

RELATIONAL QUALITY: MANAGING  
TRUST IN CORPORATE ALLIANCES

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*RESEARCH PAPER No 434*  
*March, 2001*

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## **RELATIONAL QUALITY: MANAGING TRUST IN CORPORATE ALLIANCES**

### **Abstract**

The management literature has often argued that “trust” plays a key role in economic exchanges, particularly when one or another party is subject to the risk of opportunistic behavior and incomplete monitoring, or when problems due to moral hazard or asymmetric information arise. These conditions are almost always present in the case of corporate alliances and joint ventures. We propose that one aspect of trust, what we call “relational quality,” is fundamental to the maintenance of good working conditions in two-party alliances where past experience and the shadow of the future play important roles. Relying on a growing body of theory and a number of case studies, we develop a framework for thinking about trust in dynamic and practical terms. We conclude that a reservoir of relational quality exists in any such relationship, and that the level of trust implied in such a reservoir will not only influence whether and how future conflicts are resolved, but also is in itself affected by the positive (or negative) resolution of such conflicts. Finally, we identify three elements that contribute to the relational quality reservoir in alliances: 1) the initial conditions surrounding the alliance formation; 2) the cumulative experiences of the parties with each other’s behaviors as the alliance unfolds; and 3) the impact that external events or behaviors outside the alliance’s context have on the perceptions and attitudes the parties have about each other’s trustworthiness. We conclude with some recommendations for more effective management of corporate alliances.

## **RELATIONAL QUALITY: MANAGING TRUST IN CORPORATE ALLIANCES**

Management scholars and practitioners are increasingly concerned with understanding what makes some alliances work so well over time while others flounder or, perhaps worse, end in a flurry of bitter recriminations. It is not only that joint ventures and alliances are so much more popular across a broad spectrum of industries, company sizes and nationalities (1) — due to growing technological complexity, increasing globalization and the demands of a networked, fast-paced economy — but also the glaring differences one observes in their performance.

Some alliances, such as GE and Snecma's joint venture to manufacture jet engines for commercial aircraft, or Fuji-Xerox's in photocopying equipment, have endured market and competitive changes, a number of economic cycles, and inter-partner conflicts for three decades or more. Other less formal alliances, such as Microsoft and Intel's efforts to promote the Wintel world in personal computing, or Fiat and Peugeot's joint efforts to make utility and passenger minivans (SEVEL), have also prospered over time in spite of conflicting interests between the partners and the absence of clear measures of value added. Yet failures outnumber successes (2) and dissatisfaction abounds. Some notable examples include the termination of Corning Glass's alliance with Vitro, or the premature conclusion of Coca-Cola's joint venture with Nestlé to produce bottled coffee and tea products. In both of these cases, large and internationally experienced companies found that working in the context of a collaborative alliance, where decisions had to be reached by consensus, was too difficult and time-consuming to merit continuation in spite of potential benefits.

What accounts for these differences? Clearly, factors such as compatible partners, careful design of the terms of collaboration, proper incentives to all parties to behave according to expectations, adequate governance procedures, and favorable economic conditions play a critical role. But we contend that these are just the starting points. Managing within such non-hierarchical settings is a taxing and unusual proposition, requiring a combination of skills — large doses of entrepreneurship, corporate savvy and diplomacy — that are rare in corporate ranks. Furthermore, we contend that the ability to rely on mutual trust or forbearance constitutes a critical ingredient by which the partners and venture managers can weather the conflicts that changes in the economic and competitive environment, as well as shifts in corporate priorities, will throw their way.

Some academics have called for more systematic research into the role of trust in business relations, observing that, "It is clear that research on trust needs to advance beyond a catch-all residual in the unexplained random error" (3). We begin this paper by defining what we mean by strategic alliances and trust. Next, we explore the research on trust, setting the stage for a discussion of our model of alliance evolution and the construct of "relational quality" as a proxy for trust. We continue with a detailed discussion of the elements we

suggest are at the foundation of relational quality and its evolution. Finally, we conclude with a section on implications for management.

## **Alliances and trust**

We define an alliance as a formal agreement between two or more business organizations to pursue a set of private and common goals through the sharing of resources (intellectual properties, people, capital, organizational capabilities and/or physical assets) in contexts involving contested markets and uncertainty over outcomes. We recognize that the motivation for the formation of an alliance can range from purely economic reasons (e.g., search for scale efficiency or risk sharing) to more complex strategic ones (e.g., learning new technologies or seeking political advantages). An alliance is strategic when it constitutes the means by which a firm seeks to implement, in part or in whole, elements of management's strategic intent. Alliances may be governed through many forms — equity joint ventures, non-equity collaborative arrangements, licensing or franchising agreements, management contracts, and long-term supply contracts, among others (4). They may involve either two firms, a consortium of firms, or networks of organizations. Our focus here is on two-partner alliances, for simplicity.

What do we mean by trust in this paper? First, we believe that trust requires the presence of an element of risk and mutual interdependence (5). In other words, there must be an exposure to potential loss or harm for the firm — a degree of vulnerability — that is directly related to future actions taken by one's partner in a situation of mutual dependence and environmental uncertainty. Second, our framework assumes that in a business context the issue is not whether some people are more or less predisposed to trust other people (i.e., whether people are "trustworthy"), but whether institutions and their managers rely on trust in their business dealings (6). Third, as others have pointed out, economic actors are no more likely to "suspend self-interest" in alliances than in other contexts (7). Yet, trust implies an expectation that one's partner will subordinate its self-interest to the "joint interest" of the alliance under most circumstances. To this extent, trust may in fact be a substitute for more formal governance structures (8). Thus, reliance on trust may produce similar results in terms of the alliance's success as might have been obtained by reliance on more contractual governance provisions (9).

