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合作夥伴間信任來源與信任內涵：

-以馬來西亞華人為例之實證研究

Sources and Consequences of Trust on Inter-firm's

Transactions and Collaboration:

An Empirical Study of Malaysian Chinese

The seal of National Taiwan University is a circular emblem. It features a central design with a book and a torch, surrounded by the university's name in Chinese characters. The outer ring contains the text '國立臺灣大學' (National Taiwan University) and '1900' at the bottom.

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-以馬來西亞華人為例之實證研究

Sources and Consequences of Trust on Inter-firm's Transactions and
Collaboration: An Empirical Study of Malaysian Chinese

本論文係范麗玲君（R967240781）在國立臺灣大學國際企業學研究所、所完成之碩士學位論文，於民國98年7月27日承下列考試委員審查通過及口試及格，特此證明

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論文終於結束了,在沒開始寫論文的時候,心裡面總是有著無比的熱情,告訴自己一定要好好寫出一篇可以讓自己自豪的論文,可是,後來才發現我的懶散讓我事與願違.老師,我真的衷心地要謝謝您,您多次詢問我的研究进度并給予很多很多的意見,幫助我开拓研究思路,老師您嚴謹求實,踏踏實實的作風和態度,讓我知道其實做研究不是想到就可以隨便開始,一定要有明確的方向和周詳的計畫.所以,我很想對莊正民教授說聲:“對不氣,老師,感覺上我離老師您理想的水準還差很遠,希望您下一次看到我的時候會發現我在思考上有進步了.”

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摘要

如今,我們可以從高頻繁的國際聯盟策略,合併案,特許經營等等的交易和合作中發現國際化是商業界重要的一個趨勢.因此,如何以建立馬來西亞華商間與國內外廠商組織間信任基礎是一個很重的課題,良性的信任基礎關係可以絕對有效的管理廠商間互動關係.

所以,本論文的宗旨在於探討馬來西亞華商間與國內(三大民族:原住民,印度人和當地華人)及國外(西方和日本)組織間信任關係的形成(來源)與信任的內涵,是否會因為文化的影響.

此外,我們也想要探討究竟信任的來源以及信任的內涵是否有關聯性的存在.本研究發現馬來西亞的華商在與不同國籍廠商合作時,信任來源或信任的內涵存有一些顯著的差異.同時,不同的信任來源也會顯著地影響不同的信任內涵.

關鍵字：信任,信任的內涵,信任的來源,組織關係,跨國家,跨民族

Abstract

During the last decade, a major trend is the increased globalization that has occurred in the business world. We can see a tremendous growing trend toward globalization through the establishment of international strategic alliances (ISA), joint-venture, licensing, outsourcing and so on to gain competitive advantages while entering into new markets, particularly into the new emerging market such as Asia Pacific.

Many excellent researches have proven the importance of trust in business management and a variety of management disciplines urging that trust play an even stronger role in improving the inter-firm relationships

Therefore, the purpose of this research paper is to explore how the sources and consequences of trust differ among International Transacting parties of various nationalities (Japan, Western and Malaysia) and within-Malaysia ethnic groups (Malay, Indian and Malaysian Chinese). Thereafter, to examine how nationality and ethnicity play a role and impact on the trust building process as well as the consequences of the trust in Malaysian Chinese business context.

Thus, the present research has chosen the four sources of trust and three consequences of trust as described in most papers and examined how these practiced in Malaysia.

Keywords: Trust, sources of trust, consequences/outcome/behavior of trust, inter-firm relationship, inter-country, inter-ethnic

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Chapter 1 Introduction

During the last decade, a major trend is the increased globalization that has occurred in the business world. We can see a tremendous growing trend toward globalization through the establishment of international strategic alliances (ISA), joint venture, licensing, outsourcing and so on to gain competitive advantages while entering into new markets, particularly into the new emerging market such as Asia Pacific.

Therefore, an inter-firm relationship that established through all kind of these strategic alliances is viewed as a strategic mechanism to improve a firm's competitive advantage. This change in orientation from competition to cooperation in inter-firm relationships is rationalized according to the transaction-cost economics perspective (Williamson 1975, 1985).

However, as more businesses engage in globalization through international strategic alliances, many problems always arise when firms engage in the inter-firm relationships since risks of opportunism are inherent in every transaction. Therefore, the selection of a control mode is a critical issue in managing an inter-firm relationship and the forms of proper control modes are implemented according to the type of interaction, the type of interdependence and the type of collaboration.

Through the governance control theory, contract is always been used to act as a control mechanism or mode of control to manage these problems and their inter-firm relationships. However, always, the costs of negotiating, monitoring, and enforcing a contract will be incurred and called transaction cost (Williamson 1975, 1985).

Contrary to the majority of the literature on contract enforcement that has focused on the use of formal, legally enforceable contracts to minimize this opportunism possibility; Macaulay (1963) has showed it empirically that legal enforcement on formal contracts only play a minor role in actual business agreements and limited role in inter-firm relationships.

Therefore, concurrent with the fast growing interest in trust as a valuable contributor to many forms of exchange, the influence of trust (informal mechanisms) as a moderating variable on formal contracts or contractual complexity is an issue of considerable debate. Increasingly, many researchers from various management disciplines urging “trust” play an even stronger role in improving the inter-firm relationships. They credit trust with lowering transaction costs in more uncertain environment (Dore, 1983; Noordewier, John and Nevin, 1990) and thus, providing firms with a source of competitive advantages (Barney & Hansen, 1994) through the alliances as mentioned in the early part.

On top of that, trust also plays a vital role in facilitating inter-firm relationships to create long-term relationship between firms (Ganesan, 1994; Ring and Van de Ven, 1992) as well as enhancing the inter-firm performance. Therefore, trust is an important component in achieving a successful strategic alliance (Browning, Beyer, & Shetler, 1995; Gulati, 1995).

Concerning about the international alliances, this type of globalized economic activities is a relatively recent phenomenon in many Southeast Asian countries and the Overseas Chinese in the region with their economic power have been attracting attention from politicians, scholars, and observers alike.

According to The World Bank estimation, the combined economic output of the 'Overseas Chinese' was about US\$400 billion in 1991 and US\$600 billion by 1996 (Weidenbaum and Hughes, 1996). Therefore, the strongest overseas Chinese have huge conglomerates with global reach and the Overseas Chinese are increasingly the main event in Asian business today (Kraar, 1993).

However, the trust building process is complex and multidimensional. For example, although trust may be built in various forms of way but how trust is established largely depend upon the societal norms and values that guide people's behavior and beliefs (Hofstede, 1980). Concerning the above, in this study, the origin of my background has drawn my interest to conduct the research within the overseas Chinese in Malaysia- one of the most well developed country in Southeast Asia.

We choose to study the sources and consequences of trust in the commercial sector of the ethnic-Chinese community in Malaysia because, in conjunction with foreign interests, the Malaysian Chinese has completely controlled the country's economy and well known for their active domestic and cross-border business practices. In response to changes in industrial structure and organizational structure brought on by the tremendous growth of globalization, the management strategies of Malaysian Chinese businesses have also adapted to the new, dynamic environment.

For instances, from petty traders and emigrant workers in the early half of the twentieth century, the 'Overseas Chinese' and their business firms have emerged as one of the most important economic forces in the Southeast Asian countries. Therefore, we firmly believe that in the very near future, Malaysian Chinese businesses will continue to develop,

and a great number of these businesses will rise as major global players and become increasingly open in international transactions and alliances.

On top of that, not only the global dynamic growth but also the internal national forces have created a strong force prompting the internationalization of established ethnic Chinese business firms as well as shaping the significant transformations of Chinese business in Malaysia.

As we know, among the Southeast Asia countries, Malaysia is the only multi-ethnic community that formed upon three significant ethnical groups; consist of Malaysian Chinese, Indian and the native group (Malay) who make up 60%¹ of the population. The multi-ethnic setting communities coexist in relative harmony, but the wealth gap among them is grave, as the Malaysian Chinese have traditionally dominated the Malaysian economy.

As of 2007, they constitute about a quarter of the Malaysian population, but hold 40%² of the economy. As a result, with the advent of affirmative action policies by the Malaysian government to protect the rights of ethnic Malays, Malaysian Chinese's shares has eroded somewhat. Still, they make up the majority of the middle and upper income classes.

We acknowledge that developing trust is a matter worth discussed, particularly in a condition where Malaysian Chinese businesses are facing policy and social constraints because of the ethnic nature.

¹For this information, I referred to "Malaysia-wealth gap along ethnic lines" by An Hodgson, published on 16 April 2007, at Euromonitor International: <http://www.euromonitor.com/>

² Same as above.

Therefore, in light of the increasing number of more firms establishing alliances while entering into Malaysia or vice-versa, the importance of trust in the international alliances suggests a need for us to examine how nationality and ethnicity play a role and impact on the trust building process as well as the consequences of the trust in Malaysian Chinese business context. We attempt to explore how the sources and consequences of trust differ among International Transacting parties of various nationalities and within-Malaysia ethnic groups.

Inter-country as well as **inter-ethnic** level of analysis will be conducted to provide some insights. We believe that in such a sophisticated environment, each ethnical group may result different norms and values and to decide who to trust may diverse significantly.

Despite the large number of trust related studies, drawing on theories from several disciplines we develop a framework that identifies and describes four trust building processes or so called the sources of trust that help explain how trust develops in Malaysian Chinese's business contexts. In furtherance, we include a series of consequences of trust and discuss the linkage of both sources and consequences of trust. We argue that the consequence of trust varies according to its underlying contingency variables –sources of trust.

This paper is organized into three major sections. The next section discusses the literature of trust building processes and its consequences. The second section of literature examines the changing dynamics of Chinese business in Malaysia and discusses the changing global and national contexts, which prompt the internationalization of these business firms. The third section provide a detailed research framework of this study and

the penultimate section analyses the processes of how Malaysian Chinese businessmen build the trust at the both inter-country and inter-ethnic level. Thereafter, to explore the linkage among the sources of trust to the contexts of the consequences of trust.

In sum, through this empirical research, we would like to determine the following questions:-

- i. The perceptions of the concept of trust in Malaysian Chinese's economic behavior and how trust developed from the perspective of both cross-national and ethnicity view in one inter-firm relationship. Was there any difference in the basis of trust between countries and ethnical group which causing the trust building process differ significantly among the parties, is it inter-country or inter-ethnic discrimination?
- ii. Are those sources of trust related significantly to the consequences of trust (behavior of the trust) and to examine how strong the sources of trust influence the consequences.

Chapter 2 Literature Review

2.1 What is trust?

The interest on trust topic is increasingly tremendously in the area of sociology and management, particularly in the inter-organizational studies.

According to the previous works of researcher, trust could have both extrinsic value as well as the intrinsic value. The former is a basis for achieving certain social or economic goals; however, the latter is related to the total well being or the quality of life (Powell 1990; Gulati 1995; Nooteboom, 2002).

