0.22, $p<0.01$). Specifically, the negative effect of firm size on cognition-based trust was stronger for overseas partners of different cultural ethnicity (b=−0.43, $p<0.01$) than for those of the same cultural ethnicity (b=−0.21, $p<0.01$). This pattern of interaction is illustrated in Figure 2.

Results from Model 3 do not support Hypothesis 4b on the interaction effect between firm age and partner type (b=0.00, n.s.). Firm age was, however, positively associated with affect-based trust in partners of the same cultural ethnicity (b=0.01, $p<0.01$). This pattern of interaction is illustrated in Figure 3. Overall, this set of findings offers little support for Hypotheses 4a and 4b.

We also repeated all the above analyses using geographical proximity as the key moderating variable (in place of partners' cultural ethnicity) and found all the interaction effects involving geographical proximity to be insignificant. This finding suggests that geographic closeness does not

Table 2 Random effects of regression analysis on affect- and cognition-based trust

	Dependent variable					
	Affect-based trust			Cognition-based trust		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	5.55***	4.83***	5.31***	5.32***	5.40***	1.87*
	(0.33)	(0.62)	(0.59)	(0.33)	(0.56)	(1.11)
Control variables						
Firm ownership	−0.06	0.04	0.06	−0.31***	−0.24***	−0.22***
	(0.07)	(0.07)	(0.07)	(0.08)	(0.08)	(0.07)
Executive tenure	0.01	−0.01	0.01	−0.01	0.01	0.01
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Relative return on investment	−0.15**	−0.04	−0.01	−0.47***	−0.27***	−0.29***
	(0.07)	(0.08)	(0.08)	(0.07)	(0.08)	(0.08)
Relationship duration	−0.01	−0.01**	−0.02***	0.02***	0.02***	0.02***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Partner-firm size	−0.29***	−0.57***	−0.52***	0.03	0.37**	0.28**
	(0.06)	(0.15)	(0.14)	(0.01)	(0.15)	(0.15)
Geographical proximity	−0.01	−0.01	−0.01	−0.07	−0.01	−0.01
	(0.01)	(0.01)	(0.01)	(0.07)	(0.01)	(0.00)
Key predictors						
Partner type (H1)		0.33****	0.61***		−0.56***	−0.41***
		(0.09)	(0.12)		(0.07)	(0.10)
Cognition-based trust (H2a)		0.24***	0.08		–	–
		(0.07)	(0.08)		–	–
Affect-based trust (H2a)		–	–		0.16**	0.94***
		–	–		(0.06)	(0.24)
Relative firm size (H3a)		−0.27*	−0.39***		−0.39***	−0.43***
		(0.14)	(0.14)		(0.14)	(0.14)
Firm age (H4a)		0.01**	0.00		−0.00	−0.00
		(0.00)	(0.00)		(0.00)	(0.00)
Interactions						
Affect-based trust × partner type (H2b)			–			−0.83***
			–			(0.24)
Cognition-based trust × partner type (H2b)			0.64***			–
			(0.13)			–
Relative firm size × partner type (H3b)			0.26***			0.22**
			(0.10)			(0.09)
Firm age × partner type (H4b)			0.01***			0.00
			(0.00)			(0.00)
No. of observations	216	216	216	216	216	216
Overall model R^2	0.13	0.23	0.33	0.38	0.57	0.60
Chi-square change		62.16***	99.66***		247.10***	283.57***

Continuous variables used in the interaction terms have been mean-centered.
Above-reported coefficients are unstandardized. Standard errors are reported in parentheses.
Partner type is coded 1 for overseas Chinese partners and 0 for non-Chinese partners.
Ownership is coded 1 for publicly listed firms and 0 otherwise.
Industry dummies are included but not presented in the analysis due to space constraints.
*$p \leqslant 0.10$; **$p \leqslant 0.05$; ***$p \leqslant 0.01$.

