

SELECTING COLLABORATIVE PARTNERS AND DEVELOPING RELATIONSHIPS – THE CASE OF NEW ZEALAND AND CHINESE FIRMS

Matt Porteous (University of Otago, PO Box 50, Dunedin, New Zealand,
matt.porteous@otago.ac.nz, 64 3 479 5094)

André M. Everett (University of Otago, PO Box 50, Dunedin, New Zealand,
andre.everett@otago.ac.nz, 64 3 479 7371)

ABSTRACT

As a small remote country New Zealand is intent on expanding its relationship with China, particularly in goods and services trade, bilateral investment, and science and technology collaboration. This requires that New Zealand companies and their employees collaborate with both the Chinese people and Chinese organizations. Relationships underpin much of business in China, and this paper uses a multiple case study approach to examine how New Zealand firms select collaborative partners and develop relationships within the Chinese business environment. It finds that in the partner selection phase, New Zealand companies in China place emphasis on their own identity and reputation along with research, and then on developing mutually beneficial collaborative relationships, based primarily on *guanxi* principles and relational trust systems, and secondarily on formal agreements and contracts.

INTRODUCTION

Relations between New Zealand and the People's Republic of China (hereafter China) have a long history, and are increasing at a rapid pace. China is New Zealand's largest trading partner for imports, and second largest for exports, as well as an important source of tourists, migrants, and fee-paying international students. China is tipped to become the world's largest economy by 2025 (The Economist, 2011), and as a small trading nation New Zealand has no option but to interact with China and the Chinese. High-level links between New Zealand and China are well established and include, for example, a free trade agreement, some 35 partner-city relationships, and regular government/diplomatic interaction (MFAT, 2011).

However, at the level where business is transacted there is less experience, less precedent, and a lack of established pathways. While there is support available (from organizations such as the Ministry of Foreign Affairs and Trade (MFAT), New Zealand Trade and Enterprise (NZTE), and the Kea network), many New Zealand businesses and their personnel are moving into new and unfamiliar territory when they enter China and commence what is hopefully viable and enduring business activity. This paper takes a qualitative, multiple case approach to explore the terrain where New Zealand business people work with—collaborate with—Chinese business people in China, and more particularly, the process by which New Zealand firms select collaborative partners and develop relationships in the initial stages. As this is exploratory research with a small sample size it is difficult to generalize, but this project suggests that the principles of successful collaboration are discoverable, and may be adoptable and implementable by firms either entering China or intending to develop an existing presence.

TRUST AND THE DEVELOPMENT OF COLLABORATIVE RELATIONSHIPS

The literature suggests that collaborative relationships develop over a period of time, moving through several stages (Child et al., 2005). Broadly, these stages are formation, implementation, and evolution (Lorange & Roos, 1992). These correspond with Lane's (1998) three phases of trust development: calculation, sharing, and common values and obligation. The first phase (calculation) grounds trust on a calculative basis; costs, benefits, risks, and sanctions are weighed up within a market-based frame. This is likely to feature most prominently in new relationships, although it is also important in on-going relationships, where any degradation may undermine other bases for trust (Child et al., 2005). A calculative basis for trust depends on availability of information about the other party (for example resources, capabilities, past history, and reputation), along with a degree of certainty regarding supportive institutions, for example the courts and contract enforcement (Child et al., 2005). This research suggests that these conditions are rare in the New Zealand-Chinese collaborative environment, highlighting the importance of Lane's (1998) second and third phases of trust development in this context.

The second phase is a sharing of cognitions leading to a mutual understanding (Lane, 1998). This overlaps the calculative basis for trust, and provides for deeper shared understandings and objectives, and an enhanced degree of predictability. In essence, shared cognitions mean that the parties know each other better, understand each other better, and share assumptions and goals (Child et al., 2005). Lane's (1998) third basis for trust builds over time on the first two bases and involves developing a shared identity with common values and conceptions of moral obligation. This identification-based trust is likely to have a personalistic, affective component, a bonding between the individuals involved (Child et al., 2005).