In view of trust has become more important in business relationship as we mentioned in the first chapter, we would like to examine or to study how the Malaysian Chinese develop the trust and consequences in the business context, at both the inter-country and inter-ethnic level. Therefore, in this research, the focus will be mainly on extrinsic value (economic value) of trust.

So what is trust? Trust can be defined as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer, Davis and Schoorman, 1995).

According to Nooteboom (2002), the disadvantages of trust is that it entails risk and can be betrayed, which may eventually put the firm in danger from a perspective of economic value. Therefore, he continued to argue that the importance and nature of trust arise from the unpredictability, or radical uncertainty of human behaviors. So, if there is no risk there will pointless to discuss about trust.

In the changed market situation or in the intense competition condition where risk have increased, the role of trust can be regarded as guarantor in reducing risk or minimizing complexity or by increasing certainty in inter-firm relationship. Trust is helping to improve the collaboration's performance and was seen as being able to depend on the partner to be honest, reliable, open, fair, cooperative and keep the promises whether given contractually or otherwise (Burchell and Wilkinson, 1997).

2.2 Sources of trust

A large quantity of studies focused on where is trust from. When deciding to trust, some people rely on reputation, previous experiences, personal relationship, and economic value and so on.

For example, the personality approaches emphasized on how individual personality causes the different attitudes in willingness to trust. The institutional approach insisted that the institutional arrangement is the force to make people reliable (Gambetta 1988). The network approach argued that social ties and network structure are the important roles during the process of producing trust (Granovetter 1985; Uzzi 1996).

Therefore, a number of trust building processes (sources of trust) were identified; however, according to the previous literature, Zucker (1986) characterized that “trust production” or “the trust building process” is build up from process-based, characteristic-based and institutional-based trusts.

In our research, drawing from Zucker's (1986) literature as well as other researches, we define the sources of trust in inter-firm relationship are most likely to be produced through the following 4 types:

- Economic-based (hostage-based) of trust
- Process-based of trust
- Characteristic-based of trust
- Institutional-based of trust

In the following section, we explore each of these perspectives in detail.

Economic-based (hostage-based) of trust

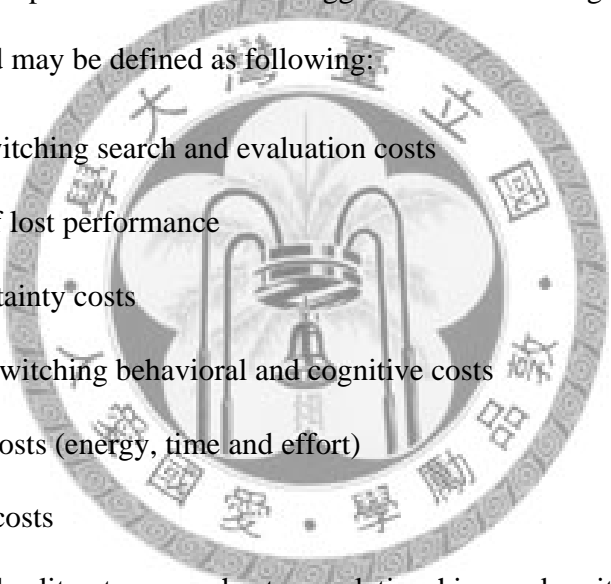
Economic-based of trust could basically linked with the concept of “the hostage relationship” as Williamson (1983) discusses “The Hostage Model” from a transactional cost economics view, which describing the potential use of assets or investment made by a certain partner or firm as a method of creating a form of hostage situation between business relationships. This assumes that exchange partners are part of the same social network. In addition, Williamson (1993) refers to this as "calculative trust."

Many examples focus largely on business-to-business relationships and the use of assets as a means of creating a hostage like bond between partner A and partner B. For example, Wathne and Heide (2000) discuss the “use of hostages in the form of specific theory assets” in inter-firm relationships. Similarly, Kim (2000) discusses forms of hostage relationship situations in distributor to supplier relationships; Gemser and Wijnberg (2001) discuss “mutual hostage arrangements” as an insurance mechanism in the avoidance of opportunistic behavior.

On the other hand, in view of the types of alliances and transactions, we shall not neglect the literate discussing on switching costs that have largely focused on barriers to relationship dissolution, which may result in the hostage relationship situation via

mechanism of investment. A common theme in the literature regarding hostage relationships and switching costs seems to focus on the growth of dependence of the buyer on supplier as the relationship continues and further investment or personal costs are established within the relationship.

For example, Colgate and Lang (2001) describe switching costs as “the costs of changing services in terms of time, monetary and psychological costs”. Similarly Jones et al. (2002) provide a detailed investigation of categories of switching costs that act as barriers to relationship dissolution and suggest that switching costs’ construct is multidimensional and may be defined as following:

- 
- pre-switching search and evaluation costs
 - cost of lost performance
 - uncertainty costs
 - post-switching behavioral and cognitive costs
 - sunk costs (energy, time and effort)
 - setup costs

Therefore, the literatures on hostage relationships and switching costs are very similar in that they both rely on the dependence of either trading party and both involve a personal or monetary investment to form the bond of the hostage situation. For example, stock ownership in particular, aligns trading parties’ incentives and may get them to behave in a more trustworthy fashion (Pisano, 1989; Dyer and Ouchi, 1993). Stock ownership may produce trustworthy behavior that, over time, results in higher levels of trust.

In many instances, the stock tie acts as a symbol of the relationship, thereby encouraging individuals to develop a trust orientation towards the partner organization

(Gerlach, 1987). Shared equity or partial ownership may create conditions for informal trust to develop by aligning the both parties' incentives.

Therefore, the trading parties may behave in a trustworthy manner (refuse to be opportunistic) due to "credible commitments" that they have made with others trading partner (Klein, 1980; Williamson, 1983). Subsequently, it is the result of relationship constraint that preventing one's propensity to switch to an alternative opportunity or opportunistic behavior.

Process-based trust

Process-based trust refers to the type of trust that is dependent on past transactions/interaction (repeated purchases) and reputation (expected future exchanges) (Parkhe, 1998b). Through repeat purchases and interactive communication (whether formal or informal channel of communication) with the others, both parties expecting a long-term relationship and stronger relationships with trading parties and create a comparative advantage over the competitors (Parkhe, 1998b).

Unlike characteristic-based trust, process-based trust builds on reputation, thus, one of the key aforementioned factors in building this type of trust is satisfaction with previous interactions experience (Parkhe, 1998b). This process-based trust involves an extensive knowledge of prior personal history and demands extensive interpersonal interactions over lengthy periods of time (Zucker, 1986). Trust is expected to emerge under conditions of continuous repeated transactions (Gulati, 1995) due to the trading parties' routines that are predictable and consistent and which do not switch (perhaps opportunistically) business to competitors (Butler, 1991; Heidi and Miner, 1992).

In the same fashion, according to Parkhe (1998a), it is vital to employ the principle of repeated reinforcement of positive experiences to develop the trust, being trustworthy and being known to be trustworthy. Therefore, process-based trust is expensive in the relationship exchange because it requires overtime-dynamic interaction and transaction experiences.

Thus, the process-based perspective recognizes that inter-firm trust may be built upon impersonal processes and routines that create a stable context for exchange. Individuals may come and go at the two organizations but the trust orientation will not be affected because trust is not based on individual relationships.

On the other hand, in the case without any previous interaction history, trust still could be developing in such a relationship based upon the reputation of transacting partners within the same industry (Parkhe, 1998a). Reputation is a form of social guarantee that can guarantee contract performance without prior acquaintance. The stronger the reputation, the more secure we feel to trust on the partners. Therefore, to create process-based trust, it is important to convince the trusting party of one owns trustworthiness, because when one party trusts another, the trusted party often feels bound by the trust placed in them to give in return the trust (Blau, 1964).

In summary, it should be noted that process-based trust is also highly valuable where repeat transaction are often involved. This type of trust advances a short-run oriented transaction relationship into a long-run oriented exchange relationship between the customer and the vendor, buyer and supplier, etc. Prior positive buying experience with a party will stimulate further cooperation, enhance commitment, and encourage a long-term interaction between the customer and the vendor.

Characteristic-based of trust

According to the sociological perspective, trust emerges through social interactions between exchange partners (Granovetter, 1985; Powell, 1990; Uzzi, 1997). Therefore, the characteristic-based of trust focuses on individual commonalties that may be relatively general (gender, ethnicity, nationality, religion) or specific (kinship and clan membership).

The social similarity based upon individual commonalties creates a sense of community, and thus a feeling of shared-binding as well as shared ethical and moral habits. In this mechanism, similarity of cultural values is the driving force in creating trust (Gefen, 1997; Zucker 1986). This shared binding and the internalized reciprocal moral obligations, give members of the social-group a sense that they can trust each other and subsequently reduces the need for explicit rules and regulations and creates an inherited ethical habit (Gefen, 1997).

Accordingly to Granovetter (1985), "social relations, rather than institutional arrangements or generalized morality, are mainly responsible for the production of trust in economic life". For example, most individuals are less likely to take advantage of those with whom they have had long and stable past interactions such as family members, friends, former classmates, and former activities club member and so on. It is because prior relationship between both parties creates trust and familiarity and thus, reduces the opportunistic behavior as well as facilitating the conflict resolution (Parkhe, 1998a).

On top of that, these parties can impose social sanctions on the offending individual. Various types of social sanctions could be applied to control opportunism such

as withdrawal of love, respect, prestige, or the worst is banishment from the social community (Light, 1972; Smith, 1983; Ellickson, 1991). Thus, individuals that take unfair advantage of a trading partner or the opportunistic behavior may face the sanctions imposed by other members of the social network.

In addition, through long-term interaction, a "social memory" is created and trading parties can achieve "serial equity" (equity/reciprocity over a longer period) rather than requiring immediate or "spot equity" (Ouchi, 1984). Thus, we would expect higher levels of trust to emerge in exchange relationships where the trading parties have a long history of interacting.

Granovetter (1985) further urged that, "the embeddedness argument stresses the role of concrete personal relations and structures (or 'networks') of such relations in generating trust and discouraging malfeasance." The greater the extent of these relationships or network, the greater the implied similarity of background expectations, and, hence, the more trust toward the trading partners. As a result, trusted relationship develops among firms (Zucker, 1986), groups within a firm (Ouchi, 1979), and strategically allied companies as well (Fukuyama, 1995).

In summary, the social perspective (Granovetter, 1985; Dore, 1983; Powell, 1990; Uzzi, 1997) suggests that trust will emerge due to social interactions between trading partners. As the duration and intensity of interactions between transactors increases, we would expect bonds of attraction to develop and social sanctions to be more efficacious.

Institution-based of trust

Institution-based trust is distinct from economic-based, characteristic and process-based trust in which it generalizes beyond both a given transaction and specific sets of exchange partners (Karpinski, 2000). Institution-based trust is the most likely to reduce trading parties' concerns about personal and transactional information so that could engage in long-term exchanges with their trading partners.