These views on trust cut across a number of levels and units of analysis; thus it behooves us to always clarify which is relevant for our purposes. As will become clear, our view of trust is generally compatible with the argument that trust is "a manageable act of faith in people, relationships and social institutions." We argue, however, that reliance on trust is a somewhat more probabilistic decision than a simple act of faith. Our framework is designed to make it easier for managers or researchers to consider both interdependence and risk in their decisions to rely on trust as a mechanism for governance, as well as to make explicit the implications of the multi-dimensionality of trust.

## **The outlines of a model**

Economic exchanges can be classified as being either *transactional* or *relational* (12). Transactional exchanges involve relatively discrete exchanges of goods or services in which the parties act with little or no regard for the impact of the transaction (or their

behavior in it) on future exchanges. The parties view themselves as independent, autonomous economic actors, and they view the transaction as being unrelated to all other exchanges, past, present, or future (13). Examples abound in daily life: buying the latest Grisham novel at an airport bookstore, or saying “fill it up” at a local gas station. In contrast, relational exchanges assume that the parties have a past (one that is known and remembered), and that they may be associated with each other again in the future. Previous associations are likely to be relevant to the decision to undertake the current exchange; and the parties will conduct themselves with an eye towards the future. In short, past experiences as well as the “shadow of the future” are generally irrelevant in transactional exchanges; but they constitute important factors in the ways the parties conduct themselves in relational exchanges (14). The long-term relationships between Coca-Cola, Disney and McDonald's have many of the characteristics of the latter.

We argue that the parties to an exchange in which past experiences and the shadow of the future loom large, will project themselves into that future by focusing on their “relational quality” — that is, the extent to which the partners are comfortable with their pattern of interaction to date and the degree to which they are confident of their expectations regarding the intentions or behavior of each other (15). In this sense, we avoid the interpersonal or psychological connotation of the concept of trust while preserving its fundamental elements as we apply it to an interorganizational context (16). We believe that this approach provides a dynamic and measurable way of conceptualizing the role that trust plays in business alliances; one that incorporates previous treatments of trust while avoiding the problems inherent in crossing levels of analysis (17).

We view relational quality in alliances as being composed of three elements. *First*, we consider the *initial conditions* (18) surrounding the exchange. These determine the degree of trustworthiness granted the parties a priori. They derive from the partners' inherent characteristics, the institutional context within which the alliance exists, their respective reputations for fair dealing, any direct prior experiences they may have had with each other, as well as the mutual confidence built through the negotiation process. Collectively, these elements constitute an initial reservoir of positive relational quality, one that the parties can build up or tap as they adapt to future challenges.

*Second*, we claim that a critical determinant of future levels of relational quality between the partners is their *experience with each other's behavior* as the venture develops. These direct experiences will influence the parties' views of each other's trustworthiness in the face of external challenges or internal difficulties (19). The interpretation of these experiences is a complex, multi-dimensional problem that is a function of the number, frequency, and gravity of their interactions; the difference between actual and expected outcomes; the nature of any transgressions; the intentions or motivations attributed to a partner's behavior; and any advance warning and/or post facto explanation of its actions by the partner. As the quality of the relationship improves, the potential for positive conflict resolution increases, which in turn enhances the partners' views of each other's trustworthiness (20). The reverse, of course, is also true, possibly condemning the venture to failure unless remedies are undertaken.

*Third*, we argue that the *partners' behavior outside the context of their venture* will nonetheless affect their perceptions and attitudes regarding each other's trustworthiness (21). Such behavior will have an impact on their reputations and their true commitment to certain values or business practices that may be critical to the venture's success. Table 1 summarizes these elements and their principal determining characteristics.

**Table 1. Elements of Relational Quality in Alliances**

<b>Elements of Relational Quality</b>	<b>Characteristics and Determining Processes</b>
<p>1. <u>Initial Conditions</u></p> <ul style="list-style-type: none"> <li>• Demographic and institutional characteristics</li> <li>• Reputation</li> <li>• Prior experiences</li> <li>• Venture negotiation process</li> </ul>	<ul style="list-style-type: none"> <li>• What may be inferred from the party's institutional affiliations, professional standing and certification, or demographic characteristics (22), its nationality (23), or the quality of societal institutions that may impact the relationship as it evolves (24).</li> <li>• What each party knows about the other through reputation, commentaries in the business press, and/or third-party gossip.</li> <li>• The prior experiences of the parties with each other, or their degree of mutual "familiarity" deriving from previous exchanges or partnerships.</li> <li>• The mutual confidence built through the negotiation and agreement process that precedes the commencement of operations.</li> </ul>
<p>2. <u>Partner Interactions</u></p> <ul style="list-style-type: none"> <li>• Meeting expectations under anticipated circumstances</li> <li>• Collaborative behavior</li> <li>• Sins of commission and omission</li> <li>• Information exchanges and advanced warning</li> </ul>	<ul style="list-style-type: none"> <li>• The extent to which the parties live up to their agreements in the face of ordinary business conditions (28).</li> <li>• Do the parties practice reciprocity (29)? Do they rely on joint decision making, shared governance, etc.?</li> <li>• When expectations are not met is it because the parties could not live up to them, or because they intended to defect (30)?</li> <li>• How transparent are the parties in dealing with each other? Do they provide each other with advance warning in cases of non-performance?</li> </ul>
<p>3. <u>External Events</u></p> <ul style="list-style-type: none"> <li>• Systemic</li> <li>• Corporate</li> <li>• Individual</li> </ul>	<ul style="list-style-type: none"> <li>• Broad (i.e., sectoral or industry-wide) changes affecting all firms or a number of countries in an indiscriminate way.</li> <li>• Acts by one partner outside the scope of the alliance that impact the other partner's views of the relationship.</li> <li>• Acts by representatives of one of the partners outside the scope of the alliance which affect how the other partner may view the relationship.</li> </ul>

