The role of trust in strategic alliances

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Dedicated to my parents,
who have taught me about trust and integrity.
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Abstract

This thesis provides a coherent theoretical account of the role of trust in strategic alliances from varied disciplinary perspectives and by establishing some common ground among these perspectives. Approaching the integration of the literature about trust and strategic alliances from the resource based view, the transaction cost view, the dialectical perspective, and the social network perspective is aimed at creating a new systematic explanatory scheme. The unique combination of these four perspectives provides overlapping explanations for strategic alliance behaviour and serves as a methodical device for analysing the dynamics of trust relationships. This theoretical-methodical foundation will serve as tool for sorting out and highlighting different research streams regarding the two key topics. An integrative framework of the notion of trust in strategic alliances is built around the key issue “culture of trust”. The culture of trust is addressed, because one of the main findings will be that collaborative relationships require some minimum social base with trust as its constitutive element. Arguments will be provided that inter-organizational ventures characterized by high interdependence, require the trust mechanism to make leadership effective. The tension between trust and control in strategic alliances is discussed and attention is drawn to the possibilities and key abilities of leaders in establishing trust as a constitutive element in strategic alliances.

Keyword(s): trust, strategic alliances, control, leadership, tensions in inter-organizational settings
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1 Introduction and course of investigation

Trust is a key ingredient in all human interaction and people build their lives on trust relationships. Trust is everywhere – nobody can deny its existence, as all aspects of our lives are based on trusting others. Trust is a problematic issue, since a common interpretation throughout the literature is that trust is something pre-conscious: we are not aware of trust or take it for granted until it is broken or betrayed. One of the greatest obstacles in recognizing trust as an economic mechanism lies in the fact that one has to go beyond the visible peak of the iceberg. An iceberg represents a suitable descriptive metaphor to visualize trust management, because many dimensions of trust and sometimes even trust itself are unarticulated and lie under the surface. Discovering and shedding light on the hidden layers of the iceberg is of great importance, because building trust, cultivating trust, and even talking about trust pre-suppose the awareness of it.

1.1 Problem formulation

The business world has to deal with the paradox that trust is becoming more and more important but the reliance upon trust in business seems to be shrinking. Researchers are now just starting to gain insights into managing trust relationships within and between organizations. They still have to learn how to tackle the problem in a more organized way and to think more carefully about the dynamics of trust relationships. Very little is known about the different strategies that organizations can adopt to manage the dynamics of trust relationships.

Even if trust is a very abstract concept, it has a lot of practical implications on organizational life and a strong positive impact on the success of strategic alliances. The significance of trust comes into play when the interdependence between organizations is high. The trust mechanism lowers the cost of monitoring and sanctioning that might be required if organizational members were not trustworthy. Trust in interdependent cooperative ventures will also lead to improved communication, higher commitment of organizational members, time advantages, and reduced uncertainty regarding the behaviour of the other person or party involved. Trust allows organizational members to take risks, try new things, and therefore it boosts innovation. Ultimately, these practical implications reveal that trust is a source of competitive advantage and underpins success.

Throughout the literature, cooperation is taken to entail trust. As a consequence, the context of strategic alliances - as cooperative ventures - is an optimal setting to study the impact of trustworthy behaviour, to reveal implications for managerial concerns, and to enhance the understanding of trust
in general. A lot of key issues emerge naturally in the context of collaborative relationships where interdependence and risk are constitutive. Control has to be eased if alliance partners aim to be co-innovative and want to enhance existing capabilities of each partner. Learning and innovation require creativity, flexibility, joint work, acceptance of failures, and last but not least trust. This thesis highlights that collaborative relationships contain ambiguous forces. The context of strategic alliances helps to examine the tension between cooperation and competition and the tension between trust and control.

1.2 Objectives and research issues

The present text explores current empirical research concerning the impact and limits of trust in social and economic life and critically questions the classical literature on management and organization addressing the issue of trust. This thesis covers two separate research traditions: that of strategic alliance analysis, emerging from economics and strategic management, and that of trust analysis, emerging from sociology.

This thesis will improve the current state of trust research by providing a coherent theoretical account of the role of trust in strategic alliances from varied disciplinary perspectives, and by establishing some common ground among these perspectives. A very important contribution is to demonstrate how taking the dialectical perspective challenges existing assumptions about transactions, strategy, organizational boundaries, control and competitiveness.

The aim of this study is to build an integrative framework of the notion of trust in strategic alliances around the key issue – culture of trust. The culture of trust is addressed, because one of the main findings will be that collaborative relationships require some minimum social base with trust as its constitutive element. A culture of trust should be viewed as a source of competitive advantage and organizations have to turn their attention to establishing such a culture. As the culture of trust has to be established by the leader, the role of leaders in inter-organizational exchange relations has to be examined. Throughout the thesis there will be argued that leaders¹ play an essential role in exchange relations between organizations. An understanding of the role of trust can help leaders to establish an appropriate context and conditions in exchange relationships that make mutual benefits possible.

Two research issues will be addressed in order to achieve the proposed aims. The first research issue deals with the tension between trust and control. This research issue will lead to an identification of

¹ For the distinction between leaders and managers see Bennis and Nanus (2005: 20). The differences can be summarized as effective activities of vision versus efficient activities of mastering routines. In order to stress the importance of effectiveness Bennis and Nanus (2005: 4) establish the connotation “effective leader”.
effective governance structures in strategic alliances. In strategic alliances the problem of effective governance is of great significance, because the allied organizations are formally separated but strategically interrelated.

The second research issue is concerned with leadership and the culture of trust and raises a discussion on the leader’s responsibility, abilities, and possibilities in establishing trust as a constitutive element in strategic alliances.

1.3 Limitations of this thesis

Even if an alliance can consist of a network of several organizations, the focus throughout this work will be on dyadic interactions constituted only by two organizations. This thesis treats trust as a key aspect of the relationship between two organizations and therefore takes a relational view of trust.

As the research topic is the role of trust in an inter-organizational setting, only institutional and cultural elements are analysed. This study will leave out the role of trust in societies and political elements in the analysis of trust mechanisms. The level of analysis will mainly stay at the inter-organizational level, not taking account of implications for the society as a whole. This focus is due to the fact that trust is not the central element of cooperative exchanges in general, because they can be managed quite efficiently in the absence of trust. The role of trust is becoming only more and more important when the interdependence of organizations grows. Arguments will be provided, that inter-organizational ventures characterized by high interdependence, require the trust mechanism to make leadership effective.

The thesis is not aimed at making truth statements about reality, but to gain understandings about patterned trust-based relationships between partnering organizations and how these relationships and interactions actively construct reality in strategic alliances.

1.4 Justification of the research topic

Sprenger (2004: 157) argues that “there is no reasonable alternative to a trust-based organization under future economic conditions.” Ring and Van de Ven (1994: 113) point out that it “becomes increasingly important for scholars and managers to understand developmental processes of how equity, trust, conflict resolution procedures, and internal governance structures emerge and dissolve over time” as uncertainty, complexity, and duration of economic transactions within and between firms increase. Managing trust becomes a key to the productivity and effectiveness of strategic
alliances. It requires investment in social processes such as cooperation, communication and coordination.

The sociological study of organizations reveals that there is a transformation process that leads away from hierarchies and existing organizational parameters towards flexible organizational structures. Throughout the literature there are discussed new paradigms to characterize the organization of the future: organizations are viewed as boundaryless (Ashkenas et al., 1998), centerless (Pasternack and Viscio, 1998), self-managing (Purser and Cabana, 1998), knowledge-creating (Nonaka, 1995), horizontal (Ostroff, 1999), as collaborative enterprises (Campell and Goold, 1999) or as networks (Thompson, 2003).

In the age of a network economy there is a transition from purely competitive plays to cooperative relationships that leads to the emergence of new organizational forms. This evolution does not mean that competition becomes less relevant, because there is an increasing need to create a competitive advantage. Organizations have to face the necessity to be able to engage in competition and cooperation simultaneously, even though these demands are each other’s opposites. Brandenburger and Nalebuff conclude that what is required is “co-opetition.” Social interaction among competitors requires a mindset and challenge well known at least nearly two decades ago, since the publication of Hamel, Doz and Prahalad’s article (Hamel, Doz and Prahalad, 1989). In contrast to Hamel, Doz, and Prahalad, Porter (1990: 91) thinks that strategic alliances do not lead to a superior competitive position, as he states that “alliances as a broad-based strategy will only ensure a company’s mediocrity, not its international leadership.” Porter has viewed strategic alliances through the traditional competitive strategy paradigm, which is based on an outside-in perspective and takes only into account product-market positioning. The generic strategies that are defined only in terms of cost or differentiation are not adequate for explaining the competitive position of organizations in the age of a network economy.

Throughout this thesis the resource based approach and the network perspective will help to view partnerships and networks among organizations as sources of competitive advantage. The interplay of these perspectives will help to go beyond Porter’s notion of competitive advantage, which provides only little insight into the skill-building competition among organizations. Strategic alliances will not only lead to mediocrity as long as they constitute a device of learning and skill building. This standpoint has been taken up by several authors (e.g. Hamel, Doz, and Prahalad, 1989; Dyer, 1996; Powell, Koput, and Smith-Doerr, 1996; Dyer and Singh, 1998; Dyer and Nobeoka, 2000; Gulati, Nohria and Zaheer, 2000, Ahuja, 2000; Hamel, 2004). Doz and Hamel

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(1998: 170), who are proponents of the resource based view, point out that “learning is at the heart of successful alliances.”

Trust is an indispensable element in this time of change and gains importance as an organizing principle. Bennis and Nanus (2005: 61) find through interviewing and observing ninety famous leaders that the ability to trust others, even if there is a risk of being deceived or disappointed is a key characteristic that all leaders have in common. Trust mechanisms can enable and facilitate coordinated action between flexible organizations like strategic alliances. Ohmae (1999: 128) states that mutual trust and respect are essential for successful cooperation. The importance of trust in cooperation is also underlined by McEvily, Perrone, and Zaheer (2003). They state that with the growth of relational contracting, outsourcing, strategic alliances and networks, trust-based relationships are increasingly becoming the organizing principle for doing business.

The literature on trust and inter-organizational relationships identifies a positive relationship between the ability to rely on trust and performance, because trust reduces the risk inherent in an exchange. Dyer and Chu (2003) discuss the ability to rely on trust in the context of US, Korean and Japanese automakers, which is characterized by an environment of high uncertainty and high inter-firm specificity. They reveal that trust reduces transaction costs and that the ability to rely on trust is correlated with greater information sharing. According to Dirks and Ferrin (2001) the reliance on trust has direct effects on organizational learning and knowledge sharing. Dirks and Ferrin (2001) also find that trust has a number of indirect effects by enabling conditions (e.g. positive interpretations of another’s behaviour, commitment) that are conducive to obtaining cooperation and higher performance. Trust will lead to increased forms of information sharing between organizations and the reduction of uncertainty, agency costs and opportunity costs. Trust also speeds up processes in organizations and leads to “entrepreneurialism”. In an atmosphere of trust, organizational members are motivated, their creativity can flourish and innovations are created. This leads to increased managerial flexibility. Leaders who build trust often reduce the time and effort they must take to monitor the work of employees. Moreover, they can enhance the quality of the employees’ contributions and their capacity to achieve organizational objectives (Hosmer, 1995).

1.5 Course of investigation and the logic of the present text

This thesis is organized as follows. After the problem formulation and arguing for the research issues, the second chapter clarifies the methodology stance. The theoretical-methodical foundation for constructing a framework to analyse the role of trust in strategic alliances is the interplay of four theories. These theories serve as methodical devices for analysing trust in strategic alliances. These
perspectives can help leaders and organizations to organize what they know and uncover what they do not know about trust in strategic alliances. Approaching the integration of the literature about trust and strategic alliances from the social network perspective, the dialectical perspective, the transaction cost view, and the resource based view is aimed at creating a new systematic explanatory scheme.

The third chapter should serve as a theoretical framework and therefore it includes a literature review of strategic alliances and the notion of trust. Chapter 3 lays out reasons for cooperation and clarifies why strategic alliances are rewarding. In this chapter the notion of trust is rather systematically forged than defined, because of the multi-dimensional and complex nature of trust. The phenomenon of trust can be grasped, when it is discussed in different contexts. In order to enhance the understanding of the role of trust in strategic alliances a summary of the most important findings is provided. This chapter also lays out conceptual and theoretical issues regarding the role of trust in strategic alliances.

Chapter 4 constitutes together with chapter 5 the main part of this thesis. Chapter 4 takes up the possibilities and difficulties of trust in strategic alliances. The tension between trust and control in strategic alliances is a key research issue.

The fifth chapter of this thesis outlines the culture of trust. Chapter 5 takes up the challenge to identify useful and appropriate parameters that help to establish a culture of trust in strategic alliances. This chapter develops definitions of a trust culture from the leadership perspective. Arguments throughout this chapter are aimed to clarify that trust is not only a passive by-product that can be cultivated indirectly. Chapter 5 addresses direct ways to actively creating a climate of trust and to developing a culture of trust. This section is devoted to the practice of trust and to the description of trust mechanisms. In this chapter there are highlighted critical dimensions of the organizational life that have practical cultural implications. Moreover, institutional conditions that promote the development of trust will be discussed. This chapter also outlines forces that constrain the flow of trust between organizational members. The comparison between distrustful cultures and trusting cultures aims at summarizing key parameters for trust creation in strategic alliances. Both archetypes of cultures are contrasted in a systematic context alongside three dimensions. Key research issues in this chapter are the leader’s responsibility, abilities, and possibilities in establishing trust as a constitutive element in strategic alliances.

Chapter 6 concludes this thesis with a summing up on the trust research.
The following figure 1 visualizes the course of investigation.