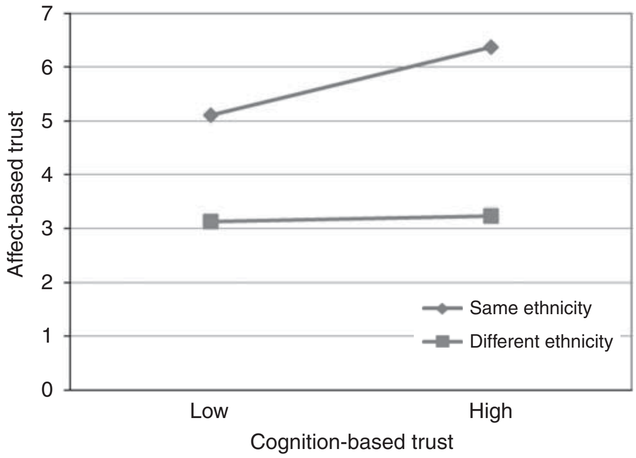

Figure 1 Effects of cognition-based trust × partner type interaction on affect-based trust.

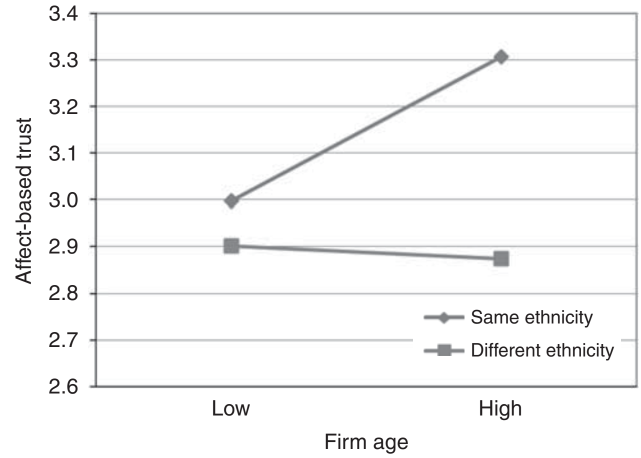

Figure 3 Effects of firm age × partner type interaction on affect-based trust.

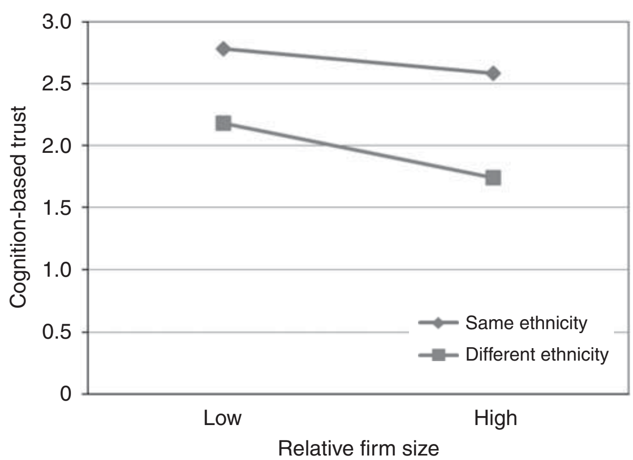

Figure 2 Effects of relative firm size × partner type interaction on cognition-based trust.

exert as much effect on trust development between executives as cultural ethnicity.

Supplementary Analyses

Our main research agenda was to understand how senior executives trust overseas business partners of the same or different cultural ethnicity as themselves, when the business partners in question resided in different countries. Thus a natural further question is whether our pattern of results would vary depending on the partners' countries of origin. We therefore conducted separate analyses of the overseas Chinese and non-Chinese groups in order to examine whether there were country variations within each subgroup. For the Chinese group, we coded the countries into three key categories: (1) Hong Kong; (2) Singapore and Malaysia; and (3) other (including Taiwan). These categories reflect the major frequency distribution of countries in this subgroup. Dummy variables for the first two categories were entered as predictors in our analyses. As Table 3 shows, for overseas ethnically Chinese partners from Hong Kong, Singapore, Malaysia, and Taiwan, cross-country differences in the relationship between cognition- and affect-based trust are not significant. Nor are there significant differences in the effects of relative firm size and age on executives' trust relationships with partners from different countries. The non-significant cross-country differences among overseas Chinese partners suggest that it is reasonable to combine these countries in our earlier analyses.