## **The foundations of trust between organizations**

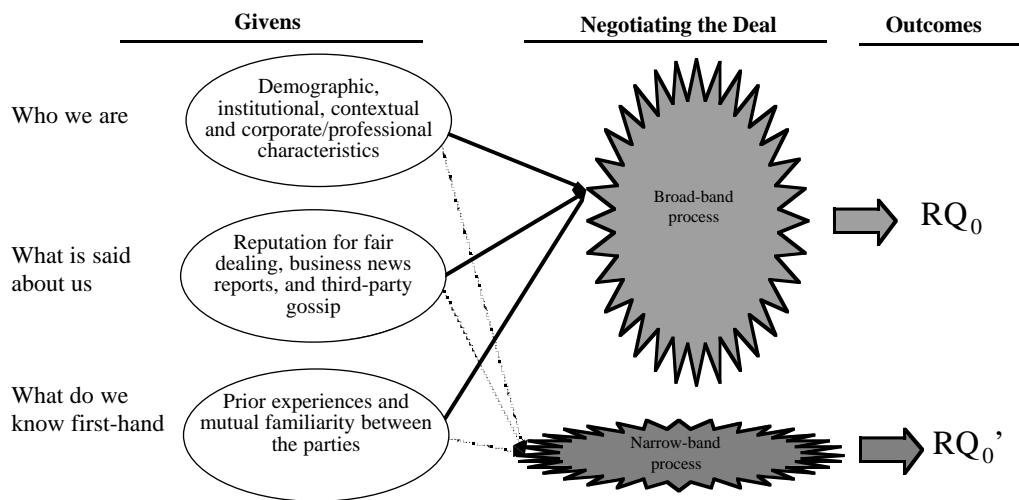
How do these elements interact to contribute to building mutual trust between the partners? And how do the processes that produce rising levels of quality in the partners' relationship influence their ability to deal with conflict or, perhaps more importantly, enhance their value-adding activities?

### **Initial conditions**

Researchers studying the formation of trust in temporary teams of professionals that come together for specific projects (e.g., making a movie or exploring for oil) have identified "traditional" sources of trust as including: familiarity, shared experience, reciprocal disclosure, threats and deterrents, fulfilled promises, and demonstrations of non-exploitation of vulnerability (31). Some of these are clearly known in advance and pre-conditional to the formation of a new arrangement, whereas others can only be learned once the new team assembles and begins its work. Similarly, there are always social expectations shared by those involved in any alliance where certain understandings are "taken for granted" as part of a "world known in common" among members of society (32). These expectations may be "person-based" or "institution-based" in that they derive their legitimacy from characteristics inherent to the individuals (e.g., similar culture, schooling or family background) or the institutions (e.g., professional or corporate affiliations and credentials) involved in the transaction (33). The expectations also may be "process-based" in that they proceed from a record of past operations or when the partner's "exchange histories" are known.

Industry affiliation implies standards of behavior, whether deserved or not. Certain sectors of the economy carry a burden of low expectations for trustworthiness such as used car dealerships, legal service firms or mail-order remedies for pattern baldness. Yet, within the former, for example, certain firms have altered the standards of expectation by investments both real (e.g., meticulous inspection and product warranties) and cosmetic (e.g., calling a used car a "pre-owned vehicle"). Conversely, sectors and professions that enjoy uniformly high levels of expectations for trustworthy behavior, e.g., medical equipment or semiconductors, have occasionally failed to meet these standards, as when Intel's Pentium II first came to the market.

These characteristics, as well as other public certifications of quality (e.g., ISO 9000, state or national board certification, *Fortune's* rankings of admired companies, etc.), either accompany or precede individual firms to the negotiating table. They are part of the "givens" illustrated in Figure 1 that are associated with all alliance formation processes.

**Figure 1. Initial Conditions and Relational Quality**

National differences in value systems, cultural traits and institutions, are bound to have a significant impact on trust formation and the rate at which relational quality improves or deteriorates (34). Consequently, initial expectations about relational quality are rooted in some general knowledge about the cultural context in which the interaction takes place. A U.S. partner may be pre-disposed to trust a foreign partner more (or less) depending on what they think about that foreigner's culture, whether justified or not. For example, both of the parties to the FCB-Publicis alliance had to work through the differences that being "U.S." and "French" might mean for their relationship (35). And issues such as the relative efficacy of contractual regimes (including access to impartial courts), or the availability of warranties, bonds, mediators, etc., are also subject to wide international variations, which may heighten the role that trust plays in arriving at an agreement (36). In the late 1980s, for example, there was much concern about collaborating with Japanese firms among U.S. firms (and policy makers) (37).

It is also a fact that the consequences to one's reputation of not fulfilling partner expectations may be greater in a domestic context than in an international one (38). Thus, there are differences in the risk profile for non-compliance between a firm transacting for the first time with an unknown domestic partner and one venturing for the first time with an unknown foreign partner (39). Recently, for example, DaimlerChrysler discovered that product liability rules differed substantially in Japan from Western markets. The hitherto undisclosed history of product failure in Mitsubishi Motors' domestic market may have an adverse effect on the initial levels of trustworthiness in their planned alliance. Similarly, Western European managers negotiating alliances in Russia were unanimous in their view that legal contracts were of little consequence in that environment. Furthermore, differences in the worth attributed to verbal agreements and language difficulties rendered initial assessments of trustworthiness suspect at best (40).