McAllister (1995) suggests a two-fold distinction, between 'cognition-based' and 'affect-based' trust, echoed in the literature on trust in *guanxi* relationships (Chen & Chen, 2004; Chua, Ingram, & Morris, 2008). Cognition-based trust is derived from knowledge and evidence with regard to the other party and the environment; it is based on a rationalized set of "good reasons for trust," although the knowledge, evidence, and reasoning processes leading to this view may be imperfect (Child et al., 2005, p. 55). In contrast, affect-based trust derives from emotional bonds, where there is a genuine identification with the other party and a sense that the relationship is intrinsically valuable, going beyond mere business (Child et al., 2005; McAllister, 1995). This type of trust is based on long-term interaction between individuals and relies on good quality communication and resolution of difficulties (Child et al., 2005). For New Zealand-Chinese collaboration, the inherent language, institutional, and cultural differences present impediments to developing affect-based trust, as does the geographical distance involved. Building affect-based trust requires deep and frequent interaction (and which is often not business-centric) over time. Considerable investment is therefore required by a New Zealand firm before the 'pay-off' of a quality high-trust relationship in the Chinese sense (that is, affect- and identification-based); note that this relationship will be at the personal rather than the firm or group level.

From Dyer and Chu's (2000) embeddedness (relationship-based) perspective, trust develops through repeated interactions embedded within a social network (Granovetter, 1985; Powell, 1990; Uzzi, 1997). It is likely that while process-based trust has a place, relationship-based trust is more significant within the Chinese cultural context (Tung et al., 2008).

These representations of trust within the context of collaboration are summarized in Table 1, showing some degree of correlation, particularly the stage-wise development of trust over time from an informational/rational base to one that is more personal, individual, and centered on long-term relationships. Each stage involves overlap and feedback loops, allowing participants to re-evaluate their participation; Table 1 therefore represents an unrealistically precise and ordered picture of the process—in practice, it is likely to be more disordered, uncertain, and chaotic.

Table 1: Collaboration and the development of trust
(based on Child et al., 2005, p. 61)

	Time →		
Development phase of collaboration (Lorange & Roos, 1992)	Formation	Implementation	Evolution
Key element in trust development (Lane, 1998)	Calculation	Mutual understanding	Bonding
Cognition/affect dimensions (McAllister, 1995)	<div style="border: 1px solid black; padding: 5px; display: flex; justify-content: space-between;"> Cognition-based Affect-based </div>		
Process/relationship dimensions (Dyer & Chu, 2000)	<div style="border: 1px solid black; padding: 5px; display: flex; justify-content: space-between;"> Process-based Relationship-based </div>		
Description (Child et al., 2005, p.61)	“Being prepared to work with you”	“Getting to know about you”	“Coming to identify with you as a person”

RESEARCH METHOD

As this research concerns exploring, describing, and understanding rich and complex human interaction within a particular context, a qualitative approach focusing on individual businesspeople and their experiences of New Zealand-Chinese collaboration was deemed most suitable. A multiple case study approach allowed such phenomena to be examined as an integrated system via an holistic approach (Eisenhardt, 1989; Gagnon, 2010; Woodside & Wilson, 2003; Yin, 2011). This also provided greater breadth and depth than a single case, and allowed for comparison and the exploration of similarities and differences (Eisenhardt, 1989; Gagnon, 2010; Yin, 2009), along with providing greater opportunity for generalizability, and boosting external validity (Piekkari & Welch, 2011).

Four companies took part in the project, with a total of six interviews. Within each company, interviews were carried out with the people most involved in New Zealand-Chinese collaboration on a day-to-day basis, investigating their experiences of collaboration on a personalized and individualized basis. All participants requested anonymity, and this is respected throughout this paper. Consequent to the small size of the New Zealand business world, the companies are described in summarized table form only (Table 2).