We then looked for cross-country differences in partners of different cultural ethnicity from our executives (non-Chinese partners from Japan, South Korea, the United States, Canada, and Europe). We coded these countries into three key categories: (1) the United States and Canada; (2) Japan and South Korea; and (3) other (including Europe). These categories reflect the major frequency distribution of countries in this subgroup. Dummy variables for the first two categories were entered as predictors in our analyses. Results in Table 4, Model 2, suggest that cross-country differences in the relationship between cognition- and affect-based trust are not significant for overseas partners from a different cultural ethnicity group. Further, we found no significant differences in the effects of relative firm size and age on

Table 3 Regression analysis on affect- and cognition-based trust with country/region effects (same cultural ethnicity group)

	Dependent variable			
	Affect-based trust		Cognition-based trust	
	Model 1	Model 2	Model 3	Model 4
Intercept	3.73***	11.33	3.46***	5.12**
	(1.38)	(10.75)	(0.61)	(2.39)
Control variables				
Firm ownership	0.08	0.04	−0.15**	−0.13*
	(0.13)	(0.14)	(0.06)	(0.07)
Executive tenure	−0.01	−0.02	−0.02	−0.02
	(0.04)	(0.04)	(0.02)	(0.02)
Relative return on investment	−0.01	0.02	−0.22***	−0.21**
	(0.16)	(0.17)	(0.08)	(0.08)
Relationship duration	−0.03***	−0.02	0.02***	0.02***
	(0.021)	(0.01)	(0.01)	(0.01)
Partner-firm size	−0.68**	0.26	−0.05	−0.08
	(0.28)	(0.20)	(0.14)	(0.15)
Key predictors				
$D_{\text{Hong Kong}}$	0.05	−5.45	0.32*	−0.11
	(0.38)	(4.27)	(0.19)	(0.66)
$D_{\text{Singapore/Malaysia}}$	0.11	−5.20	0.27	−0.31
	(0.40)	(4.26)	(0.19)	(0.66)
Cognition-based trust	0.69***	5.56	–	–
	(0.19)	(3.81)		
Affect-based trust	–	–	0.17***	−0.12
			(0.05)	(0.48)
Relative firm size	−0.27	−0.27	−0.09	0.54
	(0.26)	(0.27)	(0.14)	(0.65)
Firm age	0.01**	0.01	−0.01	−0.01
	(0.01)	(0.01)	(0.01)	(0.01)
Interactions				
Affect-based trust × $D_{\text{Hong Kong}}$		–		0.51
				(0.49)
Affect-based trust × $D_{\text{Singapore/Malaysia}}$		–		0.24
				(0.48)
Cognition-based trust × $D_{\text{Hong Kong}}$		−4.87	–	–
		(3.84)		
Cognition-based trust × $D_{\text{Singapore/Malaysia}}$		−4.64	–	–
		(3.85)		
Relative firm size × $D_{\text{Hong Kong}}$		–		−0.63
				(0.66)
Relative firm size × $D_{\text{Singapore/Malaysia}}$		–		−0.73
				(0.66)
Firm age × $D_{\text{Hong Kong}}$		0.01	–	–
		(0.02)		
Firm age × $D_{\text{Singapore/Malaysia}}$		0.01	–	–
		(0.02)		
No. of observations	108	108	108	108
Overall model R^2	0.33	0.37	0.61	0.65
R^2 change		0.04		0.04

*$p \leqslant 0.10$; **$p \leqslant 0.05$; ***$p \leqslant 0.01$.

Table 4 Regression analysis on affect- and cognition-based trust with country/region effects (different cultural ethnicity group)