Pre-assumption:
Leaders have an important role in inter-organizational exchanges

Chapter 1:
Introduction and course of investigation

Chapter 2:
Methodology and theoretical-methodical foundation

Chapter 3:
Literature review and conceptual demarcation
- clarifying reasons for cooperation
- conceptualization of trust
- grounding trust in strategic alliances

Chapter 4:
Tensions in strategic alliances
Facing ambiguity and tensions in strategic alliances:
- cooperation versus competition
- trust versus control

Key research Issue:
The tension between trust and control in strategic alliances
Leaders have to be able to deal with dichotomy and to integrate contrary ideas of control and trust in collaborative relations.

Chapter 5:
Toward a culture of trust: Recommendations for leaders in inter-organizational settings
Key research Issue:
On the leader’s responsibility, abilities, and possibilities in establishing trust as a constitute element in strategic alliances.

Chapter 6:
Summing up and concluding remarks

Figure 1: Course of investigation
Source: own display
2 Methodology

This thesis is grounded in qualitative desk research. Qualitative analysis has been chosen, because the impact of trust cannot easily be quantified. The form of qualitative research used is the analysis of theoretical writings (Strauss and Corbin, 1998: 51).

2.1 Research design

The main method used will be to compare the different existing conceptualizations on trust and collaboration between organizations by using four different theoretical perspectives. By making comparisons, a new conceptualization will emerge from the existing literature (Strauss and Corbin, 1998: 78-85).

2.1.1 Data collection process

In order to gather literature regarding the relevant research problem, prior research on trust and trustworthiness, control and strategic alliances is analysed. The thesis project is not started with a preconceived theory in mind. Therefore, a general explanation concerning the notion of trust existent among scholars from different research fields can be created. To create a rough explanation of this phenomenon, books and articles about the notion of trust in different contexts are used. The current state of the field of strategic alliances research will also be examined. In order to guide this thesis forward the theoretical-methodical foundation proposed in chapter 2.2 will serve as tool for sorting out and highlighting different research streams regarding the two key topics. After the clarification of the notion of trust and strategic alliances as two different research territories, the empirical work on inter-organizational trust will be highlighted. This thesis draws on articles and books from famous authors in various fields, which have not been combined in this specific context before. The four perspectives described in chapter 2.2 will serve as theoretical lenses through which existing conceptualizations about trust and the impact of trust on strategic alliance are examined. These four proposed theories will help to create an integrated research model. Out of the wide research field of trust and strategic alliances a framework of four key dimensions will serve as one part of a research model for the analysis of the consequences of trust between organizations. The other component of the research model consists of six essential properties in analysing the consequences of trust on leadership in strategic alliances. These six properties emerge from the empirical contributions on the subject of trust and strategic alliances from prior research on cooperation and trust between organizations. The four different methodical devices help to develop a framework for an intelligent system aimed at analysing the interplay between trust and these six key properties. Implications for leaders regarding effective governance and the establishment of a
culture of trust are related to and interpreted by these four theoretical perspectives. The research model is outlined in chapter 3.4 in detail.

### 2.1.2 Justification of the theoretical-methodical foundation

The requirements for choosing these four theoretical perspectives are that they are relevant in explaining the motivation of strategic alliances and provide insights regarding the consequences of trust in strategic alliances. All these theories together serve as methodical devices to clarify the importance of inter-organizational collaboration. These four perspectives are chosen because they serve as theoretical underpinnings of collaborative organizational behaviour and can highlight the significance of effective governance and the culture of trust.

The resource based view will unravel how organizations can combine resources and capabilities in unique ways. Transaction cost economics can be used to explain that trust is not free, and if companies do not act in a trustworthy attitude, then the transaction costs will increase. As a consequence, transaction cost economics will help to understand that alliances involve both explicit and implicit costs. Transaction cost theory and the resource based view have relevance to strategic alliance analysis because they provide compelling economic reasons for strategic alliances and help to explain why the formation of cooperative ventures is rewarding. Therefore, the combination of transaction cost economics and the resource based theory will serve as a methodical device for clarifying reasons for inter-organizational cooperation.

As alliances can also be viewed as networks, the social network theory can help to uncover the nature of alliances. In contrast to the resource based view and transaction cost economics the social network theory does not primarily focus on the individual organization. The relevance of social network theory for strategic alliance analysis arises from the fact that organizational members are influenced by the social context in which they are embedded. In this thesis a connection of the resource based view with the social network perspective will also be developed on some key issues associated with strategic alliances. The social network perspective will be used to explain that an organization’s critical resources may extend beyond the boundaries of a single organization and may be embedded in inter-organizational processes and routines. Therefore, the social network theory is implemented to examine relational characteristics of networks with a focus on trust relations between organizations. The network perspective can aid the understanding of the sources of inter-organizational competitive advantage and can provide hints for effective governance. From this perspective it can be argued that alliance partners can serve as the most important sources of new ideas that lead to innovation and learning. This perspective helps to highlight the first research issue

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3 See Kraakman (2001) or chapter 3.1 for further explanation of strategic alliances as networks.
in chapter 4.2. The discussion of the first research issue opens up the problem of effective governance structures. The social network perspective provides arguments that inter-organizational trust creates self-enforcing safeguards that can substitute for contractual safeguards. From the network perspective, trust can be interpreted as a mechanism for effective governance. While the importance of the network perspective will be highlighted, the transaction cost theory can provide additional explanations of inter-firm contracts. Approaching the issue of effective governance from the transaction cost approach can enrich the discussion. In this context, the transaction cost approach can be taken to explain contractual safeguards and highlight the issue of control. The main weakness of transaction cost theory compared to the network perspective is that it is based upon a static standpoint. Therefore, it ignores the implications on learning and innovation and the development of trust between organizations. The network perspective will provide new insights on important factors that can influence the performance and culture of the partnering organizations, which will be discussed in chapter 5.

The dialectical approach is also an adequate methodical device for analysing the tensions in strategic alliances and the paradoxes of trust in cooperative behaviour outlined mainly in chapter 4. Analysis from a dialectical perspective will help to explain that cooperation and competition, and trust and control create a complex dialectical tension. The dialectical perspective will lead to the insight that a synthesis of contrary ideas can be produced when conflictive forces collide.

The combination of the network theory with the dialectical approach will shed new light on the phenomena of trust between organizations. The analysis of trust in strategic alliances from a dialectical and a social network perspective is an appropriate way to answer the research issues and to integrate all conceptualizations into a coherent theoretical formulation.

The unique combination of these four perspectives provides overlapping explanations for strategic alliance behaviour and serves as a methodical device for analysing trust-retaining management and the dynamics of trust relationships.

2.2 Theoretical-methodical foundations

2.2.1 The resource based view as theoretical-methodical foundation

The resource based view attends to explain that a firm’s competitive advantage rests on its unique combination of resources, competences and capabilities. An organization’s success is therefore directly linked to its employees, who are important assets. Hamel, Doz, and Prahalad (1989) call capabilities that are fundamental to an organization’s strategy and performance “core competences”.
Proponents of the resource based view point out the importance of three key elements: selecting a strategy that exploits an organization’s resources and capabilities, ensuring that the profit potential of these resources is exploited to the limit, and building the resource base for the organization’s future (Culpan, 2002: 25). From this perspective, organizations are able to generate a competitive advantage over competing firms when they accumulate resources and capabilities that are valuable, rare, not substitutable, and imperfectly imitable (Barney, 1991: 648).

The resource based view is often placed as the correspondent of the market based view, because of the argument that differential firms performance is due to firm heterogeneity rather than industry structure (Barney, 1991: 644).

Proponents of the resource based view often stress the competitive advantage generated by a single organization from capabilities and competences that are housed within the firm. Hamel, Doz, and Prahalad (1989) extend this constricted perception and show that this view can easily be extended to the field of collaborations. They argue that organizations should collaborate with their competitors in order to win. Das and Teng (1998) also state that strategic alliances are created in order to access critical resources that improve competitive position. Therefore, approaching the territory of inter-organizational cooperation from the resource based view leads to the insight that resource pooling can be identified as motivator for strategic alliance formation.4

2.2.2 Transaction cost economics as theoretical-methodical foundation

Transaction cost economics attempts to clarify how an organization should organize its exchanges and activities with other organizations when the aim is the minimization of production and transaction costs. Coase revealed in his 1937 article of “The Nature of the Firm” that “the economic system is being coordinated by the price mechanism” (Coase, 1993: 19). Coase and Williamson, who both mainly influence transaction cost reasoning, suggest that markets are an ideal form of exchange and organizations are only efficient when markets fail.

Transaction cost economics rests on five main assumptions: uncertainty, complexity, bounded rationality, opportunism and asset specificity. Rationality is bounded because of two different types of uncertainty: environmental uncertainty regarding conditions that can affect the outcomes of the cooperation and behavioural uncertainty regarding the skills and intentions of alliance partners (Nooteboom, 1999: 17). Due to bounded rationality, uncertainty and complexity, organizations cannot forecast perfectly nor can they write complete contracts. Opportunism is defined, in a famous phrase from Williamson, as “self-interest seeking with guile” (Williamson, 1985: 47). Asset specificity refers to investments which are made in support of particular transactions in order to lead

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4 For the discussion of the reasons leading to strategic alliance formation see chapter 3.1.
These durable investments cannot be redeployed to other uses and therefore do not create value outside these specific transactions. The commitment of such assets locks the partner into the given type of transaction.

The transaction cost economics perspective is used throughout the analysis part in this thesis to explain costs and negative effects incurred in making exchanges between organizations. Approaching the alliance phenomenon from transaction cost economics reveals that a motivator for combining complementary resources of organizations are high transaction costs in the market for these resources (Culpan, 2002: 19). From the transaction cost perspective, inter-firm cooperation appears to be a result of the working of the price mechanism.

Williamson’s opportunism assumption eliminates trust (Williamson, 1985: 64):

“I do not insist that every individual is continuously or even largely given to opportunism. To the contrary, I merely assume that some individuals are opportunistic, some to the time and that differential trustworthiness is rarely transparent ex ante. As a consequence, ex ante screening efforts are made and ex post safeguards are created.”

As a consequence, Williamson negates the incorporation of the notion of trust into theories of organization and inter-organizational exchange. Williamson and other transaction cost economists argue that trust cannot improve explanation in economic matter. According to Williamson (1985) trust should be restricted to intimate personal relationships.

Even if trust is not seen as an economic mechanism in transaction cost economics, this approach can help to explain the motivation for forming strategic alliances.

In this thesis a distinction is made between trust and calculation and therefore the research framework on transaction cost economics will be extended through the inclusion of trust. Integrating trust in transaction cost economics generates insights on how trust can reduce transaction costs (Cummings and Bromiley, 1996).

2.2.3 The dialectical perspective as theoretical-methodical foundation

Dialectical theory is simultaneously unity and difference. From the dialectic perspective organizations are characterized by contradictions. The dialectical approach provides explanation of contradiction and contingency in business life and organizations. Dialectical analysis takes into account contrary forces in a complex social setting and enables us to go beyond the limits of organizational reality. The dialectical approach can deepen the understanding of the coexisting contrary forces organizations have to deal with in collaborative ventures. The key assumption of the
dialectical approach is that a synthesis of contrary ideas can be produced when conflictive forces collide.

### 2.2.4 The social network theory as theoretical-methodical foundation

The social network theory has both been drawn from sociology into strategy and is concerned with actions that result from membership in social networks. The network perspective is grounded in theories of power, resource dependence, and social exchange. This perspective has been used to investigate international strategic issues that are related to resource exchange. Throughout the literature, the network perspective is often not seen as a theory but instead as an analytical tool explaining relationships among actors that could be individuals, groups, or organizations (Culpan, 2002: 28).

The network perspective places emphasis on the fact that strategic actions and outcomes are affected by both actors’ relations and by the structure of the overall network of relations (Granovetter, 1985). Granovetter (1985) argues that interpersonal relationships are mechanisms to limit opportunism, and hence reduce the need for setting up a hierarchically run company. Rooted in the open system view in sociological theory, the network perspective suggests that economic action is embedded in social networks (Granovetter, 1985). This social network of external contacts constitutes an important element of organizational activities. Scott (1992: 77) supports the open system view when he argues that organizations could now be viewed as loosely coupled systems, with no clear distinction between an organization and its environment. A social network perspective can explain the interplay of the organization and the environment.

This perspective is used as a methodical device helping to uncover relational aspects in strategic alliance analysis regarding the relationships between actors and among the member organizations.

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5 Penrose (1995: 42) and Weick (1995) also provide arguments in favour of the open system view, when they point out that the environment is not something that is “out there” to find and interpret. The sensemaking perspective taken by Weick implicates that the environment is not independent of the actions of organizations as it is constructed through organizational action. Weick (1995: 31) uses the term “enactment” to describe the fact that organizational action brings structures and events into existence. Viewed through an enactment lens organizational members have created what they confront and interpret. Weick (1995: 165) conceptualizes the environment as “in here” instead of “out there”, to focus on the fact that perception, relating, interaction and imagination are the tools that facilitate action. Sensitivity to enactment is very important because it can give important hints to the leadership in strategic alliances described in chapter 5. Leaders have to be aware of the fact that they are - together with their followers - co-creating their environment through collective organizational action. This co-created environment can constrain actions and orientation.
3 Literature review and conceptual demarcation

The literature on trust has grown significantly over the last decade. During the early stages of trust research the sociological theory contributed to trust concepts. Building trust across contexts, although a new area of attention, has shown itself to be a complex research area. The main difficulties are originated in the notion of trust and the dependency of trust interpretation on the context. The contributions made by several disciplines have enriched the theory of trust management. Despite the voluminous literature on trust, there is no Platonically essential “true” notion of trust. The definitions of trust management are limited because they arise from different perspectives. Very little effort has been made to integrate these different perspectives. The existing definitions pay only little attention to developing the capabilities that are needed to enhance one’s trustworthiness. Moreover, the focus on the process of evolving trust in collaborative relationships is missing. Accordingly, this thesis aims at combining the insights from various contexts and creating a conceptualization of trust that can be applied to the research field of strategic alliances. In contrast to the existing definitions, the conceptualization used here underscores that trust involves processes and practices and it emphasizes the establishment of trustworthiness as a constitutive element to facilitate organizational operations.

