

The New Zealand Asia Institute (NZAI) undertakes research focusing on engagement with Asia, provides a forum for informed debates, and offers a bridge to Asia-related expertise and research within the University of Auckland.

## Doing business in challenging contexts: trust and partnerships

Research that examines the ways businesses can navigate the particular challenges of emerging markets such as China offers new insights into the role of trust and partnerships.\*\* Emerging markets can offer Western small to medium enterprises (SMEs) many opportunities for growth and development. However, emerging markets are also associated with uncertainty and risk due to their institutional environments: institutions such as the rule of law, contract enforcement and market transparency are often very different in emerging markets. For resource-constrained SMEs, their lack of appropriate business market knowledge makes it difficult to navigate such unfamiliar conditions. It is therefore valuable to cultivate partnerships built on trust with local partners, who are more knowledgeable about market opportunities and networks.

For SMEs navigating emerging markets, the importance of building trust-based partnerships is clear. What is less clear is how trust in local partners evolves and how it influences learning opportunities for SMEs. Researchers associated with the New Zealand Asia Institute have provided some answers to this question on the basis of in-depth interviews with industry experts and managers of NZ SMEs operating in China.

Their findings show that different trust-based relationships lead to different kinds of knowledge. Key to the study was the distinction between cognitive and affective trust. Cognitive trust is formed on objective assessments of partner ability, while affective trust arises from emotional considerations such as the degree to which partners are liked.

Three types of partner relationships were identified: persistent mediation, experimentation, and opportunity co-creation. In persistent mediation, SMEs heavily relied on affective trust, rarely learning about new opportunities. Another group of SMEs, using a range of experiments and benchmarks, was able to gauge more objectively the abilities and performance of their partners. Subsequently, they were able to build cognitive trust, resulting in high levels of relationship-specific knowledge. Such knowledge, however, was not necessarily a pathway to business market knowledge. The third group of SMEs co-developed market opportunities with partners, leading to the pursuit of shared goals. Such partnerships were associated with high levels of business market knowledge in the internationalising SME, and also often led to mutually affective and cognitive trust.

\*\*The full study results are available in an article authored by Antje Fiedler, Benjamin Fath and Hugh Whittaker: "Overcoming the liability of outsidership in institutional voids: Trust, emerging goals, and learning about opportunities" *International Small Business Journal*, published online first view August 4, 2016, doi: 10.1177/0266242616662510