	Dependent variable			
	Affect-based trust		Cognition-based trust	
	Model 1	Model 2	Model 3	Model 4
Intercept	4.42***	3.92***	2.68**	5.30***
	(0.30)	(0.33)	(1.61)	(1.77)
Control variables				
Firm ownership	0.07	0.06	−0.35***	−0.39***
	(0.04)	(0.04)	(0.12)	(0.12)
Executive tenure	0.01	−0.01	0.01	0.01
	(0.01)	(0.01)	(0.03)	(0.03)
Relative return on investment	0.02	0.01	−0.23*	−0.27**
	(0.04)	(0.04)	(0.12)	(0.12)
Relationship duration	0.01**	0.01**	0.03**	0.03**
	(0.01)	(0.01)	(0.02)	(0.01)
Partner-firm size	−0.35***	0.10**	−0.34	−0.38
	(0.08)	(0.04)	(0.26)	(0.27)
Key predictors				
$D_{\text{Japan/Korea}}$	0.02	−0.04	0.08	0.10
	(0.04)	(0.05)	(0.14)	(0.23)
$D_{\text{US/Canada}}$	0.10**	0.09**	0.07	0.11
	(0.04)	(0.04)	(0.12)	(0.21)
Cognition-based trust	0.08**	0.08	–	–
	(0.03)	(0.05)		
Affect-based trust	–	–	0.73**	0.23
			(0.30)	(0.35)
Relative firm size	−0.27***	−0.25***	−0.45*	−0.38
	(0.08)	(0.07)	(0.23)	(0.27)
Firm age	0.00	−0.01	−0.01	−0.01
	(0.00)	(0.01)	(0.01)	(0.01)
Interactions				
Affect-based trust × $D_{\text{Japan/Korea}}$	–	–		1.87***
				(0.59)
Affect-based trust × $D_{\text{US/Canada}}$	–	–		0.62
				(0.58)
Cognition-based trust × $D_{\text{Japan/Korea}}$		0.10	–	–
		(0.07)		
Cognition-based trust × $D_{\text{US/Canada}}$		−0.07	–	–
		(0.06)		
Relative firm size × $D_{\text{Japan/Korea}}$	–	–		−0.11
				(0.21)
Relative firm size × $D_{\text{US/Canada}}$	–	–		−0.05
				(0.21)
Firm age × $D_{\text{Japan/Korea}}$		0.01	–	
		(0.01)		
Firm age × $D_{\text{US/Canada}}$		0.01	–	
		(0.01)		
No. of observations	108	108	108	108
Overall model R^2	0.45	0.48	0.53	0.58
R^2 change		0.03		0.05

*$p \leqslant 0.10$; **$p \leqslant 0.05$; ***$p \leqslant 0.01$.

executives' trust relationships with partners from different countries. The non-significant cross-country differences among overseas foreign partners suggest that it is reasonable to combine these countries in our earlier analyses.

Results in Model 4 indicate that the effect of affect-based trust on cognition-based trust in non-Chinese overseas partners varies by country, and specifically for Japan and South Korea (b=1.87, $p<0.01$). A possible explanation for the differences between executives' trust relationships with their Japanese and South Korean partners and those with their US, Canadian, and European partners is the similarity of the cultures of China, Japan, and South Korea. All three East Asian countries place high emphasis on personal relationships, and are heavily influenced by Confucian ethics (Hofstede, 1991; Ralston, Holt, Terpstra, & Yu, 2008). Given the underlying cultural similarities among Japan, South Korea, and China, it could be relatively easier for affect-based trust to shape cognition-based trust in these East Asian partners. In sum, our analyses suggest that, although it initially seemed sufficient to categorize overseas business partners solely on the basis of cultural ethnicity, degrees of similarity between national cultures also appear to have an impact on executives' trust in foreign business partners.

DISCUSSION

We investigate the psychological foundations on which senior executives base their trust in overseas business partners who are of the same (intra-cultural trust) and different cultural ethnicity (intercultural trust). By integrating similarity-attraction and social categorization theories, we examine how executives trust their overseas partners. Our results show that executives placed differing emphases on cognition- and affect-based trust, depending on their overseas partners' cultural ethnicity. They exhibited higher affect-based trust in overseas partners of the same cultural ethnicity as themselves. Cognition- and affect-based trust also appeared to be intertwined differently for overseas partners of the same and different cultural ethnicity.

Cognition- and affect-based trust also varied as a function of organizational characteristics, specifically the trustor's firm age and firm size. Executives' cognition-based trust in their overseas partners was moderated by their firm's size: the larger the firm (relative to its partner firm), the lower its executives' cognition-based trust in their smaller overseas partners. This effect was stronger for overseas partners of different cultural ethnicity than for those of the same cultural ethnicity.

Executives' affect-based trust in their overseas Chinese partners was also moderated by their firm's age. The older the firm, the greater the executives' affect-based trust in these partners; firm age did not matter, however, in affective ties with overseas partners of different cultural ethnicity. Overall, our study provides evidence that trust relationships between business partners depend not only on the degree of cultural similarity between partners but also on contextual firm-level characteristics.