Table 2 Description of cases (participating companies)

Code	Number of Interviewees	Sector	Employees	Employees in China	China HQ
Biotech	2	Biotechnology	<100	1	Hong Kong
Finance	1	Finance/banking	>100	>100	Beijing
Media	2	Media production	>100	5	Beijing
Tech	1	Technology	>100	<5	Hong Kong

The process of collation and analysis utilized Yin's (2009) preferred general strategy of following the broad theoretical propositions that led to the research project, which in turn were taken up within the research questions and developed in the literature review. The primary data derived from semi-structured interviews, which were transcribed following the process outlined by Kvale and Brinkmann (2009) and then analyzed to find emergent meanings, concepts, and themes, following Kvale and Brinkmann (2009) and Yin (2009), utilizing computing techniques and processes described by Hahn (2008).

SUMMARY OF RESULTS

The results from this research are summarized here into a set of points that provide an overview of the key considerations involved when New Zealand firms seek to establish and develop collaborative business relationships in China:

- have a realistic view of the business environment and any potential gains from collaboration;
- seek to attract good partners as much as to seek them out;
- emphasize partner selection—research, references, checking;
- pay attention to partner commitment at all phases of alliance development;
- attempt to use selection and relational (rather than contractual) methods to ensure collaborative success and to avoid expensive and probably unsuccessful legal battles;
- seek to maintain independence;
- place high importance on trust and relational capital; and
- vary the formality of the collaborative agreements depending on the nature of the particular business.

CONCLUSIONS

The measure for collaborative success adopted here is Kale and Singh's (2009) key success factors, which suggest that at each of three phases of alliance formation, companies should attend to three key drivers specific to that phase. In the first phase (alliance formation and partnership selection) the three success drivers are partner complementarity, partner compatibility, and partner commitment. This research suggests that New Zealand firms pay close attention at this phase, seeing the processes of investigating, checking, and 'getting to know' potential partners as critical in finding complementary and compatible collaborators. They are also very aware of positioning themselves as a good partner (through characteristics such as being reliable, serious, credible, and able to 'stay the course'), thus providing for social opportunity and attractiveness as

part of the process of forming worthwhile collaborative relationships as described by, for example, Ahuja (2000) and Eisenhardt & Schoonhoven (1996). Kale and Singh's (2009) third driver within the formation phase, partner commitment, was seen by participants as something that was not limited to the first phase, and in fact was on-going and crossed all three. Further, while they looked for commitment from the other, they also actively managed the collaboration to engender commitment from the partner. They did this by ensuring they remained useful and/or necessary to the other party.

During the second phase of alliance development (alliance governance and design), Kale and Singh's (2009) three drivers of success are equity sharing or ownership, contractual provisions, and relational governance. In this project, only one company, the largest, is a public company, and has formal equity relationships with Chinese firms, taking a stake in two complementary businesses. In turn, Chinese investors are able to buy shares in the New Zealand company. None of the other businesses in this study had equity/ownership sharing with Chinese firms in place, reflecting the general emphasis on retaining independence and control. All case firms were very aware of using contractual provisions and relational governance, and saw them as complementary—strong contracts were seen as important, but also as possibly insufficient, and so relational governance was seen as an important adjunct. Kale and Singh's (2009) phrase 'relational governance' is perhaps too formal for the case firms, and would be better put as 'relational management' because the case firms tend to integrate their relational management into their day-to-day activity rather than having a formal program.

The three drivers of success in Kale and Singh's (2009) third phase (postformation alliance management) are the use of coordination mechanisms, development of trust and relational capital, and conflict resolution and escalation. For all case organizations, the development of trust and relational capital was the mechanism most frequently mentioned in the interviews, and for them this also formed the basis of the other two drivers. Some differences between case organizations are evident in the use of more formal coordination and structured collaborative arrangements. The technology and biotechnology case companies gave more emphasis to this form of alliance management than did the media company, which emphasized relationship and trust mechanisms. Perhaps this is due to the difference between businesses that are technology-based and people-based. None of the case firms mentioned specific or formal conflict resolution methods, instead emphasizing the importance of conflict prevention *ex-ante*.

