Problem of Trust in Alliance Networks

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At a time of growing globalization, we can observe the increasing role of cooperative strategies among companies, including alliances, joint ventures, and networks. Trust is one of the most important factors of success for any business activity. It relates especially to alliance networks because it can lower transaction costs, increase productivity and innovativeness, facilitate inter-organizational relationships and resolve conflicts. Therefore the article comprehensively discusses the problems of trust in alliance networks. The conclusion of the text is that trust building in alliance networks has an influence on the effectiveness of the whole network. The text is based on the latest world literature as well as the personal experience of the author in creating effective cooperative network agreements.

Keywords: Trust, Cooperation, Partnership, Relationships, Alliance networks, Opportunism

1 Introduction

Scientists from various disciplines, including organization and management, marketing, sociology, economy and psychology have expressed their interest in the role of trust. Each of these areas has its own significant contribution to the nature of trust and processes where it grows. On the other hand, they focus on different elements related to the concept of trust. It should however be emphasized that management of trust, which can be defined as a strategic approach to the capital of relations, is the starting point for most of the new management concepts (Grudzewski et al., 2008), especially inter-organizational cooperation within the network. It is even believed that trust is a new paradigm in management science, being a key issue in the 21st century (O’Hara, 2004). Trust management should be considered comprehensively, especially in the context of the company’s relationship with the environment, and the key approach to the running of any business activity. Empirical studies carried out in Poland, the United States and Sweden show that although trust is a strategic resource that should be treated as the source of competitive advantage (Barney and Hansen, 1995), it is also a rare good. But, it is the key success factor of any cooperation (Faulkner, 2004: 359), especially when it relates to companies from different countries. Relationships based on trust lead to greater exchange of knowledge between partners, and this is one of the most important goals of alliance networks. Therefore, the purpose of this article is a comprehensive presentation of the issue of trust in alliance networks.

2 Methodology

As a research instrument, two basic methods were used:
- critical analysis of the literature devoted to inter-firm cooperation, and
- results of research conducted in the steel industry in Poland.

The main sources of theoretical analysis are publications in scientific journals, which are devoted to inter-firm cooperation. In turn the results of research conducted by the author in steel industry in Poland were utilized as supplementary information to build up an alliance portfolio. They were used to verify the theoretical assumptions in practice. The aim of the surveys was to identify the scope and extent of network relations in the steel industry and they covered three main areas: 1) network formation, 2) network management, 3) network growth and development. Research took place from April to May 2008. Opinion surveys were sent to 50 managers, at least middle-size level, representing 33 companies. Most of them was controlled by ArcelorMittal as the concern controls approx. 70 % of the steel industry in Poland. Suggestions of answers were given in each of the said areas, asking respondents to form an attitude towards suggested statements, by answering yes or no, or by indicating the proper answer by giving points from 1 to 5 (where 1 – little importance, 5 – great importance), or by giving their own answer. 32 answers were received, which amounted to 64 % of all examined.

3 Review of the literature

3.1 The concept of trust in business

The beginning of systematic research on trust in organizations dates back to the 1950s. (Lewicki et al., 1998). Almost 40 years ago, Zand (1972) argued that trust does not occur immediately but develops with time. The review of the literature confirms the thesis that trust plays an important role

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in facilitating economic exchange between companies, being the most critical factor in the exchange relationship (Hau-siu Chow, 2008). The cooperation of companies is becoming more and more important as a tool of economic development. Differences in culture, laws, and politics challenge companies in the way that cooperation becomes a prerequisite for foreign market entries (Stein and Ginevičius, 2010). Companies tend to work together in order to share their competencies, reduce various costs, consolidate limited resources, and increase their productivity, innovativeness, and profitability (Navickas and Malakauskaitė, 2009). The required conditions for effective cooperation between enterprises include friendly relations between partners, mutual trust and loyalty, and meeting the commitments by the partners (Figure 1).

Personal relations are the result of common work and time spent together by the particular individuals of allies. Meeting the commitments means that partners want to continue cooperation. Loyalty strengthens the relationships among partners and trust is based on honesty, openness and responsibility (Ginevičius, 2010). Through standards and sanctions trust can act as a substitute for the system of formal control, and it is also a factor that facilitates the creation of networks of economic exchange management (Smith Ring, 2002: 117-118). It is more likely that relationships based on cooperation and trust will survive on the market. The company and its managers will have more trust in another company if they feel more comfortable and are not threatened by the way the business is conducted. Factors such as similar organizational culture, control systems, accounting rules and human resources management facilitate mutual understanding. The same applies to the size of the partners, since the smaller organization will not be afraid that the bigger one will use its size in mutual negotiations (Bierly and Gallagher, 2007). This means that companies which do not trust each other and do not cooperate will be less effective than those who do (Zaheer and Venkatraman, 1995).