Before the notion of trust is discussed, the next chapter aims at clarifying reasons for cooperation and reveals why strategic alliances are rewarding.

3.1 Strategic alliance formation and clarifying reasons for cooperation

The current body of strategic alliance research has been identifying cooperation as pre-requisite for the existence of strategic alliances. Deutsch (2003: 10) views cooperation as social interdependence where people share information and work together to accomplish agreed-upon goals. He concludes that people, who view their goals as competitive, withhold information and ideas to increase their chances of winning the competition. Johnson and Johnson (2003: 174) reveal in a meta-analysis of empirical research that cooperation is more facilitative of the development of new insights, innovation and productivity than competition. They find that the combination of resource and goal interdependence motivates individuals, promotes higher achievement, and leads to greater productivity than individualistic, independent effort.

The transaction cost theory reveals that cooperation is not free, because it involves the cost of potentially inefficient coordination and conflict. In this context, Tjosvold, West, and Smith (2003: 5) argue that cooperation can have counterproductive effects in the long term. In strong cooperative relationships employees can become overspecialized, resistant to change and therefore unable to
create innovative output. Johnson and Johnson (2003: 179) state that individuals need to be able to proactively resolve conflicts, when they aim to achieve successful cooperation. According to Doz and Hamel (1998: 9) conflicts are common and unavoidable between alliance partners and can undermine the commitment of individual partners. In this context, Deutsch (2003: 9) argues that “conflicts are an inevitable and pervasive aspect of organizational life” and it can enhance the effectiveness of cooperative efforts when conflicts are managed constructively. Deutsch (2003: 10) finds that most forms of conflict arise out of the tension between competitive and cooperative forces and that the course of the conflict and its consequences depend heavily upon the nature of the cooperative-competitive mix.

Johnson and Johnson (2003: 179) argue that constructive controversy and conflict of interest are the most important types of conflict inherent in cooperative ventures. A typical conflict of interest is the problem of the effective governance architecture between organizations.

The significance of the problem of control between organizations is highlighted by Ohmae (1999: 121) when he argues:

“A real alliance compromises the fundamental independence of economic actors, and managers don’t like that. For them, management has come to mean total control.

Alliances mean sharing control. The one precludes the other.”

This explanation is right concerning the insight that control has to be reduced in order to make the alliance work. The remark about the independence of economic actors is only true from a legal point of view. Even if strategic alliances are characterized by formal independence, the organizing mode is based on interdependence. Throughout this thesis arguments reveal that interdependence is a necessary condition for the success of strategic alliances.

Inter-organizational alliances involve cooperative relationships that are not fully characterized either by formal contracts or by ownership. Alliances represent a mode of organizing and fall between the polar models of markets and hierarchies. Whereas hierarchies involve relations of dependence and markets involve relations of independence, strategic alliances are characterized by interdependence. Markets or hierarchy are no longer “alternative methods of organization” as Coase (1993: 22) puts it. Williamson has acknowledged the possibility of the combination of market and hierarchies and named that form of “hybrid”, which later becomes synonymous with the terms “heterarchy” (Stark, 2001: 75) or “network” organizations (Kraakman, 2001: 148). In this context, DiMaggio (2001: 237) defines networks as a “system of actors connected by a set of relations or flows.”

Hybrid forms arise under the pressures of competition, downsizing, out-sourcing, globalization, information technologies, and the emergence of a “winner-takes-all” economy which make more flexible modes of organizing indispensable (Powell, 2001: 40). Due to these pressures organizations

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6 For the tension between cooperation and competition see chapter 4.1.
today do no longer face the classic Coasian choice of “buy or make”, because this choice is being replaced by the “make or cooperate” decision (DiMaggio, 2001: 213).

In alliances, where no single firm has complete authority, incomplete contracts between economic actors are governed through negotiation. Unless the alliance changes into a full merger, the unification of power is never complete. Organizations can be interconnected through a wide range of economic relationships. Joint ventures are considered to be at the hierarchical end of the spectrum. They involve partners creating a new entity in which equity is shared and the hierarchical governance structures of organizations are replicated (Gulati, 2004: 392). At the other end there are alliances that are not sharing equity and do not replicate the control and coordination structures associated with organizations. In this context it is important to mention the analysis of the two proposed research questions will not pay attention to the difference between equity or non-equity alliances, because the role of trust is essential in both types of alliances.

Gulati (2004: 378) defines strategic alliances as “voluntary arrangements between firms involving exchange, sharing, or co-development of products, technologies, or services.” Gomes-Casseres (1997: 34) describes an alliance as “any governance structure involving an incomplete contract between separate firms and in which each partner has limited control.” Das and Teng (1998: 492) define strategic alliances as “inter-firm cooperative arrangements between two or more partners that aim to achieve the strategic objectives of involved partners.”

The resource based view, which has the underlying assumption that organizations’ unique resources lead to a competitive advantage, helps to understand cooperative behaviour. Approaching cooperation between organizations from this perspective reveals that partnering leads to a combination of resource and ideas in unique ways. Many researchers have acknowledged the limited capabilities within the firm boundaries and the need to acquire skills and other strategic resources from outside the firm through strategic alliances. The organization’s ability to collaborate with other organizations and acquire knowledge is a competence that can generate competitive advantage. Doz and Hamel (1998), who are known for their work on the resource based approach and international competitive strategy, add a relevant contribution to the territory of long-term value creation within strategic alliances. The authors believe that strategic partnerships are central to the organization’s competitive success and promote the “capacity to collaborate” as core competence of organizations. Doz and Hamel (1998) identify a number of purposes why organizations are relying more on strategic alliances.
The following reasons for partnering are found throughout the literature:

- **Co-option or blocking competition**: The reason for co-option is to bring together potential competitors’ complementary strengths in order to build critical mass needed for effective competition globally or in a specific market (Doz and Hamel, 1998: 35-36). To co-opt competitors helps creating network effects to erode the competitive strength of the dominant industry players (Doz and Hamel, 1998: 61). In this context, risk can be reduced when faster market entry is enabled and when it can be spread over more than one organization (Contractor and Lorange, 2004: 26). Alliances may also be formed in order to reduce political risk and overcome government-mandated investment and trade barriers (Contractor and Lorange, 2004: 31).

- **Co-specialization**: The combination of resources, positions, skill, and knowledge sources leads to a synergistic value creation. Ownership-specific resources are co-specialized and become more valuable and sustainable through bundling. Complementation of co-specialized skills leads to opportunities in new markets and creates possibilities that could not be considered without the partnership. Co-specializing can help to access unfamiliar markets and to become an insider (Doz and Hamel, 1998, 35-36). The need for speed is connected with this reason for alliance formation. Alliance partners can speed up their operations, facilities and processes when they have access to new capabilities, new knowledge, and new technology (Mockler, 1999: 6). Contractor and Lorange (2004: 27) find that gaining complementary technology and patents are also reasons for partnering. Connected with this reason for alliance formation is also the need to utilize economies of scale and to achieve production rationalization. Economies of scale refer to lower average cost from larger volume. Production rationalization leads to lower costs by using the comparative advantage of each partner (Contractor and Lorange, 2004: 28). Vertical quasi integration through the access to materials, technology, and distribution channels can also be a motivator for strategic alliances (Contractor and Lorange, 2004: 32-36).

- **Learning and internalization**: When insights get combined and new skills are accessed new competencies can be built faster than it would be possible through internal efforts. The underlying motivation to learn from alliance partners is to overcome skill deficits and to acquire new competencies (Doz and Hamel, 1998: 36-37). Alliances can serve as vehicles for learning and internalizing new skills, especially when those skills are embedded, tacit, and require extensive “co-practice” to be learned (Doz and Hamel, 1998: 38).

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7 It is important to note that even if alliances build to spread risk, there is also another form of risk created by the formation of an alliance. Das and Teng (2001: 253) therefore differentiate between relational and performance risk and argue that only performance risk can be shared.
According to Hamel (2004: 248) learning can only happen by design and a strong intent to learn and not by default. Hamel (2004: 238) identifies the learning intent, transparency, and receptivity as core categories in the internalization process. Transparency is viewed as the available learning opportunities that each partner disposes to the other. The capacity of each partner to absorb the other’s know-how is called receptivity. The degree to which transparency is unlimited and receptivity is enhanced influences learning processes (Doz and Hamel, 1998: 207-208).

The learning intent of the single organization is strongly influenced by the leader. According to Hamel (2004: 247) systematic learning cannot take place when the internalization intent is not clearly communicated. It is the responsibility of the leader to articulate the learning intent and to enhance the receptivity of the organization by translating the desire to learn into actionable learning goals.

Doz and Hamel (1998: 208) argue that alliance partners have to find a way how to share enough information to create value while protecting its bargaining power by avoiding the complete transfer of core competences. In this context, it is obvious that there is an inherent tension between cooperation, in the sense of providing learning opportunities, and competition, in the sense of protecting core skills. While Doz and Hamel (1998: 208-211) highlight the importance of limiting transparency and cross-organizational communication, chapter 4.3.1 will demonstrate a different view and reveal that open communication between alliance partners can be rewarding.

The evolution of networks can also provide unique insights into the development of strategic alliances. The arguments of Doz and Hamel (1998), Stark (2001), and Powell (2001) underline the relevance of the social network perspective in strategic alliance analysis. Doz and Hamel (1998: 222) for example predict the future of organizations to be embedded in a new complex world of networks of partnerships among organizations. Stark (2001: 77) points out that “the real unit of economic action is increasingly not the isolated firm but networks of firms” and that “networks of strategic alliances create opportunities for distributed intelligence across the boundaries of firms.” Powell (2001: 59) argues that partnering efforts are so intensive, that it “may be more relevant to regard the interorganizational network as the basic unit of analysis.”

Throughout this thesis, strategic alliances are viewed as complex organizational forms built upon incomplete contracts and therefore they are fraught with tensions and paradoxes. In this context, trust enables mutually beneficial cooperative action between organizations that are not as readily regulated by standard legal devices.

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8 In this context, it is necessary to mention, that even if the importance of inter-organizational networks as the basic unit of analysis and the development of network forms are acknowledged, the strategic alliances analysis is only concerned with a dyadic level in order to ensure conceptual clarity.
The next chapter is aimed at building a conceptualization of trust and developing a working definition of this term. The conceptualization of trust is needed in order to make an assessment of the literature that takes account of the role of trust in strategic alliances.

### 3.2 Notion of trust

In order to capture the complex nature of trust, key characteristics and consequences of trust have to be identified. The conceptualization of trust will include the consequences of the violation of trust and the lack of trust in organizations. Moreover, the conceptualization includes the characteristics of both the trustor as well as the trustee.

Before trust can be conceptualized, misunderstandings about the notion of trust have to be cleared up. A common misunderstanding is that trust is “good for its own sake.” This view is not right and will lead to naive or even foolish behaviour, because trust per se cannot be viewed as essentially good. Distrust can even be the better option in many contexts, because it can stimulate the development of institutions and organizational structures that protect the interests of organizational members against potential exploitation. Proponents of the transaction cost theory even argue that distrust leads to improved institutions and therefore it can facilitate cooperation. This view leads to a paradox that distrust can hinder and facilitate cooperation.

A wrong conceptualization of trust leads to the misconception in the writing on trust, that everybody would be better off if people are trusting more. It is trusting the right people or organizations and not trust per se that helps to create successful relationships. Therefore, leadership should not be aimed at increasing trust per se, because there is no reason to trust the untrustworthy (Hardin, 2002: 75).

One conceptual misunderstanding in studying trust is that it has often been confused with cooperation (Mayer, Davis and Schoorman, 1995: 712). It is important to distinguish between trust and cooperation, because cooperation is possible when people do not trust each other. In this context, Mayer, Davis and Schoorman (1995) promote that trust facilitates cooperation and that the success of collaborative efforts is easier to achieve and more sustainable when trust is a constitutive element of the exchange relationship. Fukuyama (1995: 27) and Huotari and Iivonen (2003: 17) also argue that effective cooperation pre-supposes trust, because only in trusting relationships people give their best and get committed to the cooperation partners. Gambetta (1988: 225) disagrees and views trust as “a result rather than a precondition of cooperation.” Cook, Hardin, and Levi (2005: 2)

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9 This argument is used by Hollis (1998) throughout his book. Similarly, Julian Rotter (1980) concludes that people who are trusting are happier.
also do not see trust as precondition of cooperation as they argue that “a trust relation emerges out of mutual interdependence and the knowledge developed over time of reciprocal trustworthiness.”

Throughout this thesis, trust is conceptualized as both an antecedent and a consequence of cooperation, because trust can serve as a motivator for cooperative ventures and be strengthened through ongoing interpersonal relationships and mutual understanding.

The core problem of the trust mechanism is that trust is immeasurable in its consequences. Cause and effect cannot be proven in quantitative units and scientific evidence can hardly be generated. In this context, Mintzberg's insight can help to overcome obsession with measurement. He argues that “some of the most important things in the world cannot be measured” and that therefore people have to use judgement instead of measurement (Bibb and Kourdi, 2004: 76).

In this context, Cummings and Bromiley (1996) succeed in developing and validating the Organizational Trust Inventory - a set of items for measuring trust within and between organizations. They promote that varying degrees of trust exist and can be estimated. They define trustworthy behaviour through good-faith effort in fulfilling of commitments, honesty in exchange, and limited opportunism (Cummings and Bromiley, 1996: 303).

Ring and Van de Ven (1992) view trust as essential to the basic fabric of many societies because it has the role of a “glue” that bonds a wide variety of relationships. Bennis and Nanus (2005: 41) argue that “trust is glue that maintains organizational integrity” and keeps any system together. Moreover, they proclaim that trust “makes it possible for organizations to work” (Bennis and Nanus, 2005: 41). Other researchers describe the concept of trust as a “medium” (Francis Fukuyama), an “atmosphere” (Sissela Bok), a “lubricant” (Arrow), a social “glue” (John Whitney), as mysterious social “stuff” (Bernard Barber), or as “choice” (Robert C. Solomon and Fernando Flores).10

The main conceptualizations of trust presume that trust is a belief that reflects an actor’s expectations (the trustor) about another actor (the trustee). The distinction between trustors and trustees has the advantage of avoiding confusion regarding the level of analysis and which party is trusting and who is being trusted. Trustors expect that trustees do not intend to behave in an opportunistic way, taking advantage of situations in which trustees gain benefits at the expense of trustors. Although trustors can find it easier to get information on the abilities of trustees than on their intentions, main approaches have included both the abilities and the intentions of trustees in the definition of trust (Mayer, Davis and Schoorman, 1995).