The research participants were very aware of the relational dimensions of social capital, and paid them explicit attention. Trust was very important—both in terms of trusting the Chinese party, and being trustworthy. The former is based on extensive research and checking, and the latter on carefully managing the firm's identity and image. The New Zealand firms in this research were very aware of obligations and expectations, and tended to see these as being primarily developed through building and maintaining good relationships, backed up with formal agreements and contracts.

Trust formation between participants and collaborative partners in China tended to follow Dyer and Chu's (2000) progression from process-based trust to relationship-based trust, and did not feature affect-based trust as suggested by, for example, McAllister (1995). This research suggests that process-based trust is formed primarily through due diligence activity such as

researching and checking potential partners, and that relationship-based trust develops subsequently, through a gradually emerging and thickening history of successful interaction, both personal and business.

Tsui-Auch & Möllering (2009) suggest that managers are wary and feel vulnerable in foreign and transitional environments such as China, stemming from a lack of shared cultural characteristics and differing forms and levels of institutional support. This leads to trust being personalized and particularistic, rather than being based on law or procedure, and grounded on strong relationships, i.e. *guanxi*. This is supported by this research, where participants emphasized that successful collaboration depended on fostering quality relationships with a high degree of relationship-based trust developed over time—and of being continually aware and alert that the collaborative partner may have stronger relationships and higher levels of trust-obligation with other parties.

As this research is exploratory, small-scale, and case-based, its main contribution is tentative and directional rather than definitive. Outcomes of this project suggest that the characteristics of successful collaboration that contributes to competitive advantage within the New Zealand-China business field are discoverable, and thus may be adopted and implemented by firms in this context. This research is therefore of interest to firms who are either planning to enter China, or who are looking to expand or improve existing operations. By extension, this research is also relevant to agencies that are charged with assisting or facilitating business activity within China.

LIMITATIONS AND SUGGESTIONS

This research consists of a small-scale, exploratory project, and therein lies a major limitation. More research with a greater number of participants in more sites needs to be carried out to improve accuracy and generalizability. This further research should also take place over time, as all of the case studies here were completed at the same time, and external validity is improved if replication is carried out over time (Gagnon, 2010; Yin, 2009).

This project examined a two-way process—collaboration—from only one side (the New Zealand side); the research would be much improved by looking at the Chinese side, and, in the context of the ‘NZ Inc.’ approach, government agencies as well. Doing that, however, was beyond the scope of this project, which nonetheless provides a foundation from which deeper and more complete research can develop – for example, developing quantitative research instruments which may provide a different perspective of collaboration between New Zealand and Chinese firms in China.

Finally, this research is highly contextual, as it is restricted to New Zealand business firms collaborating with Chinese business firms within the Chinese business environment; it may or may not be applicable to other settings, and further research would need to be carried out to determine this.