Relationships based on trust are built on numerous positive exchanges. Previous cooperation and personal relations are the foundation of mutual trust, in which the partners are willing to share key information. Repetitive transactions reduce opportunism and accelerate cooperation between companies, and communication and interaction play a central role in trust building, because the more connections, the stronger the partnership (Austin, 2000: 127-129). This also has a significant impact on the outcome of cooperation between companies.

Trust can be classified into three categories (Child et al., 2005: 149). At the beginning of the relationship between companies, trust is based on calculations, as in the broadly defined interest of the parties, there is a need to establish a relationship. For this to actually happen, some level of confidence must exist between them. Trust based on understanding develops as the partners discover that cooperation is beneficial, and the actions of one of them may be foreseen by the others. Finally trust based on words occurs in case of close relations between the parties. It does not appear automatically, but in the course of time and benefits from such cooperation.

Companies, like people, have a tendency to show trust. The results of previous cooperation can have an impact on trust in potential new partners in the future (Echols and Tsai, 2005). The culture of individual countries can also influence propensity to trust. It is worth adding that the company will be more willing to show confidence to a potential partner if its organizational culture promotes credibility and trust as a natural way of doing business. In an illustrative way, the impact of trust on the outcome of cooperation can be presented as follows. If the parties want to enter into a business relationship, there must be some motives that guide them, both

![Figure 1. The conditions required for cooperation of enterprises](source: Ginevičius, 2010)
cooperative and competitive. These motives have an impact on the outcome of cooperation. According to dependency theory, mutual benefits can be achieved by means of social exchange between partners, and the results of this relationship depend on the behaviour of partners, i.e. their involvement, level of trust between them, etc., and in turn, the partners’ behaviour depend on their motives, which meaningfully affect the result of cooperation (Figure 2).

The literature provides various definitions of trust, as well as a variety of this term (Table 1). It should be noted, however, that the differences between them are often small, and the basic ideas are the same in different disciplines of science.

The remarkable similarities and significant differences can be seen in the definitions presented in the table. Generally it can be stated that trust is considered as a belief of the parties involved regarding the level of which the other party will behave in the common interest of all partners.

The reputation of the company also has a significant effect on trust. If the company is considered as a solid and reliable partner, its managers will also be trusted. Reputation is created both outside and inside the organization by the features and quality of management. The company develops its general reputation based on its actions in the past. It is worth noting that the experience of top managers, their education, achievements and behaviour obtained from other cooperative ventures can meaningfully influence the reputation of any company. Generally, the company’s reputation has an effect on the level of trust in two ways. Firstly, a greater reputation increases confidence, since the other entities know more about a given company, which in turns diminishes uncertainty. Secondly, the better the reputation, the bigger the growth of trust. Therefore it is very important that companies take care of their reputation, as opportunistic actions can reduce the trust given by potential partners.

### 3.2 Components of trust

Trust is a multidimensional concept. For example, Chaturvedi and Gaur (2009) propose two dimensions of trust, and highlight trust based on calculative understanding and emotional bond. In turn, McAlister divides interpersonal trust on affect-based trust, which is based on the emotional ties between people, and cognition-based trust which is based on the knowledge and understanding of others. Whereas, Das and Teng (1998) distinguish two types of trust, i.e. goodwill trust

![Figure 2. Impact of trust on the result of cooperation](source: Chaturvedi and Gaur, 2009).