Theoretical Implications

Our research has several theoretical implications for research on interpersonal trust in an international business context. First, our study extends past research on cross-cultural trust by directly investigating the psychological foundations of senior executives' trust in their overseas partners. Although previous research has examined trust across cultural contexts, its focus was cross-cultural comparisons (e.g., Chua et al., 2009; Doney et al., 1998; Dyer & Chu, 2003; Huff & Kelley, 2003; Yuki et al., 2005). Thus we know little about trust relationships in cross-national contexts that may encompass both intra- and intercultural interactions. By integrating the distinction between cognition- and affect-based trust with similarity-attraction theory to uncover the way in which executives trust their overseas partners, we have highlighted the critical role that cultural similarity plays in trust. Taking cues from the cultural backgrounds of their overseas business partners, senior executives develop different patterns of trust. Although researchers have documented the effects of various intergroup biases having to do with warmth and competence (e.g., Fiske, Cuddy, & Glick, 2007), this study is among the first to explicate these effects in the trust domain.

We have also empirically demonstrated how the degree of coupling between cognition- and affect-based trust varies in intra- and intercultural business relationships. We theorized that the two types of trust would be more tightly intertwined in same-culture business relationships than in different-culture relationships. The empirical findings painted a more complex picture than we expected. For same-culture relationships, as we predicted, cognition-based trust had a positive association with affect-based trust in regression analyses; for different-culture relationships, by contrast, affect-based trust was positively associated with cognition-based trust. Although our methodology and the use of regression analyses cannot ascertain the causal relationships between these two types of trust, our pattern of results suggests that cognition- and affect-based trust influence each other differently as a functional of cultural differences. In our context, it might be that mainland Chinese executives had no trouble extrapolating affect-based trust from cognition-based trust when their overseas partners were also Chinese in ethnicity. When these partners were non-Chinese, however, having already established a certain degree of affect-based trust significantly boosted the development of cognition-based trust. Our supplementary analyses suggest, more specifically, that this effect might be especially strong for non-Chinese Asian partners from Japan and South Korea. Overall, we believe that this set of findings could generate a new avenue of investigation into how the two types of trust interact as a function of a dyad's cultural similarity.

It is important to note that the target business partners were all of different nationalities from the executives. Thus these partners could already be considered out-group members as compared with local business partners. Yet, beyond this distinction, cultural ethnicity played an additional role in influencing patterns of trust. This finding underscores the function of culture as a cue that people use to categorize and interact with other individuals in the workplace. Our results suggest that even as business environments become more multinational, signifying the shrinking relevance of national boundaries in the organization of business activities, fundamental cultural differences will continue to influence how people engage with one another.

Our study also provides evidence for the importance of incorporating firm-level characteristics in examinations of trust relationships. We have shown that macro-level constructs such as firm size and age influence the micro-level psychological processes of executives' trust in their business partners. Thus our results contribute to our understanding of intra- and intercultural trust by demonstrating the influence of firm characteristics. Our findings dovetail with Coleman's (1990) suggestion that linkages between micro-level social exchange processes and macro-level organizational factors should not be ignored in organizational theory and research. Research that examines interpersonal trust would be enriched by taking firm-level characteristics into consideration.

Contrary to our prediction that firm age would decrease affect-based trust in overseas partners in general, we found that executives from older firms have higher affect-based trust in partners who share their cultural ethnicity. This unexpected effect might be peculiar to the Chinese empirical context used in the present research. We argued that executives at older firms are likely to be entrenched in traditional patterns of behavior, such that they become less nimble at engaging foreign partners in the affective dimension. What if one of the entrenched ways of doing business in China is to rely on personal ties that can be traced back to common origins? One popular account about relationships, or *guanxi*, in China is that *guanxi* ties often involve people from the same village or province (Tsui & Farh, 1997). It is possible that Chinese senior executives at older firms have adhered strongly to traditional *guanxi* principles in doing business, and hence have entered into business partnerships with overseas Chinese whose ancestors originated in the same province as they did. A common ancestral origin might have provided common ground for forging affective bonds, thus explaining why executives from older Chinese firms tend to exhibit higher affect-based trust in their overseas Chinese partners.