REFERENCES

- Ahuja, G. (2000). The duality of collaboration: Inducements and opportunities in the formation of interfirm linkages. *Strategic Management Journal*, 21(3), 317–343. doi:10.1002/(SICI)1097-0266(200003)21:3<317::AID-SMJ90>3.0.CO;2-B
- Chen, X. P., & Chen, C. C. (2004). On the intricacies of the Chinese *guanxi*: A process model of *guanxi* development. *Asia Pacific Journal of Management*, 21(3), 305–324. doi:10.1023/B:APJM.0000036465.19102.d5
- Child, J., Faulkner, D., & Tallman, S. B. (2005). *Cooperative strategy: Managing alliances, networks, and joint ventures* (2nd ed.). Oxford, UK: Oxford University Press.
- Chua, R. Y. J., Ingram, P., & Morris, M. W. (2008). From the head and the heart: Locating cognition- and affect-based trust in managers' professional networks. *Academy of Management Journal*, 51(3), 436–452. doi:10.5465/AMJ.2008.32625956
- Dyer, J. H., & Chu, W. (2000). The determinants of trust in supplier-automaker relationships in the U.S., Japan, and Korea. *Journal of International Business Studies*, 31(2), 259–285.
- Eisenhardt, K. M. (1989). Building Theories from Case Study Research. *The Academy of Management Review*, 14(4), 532–550. doi:10.2307/258557
- Eisenhardt, K. M., & Schoonhoven, C. B. (1996). Resource-based view of strategic alliance formation: Strategic and social effects in entrepreneurial firms. *Organization Science*, 7(2), 136–150.
- Gagnon, Y.-C. (2010). *The case study as research method: A practical handbook*. Québec: Presses de l'Université du Québec.
- Granovetter, M. S. (1985). Economic action and social structure: The problem of embeddedness. *The American Journal of Sociology*, 91(3), 481–510.
- Hahn, C. (2008). *Doing qualitative research using your computer: A practical guide*. London: Sage.
- Kale, P., & Singh, H. (2009). Managing strategic alliances: What do we know now, and where do we go from here? *Academy of Management Perspectives*, 23(3), 45–62.
- Kvale, S., & Brinkmann, S. (2009). *InterViews: Learning the craft of qualitative research interviewing* (2nd ed.). Los Angeles: Sage.
- Lane, C. (1998). Introduction. In C. Lane & R. Bachmann (Eds.), *Trust within and between organizations: Conceptual issues and empirical applications* (pp. 1–30). New York: Oxford University Press.

- Lorange, P., & Roos, J. (1992). *Strategic alliances: Formation, implementation, and evolution*. Malden, MA: Blackwell.
- McAllister, D. J. (1995). Affect- and cognition-based trust as foundations for interpersonal cooperation in organizations. *Academy of Management Journal*, 38(1), 24–59.
doi:10.2307/256727
- MFAT. (2011, November 23). Information Paper - People's Republic of China. New Zealand Ministry of Foreign Affairs and Trade. Retrieved from <http://www.mfat.govt.nz/Countries/Asia-North/China.php>
- Piekkari, R., & Welch, C. (Eds.). (2011). *Rethinking the case study in international business and management research*. Cheltenham, UK: Edward Elgar.
- Powell, W. W. (1990). Neither market nor hierarchy: Network forms of organisation. In B. M. Staw & L. L. Cummings (Eds.), *Research in organisational behaviour*. (Vol. 12, pp. 295–336). Greenwich, CT: JAI Press.
- The Economist. (2011, December 27). The dating game. *The Economist*. Retrieved from http://www.economist.com/blogs/dailychart/2010/12/save_date
- Tsui-Auch, L. S., & Möllering, G. (2010). Wary managers: Unfavorable environments, perceived vulnerability, and the development of trust in foreign enterprises in China. *Journal of International Business Studies*, 41(6), 1016–1035. doi:10.1057/jibs.2009.28
- Tung, R. L., Worm, V., & Fang, T. (2008). Sino-Western business negotiations revisited - 30 years after China's open door policy. *Organizational Dynamics*, 37(1), 60–74.
doi:16/j.orgdyn.2007.11.005
- Uzzi, B. (1997). Social structure and competition in interfirm networks: The paradox of embeddedness. *Administrative Science Quarterly*, 42(1), 35–67.
- Woodside, A. G., & Wilson, E. J. (2003). Case study research methods for theory building. *Journal of Business & Industrial Marketing*, 18(6/7), 493–508.
doi:10.1108/08858620310492374
- Yin, R. K. (2009). *Case study research: Design and methods* (4th ed.). Thousand Oaks, CA: Sage.
- Yin, R. K. (2011). *Qualitative research from start to finish*. New York: Guilford Press.