10 Find more to this enumeration in Solomon and Flores (2001: 5-6).
Mayer, Davis, and Schoorman (1995) agree with Deutsch (1958) that risk\textsuperscript{11} and trust are inevitably connected, because trust can only be evident in situations where the potential damage from unfulfilled expectations is greater than the possible gain if expectations are fulfilled. Deutsch (1958) connects the notion of trust with opportunism and promotes that trust is less likely to emerge in situations that offer no opportunities for the trustee to act in a way that can be harmful to the trustor. These situations are characterized by a lack of interdependence between the trustor and the trustee. This can be due to the existence of formal binding contracts that constrain the trustee’s behaviour. The conceptualization of trust also involves reliance (Mayer, Davis, and Schoorman, 1995; Rousseau, Sitkin, and Burt, 1998). Therefore, trust can be defined as the decision to rely on another party under the condition of risk. Reliance is based on positive expectations of the trustworthiness of another party (Rousseau, Sitkin, and Burt, 1998). Risk is the potential that the trusting party will have negative outcomes when the other party behaves untrustworthily. As a consequence, risk creates the opportunity for trust (Rousseau, Sitkin, and Burt, 1998).

Gambetta (1988: 218) also identifies uncertainty\textsuperscript{12} as key element in the conceptualizations of trust and argues:

“The condition of ignorance or uncertainty about other people’s behaviour is central to the notion of trust. It is related to the limits of our capacity ever to achieve a full knowledge of others, their motives, and their responses to endogenous as well as exogenous changes.”

Ring and Van de Ven (1994) define trust as confidence in the goodwill of others not to cause harm to people when they are vulnerable to them. Barber (1983: 14) refers to this form of “goodwill trust” described by Ring and Van de Ven as “a proper commitment to perform.” He argues that the concept of trust also includes the issue of competence. He defines “competence trust” as “the expectation of technically competent role performance” (Barber, 1983: 14). Nooteboom (1996: 990) also differentiates between these two forms of trust and argues that trust can be conceptualized as the partner’s ability to perform according to agreements or the partner’s intention to do so.

McAllister (1995) finds that the supervisor’s assessment of group performance is strongly associated with assessments of the trustworthiness of the group. He finds that the trustworthiness of the group can be measured along two dimensions: the extent of “cognition-based”- trust and the extent of “affect-based” trust. Cognition-based trust rests upon the knowledge people have of others and the evidence of their trustworthiness. Other central elements of cognition-based trust are qualities like: competence, responsibility, and dependability. According to McAllister affect-based trust is

\textsuperscript{11} See also Fairholm (1994: 32).

\textsuperscript{12} The concepts of risk and uncertainty are closely linked to each other. Frank H. Knight viewed risk as a special type of uncertainty. Risk can be seen as quantified uncertainty.
grounded in reciprocated interpersonal care. This form is less predictive of competence assessment because it is founded on emotional bonds between people. Social-ethic similarity is associated with affect-based trust. In business relationships some level of cognition-based trust is necessary for affect-based trust to develop (McAllister, 1995: 30). McAllister argues that when reliable indicators of trustworthiness are available, such as job performance, similarity among people is less likely to be used as a proxy for their trustworthiness. Nevertheless, the implications of affect-based trust relationships on the performance of employees must not be underestimated. The nature of the interpersonal relationship between the leader and the employees can determine their ability to get work done.

Throughout the literature trust is viewed to be a multidimensional phenomenon as it exists at the personal, organizational, inter-organizational, and international level (Das and Teng, 2001: 255). Furthermore, the literature on trust identifies dispositional, relational and situational factors that can promote trust. Dispositional factors refer to the role of individual traits of the people involved. Researchers have stressed the effects of the similarity of such individual traits in fostering trust. A seven-nation study by Huff and Kelley (2003) confirms that individuals place higher trust in people who belong to their own national group than in people who are not from their group. Rousseau, Sitkin, and Burt (1998) promote that reliance on trust is a matter of the culture of shared words, because when people share cultural values they trust each other. Relational factors include the number of past interactions and the duration of the current relationship, which both are determinants for the quality of the exchange relationship. Situational factors refer to the presence of uncertainty regarding the behaviour of involved parties and take into account the context in which the relationship between the parties evolves.

In their assessment of trust Rousseau, Sitkin, and Burt (1998) argue that although there is no single definition of trust, the following composite elements can be identified throughout the literature: willingness to accept vulnerability, positive expectations regarding the intentions or actions of others, and interdependence. Rousseau, Sitkin, and Burt (1998: 395) define trust as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another.” According to Sprenger (2004: 48) the combination of credibility, predictability and straightforwardness can be summed up by the label “trust”.

Fox (1974: 67-68) focuses on the social regulative function of trust relations, when he points out that “the essential character of all trust relations is their reciprocal nature. Trust tend to evoke trust, distrust to evoke distrust.” In this context, Solomon and Flores (2001: 6) highlight that the conceptualization of trust embraces the possibilities of distrust and betrayal. Gambetta (1988) argues
that for trust to be relevant there must be “the possibility of exit, betrayal, defection” by the trustee. Sprenger (2004: 63) also states that practicing trust means considering the possibility of betrayal.

Hardin (2002) explains and defines trust through an encapsulated interest model. According to this encapsulated interest model of trust, the trustee encapsulates the interest of the trustor in his own and values the reputation in dealings with others (Hardin, 2002: 3). By encapsulating Hardin means that to some extent the trustor’s interests becomes the trustee’s interests in the trust relation between both parties. Nevertheless, the trustor has to be aware of the fact that the trustee has interests that conflict with his. This conception of trust is cognitive, because it depends on assessments of the trustworthiness of the trustee and varies in the intention toward the trustor. This view therefore involves expectations of the behaviour of the trustee. Hardin (2002: 5) concludes that an analysis of trust depends on the rational expectations of the trustor regarding the behaviour of the trustee and the commitment of the trustee. The encapsulated interest model requires a mechanism that helps in encapsulating the trustor’s interests. This mechanism can be an ongoing long-time relationship that is valuable to the trustee or a reputation that could be harmed when the trustee behaves untrustworthy. Therefore, reputation has a great importance in business life and can become a predictor of an organization’s dispositions for trustworthy kinds of action. (Hardin, 2006: 24). According to Hardin (2006: 25-26) other conceptions of trust make trust a matter of moral commitment or a matter of a character disposition.

According to Hollis (1998: 23) trust and economic progress have a circular interaction. The more people trust each other the better they are able to cooperate and therefore the better are their prospects for economic progress. Hollis reveals a paradox when he concludes that with greater economic success, people become more instrumentally rational and therefore they trust less. Fukuyama (1995) proclaimed that the welfare and competitiveness of a nation are determined by the degree of trust in the society. Fukuyama (1995:10) views “the ability of people to work together for common purposes in groups and organizations” as social capital. Burt (1997: 339) argues that social capital can enhance the abilities of leaders to identify and develop opportunities. The idea that actors possess social capital can be extended to organizations and inter-organizational networks. Therefore, social capital can become an important basis for competitive advantage, because of superior access to information and the potential for control benefits. Coleman, who has introduced the concept of social capital, defines it as “embodied in the relations among persons and is dependent on iterated interactions (Coleman, 1991: 304). He suggests that social structures enable people to trust each other by protecting their relationships from abuse. Fukuyama (1995: 26) also connects the idea of social capital explicit with trust when he states that social capital is a “capability that arises from the prevalence of trust.” Coleman also uses the concept of social capital to explain trust, but other
concepts of social capital include trust. Hardin (2006: 79) remarks that it is a misconception to treat
social capital as an aspect of trust, because social capital is a resource that enables cooperation even
in the context in which people do not trust each other. He argues (2006: 79) that the “real value of
social capital is that it substitutes for trust relationships.” Hardin (2006: 90) states that it is not trust
per se but the ongoing relationship that constitutes interpersonal capital, because that relationship
enables trust by encouraging trustworthiness.
Luhmann (2000) also views trust as a kind of capital. He assumes that institutional devices that
arrange for stable expectations have been substituted for relationships of trust in our complex time.
Complexity is the central problem, because the individual cannot know enough to handle everything
and must therefore rely on the trustworthiness of others. In that sense, Luhmann (2000) is right
when he argues that the function of trust is that it gives people the sense of understanding and
reducing complexity. Trustworthiness enables people to handle complexity and also to develop
complexity. Trust can make up for lack of knowledge and familiarity and therefore it is fundamental
in the age of increased complexity through globalization, outsourcing and strategic networks. As
Sprenger (2004: 56) puts it, trust “marks the transition from tradition to the present day as nothing
else does.” Throughout the thesis this view will be supported, because increased mobilization leads
to increased cooperation\textsuperscript{13}, which necessitates trust for long-term success. Sprenger is right, when he
states that long lasting successful cooperation is dependent on trust.
Trust can be viewed as the basis for cooperation, as it brings hidden energy resources for
cooperation to the surface.

3.3 Grounding trust in strategic alliances: the state of the art

This chapter connects the field of trust research to inter-firm relationships and lays out prior
research on trust in strategic alliances. Empirically work specifically dealing with inter-organizational
trust is a more limited area of research compared to the significant amount of literature on trust in
an organizational context or on trust in general social life.

Two approaches in defining trust can be distinguished: behavioural and attitudinal. Trust
constructed as behaviour is attributable to an organization, but trust as an attitude cannot be
attributed to organizations. An attitudinal definition of trust is only an interpersonal-level
phenomenon and can be attributable to organizations when the organizational members are seen to
be the subject of inter-organizational trust. According to Currall and Inkpen (2002) trust has to be

\textsuperscript{13} Note that cooperation without trust is possible. Trust is not a general pre-requisite of cooperation, which can
successfully work with other security measures than trust. Trust brings hidden energy resources for cooperation to the
surface and therefore can be viewed as the basis for cooperation. For the description of trust as a security mechanism
see chapter 4.2.
conceptualized as action rather than expectation, when organizations are assumed as being able to trust. Therefore, an organization’s action toward another organization would constitute the inter-organizational trust of an organization toward another.

Zaheer, McEvily, and Perrone (1998) empirically examine the distinctions between inter-organizational and interpersonal trust and come to the conclusion that both types play different roles in exchange performance. Jeffries and Reed (2000) explore the effects of the interplay between inter-organizational and interpersonal trust for the performance of collaborative relationships by focusing on relational contracting. It was Williamson who argued that markets rely on incomplete formal contracts, whereas organizations use “relational contracts” to overcome the problem of incompleteness of formal contracts (Gibbons, 2001: 186). Powell (2001: 59) views fixed contracts as ineffectual and describes the core of relational contracting as “entangling strings of reputation, friendship, and interdependence.” Gibbons (2001: 187) suggests that in relational contracting “coordination and control are not achieved by ownership but by dense flows of information, technology, capital, and people across firm boundaries.” Informal and non-hierarchical relationships are the basis of relational contracting practices and characterized by reputational concerns of partners. Therefore, relational contracting encompasses long-time horizons and includes social elements such as norms and expectations (Zaheer and Harris, 2006: 181).

In this context, the network perspective can serve as a tool to examine informal agreements between firms and the networks of non-contractual relations. Gibbons (2001: 186) points out that it is “impossible to understand the nature of a formal organization without investigation the networks of informal relations.” The transaction cost theory can help to understand that in situations of uncertainty and vulnerability relational contracts arise and are enforced by concerns about each party’s reputation. Powell (2001: 63) suggests that organizations are likely to turn to relational contracting and collaboration, under the conditions of rapid knowledge development and diversity of the knowledge sources.

Research on trust in the context of inter-firm relationships has highlighted expectations concerning other’s competence, goodwill, calculativeness and predictability. Lui and Ngo (2004) find that trust and goodwill is related to alliance performance. The performance of inter-organizational exchange relationships has been conceptualized as multidimensional (Heide and Stump, 1995). Zaheer, McEvily, and Perrone (1998) also investigate the relationship between trust and performance in inter-organizational exchange relationships. Their study reveals that trust reduces transaction costs and therefore it has a direct influence on performance. Zaheer, McEvily, and Perrone (1998: 155) argue that trust can facilitate “cooperation in the exploration of new information and coordination technologies, new market opportunities, and product and process innovation.” In this context, Zajac
and Olsen (1993) suggest that trust leads to improved performance through increasing transaction value. Chiles and McMackin (1996) also suggest that the development of mutual trust in alliances reduces transaction costs because it diminishes the negative effects of bounded rationality, the problem of specific investments, and opportunism. Nooteboom (1996) also analyse the role of trust and opportunism in influencing inter-firm relations. Hill (1990) argues that it is possible to reduce transaction costs through a reputation for non-opportunistic behaviour. This assumes that others can assess the degree to which an individual or an organization can be trusted. Sprenger (2004: 45) suggests that another alternative to assess the value of trust between organizations is to think about the costs of winning back lost trust.

The combination of the transaction cost economics with the resource based view can help to unravel how an organization can prevent opportunistic behaviour. Mahoney (2001) offers a resource based theory of sustainable rents that explains fundamental similarities between these two perspectives. Nooteboom et al. (2000) make an attempt to combine transaction cost theory and the resource-based view to explore how short-term opportunistic behaviour can be diminished in industrial supplier-buyer relationships.