Given the uncertainty of transactions and no previous interaction or the both trading parties may come from different social and cultural backgrounds, encouragement of the creation of formal mechanisms increased, such as the following examples, to assure inter-organizational or inter-firm exchange relationships and facilitating the transactions by reducing the risk of opportunism as well as increasing the reputation (Zucker, 1986):

1. association and obligation structure that derives from membership of business and professional associations (Zucker, 1986; Parkhe, 1998a)
2. intermediary mechanisms such as government regulations, contractual agreement, legal stipulation in the agreement (Zucker, 1986; Parkhe, 1998a)
3. third party's recommendation, standard bodies such as ISO (International Organization for Standardization) and other certifications (Zucker, 1986; Parkhe, 1998a)

Therefore, the abovementioned actions will reduce the attractiveness of cheating and thus, increase the cooperative behaviors. The notion of institutional trust (Zucker, 1986), discusses how specific institution-based structures help engender inter-firm trust and indirectly influence transaction success as well as urging institutional trust is the most

important mode of trust creation in business environments or in market where experience is not readily available.

Escrows guarantee the financial side of the transaction by making sure that the third party releases funds only when both parties agree that the terms of the deal have been met. Certification deals with licenses and accreditation, which testify to the ability and expected behavior of the trusted party. These trust mechanisms may provide the much needed “trust infrastructure” because it has a formal marketable structure such as institutions and third party guarantors that actually sell certificates pledging integrity, ability, and intentions. Such certifications are deliberately used to build trust in the bearer’s ability through external guarantors such as universities and state regulators or other related institution. It can help to evaluate the trading parties, confirm their identity, and perform long run and committed transactions.

Furthermore, the importance of institutional trust is illustrated by the enforcement on the effect of conforming a contractual relationship through legal system or trade association (Bachmann, 2002, 2002). The trust building process is greatly dependent on the enforcement of that particular authority in protecting one contractual relationship and inflicts penalties for the cheating or violative behaviors.

For example, the trades associations regulate against unfair pricing, determine the standard quality of products, remove ambiguity form inter-firm relationships and so on (Burchell and Wilkinson, 1997). By anticipating some of the foreseeable contingencies and by stipulating reasonable punishments for each of the contingency will definitely help to increase the confident of each party as well as the expected cooperative behavior (Parkhe, 1998b).

Therefore, trust could be developed and be found in the abovementioned immovable collateral and other formal guarantees, without prior acquaintance or experiences. Collateral-based enforcement is particularly important for large transactions.

2.3 The consequences of trust

Although contracts are an important part of any inter-firm relationship, it is generally accepted that informal understanding based on trust, may prove even more powerful than contracts in assuring a successful relationship. Hence, this section focuses on the role of formal controls (contract) as the consequences from the trust and to understand what flexibility means and why does it need to exist in a contractual relationship.

According to the CEO of the International Association of Contract and Commercial Management (IACCM), Tim Cummins, he said: “Getting a contract signed achieves very little. It is the beginning of the journey, not the end.” It is because incomplete contracts predominate in business. Therefore, increased flexibility in volatile market conditions is necessary to increase the competitiveness of the business in economic upturns and downturns.

Relationships between formal contracts and trust are developed based on the empirical observations from the case study conducted and prior literature. One of the most notable studies is the research of Burchell and Wilkinson (1997), the role of trust in contractual relationships or trading environment between firms in Britain, Germany and Italy is investigated with a survey of over 60 firms.

Drawing from the result of the abovementioned study, the action of trust or so called the consequences of trust in business context could be divided into three dimensions as following:-

1. Contract adherence
2. Flexibility beyond contract
3. Flexibility outside contract or relationship outside contract

First, the action or results associated with the **contract adherence** is referring to strictly honoring the terms of contracts, such as paying or delivering the afore-agreed terms on time, maintaining high product quality at all the times, honoring the terms of contracts, preserving confidentiality and so on. Adhering to what have been agreed is considered as the most basic trust that the partners should provide in the inter-firm relationship (Burchell and Wilkinson, 1997). It is because not all people are saints all of the time; as the relationship unfolds there will be opportunities for one party to take advantage of the other's vulnerability, to engage in strategic behavior, or to follow his own interests at the expense of the other party.

Second, the action or results associated with **flexibility beyond contract** are highly related to flexibility in business activity such as being ready to exchange business information, being ready to renegotiate the terms of contract at any time, honoring informal understanding. This is to serve the purpose fill in the interstices of contracts and to provide informal understanding going beyond the contact (Burchell and Wilkinson, 1997). Flexibility arises when contractual performance is made contingent upon external conditions affecting one of the parties. The idea is that a party who cannot deliver or client

who cannot pay is allowed to renegotiate the contract and default from his or her original obligations. Flexibility is thus a form of insurance, of risk sharing.

Fafchamps (1996) has argued that, unless contracts are flexible and later renegotiate the terms of those contracts are allowed, economic exchange cannot take place as the parties can never to completely assure they could adhere to their contractual term or obligations due to the external condition preventing them from doing so. Therefore, it is worth to note that contractual term or obligations must be sufficiently flexible so that parties are not afraid to engage into a contractual relationship, however, not too flexible to encourage opportunistic behavior.

Third, the action or results associated with **flexibility outside contract** are more reflected in a social way such as being ready to help during emergency, being willing to negotiate or being considerate as well as high level of forgiveness during the hard time and to overlook faults (Burchell and Wilkinson, 1997). Therefore, the flexibility outside contract is more similar to the fashion of relational exchange (Dyer and Singh, 1998). It is because they value long-term relationships over contracts. For many business exchanges, emphasis on relational exchange has brought about greater communication, coordination, and planning between partners (Spekman and Johnston, 1986).

The relational exchange and long-term relationships are considered as to be one of the most important resources for developing competitive advantages (Dyer and Singh, 1998). As illustrated by Macaulay (1963), buyer-seller relations are often governed without the use of contracts; however, based on the informal agreements and flexible adjustments when new contingencies develop.

Chapter 3 National Economic of Malaysia

3.1 Geography

Map of West Malaysia (Peninsular Malaysia) and East Malaysia (Malaysian Borneo).



Malaysia is a founding member of the Association of Southeast Asian Nations (ASEAN) and participates in many international organizations such as the United Nations. Basically, Malaysia is a federation in Southeast Asia that consists of thirteen states (11 in peninsular Malaysia and 2 in Malaysian Borneo) and thus, the country is separated into two regions — Peninsular Malaysia and Malaysian Borneo by the South China Sea. The Strait of Malacca, lying between Indonesia and Peninsular Malaysia, is arguably the most important shipping lane in the world.

Malaysia is the 43rd most populated country and the 66th largest country by total land area in the world, with a population of about 27 million. It is multi-ethnic with Malay, Chinese, Indian and other Eurasian groups, with the Malays at 50.4% making up the majority and 23.7% of the population are Malaysian of Chinese descent, while Malaysian

of Indian descent comprise 7.1% of the population. Thus, basically, Malays form the majority of the population of Malaysia followed by sizable Chinese and Indian communities.

3.2 The economic within the country: Inter-ethnicity

After the 13 May race riots of 1969, Malaysia has since maintained a delicate ethno-political balance, with a system of government that has attempted to combine overall economic development with political and economic policies that promote equitable participation of all races. The controversial New Economic Policy—intended to increase proportionately the share of the economic pie of the native/indigenous people (the majority Malays) as compared to other ethnic groups (includes Chinese and Indian)—was launched by the 2nd Prime Minister of Malaysia- Tunku Abdul Razak.

Malaysia, a middle-income country but been acknowledged as the richest and best managed Islamic democracy in the World³, has transformed itself since the 1970s from a producer of raw materials into an emerging multi-sector economy, to one that is among the strongest, most diversified, and fastest-growing in Southeast Asia.

Since Dr Mahathir became prime minister in 1981, he introduced a “discriminatory” quota system in education and jobs for Malay/native group, but ensured it did not disturb the underlying economy (Ramona, 2002). In view of the Malaysian economy has long been dominated by the country’s Chinese, the goal of this discriminatory system has been to endow the Malays with greater economic opportunities and to develop

³For this information, I referred to: "Malaysia." *Encyclopædia Britannica*. 2009. Encyclopædia Britannica Online. 14 May. 2009 <<http://www.britannica.com/EBchecked/topic/359754/Malaysia>>.

their management and entrepreneurial skills to strike a balance between the goals of economic growth and the redistribution of wealth⁴.

Consequently, this ethnic discrimination in employment and higher education have indeed successfully created a middle/upper class of Malay businesspersons and professionals. Thus, the Malaysian government maintains this policy of discrimination that favors ethnic Malays over other races and such a policy has been broadened, including preferential treatment in employment, education, scholarships, business, access to cheaper housing and assisted savings.

In addition, the Malaysian Chinese control of the locally-owned sector of the country's economy, meanwhile, has been ceded largely in favor of the native/Malays in many essential or strategic industries such as petroleum retailing, transportation, agriculture, etc. This special treatment has sparked envy and resentment between non-Malays and Malay.

Therefore, in view of the multi-ethnic environment, ethnic entrepreneurship spirit of Chinese in Malaysia has long fascinated many sociology researchers and stimulated the debate. Since Malaysian Chinese often embed their economic decision in specific social structures, we believe that the variation in ethnic social structures may influence the trust building process as well as the outcomes (consequences) of the trust.

⁴For this information, I refer to CIA World Factbook, December2003. <http://www.cia.gov/cia/publications>

3.3 The economic relations with the World: Inter-country

Today, natural resource remains important as Malaysia is a major producer of rubber and palm oil, exports considerable quantities of petroleum and natural gas, and is one of the world's largest sources of commercial hardwoods. However, with Mahathir at the helm steering the nation forward, Malaysia has emphasized export-oriented manufacturing to fuel its economic growth. By the early 21st century, the sector had become the backbone of Malaysia's economic growth, constituting the largest share (nearly one-third) of the country's GDP⁵.

Therefore, Malaysia is moving steadily towards developed-nation status by the year 2020 (Zainah, 1987). In conjunction with the vision 2020, the government has established the Ministry of International Trade and Industry to position Malaysia as the world's top ten trading nation by 2020. The mission of the ministry is to promote and strategize Malaysia's global competitiveness in international trade by producing high value added goods and services.

Using the comparative advantages of a relatively inexpensive but educated labor force, well-developed infrastructure, political stability, and an undervalued currency, Malaysia has attracted considerable foreign investment and build the bilateral ties with regional powers, especially the Western and Japan.

Accordingly to the latest report from CIA- Central Intelligence Agency of the States, Malaysia's export partners are as the following: **US** 15.6%, **Singapore** 14.6%, **Japan** 9.1%, **China** 8.8%, Thailand 5%, Hong Kong 4.6% (2007). The exports

⁵ For this information, I refer to CIA World Factbook, December 2003. <http://www.cia.gov/cia/publications>

commodities are as electronic equipment, petroleum and liquefied natural gas, wood and wood products, palm oil, rubber, textiles, chemicals (Kazi 2003b).