Our findings also support the notion that those categorized as out-group members when operating in a foreign country are more likely than in-group members to suffer the "liability of foreignness" (Hymer, 1976). We contribute to the literature on the liability of foreignness by injecting a trust perspective into the discussion. Our empirical findings suggest that, when doing business in China, non-Chinese businesspeople suffer from an affect-based trust deficit in general; their mainland Chinese partners' cognition-based trust in them also decreased as firm size increased. Various scholars have argued that a key way for multinational companies to overcome the liability of foreignness when operating in a foreign country is to improve their overseas subunits' resources and organizational capabilities (Buckley & Casson, 1976; Caves, 1982; Hennart, 1982). Others have suggested that relationship-specific investments can enhance relational conditions that will bolster inter-firm cross-border collaborations (Griffith, Hu, & Ryans, 2000; Luo, Liu, & Xue, 2009). Our findings are consistent with the latter recommendation in pinpointing trust-building as a strategic dimension that multinational companies need to emphasize to overcome the liability of foreignness.

Our study also speaks to internationalization process theory, which essentially argues that a firm's incremental experiential learning in foreign markets explains its gradual accumulation of commitment to those markets. We contribute to this theory by showing how cultural ethnicity influences senior executives' trust in their overseas partners, and thus clarify the effect of the "liability of outsidership" (Johanson & Vahlne, 2009) whereby some overseas partners are categorized as out-group members owing to their cultural ethnicity. Our results also indicate the importance of overseas partners in understanding the effects on cross-border business relationships of both institutional factors (relative firm size and age) and cultural factors. Overall, these findings are consistent with the view that it is essential for overseas partners to develop trust and build commitment with local partners (Morgan & Hunt, 1994), to overcome the liability of outsidership and to gain access to market knowledge that may be accessible only to insiders (Johanson & Vahlne, 2009).

Managerial Implications

Several key managerial implications can be drawn from our study. First, our research will help managers understand both the strengths and the deficits in their trust relationships with cross-border business partners. Our findings suggest that senior executives tend to trust overseas partners of the same cultural ethnicity as themselves "from the heart" – that is, their trust entails empathy, rapport, and self-disclosure. This type of trust is tightly intertwined with cognition-based trust. Such overseas partners should be aware that shared cultural identity works to their advantage by promoting positive affect, and should accordingly express similar attitudes toward their partners in business relationships to further nurture these socio-emotional ties.

Prior research has emphasized the importance of mutual trust in business-to-business relationships. In particular, shared values and frank communication promote long-term collaborative relationships among partners (e.g., Morgan & Hunt, 1994). Our findings suggest that overseas partners of different cultural ethnicity from host-country executives are disadvantaged in the trust domain when compared with partners who share similar cultural ethnicity with the executives. These overseas partners should aim to overcome their trust deficits by repeatedly demonstrating trustworthiness and a sincere desire to maintain long-term relationships, in addition to delivering reliable performance and professional credibility to achieve effective collaborations (i.e., building cognition-based trust). Since it takes time to build and maintain trust, commitment, and cooperation (Morgan & Hunt, 1994), overseas partners of different cultural ethnicity should also take steps to minimize cognitive biases and lack of affinity via relevant, timely, and reliable communication and pursuit of shared goals and values (Morgan & Hunt, 1994). Companies may also want to consider hiring senior-level executives of the same cultural ethnicity as their host partners to capture the trust benefits that arise from a shared cultural background.

As for Chinese managers, our study implies that they need to recognize how cultural values and norms may influence their cognitive associations with and affinity to their overseas partners. Having demonstrated higher affect-based trust in their overseas Chinese partners, Chinese executives are apparently more likely to pursue cooperative relationships and open communications with them, which could in turn lead to more committed business relationships. On the other hand, Chinese managers' perceptions of their non-Chinese partners may bias their evaluations of those partners' behavior, possibly hindering intercultural communication and conflict management. As Chinese companies increasingly pursue cross-border strategic alliances with foreign companies, their managers should aim both to override their propensity to differentiate between in- and out-groups and to become more ambidextrous by working with their overseas partners to foster inter-firm commitment and cooperation.