McEvily, Vincenzo, and Zaheer (2003: 97) argue that “trust is associated with lower levels of vigilance.” They conclude that trust results in rewarding exchange relationships and leads to an expansion of the relationship by improving the scale and the scope of communication (McEvily, Vincenzo, and Zaheer, 2003). Tsai and Ghoshal (1998) point out that perceived trustworthiness of the partner leads to greater exchange of resources between multinational electronics organizations. Dyer and Chu (2003) also promote that information sharing increases when perceptions of a partner’s trustworthiness increase. Creed and Miles (1996) reveal that trust facilitates more open communication, information sharing, and conflict management.

Mosakowski and Earley (2000) analyse the role of time horizons in organizational and inter-organizational contracts. Hwang and Burgers (1999) also explore the role of time in inter-organizational relationships and demonstrate that time and trust affect risk perceptions. Lewicki and Bunker (1996: 124) propose a model of “the stage wise evolution of trust” where “trust develops gradually as the parties move from one stage to another.” They demonstrate that trust develops on the basis of calculation. When the partner is proving to be predictable, there takes place a transition to trust based on mutual understanding.

To capture the notion of trust in strategic alliances the relationship between trust and control has to be examined. The level of trust within a relationship is negatively related to the levels of monitoring
and with the number of safeguards put in place by one or both parties to a relationship. Existing literature generally regards control as an essential variable in reducing risk and attaining success in strategic alliances. In the context of cooperative ventures, Ouchi (1979: 846) observes that “people must either be able to trust each other or closely monitor each other.” Sprenger (2004: 63) explicitly includes control in the conceptualization of trust when he defines trust as being “prepared to relinquish control of another person” because of the expectation that the person will be competent and act with integrity and goodwill.

There are the following three different relationships seen as possible and important:

**Orthogonal relationship:** Sitkin (1995) and Poppo and Zenger (2002) suggest that trust and control affect action within and between organizations “jointly and independently” (Das and Teng, 1998: 496).

**Antithetical relationship:** The antithetical relationship implies that control lowers the level of trust that can be maintained and vice versa. The antithetical relationship implies that trust and control are different approaches and trust is able to completely replace the need to control. Leifer and Mills (1996) suggest that trust and control are negatively related and therefore focus on trust and control as substitutes. Das and Teng (1998) and Inkpen and Currall (2004) promote that the choice of an alliance partner to use formal control mechanisms as governance structure will diminish the development of trust between the partners. Currall and Inkpen (2003: 536) argue that mutual forbearance is an essential characteristic of truly cooperative alliances and that the perception of opportunistic behaviour is related to forbearance. When trust lowers the perception of opportunism between alliance partners, organizations are likely to develop mutual forbearance and to substitute trust for contractual safeguards. Therefore, mutual trust between the partners impacts the nature and the form of alliance governance structures (Currall and Inkpen, 2003: 537). In this context, McEvily, Vincenzo, and Zaheer (2003) conclude that leaders who have adopted a philosophy of trust considerations tend to avoid the implementation of formal control mechanisms. Spreitzer and Mishra (1999) and Mills and Ungson (2003) also argue that control can be replaced by trust. Ring and Van de Ven (1994) argue that there is a substitutive relationship between formal legal contract and psychological contract, which is based on trust. In their framework Das and Teng (2001) suggest that trust and control are interlinked with risk. They argue that formal control - which is composed of behaviour control and output control - undermines trust, because strict rules and objectives lead to restricted autonomy (Das and Teng, 2001: 263).

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14 Das and Teng (2001) distinguish between goodwill trust and competence trust. Both types of trust are explained in chapter 3.2.
**Synergistic relationship:** The trust-building and control mechanisms co-exist in an organization and are mutually reinforcing each other, because each mechanism facilitates and contributes to the effectiveness of the other (Sutcliffe et al., 2000). Das and Teng (2001), who find that the relationship between formal control and trust is antithetical, identify another form of control that enhances trust. They distinguish formal control from social control which is trust-breeding, because shared goals are created. Furthermore, they suggest that social control and trust are characterized by an interrelated relationship as they influence each other in a positive way. They announce that social control does only work when a certain level of trust is guaranteed (Das and Teng, 2001: 264). As a consequence, trust and social control are of supplementary character and can be viewed as essential in enhancing cooperation between alliance partners, because both concepts make unpleasant outcome less likely (Das and Teng, 2001: 254). Gallivan and Deplege (2003) construct a framework where trust and control form a dialectical relationship, because each construct should be considered only in relationship to the other. Inkpen and Currall (2004) analyse the impact of a synergistic focus on informal and formal control mechanisms and trust on the development of the alliance. They argue that “trust and control coevolve over time, with trust influencing control and being influenced by the type of controls that the partners implement” (Inkpen and Currall, 2004: 589).

### 3.4 Research model

This chapter is aimed at integrating key themes that emerge from the empirical contributions on the subject of trust in strategic alliances to a research model. An integrated framework of four essential dimensions for strategic alliance analysis is illustrated in figure 2. These four dimensions are: reciprocity, opportunism, forbearance, and trust. These core theoretical dimensions of existing inter-organizational cooperation research were identified by Parkhe (1993: 231).

In this thesis only the trust dimension will be analysed in detail. As the concept of trust is treated as a key dimension in strategic alliance research it is highlighted in figure 2 through the model of the cobweb of six Cs. These six properties are determined by the research issues and can describe the consequences of trust in strategic alliances. The interconnected key properties concerning the consequences of the trust mechanism between organizations are: cooperation, control, communication, commitment, cohesiveness, and conflict. The discussion of these six key properties in chapter 4 illuminates the long-term competitive consequences of trust in inter-organizational settings. It would be conceptually wrong to treat these properties as the antecedents of trust or
concepts that constitute trust.15 These six properties will guide the analysis in the following chapters 4 and 5 by giving insights on effective governance structure and leadership in strategic alliances. The consequences of trust on the behaviour of organizational members in interdependent relationships and the mechanism by which coordinated action is maintained can be described by these six properties.

The discussion of the first research issue, which is concerned with the tension between of trust and control, will lead to an analysis of governance structures in the subsequent chapter 4. As a consequence, this research issue will trigger an analysis of the consequences of trust illustrated in the cobweb-model of six Cs. The phenomenon of trust can only be grasped and made tangible in its consequences on the organization. Therefore, reciprocal loops of the consequences of the trust mechanism are discussed in chapter 4.3. The four theories introduced in chapter 2.2 will serve as methodical lenses through which the interplay of these six properties and trust can be explored.

The level of analysis is the individual leader of alliances and the leader’s role in establishing trust at the inter-organizational level. This analysis level is consistent with the proposed aims of the thesis and the research questions. The second research issue deals with the leader’s responsibilities, abilities, and possibilities in establishing trust as a constitutive element in strategic alliances. Therefore, this issue explicitly addresses this level of the individual leader. This research question will be elaborated in chapter 5, where the culture of trust and the role of a leader will be addressed. The second research issue leads to the discussion of the leader’s abilities in creating and maintaining trust in inter-organizational settings in chapter 5.2.

The following figure 2 visualizes the research model with the cobweb of six Cs.

Figure 2: The cobweb of six Cs

Source: own display in accordance with Parkhe (1993: 231)

15 The literature review in chapter three gives ample information about the antecedents and conceptual elements of trust. The reader of this thesis is now equipped with adequate pre-understanding of the notion of trust, that the terrain of the impact of trust on strategic alliances can now be entered.
4  Tensions in strategic alliances

The next two chapters deal with two key properties of the cobweb of six Cs. In chapter 4.1, the tension between cooperation and competition will be highlighted as it is constitutive for the formation of strategic alliances. When the resource based view serves as a methodical device, the need to compete in order to generate sustainable unique resources can be highlighted. From a social network perspective it is easier to understand that trust has to be included in the competitive environment. Chapter 4.2 lays out that in strategic alliances there exists a tension between control and trust in the creation of governance structures between organizations. The dialectical view is taken in order to generate recommendations for dealing with these contrary forces. Chapter 4.3 lays out remaining interconnected key properties of the cobweb model. The chapter 4 is closed with the discussion of the self-enforcing feedback loop between the five interrelated key properties.

4.1  The tension between cooperation and competition

Before the first research issue about the tension of trust and control can be discussed, another tension in strategic alliances has to be debated. This chapter is aimed at drawing attention to the tension arising from simultaneously competitive and cooperative conditions. As strategic alliances have been defined as complex cooperative ventures built upon incomplete contracts, the tension between competition and cooperation is constitutive for this complex organizational form.

In their meta-analysis of empirical studies on cooperative behaviour, Johnson and Johnson (2003)\textsuperscript{16} revealed that cooperation can lead to greater productivity than competition. In this thesis this findings are regarded as too constricted, because competition can also have important constructive roles. In the context of strategic alliances, competitive forces can also pose challenges and therefore motivate people to give their best. The network perspective helps to understand that competition has also important role in the formation of alliances, because the organization's critical resources can be embedded in inter-organization processes and routines. Competitive pressure and the battle for unique resources and capabilities can be a reason for partnering between organizations.

Cooperation and competition are therefore not viewed as incompatible throughout this thesis, as both forces are seen to be constitutive for strategic alliances. The dialectical approach helps to understand that both forces - competition and cooperation or independence and interdependence - can be constructive and facilitative of productivity.\textsuperscript{17} The dialectical approach helps to highlight that both forces can exist in this organizational setting and that a synthesis of contrary ideas can be

\textsuperscript{16} The findings are discussed in chapter 3.1.

\textsuperscript{17} Brandenburger and Nalebuff named the coexistence of cooperation and competition “co-opetition.”

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reached when both forces collide. Trust can encourage this generation of a synthesis and competitive advantage by promoting learning and innovative behaviour between firms. It can be fatal for strategic alliance analysis not to acknowledge or understand that allied organizations can be both partners and competitors. Therefore, cooperation and competition must be defined as parallel concepts that co-exist in strategic alliances.

4.2 The tension between trust and control

Trust as a management tool is gaining importance in the context of strategic alliances, because power and money have weakened as management instruments of these kinds of flexible organizations. Trust plays a decisive role in cooperation between organizations. Irrespective of which form of cooperation is chosen, the key management issue is one of trust, because hierarchical control and monitoring instruments are less effective in this context. The significance of trust can be revealed in the fundamental management dilemma: the balancing act between the need to interfere and the need to accept (Sprenger, 2004: 50). From the leader’s point of view the right balance between control and trust is an important facilitator of organizations’ performance.

Throughout this thesis, trust and control will not be described as contradictory concepts, because trust without control is inconceivable. Control can safeguard trust and therefore will be viewed as a prerequisite for trust to function. Trust - as a complement of control - can help to save certain costs of contractual security measures and monitoring activities. The cost of frequent selection and de-selection of contractual parties can be saved up, when a long-time relationship between organizations can be established.

Trust and control are defined as parallel concepts with a synergistic character in generating confidence. The synergistic relationship described in chapter 3.3 seems appropriate for the intended vision of this thesis. This study points to a complementary use of trust and control and promotes the idea of working together and divides tasks into those that should be managed by control and those that should be managed by trust. Leaders can be both, trusting and vigilant. In addition, contracts are seen as a platform on which a trusting collaboration can be built. Contracts represent a minimum guarantee for mutually acceptable behaviour and are not the antithesis of trust. Because of the fact that there are always unarticulated elements in contracts, trust has to compensate for the impossibility of having everything under control. Trust even can enable the existence of strategic alliances in the first place as it substitutes for unclear control mechanisms. Even if contracts are

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18 Max Weber was right when he regarded contracts as the quintessence of modern industrialized society.
19 Parsons calls this the non-contextual element of the contract.
viewed as essential in giving a minimum guarantee, an overuse of contracts can block the emergence of trust in strategic alliances.

Trust has implications for coordination and control on the institutional and the interpersonal levels of organizations. From a network perspective the economic action is seen to be embedded in a network of social relationships. Therefore, efficient coordinated action on a complex level is only possible when individual actors work together effectively. Trust becomes a determining factor for effective and long-terms working relationships. Trusting relationships are complex, cooperative rather than competitive, reciprocal and relative stable. When trust is once established, exchange relationships are stabilized which in turn increases chances to enhance trust. Trust affects the inter-organizational relationship network and therefore indirectly affects the institutional level. Trust also has a direct influence on the institutional between organizations, because it is also a determining factor of effective governance. Effective governance is a key element of the architecture of organizations. The central issue in governance design is the choice between formal and informal forms of governance. In the context of strategic alliances where authority and hierarchical mechanisms are diffused, trust can become a necessary mechanism for effective governance. In strategic alliances, repeated interactions increase trust and hierarchical elements can be reduced which leads to a mitigation of power differences. Alliance members rely on prior knowledge in coordinating their action and value a reduction of time and cost of coordination. Therefore, trust between alliance members reduces the demand for more hierarchical governance structures. Networks and trusting relationships among organizational members can complement the formal organizational design to the advantage of the organization. The informal design of governance is discussed in chapter 3.3 as relational contracting. Within and between organizations these informal and relation-based contracts complement formal contracts. Relational contracts can be seen as informal devices for establishing trust relations and complement the formal organizational design in ways that contribute to organizational success. Networks of trust are important complements to rules, incentives and therefore trust has a synergistic relationship with control mechanisms and with formal organizational design.

4.3 Other interrelated properties of the cobweb of six Cs

The proposed cobweb of six Cs consists of key properties used for describing the consequences of trust for strategic alliance analysis. In accordance with the field of prior research of trust in collaborative settings, the key findings are that trust between organizations will lead to better communication, greater commitment, greater cohesiveness between the organization’s members, and durable cooperation by reducing conflict and control mechanisms. As the two key properties
cooperation and control have been discussed, this chapter will only outline the importance of the four remaining properties.

4.3.1 Communication

The effectiveness of communication processes influences the ability to cooperate. Trust encourages effective communication because it produces more interactions between interdependent organizational members. Perceived trustworthiness of actors in inter-organizational settings has positive effects, because it leads to open communication, which in turn is a pre-condition for the effectiveness of communication between actors. The qualities of openness and understanding are inherent elements in trust relationships, because dysfunctional patterns of communication are avoided. Open communication creates greater flexibility, more sharing of information and transfer of tacit knowledge. Open communication can help employees to admit mistakes and to ask for help. The trust culture enables employees to learn from their failures, because they are not blamed or punished for their mistakes in such a culture. The power of trust helps organizational members to feel safe and to express their opinions openly.