On the other hand, the import partners are as: **Japan** 13%, **China** 12.9%, **Singapore** 11.5%, **US** 10.8%, Taiwan 5.7%, Thailand 5.3%, South Korea 4.9%, Germany 4.6%, Indonesia 4.2% (2007) in electronics, machinery, petroleum products, plastics, vehicles, iron and steel products, as well as chemicals (Kazi 2003b).

Relationship with Japan

The diplomatic relationships between Malaysia and Japan have been established since 1957 and by the year 2006, number of Japanese nationals residing in Malaysia is approximately 9,928⁶.

According to the 2005 data from the Ministry of Foreign Affair of Japan, the direct investment from Japan into Malaysia is 58.1 billion yen⁶. On the other hand, the trade with Japan for exports and imports are 1,618 billion and 1,383 billion yen respectively for 2005. However, for the total cumulative in Technical Cooperation is about \$ 105 billion yen.

On 13 July 2006 in Tokyo, relevant parties from both Japan and Malaysia, such as Trade and Industry of Japan and the Minister of International Trade and Industry of Malaysia, hold the first meeting of the joint committee established under the agreement between the government of Japan and the government of Malaysia for an economic partnership.

⁶ For this information, I refer to Ministry of Foreign Affairs of Japan, 2009
< <http://www.mofa.go.jp/region/asia-paci/malaysia/index.html>>

They shared the view that the agreement will contribute toward enhancing the cross-border flow of goods, services and capital between Japan and Malaysia, as well as bilateral cooperation in fields of mutual interest. They underscored that the agreement will enable both countries to make the most of their economic complementarity and further promote the development of their respective economies. The Ministers also stressed that the agreement constitutes a solid basis for the strategic partnership between Japan and Malaysia.

Following the example set by Japan, Malaysia has successfully transformed from an exporter of rubber and tin into a manufacturer of electronic equipment, steel and cars. Since then, manufacturing has undergone rapid expansion and has a large influence in the country's economy and helped transform Malaysia into an Asian economic tiger (Chaudhuri, 2006).

Western Countries

In the wake of September 11 terrorism attack to the United State, perception between the West and the East (particularly the Islamic world such as Malaysia) has changed drastically. Suspicion towards each other developed, adding fuel to the history of tensed relationships since the Iraq war and Asian crisis that see the East blaming the West on their aggression and greed of speculation. It also led to a search for development models in Asia, most notably Japan.

However, today, the United States still is Malaysia's largest trading partner and Malaysia is the tenth-largest trading partner of the U.S. and the cumulative value of United States private investment in Malaysia exceeds \$10 billion⁷. Growing economy of Malaysia

⁷ For this information, I refer to 10. " Malaysia–United States relations" Wikipedia. 12 May 2009 <http://en.wikipedia.org/wiki/Malaysia_%E2%80%93United_States_relations >.

increases demand for U.S. exports and Malaysia offers many excellent prospects for U.S. exporters. In addition, computer sales in Malaysia are at record levels and record growth rates, creating a strong market for computers and peripherals, for instances, Intel, Dell as well as other Computer giant brand have already set up their plants in Malaysia.

Questions arise whether Malaysia can overcome the many new challenges that it will confront with the rising tide of globalization. Will Malaysia be able to seize the opportunities through globalization and collaboration with the powerful multinationals corporations? Could a successful alliances or collaboration exist in such a condition full with cultural dissimilarity?

As we can see from the above information, Japan and the United States of America are the Malaysia's major trading partners as well as the source of investment and technology. The number of Japanese and Western subsidiaries or joint ventures or strategic alliances in Malaysia has significantly increased in the past decade, and thus, we would like to identify their pattern of trust building process of Malaysian Chinese group, in the existence of cultural barriers.

With the possession of intangible assets (technology transfer) and tangible assets (setting up manufacturing plants) apart from human resources, will those foreign investments might help to develop the economic-based of trust and act as an exclusive prerequisite to establish the inter-firm relationship?

Will the style of western business management adapts itself to the Chinese ways of doing business or alternatively, Malaysian Chinese will try to adapt the western way of doing business, in which formal mechanism is more often being used. If Yes, will the role

of informal network or guanxi as the main factor responsible for the success of the Chinese business community in Malaysia faded if the trading partners are from Western? If No, will Malaysian Chinese develop trust according to the own contemporary ones and continue the notion of "Look East Policy" in the business context.



Chapter 4 Research Methodology

4.1 Research setting

In this thesis, the research design, data collection, and data analysis were devised to enable an exploratory test to be made to study the sources and consequences of trust in the Malaysian Chinese community.

In this thesis, two separate tests were carried out at country as well as ethnic level. The Western, Japan and Malaysia were included at the country level; on the other hand, Indian, Chinese and Native (Malay) were included for the ethnic level within-Malaysia. The research attempts to study the differences in sources and consequences of trust relationship of Malaysian Chinese not only within-Malaysia but also in a cross-country setting to allow us to determine which factors influence the sources and consequences of trust as well as which are country specific or ethnic specific.

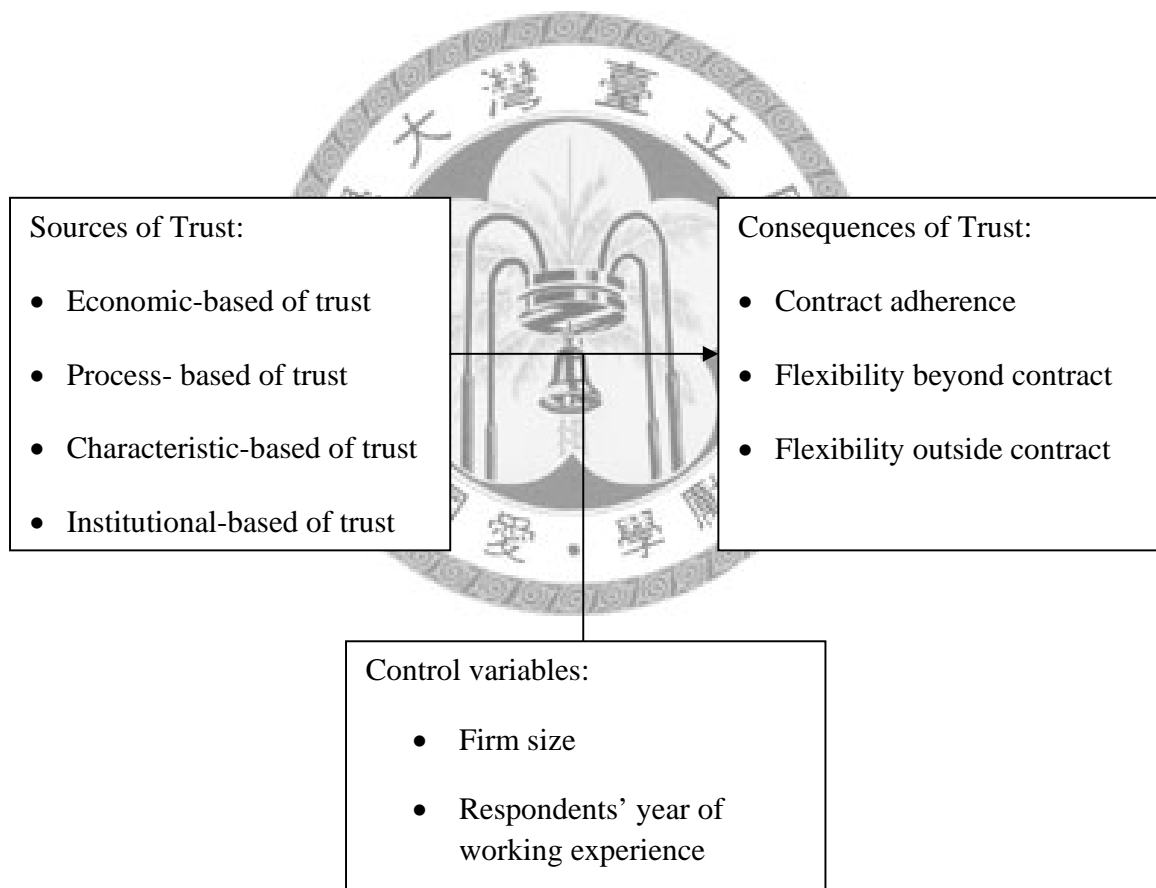
In this thesis, Japan was chosen because it is the largest import partner of Malaysia as described in the earlier section. As for Western, it was chosen because United States is the largest export partner of Malaysia as described in the earlier section. In addition, Malaysia, once upon a time, was one of the former British colonies. Given close relationship between Malaysia and West countries through the abovementioned economic exchanges relationship and membership of British colonies, Malaysia is in the best position to utilize its social capital to attract mutually beneficial economic activities.

Second, these two region countries have been especially aggressive in capitalizing on overseas market opportunities, particularly in the Asia-Pacific region such as Malaysia. In addition, there is a large cultural difference exists between the two region countries, for

example, they both have differences in language, consumer attitudes, law and regulations, and business practices. Therefore, making such a selection allows this study to focus on the role of cultural dissimilarity as a key factor in international transactions.

The research frame is showed in the figure 1.

Figure 1 : Research Framework



4.2 Sample and Data Collection

In this chapter, sample, data collection and analytic methods will be explained and to show the reliability of the construct.

As it was mentioned in the earlier section, the research examined the Malaysian Chinese's internationalization experiences, both in term of sources of trust as well as consequences of trust. Both country level and ethnic level tests provide an ideal context for a study such as this.

A two-stage research design was employed. The first stage involved in-depth interview with several Malaysia Chinese-businessmen (whom were currently involved in international market). The purpose of this phase was to gain a first-hand understanding of the factors that motivated the “production of trust” or so called the sources of trust as well as the consequences of trust.

Stage 2 involved a cross-sectional survey of the firms in Malaysia and from this resultant sampling frame, 86 firms from the list agreed to participate in the survey were involved in international transactions or market. Using the pre-administered Chinese questionnaire as the point of departure, the same was translated into English and thus, e-mails containing both pretested Chinese and English questionnaires were mailed to all the aforementioned 86 firms in Penang, a state of Malaysia. Penang was chosen because it was experiencing a very huge sectoral transformation from the last few decades. Manufacturing is the most important component of the Penang economy, contributing 45.9% of the State's GDP (2000). It is highly industrialized with high-tech electronics plants (such as Dell, Intel,

AMD, Altera, Motorola, Agilent, Hitachi, Osram, Plexus, Bosch and Seagate) located within the Bayan Lepas Free Industrial Zone.

Of the 86 firms who agreed, 63 questionnaires were returned, however, usable responses were only 53(61.63% response rate). The rest of the 10 questionnaires were dropped due to the incomplete information. The data collection was done between April and May 2009.