Our research also indicates that firm age and size influence senior executives' trust in their overseas business partners. Large firms' greater institutional endowments (government support, access to important resources, and the like) equip them to discover and punish their partners' opportunistic behavior (Hagen & Choe, 1998), and may also incline them to be less effective at building trust with overseas partners. When entering a new foreign market, therefore, managers might profit from attentiveness to the age and size of their partner firms. When dealing with firms with these characteristics, trust-building and commitment should be key priorities.

Limitations and Directions for Future Research

Like all research, our study has limitations. For one thing, our data were collected using a cross-sectional research design at a specific point in time. The recognized shortcomings of this methodology include causality issues and common-method bias (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). For instance, we could not clearly demonstrate that trust was the effect, and not the cause, of the independent variables. Nor could we completely rule out the possibility that respondents answered evasively about their implicit beliefs and their relationships with overseas Chinese and non-Chinese. We are not overly troubled by causality issues, because our main independent variables – partner type (overseas Chinese vs non-Chinese), firm size, and firm age – are not easily influenced by trust. Specifically, whether a Chinese executive has more or less trust in his or her overseas partners cannot possibly have any bearing on the cultural ethnicity of these partners. To be sure, whether firms build trusting relationships with overseas business partners could potentially influence their growth and survival, and hence their size and age; however, firm characteristics such as size and age are influenced by many factors other than the quality of those relationships. Thus trust is highly unlikely to have direct effects on firm size and age.

Common-method bias could be an issue to the extent that participants responded to the trust measures in keeping with preconceived attitudes toward their overseas Chinese and non-Chinese business partners. The use of cultural ethnicity as a criterion for selecting the particular business partners to evaluate might have served as a cue to respond in a systematically biased manner. This problem may be less acute than it seems, however, because each respondent used the trust measures to evaluate a unique pair of overseas partners. For instance, one executive might have identified a Singaporean Chinese business partner and an American business partner; another might have selected a Taiwanese and a Japanese partner. The differences between these pairs reduce the likelihood that a given attitude or assumption would influence the results. In hindsight, a better approach might have been to ask executives to identify partners of their choice, without specifying their ethnicity, and then to make the overseas Chinese/non-Chinese distinction only during analysis. With that approach, however, we might have ended up with too many Chinese partners or the reverse.

It might also have been enlightening to consider whether the executives in our sample were trained under the "communist" regime, so as to capture how they view overseas Chinese partners educated in more liberal capitalist systems.[9] The political sensitivity of inquiring about executives' communist ties, however, precluded obtaining this information. However, executives from mainland would have more in common with overseas Chinese than with non-Chinese, thanks to the work of diaspora associations (*Hua Ren She Tuan*), which have helped to preserve Chinese culture outside mainland China and to foster a shared identity among overseas Chinese (e.g., Liu, 1998) by promoting ethnic Chinese members' sense of duty to their ancestral home (Hamilton, 1996).

Another limitation is that we did not pinpoint the nature of the partnerships in question. Might patterns of trust in raw materials suppliers differ from trust in buyers of finished products? Because firms' expectations and interactions with partners might differ depending on the nature of the alliance, future research should examine the nature of partnerships as a potential moderator. Future research could also examine the effects of different patterns of trust relationships on such other important outcome measures as commitment, degree of contractual specificity, and plans for future collaborations.

We acknowledge too that institutional trust in foreign partners could function as a substitute for interpersonal trust. Prior studies have found that institutional and social sanctions in Japan prevented firms from behaving opportunistically (e.g., Hagen & Choe, 1998; Zucker, 1986). Although we controlled not only for industry type and relative firm size but also for past firm performance (measured by relative return on investment), all of which might be linked to institutional antecedents of trust, our study does not explicitly investigate how institutional and societal sanction mechanisms foster or substitute for trust relationships at the interpersonal level. Although China's institutional environment is improving as the country gradually transitions from a planned to a market economy, there is little evidence that the affective aspect of interpersonal trust has lessened in importance. Although our data were collected in the 12 economically developed provinces along the east coast of China, including Beijing, Shanghai, Guangzhou, and Shenzhen, where the legal institutional environment is relatively strong, we found evidence that cultural similarity affects senior executives' formation of different types of trust. Our findings are consistent with prior evidence that cultural values and norms can affect people's trust behavior, even in the presence of an appropriate institutional environment (e.g., Chua et al., 2009).