These demographic characteristics of the partner may determine initial expectations in two distinct ways. At the level of "community standards," the partner would have preconceived expectations about the other's behavior based on its nationality, industry, or corporate affiliation (41). Their initial willingness to trust each other in the formative stages of the alliance will be governed by these expectations. If there is no prior history between the parties, the level of trust will be guarded or fragile. On the other hand, if there is prior experience working together, this will typically trump demographic or institutional characteristics.



For example, in the aforementioned case of a strategic alliance between Fiat and Peugeot to design and manufacture a specific line of passenger mini-vans (42), the companies had already collaborated in a similar project for a utility vehicle in the past. Thus, initial conditions resulted in high relational quality derived primarily from this direct and successful prior experience that the partners had with each other. We should add, nonetheless, that all these elements of initial conditions are not necessarily independent of one another. In Italy's industrial districts, similarity in demographic and institutional characteristics, physical proximity (an ability to observe the behavior of potential partners), and prior collaborative experience facilitated effective collaboration (43).

There is no reason to expect that initial conditions will have the same importance in all types of alliances. There is substantial evidence pointing to the diverse nature of collaborative efforts among business firms (44). Therefore, the weight accorded the different components constituting initial conditions are bound to vary in significant ways between these types of arrangements and, perhaps to a lesser degree, within them. For example, we would expect short-lived teams that come together to execute a project characterized by high interdependence (such as a team performing brain surgery) to rely heavily on initial conditions since you only get "one shot" and the consequences of failure are catastrophic. On the other hand, the partners to a complex R&D project, where commitments and investments will be made over a substantial period of time and in response to partial results, will place less weight on pre-start-up conditions. Both SEMATECH and MCC provide dramatic evidence of the ability of firms to overcome the liabilities of initial conditions (45).

### **The negotiation process**

In any event, each partner involved in negotiating an alliance with a new firm (i.e., one with which it has no previous relationship), approaches the negotiation process with a set of expectations of the standards of behavior the other party will hold to, and the probability that it will abide by those standards if faced with incentives to defect. These standards emerge from the combined effects of the givens shown in Figure 1, but are fragile in the partners' minds, as they are not yet anchored in the reality of any direct experience.

The negotiating process leading to the creation of the alliance will either cement or distort the initial assessments of trustworthiness derived from such generic sources. The parties will turn sense-making processes towards reputations and other person-based sources of trust (46). Prejudices and tolerances present in their initial judgment of each other will be confirmed or put in doubt by this sense-making, thus altering the starting level of relational quality ( $RQ_0$  in the figure).

The alliance negotiation process may be characterized by its bandwidth. The partners may enter into this process with a broad scope, seeking value in their proposed venture and testing their views on the givens regarding their partner's trustworthiness. Alternatively, the parties may view the negotiation narrowly, focusing their attention on the specific tasks and resources necessary to bring about the expected outcome. This would then lead to establishing the underlying legal requirements, governance issues and division of expected benefits.

In a broad bandwidth negotiation the parties will go beyond the immediate aspects of their proposed venture and will observe each other's business judgment, reliability, and functional competence, altering the demographic and reputation data in significant ways (47).

Other elements of the negotiation — such as the definition of respective tasks, partners' routines, interface structures, and expectations regarding behavior, performance and motives — may also be important in modifying early judgments about relational quality (48). The two alternative paths are illustrated in Figure 1. The critical conclusion here is that the quality of the relationship, and the realism of the partners' expectations, is bound to be much higher under the broad bandwidth process than under the narrow process ( $RQ_0 > RQ_0'$ ).

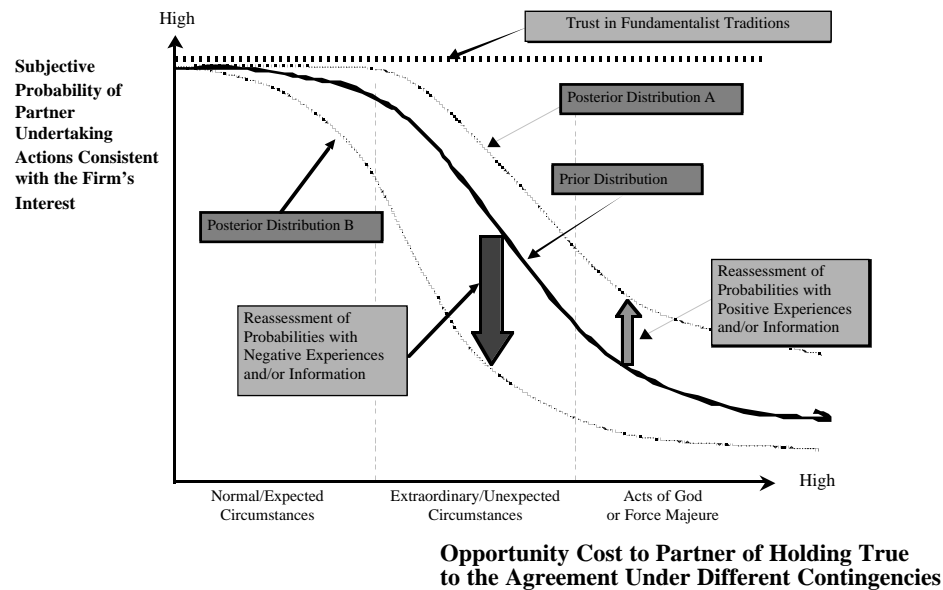
For, example, during efforts to develop the basis for a cooperative relationship between NASA and 3M, the two companies' representatives, Mike Smith and Chris Podsiadly, undertook a fact-finding trip to a variety of NASA facilities. "The ability to observe Podsiadly over the five-day period," Smith says, led him to conclude that they were "two of a kind." Podsiadly also described reaching the conclusion that he "could trust Smith to get the job done within NASA" (49). These explorations led to a 10-year "joint endeavor agreement" between the two organizations that is generally viewed as successful. In contrast, initial (narrowly focused) discussions between a Barcelona health care group and an Argentine firm revealed that both management teams shared similar values, which heightened their expectations. Yet, as they explored their interests and motivations in greater detail, important differences arose regarding contractual stipulations that the Spaniards saw as mere due diligence, whereas the Argentines interpreted them as lack of trust. This broad sense-making may have spared both companies from a costly mistake (50).