The sample had a wide variety of the nature of business, such as legal consultant/services and manufacturing industry ranging from simple technology products (such as frozen food, air-grilled system), through medium technology products (such as capacitors, voltage transformers, electro-chemical plant equipment, computer), to higher technology products (such as sonic products). The simple parameter used to distinguish the size of the firm was the total number of employees for that particular firm in Malaysia and the cut-off point is 1000. In this thesis, 34 of the sample firms had less than 1000 employees; on the other hand, 19 of the firms were with more than 1000 employees.

In the email, the covering letter attached herein directed the questionnaire to the senior executive officer or key person that responsible for the firm's international transaction or market. If they were not so involved, it was requested that it be forwarded to the superiors. Thus, the presence of a single underlying organizational trait or construct was assumed rather than multiple individual realities.

From a methodological viewpoint, relying on a single person (key informant) for a study such as this has advantages and disadvantages (Philips, 1981). A question may arise whether a single respondent from each firm has sufficient knowledge and ability to assess

the questionnaires. Although responses from multiple informants would have been preferred, however, two problems were identified in using multiple informants such as the selection problem as well as the perceptual agreement problem (Kumar, Stern and Anderson, 1993).

In the selection problem, response errors were likely to be higher for informants whose roles were not closely associated with the phenomena under study. However, in the perceptual agreement problem, the responses have often failed to demonstrate high levels of perceptual agreement and disagreements may arise because of differences in both knowledge and perceptions (Kumar, Stern and Anderson, 1993).

In view of the aforementioned problems, we believe that our respondents were well positioned to make this assessment for the several reasons in explaining our decisions not to use multiple informants. First, because informants were asked to report on their firms' relationships with other firms, it is vital that a tenure question should focus on how long informants have interacted with the others, not on the length of their current employment. Hence, our informant's involvement with the other both foreign and local firms and the length of time the informant has interacted with the other firms has taken into consideration (Kumar, Stern and Anderson, 1993).

In our research, the respondents had been employed for at least 3 years and had primary responsibility for managing the day-to-day relationship with both local and foreign customers or counterparts and they were well aware of the variety of interactions within the local as well as the foreign. Thus, they had a quite considerable working experience and knowledgeable enough to be asked about the level of trust in the firm's relationship with others.

4.3 Measurements of variables

In this research, constructs were the hypothetical variables that were being measured and they were the four sources and three consequences of trust. The items (questions) were generated based on the literature mentioned in the earlier chapter and each item was a statement followed by a seven-point Likert scale. Each respondent was asked to rate each item on one to seven scales where one represented strongly disagree, four represented neutral and seven represented strongly agree.

In addition to the aforementioned items, a number of demographic measures, such as firm size, years of establishment, respondents' year of working experience as well as job position, were used to profile the firms and respondents that participated in our study.

In this research, the reliability and validity tests were especially important to determine if the items were a reliable measure of the constructs prior to the subsequent analyses. Hence, to ensure that the items(questions) asked related to the underlying construct(sources and consequences of trust) that we intended to measure and to determine the internal consistency or average correlation of items in the survey to gauge its reliability, Cronbach's alpha (Cronbach, 1951) for each construct was obtained through SPSS software (Statistical Package for the Social Sciences). The reliability of those constructs in this research was satisfactory in view of the Cronbach alpha was all above 0.6 in general as shown in the table 1, higher than 0.50 for exploratory studies (Hair et al., 1995).

Therefore, it was an acceptable value for a research instrument indicating high reliability and the inter-item correlations were high in measuring the same underlying construct.

Furthermore, factor command was used to check the dimensionality of the data and each construct was with eigen value of more than 1.0. According to Hair et al. (1992), the most commonly used method of determining whether items are loading on one construct was the latent root criterion (eigen values). Only the factors having eigen values greater than 1 were considered significant; those with eigenvalues less than 1 were considered insignificant and were disregarded.

In summary, the items for measuring the constructs (sources and consequences of trust) were reliable and valid. The data obtained can be used in subsequent data analysis.

According to the literature we mentioned in the earlier chapter, the sources of trust were constructed into economic-based trust, process-based trust, characteristic-based trust and institutional-based trust.

Economic-based trust was operationalized by the following sub measures:

- The inter-dependency level between both parties.
- The input level of various resources (technology, capital, equity involvement)
- The size/scale of the counterpart's company/organization/corporation.

The cronbach alpha for this construct was 0.74 and eigen value was 1.98, indicating high reliability as shown by the Table 1.

Process-based trust was operationalized by the following sub measures:

- The reputation/fame of the counterparts within the same industry.
- The satisfaction levels of the previous transaction experiences.

The cronbach alpha for this construct was 0.60 and eigen value was 1.44, indicating high reliability as shown by the Table 1.

Characteristic-based trust was operationalized by the following sub measures:

- Former acquaintance/personal relationship prior to the establishment of the contractual relationship.
- The counterparts share a similar background (i.e. former classmate, former colleague/co-worker, social group/community organization etc.)
- Contractual relationship established through a third-party recommendation, which is well acquainted with both parties
- The qualification/experience/seniority/execution style of the personnel in counterpart's company

The cronbach alpha for this construct was 0.76 and eigen value was 2.34, indicating high reliability as shown by the Table 1.

Institutional-based trust was operationalized by the following sub measures:

- The counterpart's recognition level in the business world (i.e. ISO Certification, IPO etc.)
- The willingness of the industry's player to abide by the law based upon the geographical area
- The counterpart's country's level of law enforcement

The cronbach alpha for this construct was 0.79 and eigen value was 2.11, indicating high reliability as shown by the Table 1.

Table 1: Measurement of the sources of Trust

Variables	Operational items	Cronbach α	Eigen Value
Economic-based	<ul style="list-style-type: none"> • The inter-dependency level between both parties. • The input level of various resources (technology, capital, equity involvement) • The size/scale of the counterpart's company (organization corporation) 	0.74	1.98
Process- based	<ul style="list-style-type: none"> • The reputation/fame of the counterparts within the same industry. • The satisfaction levels of the previous transaction experiences. 	0.60	1.44
Characteristic-based	<ul style="list-style-type: none"> • Former acquaintance/personal relationship prior to the establishment of the contractual relationship. • The counterpart shares a similar background (i.e. former classmate, former colleague/co-worker, social group/community organization etc.) • Contractual relationship established through a third-party recommendation, which is well acquainted with both parties • The qualification, experience, seniority, execution style of the personnel in counterpart's company 	0.76	2.34
Institutional-based	<ul style="list-style-type: none"> • The counterparts' recognition level in the business world (i.e ISO Certification, certification, IPO, etc.) • The willingness of the industry's player to abide by the law based upon the geographical area • The counterpart's country's level of law enforcement 	0.79	2.11

On the other hand, within the literature, the consequences of trust were contractual adherence, flexibility beyond contract and relationship outside contract.

Contractual adherence was operationalized by the following sub measures:

- I will strictly follow the contract based upon the exact terms and conditions.
- I will definitely maintain company trade secrets and confidences.

The cronbach alpha for this construct was 0.83 and eigen value was 1.71, indicating high reliability as shown by the Table 2.

Flexibility beyond contract was operationalized by the following sub measures:

- If abrupt changes occurred, I will remain flexible and adjust to the changes by modifying the contract to fit the needs
- I will allow my counterpart to make certain judgment calls, if expediency is necessary.
- If the contract needs to be amended, I will follow the conventional rules and regulations.

The cronbach alpha for this construct was 0.71 and eigen value was 1.90, indicating high reliability as shown by the Table 2.

Relationship outside contract was operationalized by the following sub measures:

- Aside from the agreements made within the contract, any verbal agreements made will also be honored.
- I value long-term relationships over contracts that are solely based upon profit with a counterpart that is unfamiliar to me.

- I will voluntarily provide important market information to my counterparts

The chronbach alpha for this construct was 0.67 and eigen value was 1.83, indicating high reliability as shown by the Table 2.

Table 2: Measurement of the consequences of trust

Variables	Operational items	Chronbach α	Eigen Value
Contractual adherence	<ul style="list-style-type: none"> • I will strictly follow the contract based upon the exact terms and conditions. • I will definitely maintain company trade secrets and confidences. 	0.83	1.71
Flexibility beyond contract	<ul style="list-style-type: none"> • If abrupt changes occurred, I will remain flexible and adjust to the changes by modifying the contract to fit the needs • I will allow my counterpart to make certain judgment calls, if expediency is necessary. • If the contract needs to be amended, I will follow the conventional rules and regulations. 	0.71	1.90
Relationship outside contract	<ul style="list-style-type: none"> • Aside from the agreements made within the contract, any verbal agreements made will also be honored. • I value long-term relationships over contracts that are solely based upon profit with a counterpart that is unfamiliar to me. • I will voluntarily provide important market information to my counterparts 	0.67	1.83

4.4 The Empirical Model

Subsequently, multiple regression analysis was conducted in order to examine how each of the four sources of trust may explain on the consequences of the trust and the impact of various simultaneous sources of trust upon each of the consequences of trust.

Four independent variables and three dependent variables were used for this empirical study in which the sources of trust were independent variables, however, the consequences of trust were dependent variables. On top of that, two control variables in this study were firm size and respondents' year of working experience.

The linear OLS regression model for each relationship between sources and consequences of trust was being written as following:-

Model 1:

$$\text{Contract adherence} = \beta_0 + \beta_1 \text{ECON} + \beta_2 \text{PRO} + \beta_3 \text{CHRC} + \beta_4 \text{INST} + \beta_5 \log \text{SIZE} + \beta_6 \text{YEAR} + \varepsilon_i$$

Model 2:

$$\text{Flexibility beyond contract} = \beta_0 + \beta_1 \text{ECON} + \beta_2 \text{PRO} + \beta_3 \text{CHRC} + \beta_4 \text{INST} + \beta_5 \log \text{SIZE} + \beta_6 \text{YEAR} + \varepsilon_i$$

Model 3:

$$\text{Relationship outside contract} = \beta_0 + \beta_1 \text{ECON} + \beta_2 \text{PRO} + \beta_3 \text{CHRC} + \beta_4 \text{INST} + \beta_5 \log \text{SIZE} + \beta_6 \text{YEAR} + \varepsilon_i$$

where β_0 through β_6 are the coefficients of the model,

ECON is the Economic-based trust

PRO is the Process-based trust

CHRC is the Characteristic-based trust

INST is the Institutional-based trust

SIZE is the firm size

YEAR is the respondents' year of working experience

ε_i is the error term.



Chapter 5 Data Analysis

5.1 Inter-country Analysis

As we mentioned in the chapter of introduction, the main purpose of this study is to examine how the Malaysian Chinese's economic behavior responds to the trust building process in inter-firm relationships and to explore how the sources and consequences of trust differ among international transacting parties of various nationalities and within-Malaysia ethnic groups. Does the trust building process differ significantly among the parties from various nationalities and ethnical groups, whether it is inter-country or inter-ethnic discrimination?