Finally, because our empirical evidence was obtained solely from China, the generalizability of our findings is naturally open to question. We acknowledge this potential limitation; our results nevertheless represent a starting point for future research on how intra- and intercultural trust plays out in other cultural contexts. We speculate that some of our findings, such as the presence of higher affect-based trust in same-culture relationships and the effects of relative firm size on cognition-based trust, will prove to be highly generalizable to a broad range of cultures. The interrelationships of the two types of trust and the effects of firm age might be subject to greater cultural variability. Given our finding that between culturally different overseas partners the trustee's country of origin matters in how the two types of trust interact, it might be fruitful for future research to pursue this question in a more targeted manner by comparing specific sets of countries.

CONCLUSION

As globalization propels firms to explore cross-border business collaborations, it is important for executives to understand how to manage their trust relationships with overseas business partners. Our study sheds light on the dynamics of cross-border intra- and intercultural trust. By distinguishing the psychological bases on which cognition- and affect-based trust are built, we demonstrate systematic differences linked to the cultural ethnicity in the nature of senior executives' trust in their overseas partners. Our findings can help practitioners understand the nature and quality of their business relationships with overseas partners; they also contribute to organizational research on the processes that influence firms' intra- and intercultural trust relationships with overseas partners.

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NOTES

[1]Although its population is 95% Han Chinese, China is culturally diverse in that it encompasses vast regional differences in customs, language, and history (Stening & Zhang, 2007; Tsui-Auch, 2005; Wang, 1996). Despite these differences, cultural values such as filial piety, emphasis on the family as the basic unit of society, and respect for authority are widely adhered to. Most Chinese share familiarity with ancient Chinese history, major festivals, the Confucian ideology, and a unified writing system. Because these are values and cultural references that non-Chinese do not share, it is reasonable to assume that two Chinese individuals will have more common ground on which to build a relationship than will a Chinese and a non-Chinese individual.

[2]Research on social categorization has shown that, in addition to biased perceptions of cooperation and competence, in-group bias is associated with social attraction. Attraction toward in-group members is, however, depersonalized and focused on group prototypicality, as opposed to personal attraction rooted in individualized preferences and affect (e.g., Brewer & Gardner, 1996; Hogg & Hains, 1996; Hogg & Hardie, 1992). Our research focuses on interpersonal trust between two individuals already acquainted with each other: hence this trust is built on personalized rather than depersonalized attraction.

[3]The association between cognition- and affect-based trust is likely to be stronger in some cultures than in others. For example, Chua et al. (2009) found that the two types of trust are more tightly intertwined in Chinese networks than in American networks. Despite this cultural variation, prior research has established that these two types of trust are inherently correlated, even in Western societies such as the US (McAllister, 1995) and UK (Johnson & Grayson, 2005).

[4]The level and type of interpersonal trust between two senior executives from different firms might also be influenced by complex relationships with other members of the partner firm. The trust that one executive places in another might also be influenced by institutional factors such as the formal organizational setup and culture of the partner firm. Indeed, Zucker (1986) argued that institutional characteristics can promote the development of trust. These important factors are beyond the scope of this study. We assume that, at the senior level, executives' trust in their counterparts hinges more on interpersonal dynamics than on interactions with lower-level members of the organization. We also assume that, over and above the institutional attributes of the partner firm, interpersonal trust is highly dependent on how a trustor perceives a trustee based on his/her experience. In this research, the focal variable that shapes interpersonal dynamics and hence trust is cultural similarity.

[5]We excluded respondents who are *Hai Gui* (Chinese who have had significant international exposure via study or work abroad).

6All firms in China are directly controlled by the jurisdiction of various government levels, ranging from central to local governments. We categorize firm ownership based on the manner in which transactions are coordinated and property rights are embodied.

7The partners from Malaysia were Chinese-Malaysians.

8We conducted a series of statistical power analyses with ten predictor variables (six control, three continuous, and one dummy), and examined whether our sample size is appropriate for an acceptable level of 80% power (at a 0.05 significance level) (Hair et al., 2010).

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