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<thead>
<tr>
<th>No.</th>
<th>Author</th>
<th>Definition of trust</th>
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<tr>
<td>1.</td>
<td>Jarillo, 1988</td>
<td>Trust relies on the assumption that if one partner (A) encounters difficulties in the discharging its explicit or implicit business obligations, can expect that its ally (B) will act as he was to behave himself (A) in situation if all the resources of the supporting partner (B) were available at his completed disposal (A).</td>
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<td>2.</td>
<td>Bradach and Eccles, 1989</td>
<td>Expectation that exchange partner will not act opportunistically, despite short-term incentives and uncertainty concerning the long-term benefits.</td>
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<td>3.</td>
<td>Fukuyama, 1995</td>
<td>Expectation of regular, honest and cooperative behaviour that is based on jointly shared standards and principles.</td>
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<td>4.</td>
<td>Das and Teng, 1998</td>
<td>Positive attitude and reliability towards the partner in risk situation.</td>
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<td>5.</td>
<td>Lewicki et al., 1998</td>
<td>Some positive expectations related to the partner’s behaviour.</td>
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<td>6.</td>
<td>Zaheer et al., 1998</td>
<td>The growing sensibility of the partner for the risk of transaction partner’s opportunistic behaviour.</td>
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<td>7.</td>
<td>Jennings et al., 2000</td>
<td>Common belief that neither party will behave opportunistically, and that will not use the partner’s weaknesses.</td>
</tr>
<tr>
<td>8.</td>
<td>Sztopka, 2002: 312</td>
<td>Practically expressed expectation towards the partner that its reactions will be good for us.</td>
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and competence trust. Competence trust relates to the rational components of relationships whilst goodwill trust relates to the emotional components of relationships.

Other authors also indicate two types of trust, a rational part known as credibility trust and an emotional trust. Rational trust is the kind of confidence with which the partners start a relationship. It is confidence that partners have motives and capabilities to meet their obligations and contributions as agreed. It is treated as a calculative type of trust because each partner can evaluate this aspect on the basis of information available, knowledge, and reliability of the partner. Emotional trust in turn is based on the belief that the partner will behave with goodwill (Chaturvedi and Gaur, 2009). Emotional and rational trust are treated as the two dimensions of trust in cooperative relationships.

4 Trust in alliance network

4.1 Process of trust building among partners

If two companies want to start cooperation, there must be some minimal level of trust between them. This is where the „I trust you because you trust me” rule starts. The creation of trust through a fair procedure involves benefits from cooperation, which are proportional to the contributions made in the form of tangible and intangible assets. It is also a factor that plays an important role in the cooperation management.

Different types of trust, such as psychological, social and structural (institutional) can be distinguished. From a psychological perspective, trust is the result of interpersonal relations, e.g. between managers involved in the negotiations of cooperative agreements. This type of trust is based on cognitive and emotional factors. At a social level, trust is the result of continuous interaction between partner companies and depends on the importance of prior relationships. By contrast, at the institutional level, it is assumed that trust is a feature of relationships between companies, i.e. it exists or not. Based on these perspectives, we can identify three phases of accumulation of trust among companies in the network (Figure 3):

- Phase I, where there is only a psychological confidence between managers involved in cooperation. Its level may vary considerably, since it depends solely on the way the managers perceive the behaviour of their partners, which in turn can change on a daily basis.
- Phase II – partners will proceed to the phase of social trust if psychological trust is supported by the results of ongoing interaction with a partner. This phase is less dependent on the top managers involved in cooperation, and in a greater extent depends on the everyday relations between employees of partner companies.
- As the cooperation strengthens, and after realization of some joint projects, not necessarily successful, the companies come to the third phase, i.e. institutional trust. In this phase, the managers perceive other network participants as good partners, even if they were not personally involved in any project of cooperation with other entities.

Companies from the same alliance network will trust each other more, partly because of the similar culture, but also because they are more willing to cooperate, and will be less prone to behave opportunistically. This does not mean that companies with different cultures cannot collaborate effectively, but cultural and organizational similarity facilitates the emergence of trust (Bierly and Gallagher, 2007). The model

![Diagram](image-url)
of cooperation that is based on trust looks as follows: partners who trust each other will not feel the necessity of cross control. Instead of this they will collaborate together and communicate openly, and accept the influence of the other party. Loyalty in this respect is understood as a state where the partners not only meet the qualitative and quantitative standards, but also go beyond them and jointly contribute to innovative actions, if this is to help to achieve a common goal. If there is no trust among them, they would act quite differently. First of all, they would try to control the behaviour of the other party. Communication would take place only at the strategic level to the extent they would be obliged to, without greater commitment (De Latt, 2002: 162-163). Both, the behaviour based on trust as well as on its absence tend to strengthen each other. The logic of proceedings is as follows: the more the company A is considered by the company B as a fair entity, the easier it would be for the company B to trust in the company A, and vice versa. A spiral of mutual trust is hence created. The same applies in the case of an absence of trust.