Hence, basically, both macro analysis and microanalysis were conducted through MANOVA analysis. The former is to see how trust differs at the inter-country level, however, the latter is to see how it differ at the inter-ethnic level within Malaysia itself. The simple descriptive statistics of the variables are shown in Table 3 as following:-

Table 3. Table of Descriptive Statistics

(Note: N= 265)

Variables	Minimum	Maximum	Mean	Std. Deviation
Contract adherence	1.0000	7.0000	5.5340	1.3970
Flexibility beyond contract	1.0000	7.0000	5.1799	1.1374
Flexibility outside contract	1.0000	7.0000	4.6893	1.3002
Economic-based of trust	1.0000	7.0000	5.2943	1.1513
Process-based of trust	1.0000	7.0000	5.7075	1.1425
Characteristic-based of trust	1.0000	7.0000	4.8358	1.1394
Institutional-based of trust	1.0000	7.0000	5.5434	1.1477
Firm size	1.0000	3.8000	2.2566	0.9055
Respondents' year of working experience	3.0000	33.0000	7.8868	7.3047

Table 4. The MANOVA table of the inter-country analysis

Inter-country	Western	Japan	Malaysian	F value	P Value	Scheffe
Contract adherence	5.9906 (1.1158)	6.1415 (1.1239)	5.1792 (1.4542)	14.2730	0.0000	1-3 2-3
Flexibility beyond contract	5.5094 (1.0533)	5.5786 (0.9678)	4.9371 (1.1572)	9.7040	0.0000	1-3 2-3
Flexibility outside contract	4.9623 (1.3199)	5.1824 (1.2736)	4.4340 (1.2431)	8.5020	0.0000	1-3 2-3
Economic-based of trust	5.6604 (0.9773)	5.6981 (0.9984)	5.0377 (1.1859)	10.6070	0.0000	1-3 2-3
Process-based of trust	6.0000 (0.9903)	6.0189 (0.9092)	5.5063 (1.2183)	6.4250	0.0020	1-3 2-3
Characteristic-based of trust	4.8726 (1.0926)	4.9481 (1.2212)	4.7862 (1.1306)	0.4340	0.6480	
Institutional-based of trust	5.8365 (1.1687)	5.8679 (0.9965)	5.3375 (1.1480)	6.6800	0.0010	1-3 2-3

Note:

a. **BOLDED** figures are the mean scores, figures in () are the standard deviation.

b. *N*= 265

According to the result shown by table 4, basically, all the sources of trust differ significantly among three countries except for Characteristic-based of trust.

According to the Scheffe's test that been used to determine the comparisons of all possible pairs of means, the score of Malaysian vs. Japan in the four sources and

consequences of trust was the highest among the other 2 pairs, which is followed by Malaysian vs. Western and Malaysian vs. Malaysian.

Economic-based of trust

As for **economic-based of trust**, the pair of Malaysian vs. Japan has the highest score of mean (5.6981), follows by Malaysian vs. Western (5.6604) and Malaysian vs. Malaysian (5.0377). According to Scheffe's test, the pairs of Malaysian vs. Japan and Malaysian vs. Western are significantly different from Malaysian vs. Malaysian.

It is explainable that most of the Malaysian Chinese highly dependent on the technical resources or know-how knowledge of Japan. Japan is the primary provider of technology for Malaysia (Peng, 2002). Therefore, Japan and Malaysia have already cultivated positive and good partnership as well as strong bilateral trade and investment linkages for a long time.

Furthermore, the **Look East Policy** of Malaysia and direct investment of the Japanese firms in Malaysia contribute to the close relationship between the two countries. For example, in order to attract higher foreign investment and to increase the skills of the industry workers to accommodate along with the needs of the era of high technology industries, positive strategies and ways have taken. One of those is the establishment of the higher technology training center which is the Japanese and Malaysian Technical Institute (JMTI).

In 1997, both governments have agreed to have a technical collaboration to establish it. The institute's main objective is to generate quality skilled workers through the skilled training programme at the higher level as it will cater to the industries needs in

Malaysia and prepares the students to adapt and face the challenge of the technology's rapid growth as well as the future globalization.

Hence, the level of dependency on Japan's technology is high and the technical collaboration is always expected while having business contact with Japanese. The Japanese business sector introduced their efforts on the promotion of technology transfer in the electronics R&D field and activities for the development of medium and small enterprises' ability conducted in collaboration between JACTIM (Japanese Chambers of Trade and Industry Malaysia) and SMIDEC (Small and Medium Industries Development Corporation) of Malaysia⁸.

Furthermore, Kojima (1978) argued that Japanese FDI is different from U.S. FDI because it is trade oriented. For example, Japan helps to enlarge harmonious trade between Japan and the host country such as Malaysia, whereas American FDI is oligopolistic which is started from industries in the U.S. that had the largest comparative advantages and it more toward the substitution of a trade.

Also, Aoki (1992) argued that the investment of Japanese firm into Malaysia and helped to form networks between free trade zones and local firms, in which the Japanese firms acting as hubs of production for local firms. In contrast, the U.S. firm actively concentrating on discrete processing or assembly of components for export. Hence, the input of the Japanese firm is highly expected and weighted. Therefore, Malaysian Chinese are more interested in forming long economic based of trust with Japanese than Western in all circumstances.

⁸ I obtained the relevant information through the website of JACTIM <http://www.jactim.org.my/>

Process-based trust

In the process-based of trust, pair of Malaysian vs. Japan has the highest score of mean (6.0189), follows by Malaysian vs. Western (6.0000) and Malaysian vs. Malaysian (5.5063). According to Scheffe's test, the pairs of Malaysian vs. Japan and Malaysian vs. Western are significantly different from Malaysian vs. Malaysian.

As we know, externally Japanese always intended to build stable, long-term reciprocal relationship; on the other hand, internally, the closed nature of the Japanese firms, for example, tendency to exclude outsiders and limit turnover rate of the working personnel. Therefore, Malaysian Chinese acknowledge the importance of having a more reputable partner or satisfactory interaction experiences while establishing such a long-term inter-firm's relationship.

Institutional-based trust

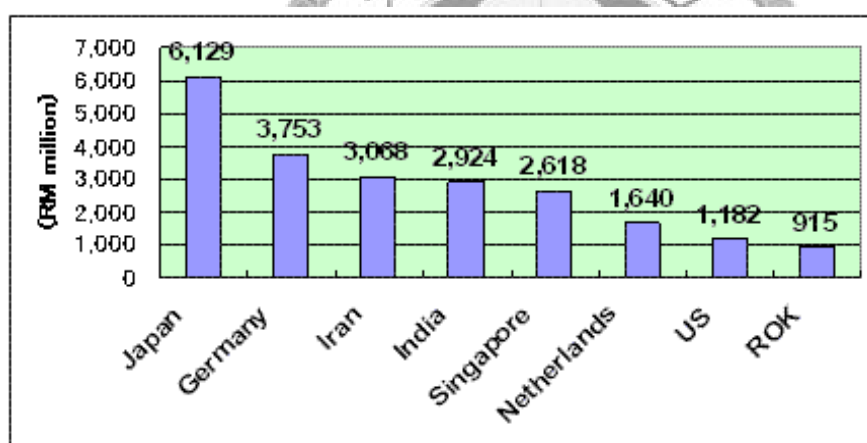
In the institutional-based of trust, pair of Malaysian vs. Japan has the highest score of mean(5.8679), follows by Malaysian vs. Western (5.8365) and Malaysian vs. Malaysian (5.3375). According to Scheffe's test, the pairs of Malaysian vs. Japan and Malaysian vs. Western are significantly different from Malaysian vs. Malaysian.

Formal mechanism has been playing a very important role and is realized by removing trade barriers between Malaysia and Japan through political means, typically an intergovernmental agreement. Most of the trade relationships were encouraged through the free trade area, economic union such as Japan-Malaysia Economic Partnership Agreement. Japan had concluded the Economic Partnership Agreement (EPA) in 2006, which is

expected to not only reduce Customs tariffs within five to 10 years to zero but also provide for a wider scope of cooperation between Malaysia and Japan.

Furthermore, in 2007, as of October shown by figure 2, Japan's investment in manufacturing sector, approved by MIDA (Malaysian Industrial Development Authority)⁹ has reached 1.75 billion in US dollar (6,129 billion Ringgit Malaysia), and at the same time, Japanese investment projects that have been approved by MIDA, consists 24% or one-fourth of total manufacturing investment into Malaysia (Figure 3). Hence, apparently, the approval from relevant authority is highly required.

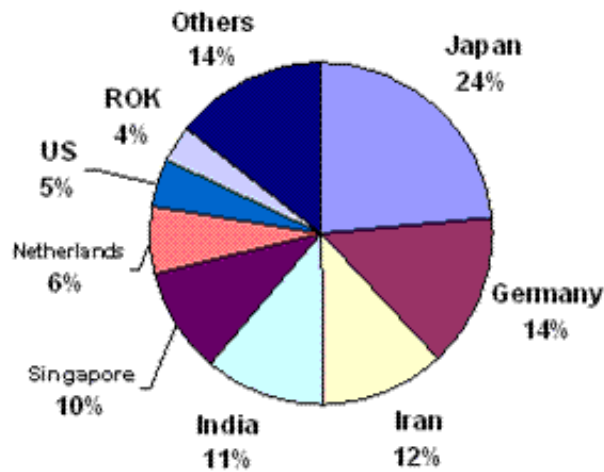
Figure 2: Approved Investment in Malaysia (January-October 2007)



(Source: MIDA)

⁹ I obtained the statistic data from the MIDA-<http://www.mida.gov.my/>.

One of the key function of MIDA is to evaluate applications for manufacturing licences and expatriate posts; tax incentives for manufacturing activities, tourism, R&D, training institutions and software development; and duty exemption on raw materials, components and machinery.



(Source:MIDA)

Figure 3: Share of Approved Manufacturing Investment in Malaysia (January-October 2007)

Now, the following section is to examine the differences of the consequences of the trust or the action resulted from the trust in the business context. As we mentioned in the earlier section, Malaysian-Japan has the maximum score out of all the pairs.

Contract Adherence

The pair of Malaysian vs. Japan has the highest score of mean (6.1415), follows by Malaysian vs. Western (5.9906) and Malaysian vs. Malaysia (5.1792). According to Scheffe's test, the pairs of Malaysian vs. Japan and Malaysian vs. Western are significantly different from Malaysian vs. Malaysian.

In the real business world, even people's motives are not self-centered; collaboration may still encounter many obstacles. Therefore, basic levels of formal coordination and control, such as contract, generally form a precondition for people to

initiate a transaction with external partners (Bachmann, 2001). Support is also provided by Hoecht's (2004) study of collaborative research projects, in which he found that legal instruments such as detailed contracts were considered normal rules of the game, which were not even relaxed if parties had long cooperative histories.