Under an atmosphere of trust transaction costs can be reduced. When trust is a constitutive element in an organization, employees are more likely to create informal channels of communication, which trigger information sharing and knowledge creation. Trust encourages mutual understanding and becomes necessary for knowledge transfer between organizations. When employees are embedded in a network of communication channels, information is shared proactively which in turn can lead to improved performance. Through social ties organizational members can create a network of informal channels. In a supportive trust-based atmosphere, problems and conflicts between organizations can be openly discussed.

A climate of distrust in strategic alliances restricts the flow of information and organizational members have the impression that they can get biased information. The absence of the sharing of information can easily cause suspicion, create a distrustful atmosphere, and decrease trust between alliances.

4.3.2 Commitment

Trust relationships are rewarding and provide incentives to be committed and loyal to the alliance. In an atmosphere of trust, employees feel respected and as important contributors to the success of the partnership. The network perspective can help to highlight that strategic alliances consist of a network of social inter-firm relationships and that employees are embedded in this
network. Due to this embeddedness, the behaviour of every organizational member contributes to the overall success. When employees understand that their work contributes to the overall organization’s success they are more likely to develop greater commitment to the alliance. When partners begin learning from their cooperation they are likely to re-evaluate their commitment toward the partnership. The commitment will be strengthened when organizational members have the perception that their learning curve is enhanced through interaction with the other party and that the alliance is able to create additional value. The social network theory aids the understanding that trust creates a social environment that integrates all organizational members and fosters their commitment.

4.3.3 Cohesiveness

Cohesiveness is strongly related to commitment and cooperation. Cohesiveness refers to a strong identification with the group and results in the desire to keep the group together and to maintain cooperative relationships. When trust spreads throughout the organization’s boundaries an atmosphere of trust in enforced and leads to more robust and valuable relationships and greater cohesiveness. Where there is cohesiveness, relationships are strong and trusting and they are actively encouraged between organizations. Cohesiveness strengthens the capacity of organizational members to work together effectively. When organizational members share common values and visions the belonging to the organization is strengthened and cohesiveness grows. Cohesiveness provides a sense of security that work will be done in a satisfactory manner. This kind of social bonding makes organizational members more willing to share information and to create a climate of learning among each other. When trust leads to cohesive relationships the generation of social capital is encouraged. Through trust mechanisms reliability and cohesiveness can be designed within and between organizations. Thus, trust creates meaning and connection between organizational members and fosters social networks.

4.3.4 Conflict

According to Deutsch conflicts arise out of the tension between competitive and cooperative forces. As a consequence, situations of conflicts are characteristic for inter-organizational ventures. The literature on strategic alliances indicates that there are two main sources of conflict: potential opportunism of alliance partners or inter-organizational diversity. These sources are often used to explain the collapse of strategic alliances.

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20 The contribution of Deutsch (2003) regarding the notion of cooperation and conflict see chapter 3.1.
If two partners bring together different inter-organizational capabilities and competences, this can either generate a competitive advantage or trigger conflict. From the perspective of the resource based view, strategic alliances are specially created to exploit inter-organizational differences. Organizations cannot overcome and positively combine these different ranges of resources when there is no climate of trust between them. Trust helps to unify strategic motivation of alliance partners by helping to recombine reciprocal strengths and complementary resources. Trust fosters collaborative effectiveness through shaping the acceptance of strategic decisions through the unification of the organizations’ visions. By acting as unifying force, trust diminishes differences regarding the cultural, organizational, and political bases of partnering firms. In this context, empowerment\textsuperscript{21} can serve as useful tool in resolving conflicts. Deutsch (2003: 25) stresses the importance of this tool, when he argues that empowerment can help in “strengthening each party’s ability to analyse its respective needs in the conflict and to make effective decisions.” Leaders can minimize conflicts by effective design through governance structure and effective modes of coordination. Trust can minimize conflicts by serving as an effective governance mechanism\textsuperscript{22} and therefore has a central role in sustaining and fostering the partnership. Trust serves as a proactive coping mechanism in order to create a synthesis of conflicting forces. The dialectical perspective aids the understanding that the tension between ambiguous forces can lead to a synthesis of heterogeneous forces on a higher-level and therefore resulting in positive change and effective collaboration.

Trust also helps to overcome opportunistic behaviour as a conflict-inducing factor. Opportunism\textsuperscript{23} in this context can be viewed as self-interest seeking of one organization to the disadvantage of the other. The mechanism of trust creates responsibility to fulfil expectations and diminishes opportunistic behaviour. Trust can serve as a complement to the formal governance structure.\textsuperscript{24} Trust serves as an ex ante safeguard mechanism to defend against opportunism. As a consequence, a climate of trust can prevent opportunism from arising and monitoring costs can be saved.

### 4.3.5 Self-enforcing feedback loops in the cobweb of six Cs

In this chapter it is accentuated that the trust mechanism leads to a feedback loop between all the six properties of the cobweb model. The key properties reinforce each other in a positive manner. When there is trust the communication can be improved and this can lead to greater commitment. If organizational members have a psychological attachment to the partnering organization conflict can

\textsuperscript{21} Empowerment is seen to be an integral element in the building-blocks of inter-organizational trust and is discussed in chapter 5.2.9.
\textsuperscript{22} For the discussion on the role of trust as governance mechanism see chapter 4.2.
\textsuperscript{23} For Williamson’s definition of opportunism see chapter 3.2.
\textsuperscript{24} Trust and control are viewed to have a synergistic relationship regarding the governance architecture between organizations. See chapter 4.2 for the interplay between trust and control.
be reduced. Reduced conflict can lead to better and open communication and growing cohesiveness. This is only one possible direction of the ongoing positive feedback loop based on the mechanism of trust. Cooperative relationships can develop over time supported by a corresponding evolution of trust through these six key properties influencing each other.

If trust is once established a constitutive element between organizations, cooperative action will be characterized by innovation and creativity and this can lead to a competitive edge. The feedback loop in this process helps the partners to evaluate their experience and decide whether to continue to cooperate. A continued economic relationship often becomes overlaid with social content that carries strong expectations of trust and opportunism between both parties is likely to decrease. Care and concern for other people, which McAllister (1995) connects with affect-based trust, are an important foundation of ongoing relationships. Trust lubricates strategic alliances and leads to effective long-term partnerships.

The question remains, how trust can be established and maintained in strategic alliances. In this context, the second research issue is based on the underlying assumption that it is the key responsibility of leaders to create trust between organizations. The next chapter 5 will deal with the impact of leadership on strategic alliances. There will be a discussion of ten essential abilities of leaders in chapter 5.2 in designing trust relationships within and between organizations.

5 Toward a culture of trust: Recommendations for leaders in inter-organizational settings

Building trust between organizations is a planned activity, takes considerable resources from organizations over time, and is viewed to be an important responsibility of the leader. This chapter discusses the responsibility, abilities, and possibilities of leaders in establishing a culture of trust that can be the foundation of a competitive advantage. It highlights that trust must be treated as an instrumental value and therefore it is the leader’s responsibility to place trust at the centre of a rational corporate policy. In chapter 5.2 ten abilities of leaders that are essential in establishing trust are discussed. Establishing trust begins with talking and thinking about trust and with the appreciation and understanding of trust. The required practices in the trust building process are discussed in terms of the leader’s abilities. In this context, it is very important to mention that the solution cannot be found in a how-to checklist and that the ten practices are no guarantee that trust can be established, because the leader has to face certain difficulties in the creation of a culture of trust. The organizational culture conditions whether and how mutual trust develops between
organizational members who are all involved in making the alliance work. The difficulties that leaders have to face in the process of developing trust are discussed in chapter 5.3. This chapter reveals that the leaders’ possibilities in establishing trust are limited.

Dealing with the economic mechanism of trust is no easy task because the subject is full of ambiguities and paradoxes. Trust is seen as an integrative mechanism in the organizational culture that helps to create social capital, and encourages a positive mindset among its members. Integrating the trust mechanism in organizational cultures is complicated due to the fact that culture deals mostly with largely invisible elements of an organization, like values, symbols, power, expectations, and habitual behaviour. Although there is no clear set of instructions and “recipe” for establishing trust between organizations, trust is the key to a value-oriented corporate culture. According to Fox (1974) a “high-trust culture” has a competitive advantage. Companies with a culture of trust are able to maximize achievable cooperation profits and reduce transaction costs.

Solomon and Flores (2001: 28) note that “the great advantage of a trust culture is the ability – the need – to appreciate other people’s circumstances and points of view.” They argue that one should not “overlook the good that comes from people expressing their values and passions, each person from his or her perspective, which leads to fruitful discussion, corrective criticism, and the emergence of a shared willingness to explore new possibilities” (Solomon and Flores, 2001: 28).

5.1 Leadership of a culture of trust

According to Fairholm (1994: 3) leadership happens as a result of leader and stakeholder collaborative action. This conceptualization implies that leadership is a co-production of both leaders and followers, and takes into account that the formal leadership position has to be attributed by followers (Smircich and Morgan, 1982: 258-259; Fairholm, 1994: 10; Fairholm and Fairholm, 2000: 108). In accordance with Smircich and Morgan, leadership is not defined in terms of personality or capacity of an individual leader throughout this thesis. Leadership consists of designing a homogenous organization where work can be done collectively. Leadership and culture are defined in terms of each other, because leadership is seen as the consequence of organizational culture and culture as the result of leadership.

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25 One of the most quoted models of organizational culture is that of Schein (1985). He identifies three different levels of organizational culture: artefacts, values, and basic assumptions. Artefacts take the form of stories, metaphors, rituals and symbols. Storytelling, therefore, is seen as a useful tool of leadership. Find more about narrative tools in Wylie (1998: 30-31), Weick (1995: 127-131), Gardner (1996: 41-65), and Fairholm (1994: 90-91). A deeper level of culture consists of values that guide action. Basic assumptions are largely intangible and can be defined as unconscious behaviour. Fairholm (1994: 80-94) elaborates cultural components that can serve as tools to shaping the organizational members’ values.

26 Note that Bennis and Nanus (2005: 103) prefer the notion “social architecture” over “culture” because of the fact that it implies change and tractability. Nevertheless, throughout this thesis the notion culture will be used to describe the attitudes, experiences, beliefs and values of an organization.
An essential aspect of leadership is creating the context within which leaders can lead and followers find reasons for full commitment without losing too much of the individual freedom of leaders and followers. The quintessential leadership task lies in designing a culture in which members can trust each other and jointly achieve their potential.

Bennis and Nanus (2005: 142) insist that trustworthiness is a vital characteristic of successful leadership and emphasize that “the trust is the emotional glue that binds followers and leaders together.” Fairholm (1994: 9) affirms this insight when he explicates that “leadership takes place in a context of mutual trust based on shared vision, ideals, and values.” Fairholm (1994: 9) reasons that leadership is not possible without an unified trust culture. According to Fairholm (1994: 2) “the trust culture provides a unifying context within which leader and followers work and focus effort toward agreed-upon goals, values, and vision ideals.”

Leaders have to deal with the core problem that it takes a long time and many interrelated actions to create and maintain trust, but short time and only one single action to lose established trust mechanisms. Nevertheless, it is the responsibility of leaders to enable and create a trust culture in order to secure personal and institutional growth. Creating a corporate culture, motivating all the organizational stakeholders to give their best and to build enduring organizations is very hard as leaders cannot force trust, commitment or creativity. Trust must be earned and developed. The development of a trust culture essentially depends on the number of members using the trust mechanism. Therefore, leaders need to understand and use corporate culture to ensure member commitment and to engage all members in the evolution of this culture. Leaders have to make underlying assumptions and expectations explicit and to negotiate openly psychological factors as well as more tangible economic and task factors that define the work relationship. Moreover, leaders have to establish confidence in the functioning and general recognition of the trust mechanism within and between companies.

5.2 On the leader’s abilities in the creation of trust as a constitutive element in strategic alliances

This chapter provides leaders with guidance on their abilities and practices that enable conditions for trust creation in strategic alliances. Leaders need to build a trusting mindset in order to be successful in creating and guiding their strategic alliances. Ten essential abilities of leaders for the creation of trust in inter-organizational settings are illustrated in the following figure 3. These building blocks of inter-organizational trust are discussed individually in detail. In this context, it is necessary to clarify, that these ten elements are also attributable to trust building efforts within the individual organizations. Insight from the interpersonal level regarding trusting relationships can serve as
explanation for the institutional level. Like the development of trust between individuals, where they need to trust themselves before they can start to trust anyone else, organizations also have to establish trust within before it can be developed between organization.

![Figure 3: The building blocks of inter-organizational trust](image)

5.2.1 Establishing shared values and a shared vision

Creating and shaping cultures is characterized by shared values that enhance and respect the individual, encourage mutual trust, and empower all members. Setting values is the most critical leadership task regarding cultural implementation. According to Bruhn (2001: 50) values are reminders of what the members of an organizational culture believe in. Shared values become the basis for organizational standards and structures that guide interactions between the organizations. Core values are the foundation of inter-organizational procedures and working standards and therefore affect interaction modes between individuals. In this context, Fairholm (1994: 11) argues that shared values are the basis for mutual trust. This statement reveals that the creating of a trusting culture results in the values that all organizational members share. Trust can only evolve in purpose-driven environments, where employees have the opportunity to make an immediate contribution and can share their value and beliefs with others. Therefore, a major aspect of the establishment of trust between organizations is clarifying what the members of the organization have in common and what holds them together. Leaders have to clarify the values, purpose, and the vision of the alliance and articulate it to all members. A vision represents the system of beliefs that give the organization texture and coherence (Fairholm, 1994: 94). All organizational members should be actively
encouraged in the development of a common vision. A strong shared vision of the trust culture can serve as a unifying force between organizations. The generation of a trust culture is stimulated, when all members gain clarity about shared purpose, the direction of the alliance, and shared vision.