Other factors, e.g. cultural aspects, standards and norms can also influence the process of trust building between cooperating companies (Doney et al., 1998). If the partners share the same values and norms, there is a much greater chance to build relationships based on trust. Countries with a so-called high confidence index (Norway, Sweden, Finland or Denmark) can “saturate” with trust regions with a lower level of trust, e.g. Poland, the Czech Republic, Slovakia, Hungary, and Lithuania (Grudzewski et al., 2007: 56). It is quite interesting that the representatives of these countries can also reach a higher level of trust if they are doing business in the countries of a high level of trust. The culture of individual countries can also have an impact on propensity to trust, for example, the Japanese society is more willing to show confidence, with more collective responsibility and focus on long-term objectives. The Japanese company, even if it knows little about its partner, is more prone to put trust in it. However it does not extend to companies out of Japan. It is worth adding, that a company will be more willing to show its confidence in a potential partner if it has some organizational culture that promotes credibility and trust as a natural way of doing business.

A company strongly rooted in the network promotes the development of trust (Echols and Tsai, 2005). This results from the fact that particular members are allowed to know each other, and thus – to verify whether one can trust each other. On the other hand, it should be emphasised that if one places too much attention to trust, other issues will not be reviewed properly and, left to be solved in the future. It can also happen, that a person or a company trust each other so much that they decide to create a network or enter into it without a detailed analysis of other important issues, including strategic fit, which often leads to a failure of cooperation.

4.2 The benefits of trust in the network

Cooperation between organizations creates mutual correlation and requires trust. The issue of the meaning of trust for every cooperation among companies is evident. Moreover, the thesis that trust is good and has a positive impact on results is widely accepted. Frequent relationships between partners are based on mutual trust that develops between them and allows them to reduce transaction costs (Goerzen, 2007). Trust facilitates the exchange of information between partners and reduces opportunism. Any relationship based on trust allows for an easier transfer of knowledge and is crucial for innovation and entrepreneurship (Hau-siu Chow, 2008). Other authors raise the issue of facilitating open communication between partners and reduction of conflicts (Zaheer et al., 1998). Trust has a meaningful impact on the quality of relationship management in alliance networks (Thorelli, 1986). The companies which belong to the same network must rely on each other, otherwise there is no chance for effective cooperation (Harari, 1999). This was also confirmed by Das and Teng (1998). According to them, the possibility of cooperation between companies depends on two factors, i.e. trust between them and control. The engagement of both partners can also have an impact on good relationships between them (Faulkner and Bowman, 1996: 134-135). Close relations between companies that are based on mutual trust allow for exchange of confidential information, since the standards that are commonly shared can protect the companies from opportunism. Therefore, the greater the trust between partners, the smaller the possibility of opportunistic behaviour. Moreover, the reputation of a trustworthy partner facilitates the possible change of a network in the future.

Trust improves flexibility of understanding, shortens processes of cooperation management and improves their quality. A high level of trust allows for the development of profitable transfer mechanisms and knowledge creation, and also ensures a reduction in opportunistic behaviour. Along with this, the network evolves towards creation of values based on intangible assets. Beside reduction of transaction costs, it also facilitates the resolving of conflicts and increases the flexibility of the network (Bierly and Gallagher, 2007). At the same time, it predisposes the partners to invest and share a tacit knowledge without having to worry about hostile takeover. Trust is therefore a bridge between knowledge and ignorance, and is closely related to knowledge management – it is a prerequisite for the successful implementation of this concept in interorganizational cooperation.

4.3 Trust vs. opportunism in the network

Trust between partners is a concept that is hard to observe and measure. For example, many scientists link this concept

1 This is more difficult in terms of cultural differences and their impact on trust building. Different authors, however agree that cultural differences make the process of development of trust different. It can therefore be expected that cultural close-up of partners has a positive effect on building of trust between them.

2 It should be noted that some studies indicate that too much trust is not good for a success of long-term cooperation between the companies because it reduces the incentive to negotiate a specific transaction (Jeffries and Reed, 2000).
with previous ties between partners. However, studies done by many researchers indicate that only a small minority of alliances are created between companies which previously had some close ties with each other. Moreover, the early ties could have revealed a lack of confidence instead of confidence, being one of the reasons for which the company does not create further alliances, e.g. when one company does not trust the other. It suggests that changeable strategic fit has more influence on the choice of a partner rather than trust between the parties. It happens however that in business practice two people or companies trust each other so much that they decide to work together to improve the quality of products, technologies and production processes. In case of problems, the members of the leading entity, especially if they neglect their duties means the flow of information in both directions. Thus, small entities also have certain knowledge about the policy and actions of the central company. It means that all opportunistic behaviour is discovered very quickly and is immediately distributed through the same information channels (Sroka, 2008).