### Partner Interactions

In the course of defining the terms of an alliance, managers are required to make decisions regarding the degree of vulnerability, uncertainty and risk they are willing to accept. We have argued that trust and expectations regarding the partner's behavior play a critical role in managing these issues (51). Whatever the initial level of relational quality ( $RQ_0$ ) that emerges at the end of the negotiation process, the degree of confidence and comfort the partners have with each other will be subjected to continuous review as the alliance progresses and the partners interact with one another.

We approach the problem in Bayesian terms. Figure 2 illustrates one conception of the meaning of trust: the belief that the other party will subordinate its own interests to the interests of the alliance (i.e., the partner relationship) in most expected situations. The y-axis in the diagram represents the probability a firm may assign to the fidelity of its partner's actions in the face of incentives to cheat or act opportunistically. The severity of the "temptation" to deviate from the committed path is illustrated along the x-axis by the degree to which different states of nature diverge from forecasted contingencies. Within "expected" tolerances, and even perhaps beyond these, a sense of trustworthiness implies an expectation of fair behavior even when circumstances would call for opportunism. Only under severe extreme conditions, or *force majeure*, might the aggrieved party tolerate selfish behavior from its partner, but then only to the extent it was appropriately warned of the impending action and convinced that the conditions made any other action impossible (52).

**Figure 2. Bayesian Distribution of Expectations Regarding Partner's Trustworthiness**



An increasing number of alliances in many sectors of the economy appear to be based on informal forms of governance such as a handshake. This phenomenon is even more pronounced outside the United States. This gives rise to an interesting debate on the degree to which a partner's obligation under a "gentlemen's agreement" might allow room for forgiveness under exceptional circumstances. The roots of this debate can be traced back to 17th and 18th century English philosophers. John Locke noted that there were three answers to the question as to "why should a man keep his word". The first two were rooted in the command of the law, whether of divine or human provenance. The third answer, harking to the old Greek philosophers, would be: "Because it was dishonest, below the dignity of man, and opposite to virtue, the highest perfection of human nature, to do otherwise" (53).

In this discussion, Locke introduces us to two central tenets in our interpretation of the qualities of trust. One is the motivation for keeping one's word where the competing hypotheses are: (1) fidelity for fear of retribution and punishment from either a stern God or the Leviathan (54), and (2) a sense of moral obligation bound by conscience. The second concerns whether there is an acceptable rationale for deviation from one's moral commitments. Both God's law and the State recognize the concept of *force majeure*, even though a fundamentalist interpretation of the law would limit considerably any scope for relativism (55). The traditionalists, among them David Hume in his famous debate with Thomas Reid on this subject, argued for the absolute quality of a man's word, regardless of circumstances or consequences, a view represented by the flat line at the top of Figure 2 (56). The key point here is that under either conception of trust — whether motivated by fear or by moral conviction, and whether fanatical or relativist — the interaction between two partners begins with some prior assessment of mutual fidelity and its reliability over a range of anticipated contingencies (57).

A willingness to adjust expectations in the face of changing conditions (external or internal to the venture) constitutes an important factor in how the partners' interactions will impact their relational quality. Observing how its partner deals with adversity or other challenges will lead the firm to modify the probabilities it assigns to future behavior. Thus, if minor difficulties cause one's partner to act selfishly, we would shift our expectations significantly downwards in Figure 2. If, on the other hand, despite severe disruptions the

partner remains loyal to the venture, even at a significant cost, the reverse would be true. These interactions will not only shift expectations (increasing trust), but will also affect the quality of the relationship between the partners. As their relationship improves, the partners become more tolerant of small deviations from plan. If, on the contrary, betrayal increases suspicions of duplicity, this may lead the firms to undertake unilateral actions that worsen their relationship even further.

The story of the tumultuous relationship between Coca-Cola and Nestlé in their joint venture (CCNR) is replete with relevant examples (59). For instance, at one point, Coca-Cola Enterprises (CCE), a bottling company associated with and partially-owned by the Coca-Cola Company, undertook to enter into a settlement agreement with Unilever (owner of the Lipton brand of bottled tea, which competed directly with CCNR's Nestea brand) that was detrimental to the joint venture's market presence. Coca-Cola's management argued that fiduciary duties did not allow them to impose their corporate interest on the external majority shareholders of CCE. Yet, Nestlé believed that the parent company could have prevailed if they held their commitments to CCNR above those to one of their key bottlers. The fact that they did not was a signal (to Nestlé) of betrayal under non-extreme conditions, leading to a downward shift in their probability distribution and a loss of relational quality.