In this context, the leader has to pay attention to the fact that a unified culture of shared values does not mean to lower diversity. Leaders in strategic alliances should even encourage a creative mix of skills, capabilities, and ideas in order to gain a competitive advantage. As a consequence, they have to create a culture of trust which is inclusive of the differences among its members (Bruhn, 2001: 58). This requires understanding and respecting diversity among organizational members concerning attitudes, behaviours, and values.

5.2.2 Commitment building

An excellent leader has the ability to weigh things, to develop strategies in a team, to prefer communicating to imposing, and to bind employees and partnering organizations on a long-term basis through the mechanism of commitment building. According to Fairholm (1994: 32) “achieving follower commitment is the hallmark of excellent leadership.”

Commitment within and between organizations has a dual role. On the one hand, commitment to a shared vision can operate as a confidence-building mechanism that fosters trust between organizations. On the other hand, commitment can be regarded as consequence of established trust between organizations. Trust is regarded as essential for employees to be committed to the organization’s vision and for doing organizational work effectively. Leaders constantly have to raise the issue of the value of trust for the success of the alliances. The leadership challenge lies in sustaining an ongoing process of consensus and commitment building among organizational members. Fostering commitment in an ongoing manner can institute a positive feedback loop in strategic alliances that creates an atmosphere of trust and cultivates the trust mechanism between organizations.

5.2.3 Showing empathy

Leaders who have the ability and sensitivity to put themselves in the place of their employees are more likely to create a trusting relationship. Empathy is necessary in order to understand the working styles of employees, their strengths and their weaknesses. Empathy helps the leader in understanding the employee’s intention. The leader does not have to judge employees just on their actions, because an understanding of the motives of their actions provides additional insight. When

27 For the role of commitment as consequence of trust between strategic alliances see chapter 4.3.2.
leaders care about each individual and show respect to him or her, the trusting relationship is actively encouraged and strengthened. They have to possess emotional intelligence in order to be aware of a potential conflict situation and to be able to proactively solve them. Empathizing helps to prevent problems and enables the alliance to focus on positive agendas.

5.2.4 Authenticity

As the organization’s member’s trust is based on the judgement of authenticity, being authentic and predictable are of great importance. Authenticity is the basis for credibility and acceptance and therefore it becomes an imperative for trusted leadership. Leaders act authentically when they hold to the same values in whatever role they have. Authentic leaders who behave in a trusting manner encourage employees to behave similarly because trusting others is likely to be reciprocated. Authentic leadership can make a fundamental difference in organizations by helping employees to find meaning and connection at work through greater self-awareness by promoting decision making that builds trust and commitment. The concept of transparency and integrity is connected to acting authentically. Transparency means revealing the truth, being honest, and to constructively solve problems (Bibb and Kourdi, 2004: 35). Integrity also means being honest, keeping promises and respecting people’s boundaries (Bibb and Kourdi, 2004: 71). Trust becomes an expectation and a personal obligation to be authentic, trustworthy, and reliable. Therefore, trust implies pro-activity, because when organizational members trust another they act toward each other with assurance, even in the condition of bounded rationality.

These explanations reveal that leaders have to keep their promises and commitments, that they are viewed as authentic. Leaders have to base their actions on authentic communication, which includes giving honest feedback and admitting own mistakes and to reveal weakness. In this context Sprenger (2004: 98) argues that an instrument to put the trust mechanism into action is vulnerability. Sprenger (2004: 111) concludes that “no one can ask for trust in a credible way without having allowed themselves to be vulnerable.” In this statement there lies another ambiguity that weakness is going to become strength. When leaders choose trust over invulnerability they encourage the organizational members’ obligations and foster their commitment toward the alliance. The paradox lies in the fact that leaders can gain control by giving it up.

The problem of control addressed in chapter 4.2 can be shown now in a new light. Trust can serve as control because it has a binding power and creates implicit contracts. A culture of trust can also function as a control mechanism sanctioning, approving or proscribing particular kind of behaviours (Bennis and Nanus, 2005: 104; Fairholm, 1994: 17). In this context, leaders have pay attention to the fact that they have to communicate with the intention of relation, not of controlling or
manipulation. Solomon and Flores (2001: 15) argue that authentic trust\textsuperscript{28} trust can never be taken for granted, but must be continuously cultivated through commitments and truthfulness.

### 5.2.5 Predictability and a consistent leadership style

Being straightforward and predictable are necessary conditions for trust. If leaders are inconsistent, employees will find it difficult to trust in them. As a consequence, the impetus in developing trust is toward a consistent style. The cultivation of trust requires an ongoing, daily effort and to constantly re-affirm basic values of the alliance. The significance of positioning cannot be overstated because followers tend to trust leaders when they know where the leader stands in relation to the organization and how leaders position the organization relative to the environment (Bennis and Nanus, 2005: 143). Therefore, effective leaders must have the ability to be reliable and tirelessly persistent. A challenge for leaders is to design an organizational system, which enables strong informal interpersonal relationships that can help to facilitate the information flows and the establishment of an attitude towards trust.

### 5.2.6 Proactively reinforcing trust

In order to put the trust mechanism to work, the essential component is reciprocity. Trust relationships are maintained through direct recognition of the value of the relationship and through indirect feedback, which stimulates continuation of the reciprocal dealings that constitute the relationship. According to Sprenger (2004:126) the only way to encounter trustworthy people is to trust. This statement reveals that trust is reinforced by trusting. The idea of a self-fulfilling prophecy can be applied to trust mechanisms, because if leaders treat people like they were trustworthy, they will behave like leaders expect them to be. Merton defines self-fulfilling prophecies as a “false definition of the situation evoking a new behaviour which makes the originally false conception come true” (Weick, 1995: 147). People are able to create and find what they expect to find, because they see what they expect. This statement provides the insight that leaders should treat employees as if they were trustworthy and reliable and employees are likely to become trustworthy and are likely to reciprocate in a trusting manner. The self-fulfilling prophecy can also give us an important warning, because the same scenario has been confirmed by research for distrust.\textsuperscript{29}

\textsuperscript{28} Solomon and Flores (2001) distinguish between authentic trust and naive trust.

\textsuperscript{29} In this context Robert K. Merton stated that distrustful managers will always find that employees subsequently justify their mistrust by their behaviour. Similarly Seneca argued that some people have taught others to cheat because they fear being cheated.
5.2.7 Expressing oneself

In order to establish a culture of trustworthiness leaders need to be self-confident and give direction through setting an example and through the strong belief in one’s own mission. These skills are closely linked to the imperative to express oneself and to achieve self-development. This insight is tightly connected with Peter Drucker’s postulation that “managing knowledge means managing oneself” (Peter Drucker, 2000). Self-knowledge has to do with recognizing strength and with nurturing one’s talent. Leaders need to possess self-confidence and an inner strength to “cope with the tension between the expectation of trust and the possibility of betrayal” (Sprenger, 2004: 159).30

5.2.8 Dealing with ambiguous forces

The quintessence of leadership is one of integrated systematic thinking: having contrary ideas in mind and still being able to act. In order to do so, leaders must be able to recognize these ambiguous forces and be willing to deal with the paradoxical phenomena of social interaction instead of simplifying them into a binary either/or.

A key characteristic of excellent leadership is the ability to deal with dichotomy and the integration of contrary ideas within and between organizational cultures.

5.2.9 Empowering

Empowering of employees serves as tool to create trust. Fairholm (1994: 160) suggests that empowered employees have increased motivation, are more committed to their organization, and are more creative in their work. Empowerment means encouraging employees to make decisions themselves and requires a willingness to enable employees to put their ideas into practice. Therefore, it is important that leaders establish a clear channel for input for ideas and leave autonomy to employees to put their ideas into practice. Leaders have to emphasize that the participation of every employee is important in working together for a common culture of trust. Members have to know why their particular jobs contribute to the success of the organization and they have to feel valued for their contribution. Leaders have to encourage dialogue and the idea that members of trusting organizations are supposed to learn from each other. In frequent organizational meetings the leader has to promote the trust culture and clarify the roles of employees in building such a culture. Leaders can empower their employees by trusting their employees with important market and customer contacts and giving them more responsibility in things that will affect the leaders’ success.

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30 In this context it is important to note that trust is not opposed to distrust so much as it is in a continuing dialectic with it. Trust and distrust are defining each other in terms of the other. Chapter 3.2 reveals that the conceptualization of trust embraces the possibilities of distrust and betrayal.
In this context, leaders have to focus on the clarity of responsibilities by empowering. Without clear responsibilities, many ambiguities can hinder the development of trust between organizations. In this context, the traditional view of a leader, who controls and imposes instructions, is out of time. They have to move beyond their instinctive desire for control, must not be afraid of losing control, and recognize the creative potential of trust. Where the culture of the company is one of command and control, the result is massive distrust and cynicism. Nowadays, organizations must evolve from command-and-control to autonomous models. The lesson is that having control does not necessarily mean a better-managed partnership, because successful alliances do not work on the basis of ownership and control (Ohmae, 1999: 126). Courage is needed to reduce control, to relinquish power and to allow the employees to find their own ways. A work climate that permits learning by mistakes and tolerates incidental failures is essential for this intended vision.

5.2.10 Participative leadership style

Trust can also be encouraged and fostered through participative leadership styles. This leadership approach is characterized by valuing the competences of organizational members, open and free communication, expression of feelings, active listening, shared decision making, and informal organizational structures and relationships (Fairholm, 1994: 129-130). Participation therefore can be seen as a key characteristic of a culture of trust. Leaders have to embrace all organizational members in important decision-making processes and pay attention to helpful suggestions of every individual. The fact that employees perceive information as power also can be used to foster trust between organizations. When information is shared and spread between organizational boundaries with an attitude of integrity, all members are likely to feel entrusted and respond with commitment to the organization. Organizational members tend to evaluate the leader as competent and trust toward the leader will grow when they are integrated in the decision-making process. Therefore, the easiest way to earn trust is to share all information including financial disclosure with organizational members. Bennis and Nanus (2005: 74) argue that the leader’s optimism and creativity in problem solving can attract, energize and inspire people. Inspired people are more likely to accept their responsibility in the decision-making process and develop commitment to the vision of organizations. The leader’s optimism is of great importance, because it helps to renew spirits and to give others fresh courage. Leaders should possess the magic art of inflaming the same commitment and spirits in others which inspired their own actions. In this context the remarks of Bennis and Nanus (2005) reveals that leaders cannot simply dispense with the vision-business by writing the Official Vision Statement. To be truly effective and inspirational, leaders can make their messages more powerful by leading by

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31 Note that courage has to be distinguished from fearlessness.
32 See chapter 4.3.1 for the advantages of open communication.
example (Gardner, 1996: 37). In practice, this means that leaders often have to sell their view of the new culture, using a mix of rational persuasion, inspirational appeal and symbolic actions. Managing culture, therefore involves intrinsic, cognitive, inducement, and symbolic leadership activities (Fairholm, 1994: 34).

Leaders should put themselves in the role of coaches that let each person find their own way of achieving goals (Fairholm, 1994: 154). When leaders regard themselves as coaches and facilitators they know that they cannot achieve success by means of control. The leader needs to be an excellent teacher to engage the organizational members in a learning process to adapt their beliefs and values to the new circumstances by framing and mobilizing meaning. (Bennis and Nanus, 2005: 136). The leader must be able to motivate followers to break old habits, to critically rethink the own inherited frame of reference and to begin learning new habits.

5.3 Barriers to developing a culture of trust

This chapter considers potential weaknesses and barriers in the development of a trust culture. Forces that constrict the leader’s possibilities to establish trust as a constitutive element within and between organizations and that hinder trust to prosper have to be considered, as they can endanger organizational success.

The leader’s sensitivity to the organizational members’ needs is an essential element in creating trust relationships (Fairholm, 1994: 139-140). This is not a simple skill and requires a great amount of emotional intelligence. Leaders do not always succeed in defining and shaping reality to organizational members and therefore do not guide the whole organization into a common interpretation of reality (Smircich and Morgan, 1982: 261). When leaders are not able to create a common point of reference or do not succeed in generating a rhetoric which aids the understanding of their vision the leadership action does not guide followers into a common interpretation of reality. Different perceptions or interpretations of the reality between leaders and followers regarding leadership styles hurt performance and reduce trust. These differing perceptions can limit the trust relationship and the development of a culture of trust on a whole. Effective leadership therefore depends upon the extent to which the leader’s definition of the reality serves as a basis for action.

In order to resolve different views, leaders tend to resort to authority. Power is a tool that helps leaders to establish a trust culture, as long it is properly allocated. Power asymmetries can block the emergence of trust relationships and can even lead to distrust when the leader is not capable of

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making credible commitments. Between unequal power parties, namely between leaders and followers, trust can only emerge when the more powerful party makes ongoing credible commitments. The development of the trust culture can be hindered, when leaders use their authority in order to prescribe capable employees how they should do their job (Fairholm and Fairholm, 2000: 105). The key problem here lies in exercising the right amount of power needed to strengthen a trusting environment.

Unnecessary layers of supervision and unclear organizational boundaries are a typical problem that leaders of collaborative ventures have to deal with. In the context of strategic alliances, a diffused hierarchy system impedes trust to flourish. The clash of different hierarchy systems between organizations can also hamper the establishment of an unifying trust culture. Instituting the trust paradigm between organizations can be difficult, when established patterns of interaction, traditional ways of thinking, and known structural relationships support organizational rigidity (Fairholm, 1994: 212). Furthermore, the unwillingness to share power becomes a barrier to the development of trust in cooperative efforts between organizations.

In this context, the tendency towards status (Fairholm and Fairholm, 2000: 107) constitutes another barrier to a leadership of trust. When organizations insist upon their status, it can make them blind to the goals and visions of others than their own.

Among the potential problems leaders face in designing and maintaining a trust culture are those of dealing with the experiences and emotions of followers. Trust develops over a long time and is a result of a person’s former experience (Fairholm and Fairholm, 2000: 105). People can learn to trust or distrust. Negative events can have an effect on the willingness to trust and lead to a limited capacity for trusting.