Therefore, the Malaysian Chinese acknowledge that the degrees the Japanese firm trust and distrust the partners during initial stages of cooperation leave strong imprints on the development of these relationships in later stages of collaboration. Hence, the Malaysian Chinese will strictly follow the formal contract as the Contract Adherence has scored 6.1415 the highest among all, follow by 5.9906 for Western and 5.1798 for own Malaysian. It could be explained by the fact Malaysia is so highly dependent on Japan's technology as well as capital input and, in order to keep the inter-form relationship they have to be adhering to what have been agreed.

Flexibility beyond contract

The pair of Malaysian vs. Japan group has the highest score of mean (5.5786), follows by Malaysian vs. Western (5.5094) and Malaysian vs. Malaysian (4.9371). According to Scheffe's test, the pairs of Malaysian vs. Japan and Malaysian vs. Western are significantly different from Malaysian vs. Malaysian.

However, irrespectively to the contract adherence, Malaysian Chinese remains a big room of flexibility towards the cooperation with Japanese firms and a score of 5.5786; the highest among all pairs. Perhaps, they understand that very high levels of formal coordination and control can be harmful to inter-firm's performance and relationship.

It is because the overregulated, burdensome and unfriendly terms that partners are forced to adhere will not do any good to the relationship (Beck and Kieser, 2003) but leads to conflict and disagreement among parties (Ring and Van de Ven, 1994). It also has a negative effect on creativity and innovation, and inhibits the flexibility that is needed for coping with complex, task environments (Mintzberg, 1994; Nooteboom, 1999; Volberda, 1998). Therefore, the Malaysian Chinese are much willing to modify the contract based on contingency condition or the conventional rules to avoid too impersonal behavior.

Flexibility outside contract

As for the flexibility outside contract, Malaysian vs. Japan has the highest score of mean (5.1824), follows by Malaysian vs. Western (4.9623) and Malaysian vs. Malaysian (4.4340). According to Scheffe's test, the pairs of Malaysian vs. Japan and Malaysian vs. Western are significantly different from Malaysian vs. Malaysian.

The Malaysian Chinese show the propensity to establish relationship outside contract with Japanese partners, as shown by the score of 5.1824, the highest among all. It could be because both are so highly associated in technology transfer project, tangible asset investment. Therefore, the Chinese will choose to honor the verbal agreement aside from the formal contract as well as they value the long-term relationship rather than instant profit. In addition, they are willing to share the information with the partners to earn credit. By doing so, the Japanese firm may perceive their partners as being more trustworthy than they originally thought them to be.

5.2 Inter-ethnic Analysis

Table 5. The MANOVA table of the Inter-ethnic analysis

Inter-ethnic	Indian	Chinese	Native	F value	P Value	Scheffe
Contract adherence	5.0849 (1.5151)	5.1132 (1.5084)	5.3396 (1.3473)	7.4040	0.0000	-
Flexibility beyond contract	4.8302 (1.2534)	5.1384 (1.0889)	4.8428 (1.1182)	5.5300	0.0000	-
Flexibility outside contract	4.2516 (1.3007)	4.5409 (1.2996)	4.5094 (1.1240)	4.6630	0.0010	-
Economic-based of trust	4.8113 (1.3197)	5.2893 (0.9807)	5.0126 (1.2053)	6.6140	0.0000	-
Process-based of trust	5.3113 (1.3054)	5.7264 (1.1543)	5.4811 (1.1765)	4.1600	0.0030	-
Characteristic-based of trust	4.5708 (1.1554)	4.9953 (1.0736)	4.7925 (1.1422)	1.1410	0.3380	-
Institutional-based of trust	5.2956 (1.1959)	5.3648 (1.1644)	5.3522 (1.1025)	3.3440	0.0110	-

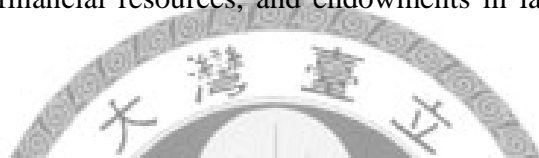
Note:

- BOLDED** figures are the mean scores, figures in () are standard deviation.
- N= 265

Hereafter, the term of Chinese, is used to refer to the Malaysian Chinese community in the following sections. In this section, MANOVA was done particularly to see how both sources and consequences of trust differ among the ethnic groups within Malaysia based upon the same database. According to the Scheffe's test, the three pairs (Chinese vs. Indian, Chinese vs. Chinese and Chinese vs. Malay) are not statistically different from each other.

However, the overall score of mean for Chinese vs. Chinese was the highest in all categories of sources of trust, however, Chinese vs. Indian pair has the minimum score of all.

The country-specific factors may contribute to the result of Indian and native (Malay) are receiving less trust on overall. This could be explained by the country-specific factors in which each country is a unique environment (Woodall, 1998) depending on the evolutionary stage of the economy, political system, government influence, natural resources, work ethic, financial resources, and endowments in land and labor, each may play a different role.



This analysis shows that the Chinese vs. Malay partnership is receiving less trust than the pair of Chinese vs. Chinese and it is partly due to the socio economy policies that have been implemented by the local authority. For example, in 1971, the New Economic Policy of Malaysia (NEP) was introduced and considered as “a form of governance that helped to create a stable political culture and a thriving, open economy” (Emsley, 1996). It had the stated goal of poverty eradication and economic restructuring to eliminate the identification of ethnicity with economic function. By doing so, will reduce the socioeconomic disparity between the Chinese minority and native (Malay) majority. Domestically, pressure was exerted to enable the native in Malaysia to acquire a greater share of national economic wealth. Although the policy ended officially in 1990, Malaysians often refer to the NEP in the present because many of the tangible economic benefits it offered the native group are ongoing.

For example, as we mentioned in the chapter two, the Malaysian Government has given protection to the native group by form of special loans, subsidies, market entry barriers for competitors, certain licenses, expanding state enterprises and offering better jobs or limiting the enterprises and job opportunities of ethnic outsiders. The purpose of these is to raise the competitiveness of the native group at the inter-ethnic level.

Furthermore, the implementation and enforcement of Industrial Coordination Act of 1975 required all manufacturing establishments above a certain registered capital to be licensed under the Ministry of Trade and Industry. The initial minimum entry for a shareholder's fund was M\$100,000, but this was raised to M\$250,000 in 1977 in an amendment to the act, then recently increased further to M\$2.5 million. It was hoped that by restricting both Chinese and foreign equity ownership, native ownership of the Malaysian corporate sector could eventually be increased from 2.6% in 1970 to 30% in 1990 (Jesudason, 1989 and Yeung, 1999).

In comparison to Malay and Chinese, the former is constantly protected under the NEP policy, where the latter is benefited from the strong and closed business network, Indian is considered the least powerful group and usually residue in the lower categories job field such as cheap construction labor. As a result, they are not really well receiving as a business collaborates as indicated by the minimum score of all categories, both in sources and consequences of trust. Perhaps, this is so-called economic discrimination by ethnicity.

Fortunately, Chinese business traditionally relies on business networks to facilitate transactions and get around host country discrimination and the historically so-called 'spirit of Chinese capitalism' rests with their ability to network together to form a relatively

coherent socio-economic group to survive discrimination in the host countries (Redding,1980).

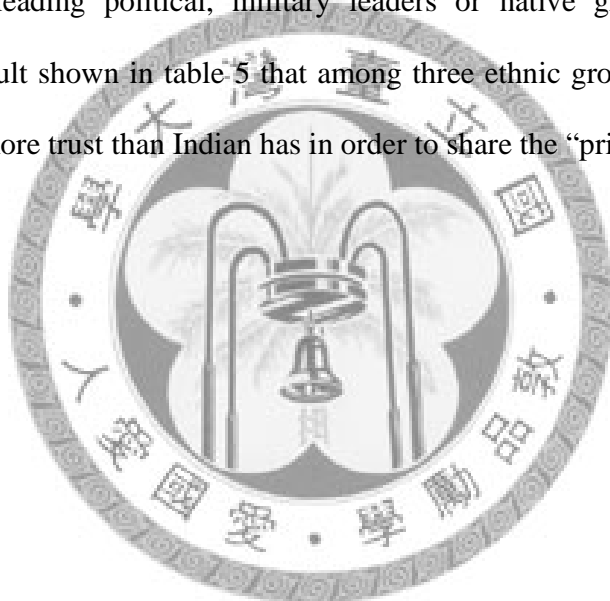
Therefore, for Chinese business, to trade-off between political stability and economic constraints, they have to trust the own Chinese more than other ethnical groups through the establishment of guanxi in Chinese business and its related network known as “Bamboo network” (Park & Luo, 2001). This could be explained by the result shown in table 5 that Chinese vs. Chinese transaction has been placing more trust than other 2 ethnic groups (Malay and India) due to the “collectivism” characteristic. Chinese is seeing each other “in groups”, hence, eventually willing to trust each other irrespectively to the trust building process.

In furtherance, this could be explained by the fact that ethnic Chinese communities have been so much impacted by the Confucian traditions such as respect for elders, the importance of family, and the primacy of relationships influence decision making in firms or while involving in trades (Backman,1995). They grouped these cultural characteristics under the term ‘Confucian dynamism’ and also argued that the “collectivism” characteristics present in Overseas Chinese culture that help to differentiate them from firms in the West (Chen, 1995). These influences are heavily based on cultural traditions that influence Overseas Chinese irrespectively of which nation they live, particularly East Asia (Malaysia) where the strength of Chinese culture is particularly clear (Backman, 1995).

Therefore, within the Chinese community, both trading partners will not merely dependent on the contract but show the propensity to establish flexibility beyond and outside contract to provide flexibility needed to cope with the changing environment and to create a long-term non-legal relationships. This could be justified from the analysis result

that the highest score for Contract Adherence was fall into the native group (5.3396) and follow by Chinese (5.1132). The Chinese, as a result from the economy discrimination, are not willing to help the Malay to leverage the competitiveness.

On the other hand, Chinese business firms are able to identify the initiatives of nation states or pool capital, for example, in the privatization of major public sector industries in Malaysia. To exploit the economic position of Malay and to secure privileges to those mega projects, many Chinese firms are engaged in government related opportunities with leading political, military leaders or native group. That could be explained by the result shown in table 5 that among three ethnic groups, native group has received relatively more trust than Indian has in order to share the “privileges”.