As this example shows, partner interactions lead to a constantly evolving relationship where the tests of loyalty and fidelity occur periodically and with different severity and transparency, always viewed through lenses shaped by past expectations and experiences. The number and frequency of these interactions will be important to the evolving nature of relational quality. More important, however, may be their gravity. As the impact and importance of the issues involved in these interactions increase, the parties to the alliance will have opportunities to judge each other's honesty and integrity under ever-increasing stakes. Motivations become more important here, as does whether the transgression is interpreted as intentional or inadvertent. Interpersonal competence and transparent communications will be essential ingredients in the efficacy of warnings and explanations about the meaning of differences between expected and actual outcomes, all elements of resilient trust (60). The partners will constantly adjust to the new state of affairs either by resolving conflicts and solidifying the nature of their relationship or by withholding resources unilaterally and dooming the venture to failure in the long run.

## **External Events**

In addition to the trials and challenges which any business relationship experiences as part of its normal evolution, there may also occur a number of unrelated external events or behaviors that involve one of the partners or their associates and that may have an impact on the partners' perceptions of each other's trustworthiness. These events can be considered as belonging to one of three types:

(1) *Systemic*, such as environmental changes that affect all parties simultaneously and indiscriminately. The Asian crisis in 1997-98 was one such event, one that tested the mettle of many partnerships. For instance, Samsung Aerospace and the Bell Helicopter division of Textron had entered into a joint venture to produce light civilian helicopters in early 1996. Two years later, Terry Stinson, President and CEO of Bell Helicopters, stated that the Asian crisis was not a threat to the venture: "In Samsung, we are partnered with one of the strongest companies there... [they] have met all targets and obligations to the program" (61).

(2) *Corporate*, wherein one of the partners is involved in matters that affect its reputation for fair dealing in other circumstances or with other partners. Examples include an anti-trust suit for anti-competitive behavior (Microsoft), a discriminatory legal action (Texaco or Mitsubishi Motors), patent violations (3M and Kodak), environmental issues (the Exxon Valdez), and problems with product safety or liability (Bridgestone-Firestone or Perrier). All of these raise warning signs that should alert a partner to potential problems.

(3) *Individual*, where one or more persons directly involved in the partner-interface participate in actions outside the partnership that influence either their own or their firm's reputation for fair dealing. Examples may include a personal conflict-of-interest claim, a nasty and public divorce or other civil proceeding, an allegation of insider trading, accusations of illicit payments or kickbacks, etc.

It should be pointed out that all of these categories could have positive as well as negative impacts. For example, Jim Burke's prompt action as head of Johnson&Johnson following the Tylenol contamination problem elevated his own and his firm's reputation for integrity under adversity. Similarly, a company winning a prestigious award, such as a Baldrige Quality Award, would serve as a positive signal to its partners. In either case the partner's expectations of ethical or considerate behavior by the firm in their mutual dealings is bound to rise accordingly.

The role that such information plays in modifying trust in corporate networks has been labeled "third-party gossip". The source of the information may be close to one or both parties, or may be an unrelated distant observer, such as the business press. Credibility is obviously affected by the degree of familiarity, but it remains that "third-party gossip amplifies both the positive and the negative in a relationship" (62).

### **Implications for management**

As formulated here, relational quality is both an input to and an output of the processes of collaboration (63). A high level of relational quality in initial conditions is essential for both parties to commence operations, particularly if there is a high degree of dependency or vulnerability in the relationship. If, as the venture develops, the firm perceives that its goals are being realized and that its partner's behavior is consistent with the firm's original expectations, then relational quality will be enhanced. Of course, it also works the other way. As relational quality improves, future conflicts are more likely to be resolved amicably and fairly.

An excellent example can be drawn from the mid-1990s experience of Corning and Mitsubishi Heavy Industries in their Cormatech joint venture. Facing an imbalance in royalty payments that threatened the viability of the venture, management sought to include additional Corning technology that not only improved the venture's product, but also evened out the royalty streams. As the venture manager put it, rebalancing the reward flows was critical, "It breeds trust between the two groups, and that trust feeds on itself. The disaster comes when both sides distrust each other's intentions and start doing things that feed that distrust" (64).

As an alliance evolves over time, the parties will observe each other's behavior under varying circumstances and refine their assessments of their mutual "fidelity". One important element in such assessment is their relative adjustment efforts, i.e., how hard each

is trying to adapt to the changing circumstances in which their alliance is embedded. It seems evident that levels of trust in inter-organizational alliances will be enhanced when the partners recognize that they need to engage in processes of mutual adjustment if their collaborative efforts are to continue to evolve (66). At times, however, reliance on trust may be positively influenced by the unilateral actions of either partner (67). Failure to respond to these unilateral commitments, or a failure to meet the partner's expectations about the need for mutual adjustment arising from changed conditions will have a negative impact on relational quality and the level of trust.

For example, it appears that the aborted KLM-Alitalia alliance did not get off the ground when KLM's management was unwilling to recognize that over the course of negotiations their economic position vis-à-vis Alitalia had worsened, and they could not demand as much in the way of concessions as they might have desired. In this respect, they appear not to have learned from their alliance with Northwest Airlines where similar dynamics by both parties in the face of changed conditions seriously and negatively affected the partnership. Similarly, unexpected market and technological developments in the medical diagnostic industry strained the relationship between Ciba-Geigy and its California-based partner Alza. Ciba saw Alza as having "oversold" technologies that still required refinement, whereas Alza interpreted Ciba's reluctance as a ruse to avoid paying hefty licensing fees on which Alza's survival depended. Four years later, mounting suspicions and recriminations led to the dissolution of the alliance (68).