5.4 The comparison between distrustful cultures and trusting cultures

This chapter lays out the difference between a trust culture and a culture of distrust in strategic alliances and provides an overview of key elements that are constitutive of each type. Important insights of the analysis of the role of trust in strategic alliances in chapter 4 and 5 are highlighted again. Key parameters that have been identified throughout the analysis of the role of trust in strategic analysis are contrasted alongside three dimensions in the systematic context of trusting cultures and distrustful cultures. Both culture types should be seen as ideal types and therefore will not exist in reality with all these parameters and factors. The three dimensions are of structural, personal, and relational nature and are crucial in the distinction of the two archetypes of cultures. It is difficult to characterize trust cultures or distrustful cultures in terms behaviour, because it is often
situationally determined. However, the figures 4, 5, and 6 attempt a portrayal of behaviour of organizational members to dramatize the extremes between both archetypes. The comparison provides an overview of important factors that are to be manipulated in a way that is supportive for the genesis of trust between organizations. The distrustful culture displays factors that inhibit the development of trust and should serve leaders as negative examples.

The following figures 4, 5, and 6 are aimed at summarizing main findings throughout the analysis in a coherent systematic schema.

<table>
<thead>
<tr>
<th>DISTRUSTFUL CULTURE</th>
<th>TRUSTING CULTURE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Structural Dimension regarding organizational architecture</strong></td>
<td><strong>Structural Dimension regarding organizational architecture</strong></td>
</tr>
<tr>
<td>• high degree of supervision</td>
<td>• autonomy</td>
</tr>
<tr>
<td>• high degree of social distance</td>
<td>• low social distance</td>
</tr>
<tr>
<td>• inflexibility, many rules</td>
<td>• flexibility in rules to accommodate changing needs</td>
</tr>
<tr>
<td>• small latitude of acceptance</td>
<td>• creating room for manoeuvre</td>
</tr>
<tr>
<td>• opportunism</td>
<td>• self-control, limited possibilities for opportunistic behaviour through reputational incentives</td>
</tr>
<tr>
<td>• no loyalty and no identification of shared values</td>
<td>• sharing similar values</td>
</tr>
<tr>
<td>• frustration, resignation, boredom, stress, alienation, vindictiveness</td>
<td>• values: openness, honesty, integrity, truthfulness, loyalty, altruism</td>
</tr>
<tr>
<td>• organizations as closed systems</td>
<td>• organizations as open systems</td>
</tr>
<tr>
<td>• inadequate or inappropriate incentive system</td>
<td>• long-term systematic incentive system</td>
</tr>
<tr>
<td>• glamorizing traditions, organizational rigidity</td>
<td>• innovation, change management</td>
</tr>
</tbody>
</table>

Figure 4: Structural dimension regarding organizational architecture in distrustful and trusting cultures

Source: own display accordance with Bruhn (2001: 82-97).
<table>
<thead>
<tr>
<th>DISTRUSTFUL CULTURE</th>
<th>TRUSTING CULTURE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personal Dimension regarding leadership behaviour</strong></td>
<td></td>
</tr>
<tr>
<td>* authoritarian style</td>
<td>* participative style</td>
</tr>
<tr>
<td>* few possibilities for participation</td>
<td>* collective decision-making</td>
</tr>
<tr>
<td>* no sensitivity to followers’ concerns and intentions</td>
<td>* empathy</td>
</tr>
<tr>
<td>* little or no delegation of responsibility</td>
<td></td>
</tr>
<tr>
<td>* confidence is violated</td>
<td>* empowerment</td>
</tr>
<tr>
<td>* anti-problem-solving attitude in disputes and differences</td>
<td></td>
</tr>
<tr>
<td>* lack of spirit</td>
<td>* authenticity</td>
</tr>
<tr>
<td>* problem of integrity and competence</td>
<td>* problem-solving atmosphere</td>
</tr>
<tr>
<td>* issue edicts, employees are not involved in decision making</td>
<td></td>
</tr>
<tr>
<td>* promoting vigilance</td>
<td>* optimism, inspiration</td>
</tr>
<tr>
<td>* leaders manipulate employees and motives</td>
<td></td>
</tr>
<tr>
<td>* inconsistency in behaviour and decision making, unpredictable behaviour</td>
<td></td>
</tr>
<tr>
<td>* no acknowledgement of individuals’ contribution to success</td>
<td></td>
</tr>
<tr>
<td>* disruption of ambiguous forces</td>
<td>* integrity</td>
</tr>
<tr>
<td>* monitoring</td>
<td></td>
</tr>
<tr>
<td>* process control</td>
<td>* consensus is often reached</td>
</tr>
<tr>
<td>* focus on organizational development</td>
<td></td>
</tr>
<tr>
<td>* distancing behaviour</td>
<td></td>
</tr>
<tr>
<td>* tendency to status</td>
<td></td>
</tr>
<tr>
<td>* no long-term commitment</td>
<td></td>
</tr>
<tr>
<td>* no articulation of shared vision</td>
<td></td>
</tr>
<tr>
<td>* reactive behaviour</td>
<td></td>
</tr>
<tr>
<td>* no learning intent</td>
<td></td>
</tr>
<tr>
<td>* lack of role models</td>
<td></td>
</tr>
<tr>
<td>* imposing</td>
<td></td>
</tr>
</tbody>
</table>

*Figure 5: Personal dimension regarding leadership behaviour in distrustful and trusting cultures*

Source: own display in accordance with Bruhn (2001: 82-97).
<table>
<thead>
<tr>
<th><strong>DISTRESSFUL CULTURE</strong></th>
<th><strong>TRUSTING CULTURE</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Relational Dimension regarding relationships between organizational members</td>
<td></td>
</tr>
<tr>
<td>• lack of trustworthy information, gossip</td>
<td>• open communication, no hidden agendas</td>
</tr>
<tr>
<td>• defensive communication</td>
<td>• constantly communicating</td>
</tr>
<tr>
<td>• little or no connections with larger community</td>
<td>• informal communication channels</td>
</tr>
<tr>
<td>• intimidation, power tactics</td>
<td>• members feel safe to express honest opinions</td>
</tr>
<tr>
<td>• untrustworthy information, integrity failure</td>
<td>• individuals do not withhold information for power</td>
</tr>
<tr>
<td>• information deficits</td>
<td>• transparency</td>
</tr>
<tr>
<td>• interpersonal competition</td>
<td>• teamwork</td>
</tr>
<tr>
<td>• members are scared of imposition of sanctions, blaming</td>
<td>• high fault tolerance</td>
</tr>
<tr>
<td>• unwillingness to accept responsibility, members take acceptance for success but spread blame</td>
<td>• understanding the own responsibility toward the organization</td>
</tr>
<tr>
<td>• inhibit conflicts, unresolved disagreement</td>
<td>• proactively resolution of conflicts</td>
</tr>
<tr>
<td>• no clear responsibilities</td>
<td>• clarity of roles and responsibilities</td>
</tr>
<tr>
<td>• independence of individuals</td>
<td>• interdependence of individuals</td>
</tr>
<tr>
<td>• specific relationships with short-term focus</td>
<td>• complex relationships</td>
</tr>
<tr>
<td>• tasks are narrowly defined</td>
<td>• no task simplification</td>
</tr>
<tr>
<td>• no identification with other member and with organizational goals</td>
<td>• feeling of belonging to organization and evolvement of relationships</td>
</tr>
<tr>
<td>• low acceptance of diversity</td>
<td>• high acceptance of diversity</td>
</tr>
<tr>
<td>• limited capacity to trust members</td>
<td>• willingness to risk close relationships</td>
</tr>
<tr>
<td>• focus on short-term results</td>
<td>• focus on long-term results and cooperation</td>
</tr>
<tr>
<td>• members are not motivated to change their established working procedures, minimal risk taking</td>
<td>• members are willing to risk trying new ways to work together</td>
</tr>
<tr>
<td>• loss of loyalty and lack of cohesion</td>
<td>• cohesiveness</td>
</tr>
<tr>
<td>• low degree of commitment</td>
<td>• members are strong committed to organization</td>
</tr>
</tbody>
</table>

Figure 6: Relational dimension regarding relationships between organizational members in distrustful and trusting cultures

Source: own display accordance with Bruhn (2001: 82-97).
The culture of trust combines both idealism and pragmatism (Bruhn, 2001: 38). This culture becomes the basis for empowerment and effectively designed collaborative relationships. Possibilities for mutual learning and the evolvement of commitment are constitutive for this type of culture. In trusting cultures the development of trust is grounded in shared respect for differences, not in dependency. In distrustful cultures people cannot be empowered because leaders are afraid of lowering control.

The main differences regarding the structural dimension illustrated in figure 4 lie in the choice of rewarding systems and the governance structures. Whereas in trust cultures informal governance mechanisms work efficiently, in cultures of distrust more control has to be used to make the alliance work. The personal dimension regarding the leadership style is discussed in terms of differences between the two archetypes of cultures in figure 5. Key properties of inter-organizational trust that are described in chapter 4.2 are illustrated again. The relational dimension displayed in figure 6 is mainly concerned with the nature, strength and frequency of relationships between organizational members. In distrustful cultures the relationships between employees do not reach a deeper personal level and organizational members are likely to become disconnected to the alliance’s goals and vision. Cohesiveness and commitment, and open communication are constitutive for trust cultures.

6 Summing up and concluding remarks

This thesis promotes confidence in trust and explains core capabilities in establishing and maintaining an attitude towards trust. Throughout the thesis trust and trustworthiness in establishing and maintaining cooperative behaviour between organizations are examined. Trust is advocated as a mechanism to enable and facilitate cooperation between companies. Trusting relationships in strategic alliances are valuable and productive. Expected benefits of trust are improved performance, better communication, reduced transaction costs, higher motivation of employees, time advantages and reduced uncertainty regarding the behaviour of the other person or party involved. Trust opens up new and unimagined possibilities and can substitute for institutional and contractual safeguards. As a consequence, developing trust is critical to the success of strategic alliances.

The network perspective and the resource based view help to understand that competing organizations can enter into cooperative relationships in order to gain competitive advantage. Transaction cost economics also serve as an adequate methodical device for analysing the formation of strategic alliances. Taking the dialectical perspective in analysing tensions and paradoxes in strategic alliances helps to understand that cooperation and competition and trust and control are
co-existing forces. These four perspectives are chosen because they can highlight the significance of effective governance and the culture of trust.

The research model is aimed at integrating key themes that emerge from the empirical contributions from prior research on the subject of trust in strategic alliances. The following six interconnected key properties are identified: cooperation, control, communication, commitment, cohesiveness, and conflict. These key properties are viewed as consequences of trust in strategic alliances and are illustrated through the cobweb-model of six Cs. The four proposed theories serve as methodical devices for analysing the consequences of trust relationships in the context of strategic alliances and provide overlapping explanations of each of these key properties.

The discussion of the first research issue reveals that trust and control are parallel concepts with a synergistic character in generating confidence. As strategic alliances are defined as complex organizational forms that are built upon incomplete contracts, trust has to compensate for the impossibility of having everything under control. Trust can become a necessary mechanism for effective governance in strategic alliances where authority and hierarchical mechanisms are diffuse. Trust even can enable the existence of strategic alliances in the first place as it substitutes for unclear control mechanisms.

The second research question deals with the role of the leader in establishing trust as a constitutive element in strategic alliances. Ten issues are viewed to be essential in designing trust relationships within and between organizations. Trust can be encouraged and fostered through a participative leadership style. This leadership approach is characterized by open and free communication, open expression of feelings, active listening, shared decision making, and informal organizational structures and relationships. This style is just one alternative to design a trust culture between organization, because the impetus in developing trust is toward a consistent style rather than to a particular style. To ensure trust cultures there is no particular style necessary as long as there is consistency in its application. With the implementation of organizational practices, such as value identification, visioning, commitment building, and empowerment the trust levels within and between organizations increase. Other factors that facilitate the emergence of trust relationships are empathy, predictability, authenticity, and self-development. Trust can only evolve in purpose-driven environments, where employees have the opportunity to make an immediate contribution and can share their value and beliefs with others.

Key characteristic of excellent leadership is the ability to deal with dichotomy and the integration of contrary ideas within and between organizational cultures. The kernel of leadership in the context of strategic alliances today is toward seeing the leader as a developer, not a controller. Leaders have to
move beyond their instinctive desire for control, must not be afraid of losing control, and recognize the creative potential of trust. The challenge for leaders is to actively showing trust in order to integrate all organizational members into a unified trust culture that makes possible sustained cooperative action and innovation between organizations.

Creating a corporate culture and motivating all the organizational stakeholders to give their best is very hard as leaders cannot force commitment and are confronted with barriers to developing a culture of trust. Leaders have to be aware of the fact that trust is fragile and that a single violation can erode trust between organizations. Therefore, the potential weaknesses in the development of a trust culture and misunderstandings of the conceptualization of trust also are highlighted in this thesis. The comparison between a trusting culture and a distrustful culture alongside the three dimensions personal, relational, and situational is aimed at summarizing the analysis of key parameters supporting the development of trust between organizations.

Leaders have to find ways to deal with the powerful element of trust and have to perceive the development of trust as one of their main responsibilities. Trust is a risk relationship, but a necessary one. We do not need trust in situations of perfect knowledge of the given circumstances and the true motivations of people. When we trust another person it places us at some risk to lose control. With trust we can function in an otherwise unknown, ambiguous, risky situation. Trust allows us to expect others will act as they are supposed to do in the absence of direct supervision. Without trust we have no dependable power in relationships and cannot control a situation or circumstances. It is probably easier to grasp the immense economic value of trust, if we consider what a world without trust would look like. When we approach business partners with the assumption that they would try to cheat us, then we have to spend a considerable amount of time and money to make endlessly long detailed contracts. Partner organizations would never offer to do more than they were legally obligated to do in strategic alliances. Leadership, true learning, and innovation could never take place under these circumstances. This scenario reveals that trust is a critical definitional element in defining cultures that sustain effective leadership.
7 Bibliography