5.3 Regression Analysis

Table 6. The correlation matrices of the variables

Variables	1	2	3	4	5	6	7	8	9
1. Firm Size	1								
2. Respondents' year of working experience	-0.233 ***	1							
3. Contract adherence	0.000	0.078	1						
4. Flexibility beyond contract	0.051	0.053	0.498 ***	1					
5. Flexibility outside contract	-0.109	0.075	0.508 ***	0.452 ***	1				
6. Economic-based of trust	0.071	0.047	0.486 ***	0.356 ***	0.253 ***	1			
7. Process-based of trust	0.075	0.065	0.524 ***	0.317 ***	0.353 ***	0.677 ***	1		
8. Characteristic-based of trust	0.020	0.126 **	0.090	0.126 **	0.249 ***	0.332 ***	0.354 ***	1	
9. Institutional-based of trust	0.211 ***	-0.074	0.256 ***	0.148 **	0.230 ***	0.357 ***	0.435 ***	0.382 ***	1

Note:

a. *** Correlation is significant at the 0.01 level (2-tailed).

b. ** Correlation is significant at the 0.05 level (2-tailed).

c. $N = 265$

Table 7. Regression analysis of consequences of trust

Regression Model	Model One		Model Two		Model Three	
	<i>Contract Adherence</i>		<i>Flexibility beyond contract</i>		<i>Flexibility outside contract</i>	
	coefficient	P-value	coefficient	P-value	coefficient	P-value
Constant	19.527	0.000***	22.025	0.000***	19.431	0.000***
Economic-based of trust	0.263 (0.0850)	0.0000***	0.263 (0.078)	0.0010***	0.001 (0.088)	0.988
Process-based of trust	0.369 (0.089)	0.0000***	0.142 (0.082)	0.0870	0.280 (0.092)	0.001***
Characteristic-based of trust	-0.164 (0.071)	0.0050***	-0.015 (0.065)	0.8220	0.114 (0.073)	0.077
Institutional-based of trust	0.078 (0.074)	0.1970	-0.006 (0.068)	0.9300	0.097 (0.076)	0.152
Firm Size	-0.047 (0.082)	0.381	0.033 (0.076)	0.592	-0.150 (0.086)	0.013**
Respondents' year of working experience	0.057 (0.010)	0.284	0.040 (0.009)	0.507	0.015 (0.011)	0.806
F value	31.258***		10.344***		11.010***	
R-squared	0.325		0.137		0.145	
Adjusted R-squared	0.314		0.124		0.132	
Number of observation	265		265		265	

NOTE:

a. We measured most scales constructs (except “duration of relationship”) on 7-point

Likert-type scales (strongly disagree/strongly agree).

b. Figures in () are the standard error of mean.

c. Remark: ***represent $P < 0.01$, ** represent $P < 0.05$

Based on the same set of data, multiple regression analysis was conducted to identify and quantify precisely which source of trust is influencing the consequences. The

explanatory variables are the four sources of trust, which are economic-based of trust, process-based of trust, characteristic-based of trust as well as the institutional-based of trust. On the other hand, the dependent variables are the three consequences of trust such as contract adherence, flexibility beyond contract as well as the flexibility outside contract.

Contract Adherence

From the results shown in table 7, economic (coefficient = 0.263), process (coefficient = 0.369) as well as characteristic-based (coefficient = -0.164) of trust have significant influences on the “Contract Adherence”; however, institutional-based of trust was statistically insignificant to it.

The negative relation shown by characteristic-based of trust (coefficient -0.164) could be explained on the ground that the closer relationship the lesser dependency on the formal contract. It is because, maybe, the both parties already have built the common goal and good transaction experiences through the long-term relationship as shown by the high the standardized coefficients of process-based trust, which is 0.369. The process-based trust will help promote more efficient and coordination and thus, reduce the suspicion, communication breakdown or strained relationships and leads to faster reduction of uncertainty. Therefore, both partners work best when a climate of trust is developed and less dependent on the formal contract.

Flexibility beyond contract

From the results shown in table 7, only the economic-based of trust has significant influences on the “flexibility beyond contract”, which shown by the high standardized coefficients (beta) of 0.263.

The process, characteristic and institutional-based of trust was statistically insignificant to it. This could be explained on the ground that, the Chinese in Malaysia generally are more economic-oriented as they understand that propensity being opportunism might happen anytime, regardless the nationalities or ethnicity, unless hostage relationship is built in the transaction. Hence, while talking about to provide additional flexibility for the formal contract under the uncertainty condition, the Chinese knows it is necessary to seek for the non-legal nature protection at the same time.

The specific assets will be used as an insurance mechanism in the avoidance of opportunistic behavior; especially the business environment and competitive conditions are changing. Both parties in a hostage relationship will show feelings of inability to remove themselves from the relationship due to personal and monetary costs that involved. Therefore, they believe that actions of partners are good for mutual goal and will not lead to any unfavorable result or action

As a result, they are willing to take actions that might be more risky to show support and trust for partners through giving out the flexibility beyond contract, allowing the partners to make own judgments or adopting civilized contract regulations.

Flexibility outside contract

From the results shown in table 7, only the process-based of trust has significant influences on the “flexibility outside contract”, which shown by the high standardized coefficients (beta) of 0.280.

From the statistic results, the high-standardized coefficients (beta) of process-based of trust suggest that reputation and frequently repeated contact are important in building the extra-ordinary relationship outside contract or relational exchange.

Obviously, the increase of interaction could help to enhance confidence in the trust and commitment for each other that subsequently contributed as advancement to make relationships outside the contract more closed virtually. This kind of way of trust is completely not dependent on the formal rules but emphasized the important of experience. Thus supports the claim of Macneil (1978, 1980) that relational exchange transpires over time; each transaction must be viewed in terms of the history and its predictable future.

On top of that, the relational exchange participants could expect to gain complex, personal, noneconomic satisfactions etc. One of the features gave by the partner in return in one extra-ordinary relationship or the relationship outside contract is information sharing, resources exchange, honoring to the verbal agreement and the willingness to maintain relationships as well as to sacrifice short-term profit to obtain the long-term benefits. It is not only to satisfy the basic expectation between partners but also to achieve the competition rising on business through the using of immediate, speedy and unified information. To the Chinese, information are highly appreciated and considered as scarce resources. Hence, the ones who are willing to provide “insider” information are the persons who could be trusted.

On the other hand, the insignificant impact of economic, characteristic and institutional trust suggest that the capability and capital input as well as the institutional constraint will only focus to satisfy the obligated contract in the best way and to conform the benefits for both parties on a the basic requirement.

Chapter 6 Conclusion

With the globalization of the market place, many crossed national boundary transactions involved and always have to deal with partners in foreign markets. Inevitably, they encounter differences in language, consumer attitudes, law and regulations, and business practices. Therefore, building trust is one of the key ways to make better transactions and increase the competitiveness, however, at the same time expecting considerable works to be done. For instant, developing trust in the international transaction requires more time and effort because of cultural differences and the inaccessibility of ethnic or informal networks.

After looking through many of related research papers, four elements (i.e. economic-based trust, process-based trust, characteristic-based trust and institutional-based trust) have been identified and considered as sources of trust. In addition, we include a series of consequences of trust and discuss the linkage of both sources and consequences of trust. We argue that the consequence of trust varies according to its underlying contingency variables –sources of trust.

In the current thesis, we explore not only the relationship between cross boundary culture (inter-country) and trust, but also the national culture (inter-ethnic) and trust with the expectation that certain characteristics or pattern of trust building will be associated with a tendency to trust or to distrust others. Respondents were asked to express their degree of agreement with statements about their values, trust and commitment in relationship with their transacting partners from different Western, Japan, Indian, Malay (native) and Malaysian Chinese. These items were measured on a seven-point Likert scale (see Table 1 for descriptive statistics).

As we can observe from the result of analysis, the propensity to trust based upon institutional trust is universal regardless the nationality or cultural differences. In this thesis, we found that the Malaysian Chinese has higher propensity to trust Japanese more than the Western or the local Malaysian. Partly, might due to the fact that Western business practice and the Chinese' guanxi-type systems are different types of business approach and believed to have different impacts on the trust development. Therefore, in light of the existence so many contradictory views as mentioned above between both Malaysia and Western, a mutual understanding is longed to develop for a better collaboration. However, it is interesting that the importance of trust in the relationship with Malaysian that shared the same cultural is significantly lesser than both Japan and Western.

On the other hand, at the inter-ethnic collaboration, Chinese would be willing to trust the Chinese more than other ethnical groups. As we know, Malaysia is a multi-racial society comprises of many ethnic groups, mainly Malay, Chinese and Indian. Therefore, the various dimensions of a national culture (such as collectivism, uncertainty avoidance, socio-economic discrimination, ethnicity issue) will influence the decision to trust. When deciding to trust, the Malaysian Chinese rely on the own perceptions that been influenced by the surrounding factors, even though most perspectives on trust recognize risk and cultural similarity is required for trust to influence choice. Therefore, aside from placing trust own Chinese community, they trust the Malay more than India due to the socio-economic status in the host countries.

This support the claim of Anderson and Weitz (1989) that cultural similarity increases the communication level and emphasize that cultural barriers create different

values and make it difficult to trust the other party from other culture. For instant, the languages, societal similarity and so on.

Furthermore, in the thesis, we explore the nature of relationship in between sources and consequences of trust and the regression analysis has shown that, economic-based, process-based as well as characteristic-based of trust are the key element for businesses to adherence to contract in one transaction. On the other hand, the economic contribution in one transaction will affect the flexibility given beyond one contractual relationship. On the other hand, the analysis reveals that the intention to keep relationships in the future, reputation as well as satisfactory experiences, are the most important elements as the process-based trust influences the relationship or flexibility outside contract.

The economic discrimination by ethnicity policies aiming at improving the economic well-being of the native group in Malaysia have effectively forced many ethnic Chinese business firms to reconsider their future growth strategies in overseas. Upon consolidating themselves in their domestic economies, many Malaysian Chinese business firms begin to consider seriously diversifying their operations abroad in search of new investment opportunities that are unavailable or costly in their home countries. As a result, overall, the Malaysian Chinese giving more trust to the foreign partner than the local.

Given the dramatic growth of global strategic alliances between firms are reshaping the nature of business and inter-firm collaboration has become a crucial component of the pursuit of global competitive advantage. However, such a strategic alliance is extremely complex to manage successfully due to the high instability, poor performance, and premature dissolution and cultural distances.

Therefore, trust is believed to be a hidden resource, which could have great impact to the international collaboration. As we can tell from the analysis, whether similar or dissimilar in culture, the development of trust is still possible as Japan scores the higher trust than the Western and the local Malaysian. Therefore, in one inter-firm relationship regardless inter-country or inter-ethnic, the discussion of trust should be put into a certain specific condition whether the transacting partners' culture is held to be more competitive, action-oriented or is relatively more cooperative, emphasizing the experience of living, and is more concerned with getting along with others and etc.

Optimistically, this study on the trust relationship between Malaysia with Japan and Western could provide some findings to the foreign investors to successfully establish mutual benefit collaboration with the Malaysian Chinese businesses. By identifying the key sources of trust and how they impact on the actions of trust could minimizing the efforts and time period to build the prosperity economic.

There are two limitation of this thesis. First, the concern over the extent to which relationships between variables may be inflated by common method variance (CMV) since the data were obtained from a single source (Marsh & Hocevar, 1988).

Second, we return to the question of whether trust within the Malaysian Chinese community is possibly driven by industry and firms' factor. The sample had a wide variety of the nature of business, such as legal consultant/services and manufacturing industry ranging from simple technology products to higher technology products (such as sonic products). Therefore, we yet to finalize the findings of this empirical research can be generalized across all firms in all industry or whether they apply to a particular class of firms within the same industry.

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