Relational quality is also likely to be governed by differences between the partners' level of cooperative behavior as evidenced by, for example, the amount and quality of the information exchanged between them (69). Thus, one can easily envision a self-reinforcing process where adaptive behavior enhances relational quality, which in turn is propitious to generating adaptive behavior in future instances. In the GE-Snecma alliance, GE was able to help Snecma improve its cost cutting capabilities at a time when this was essential for Snecma, even though nothing in their original arrangement required GE to do so (70).

The quality of a relationship may be affected by events exogenous to it, in so far as those events change the efficiency by which the alliance can meet the parties' strategic intent. But exogenous events may also affect the ability of the parties to adapt to changing conditions, another important measure of success in alliances. Such exogenous events include changes in the environment as well as changes in the strategy of either partner. Xerox's partnership with Fuji-Xerox was enormously helpful to the parent company in the mid-1980s as it sought to cope with competitive challenges from Japanese rivals and problems with the quality of its products (71).

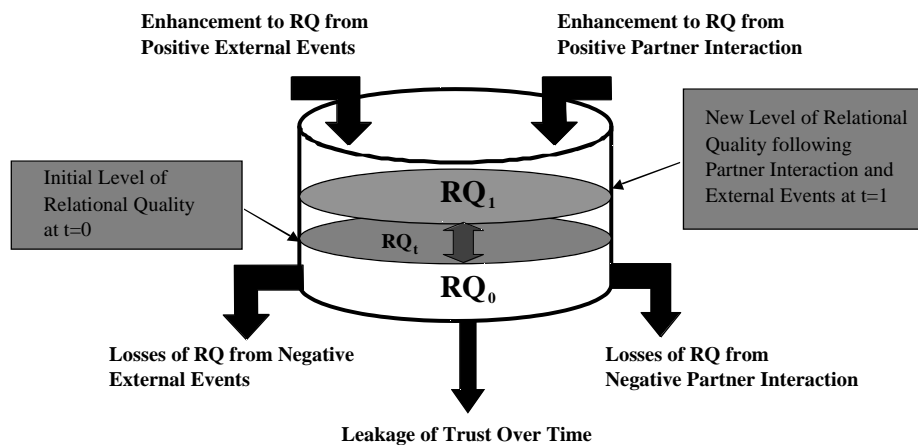
Strategic changes will have a significant impact on relational quality since they affect the levels of trust that flow from each of the three elements that constitute it: initial conditions, partner interactions, and third-party gossip. Given that a strategic change by either party is likely to have a direct impact on the objectives that led them to pursue the alliance in the first place, they may be (appropriately) viewed with suspicion. Until a clearer picture of the motives behind any such change emerges, or until the impact of the change on the alliance is felt, trust levels are bound to suffer. The long-lived nature of the Fuji-Xerox relationship will undoubtedly soften any blow to Fuji (or to their joint venture) that might flow from Xerox's recent decision to change the overall focus of its corporate-level strategy.

When Coca-Cola launched its "New-Age" products group, Nestlé executives were justifiably concerned as to what impact this would have on the CCNR venture. Similarly, Nestlé's acquisition of Perrier raised concerns as to competitive distribution channels for the

venture's products. Unless these actions are explained and pre-sold to the partners, they are bound to diminish the relational quality.

Kenneth Arrow once stated that “there is an element of trust in every transaction” (72). Although he did not discuss the emergence of trust in temporal terms, current research cited here supports the view that all inter-organizational collaborations begin with an initial reservoir of trust. We believe that streams from institutional, process, and individual sources nourish this reservoir. And we have argued that these sources of trust are found in the conditions confronted by the parties before they begin formal processes involving negotiation and commitment. Figure 3 illustrates this reservoir in somewhat crude fashion.

**Figure 3. A Dynamic Model of Relational Quality in Inter-Organizational Alliances: A Reservoir of Trust**



At early stages in the dynamic evolution of the alliance, this initial trust between the partners can be described as fragile, that is, where “risk is assumed to be a consequence of the threat of opportunistic behavior” (73). The partners are able to deal with one another but in guarded ways. They begin to strengthen their mutual perceptions in the course of sense-making and understanding that occurs during their deal making. But assessing the meaning of each other's conduct in these informal processes is not straightforward. For example, one party may take a very hard line towards the establishment of formal contracts, pushing their firm's interests at every turn. The other has to decide whether this means that their potential partner is not as trustworthy as might have been indicated by the initial conditions, or if instead it is an indication of the seriousness with which it views the agreement. Alternatively, the potential partner could be very accommodating towards the firm's requests during these processes. Does this mean that the firm will be able to rely on the partner once an agreement has been reached? Or, should the firm seek to constrain the partner's behavior in subsequent phases by demanding agreement to a variety of safeguards that serve to hedge its bet?

If management is inclined to use the negotiation and transaction process to enhance perceptions of their firm's trustworthiness, they must be conscious of the level of trust that existed at the start of negotiations. Low levels of initial trust are difficult to overcome. High levels give the parties an incentive to build on them in the course of reaching a deal. If each perceives the other as trustworthy, it is likely that the parties will place greater reliance on trust than on other, more formal, control measures in the initial stages of executive processes.

The reservoir of fragile-based trust derived from the initial conditions and through the partners' interactions in the negotiation stages will rise or fall as they begin to implement their agreement (74). For example, Pepsi and Lipton Tea formed a partnership in 1991 to counter CCNR's entry into the bottled tea business. Trouble followed when demand did not materialize and costs rose. "But a reservoir of trust got the two parents to keep plugging away." The key, according to the venture's general manager, was that "we were open and honest with each other. It's not just smoothing over. There's also a legitimate caring" (75).