In other countries like United States or Great Britain, we face another situation. Cooperation among companies is determined by certain rules and norms, and any company that violates them can expect some sanctions. On the other hand, the participants are not linked by formal agreements and therefore it is necessary to build up mechanisms of other nature than strictly formal and legal. One of the possibilities is “social sanctions”, which include mutual monitoring among partners and quick information on the credibility of the partner companies (Hagen and Choe, 1998; Boyd, 2004). It also allows the avoidance of conflicts. If, however, the company acts against the network, it should be eliminated from the group. It is an extreme and radical case but in some situations it is really a must. It also serves to educate other network members. The network members should act towards the integrity of the network. It relates both to its competitive position as well as the members’ competitive positions because it allows to maintain its competitiveness.

The process of partner selection in a situation where more information is available is less vulnerable to opportunism and does not require trust between parties, but only a strategic fit. In other words, in such situations it is possible to prepare the terms and conditions of all control mechanisms.

5 Problem with trust

If too much attention is paid to trust, it can mean that other issues will not be substantially analysed during the decision-making process relating to the selection of partners for cooperation. Because the partners trust each other, other issues such as conflicts in the organizational cultures can be put aside, or be completely hidden. This is important since convergent organizational cultures are the best basis for a reduction of risk associated with cooperation, and to build trust (Das and Teng, 2001: 259–262). Some authors indicate the specific mechanisms for trust creation within the network structures that are treated as a tool to support the organization in obtaining information. They include risk-taking, fair proceeding, communication and internal adaptation (Das and Teng, 1998).

It happens however that in business practice two people or companies trust each other so much that they decide to work without a detailed analysis of the strategic fit, which may lead to failure. To avoid problems like this, one must ensure in advance that there is a strategic fit between partners, especially if trust is very strong and can overshadow other issues. The company can choose a specific manager who will play the role of devil’s advocate.
Another problem related to trust is that perception of trust by the key decision-makers may not be in line with the partner’s behaviour in the past. For example, one person making decisions in one of the companies may have a high level of trust in the company based on a past relationship. It does not mean, however, confidence in the entire company. Organizations, just like people, also have their individual propensity to trust. Certainly, the results of previous partnerships have an impact on trust in the new partners in the future. Companies also have a tendency to have greater trust in firms with a similar cultural attitude. It can facilitate communication, however cultural similarities mean the companies have less opportunities to learn something from each other.

6 Conclusions

In the article, the topic of trust in alliance networks has been presented. Despite difficulties in trust creation, this factor is a necessary condition to achieve a success and plays a crucial role in the inter-firm cooperation, especially if companies come from different countries, with different cultures, norms and standards. There are clear evidences that relationships based on trust allow for a wide exchange of knowledge between network partners and this is one of the main goals of alliance networks. If trust exists, people are more willing to hand over the useful knowledge and also to listen and absorb the knowledge from partners. Additionally it reduces the costs of knowledge exchange through diminishing the potential for conflicts. Therefore trust building in alliance networks has an influence on the effectiveness of the whole network. Based on this we can state that the portfolio of alliances based on trust is worth pursuing.

On the other hand companies evolve over time, and their environments also change. The same relates to alliance networks. It means that further research into trust in alliance networks is required, if they are to be more effective. Additionally if companies use alliance networks to compete, success will depend on a parallel set of actions, i.e. both inside the company (proper management) and external (cooperation based on trust). These actions will require management to think broadly about its business and its capabilities, and often demand an outside-in perspective.

References


Problem zaupanja v zavezniških omrežjih


Ključne besede: zaupanje, sodelovanje, partnerstvo, odnosi, zavezniško omrežje, oportunistem

Wlodzimierz Sroka has received his Ph.D title from Karol Adamiecki University of Economics in Katowice, Poland. He holds his Ph.D., M.Sc. and B.Sc. degrees in Management and Marketing at the University of Economics in Katowice. Currently he is a tutor at the Academy of Business in Dąbrowa Górnicza, and simultaneously is a president of a medium-size engineering company. Previously he has been working in different managerial positions both in the steel industry and machine industry. He is the author of scientific articles about strategic alliances, mergers and acquisitions, strategy, restructuring and networks published both in Polish and international journals. His research activities mainly include cooperative strategies and mergers and acquisitions.