In a global business environment in which the actions of a firm, or its employees, are subjected to scrutiny from a widening variety of stakeholders, the effects of "third-party gossip" on a business relationship has become more important. The behaviors of the partners to an alliance are subject to constant monitoring by others with whom they also have business relationships, or may have in the future. A breach of trust by either partner in the course of dealings with third parties may well be brought to each other's attention through reports from business associates, the press, or governmental agencies.

In contrast to the fragile trust that emerged from initial conditions, the level of relational quality that exists at subsequent stages in the alliance, if reinforced by positive behaviors and interactions, may have significantly improved. Whether it approaches a quality that can be described as "resilient" is likely to depend on the degree to which partner interactions produce results that exceed their expectations. Fragile trust might be transformed into resilient trust under such conditions if the duration of the alliance permits it, and third-party gossip does not intervene in negative ways. An ability to rely on resilient trust may enable the parties to forego the need for equity in joint ventures (76), or reduce the time and expense of memorializing their relationship in the form of lengthy written contracts.

Most discussions of trust tend to take a static perspective: Does trust exist? Is the partner trustworthy? Does trust substitute for other control mechanisms? Less understood are answers to questions such as: Does trust build more rapidly than distrust? (77) Can one form of trust (i.e., fragile or contract) become another (resilient) form over time? Our objective here has been to offer a framework that includes a more dynamic view of trust, one that may guide managers in fashioning their alliance strategies. We may conclude, then, by offering a few observations derived from such a model.

- Nothing is set in stone! All collaborations start with a set of givens between the partners, such as who they are, what has been said about them, and what their prior experiences have been with each other. But, it would be wrong for the parties to assume that these givens are immutable.
- Bandwidth matters! In the initial stages of negotiating an alliance the processes of sense-making and sense-giving that the parties employ will be critical to their chances of creating higher levels of relational quality. Parties that deliberately seek to increase the bandwidth of their sense-making activities in these early stages are more likely to develop well-grounded, realistic and feasible sets of expectations about their future interactions and the outcomes of their alliance.
- First impressions set the tone! The tenor and openness of one's initial approaches to negotiating an alliance will set the stage for the way in which partner interactions take off. If you want "win-win" you can't start with "zero-sum", and you will encourage the search for value creation.



- Men are from Mars ... ! Cultural differences can be formidable obstacles to effective communication. Frequent and transparent exchanges, not limited to alliance issues, are essential ingredients to enriching the reservoir of relational quality. Have employees at all levels meet each other; they will be the ones to make the alliance work on a day-to-day basis. Avoid the “us and them” syndrome, and talk about “we”.
- Some sins are worse than others! The relational quality associated with an alliance will be tested by the actions of the parties as their relationship evolves over time. Sins of omission will be less damaging to levels of relational quality than sins of commission.
- Telegraph your intentions! Actions that may be viewed as betrayal of the joint interests by one of the parties must be preceded by ample notice and appropriate explanations. Nobody likes surprises.
- Manage expectations carefully! All alliances will run into rough patches, particularly during their early days. Exaggerated expectations can often lead to the alliance’s demise just as the fruits of collaboration are ready to ripen. Transmit the purpose of the alliance throughout the organization and “walk the talk”.
- Don’t believe everything you hear! Alliances have to deal with rumors and third-party gossip on a daily basis. Maintaining relational quality requires looking (into the facts) before leaping to conclusions. High levels of relational quality may help the parties to survive some (relatively minor) falls from grace.

## Endnotes

- (1) Booz-Allen & Hamilton has built a data base of more than 20,000 such structures formed worldwide in 1995-97 as reported in J.R. Harbison and P. Pekar Jr., *Smart Alliances: A Practical Guide to Repeatable Success* (San Francisco: Jossey-Bass, Inc., 1998). Andersen Consulting reports that alliances and partnerships will represent between \$25 and \$40 trillion in value by 2004, and that the average large company has now in excess of 30 alliances. Some companies such as Corning Glass are well known for their alliance strategies. Oracle is reported to have over 15,000 alliances, whereas IBM and AT&T have each more than \$30 billion worth of alliances, most of them concluded in the late 1990s (*Business Week*, 10/25/99, 72).
- (2) Andersen Consulting estimates that 61% of alliances are either struggling or considered failures. Of course, any such analysis is subject to survivor bias. And not all terminated alliances can or should be considered as having failed. If their objective, for example, was to explore a new market space, and the results show that prospects are poor, terminating the alliance makes perfect sense and its objectives can be considered attained. Equally, if one of the partners acquires the venture from the other following a shift in the seller's strategic interests, the acquisition cannot be considered a result of the alliance's failure, on the contrary.
- (3) M.P. Koza and A.Y. Lewin, "The co-evolution of strategic alliances," *Organization Science*, 9 (1998): 255-64.
- (4) See M.Y. Yoshino and U.S. Rangan, *Strategic Alliances: An Entrepreneurial Approach to Globalization* (Boston: Harvard Business School Press, 1995) for a fuller treatment of all options. Other recent books on alliances include P. Beamish and P. Killing, *Cooperative Strategies* (San Francisco: Jossey-Bass Publishers, 1997) and Y. Doz and G. Hamel, *Winning Alliances* (Boston: Harvard Business School Press, 1998).
- (5) B.H. Sheppard and D.M. Sherman, "The grammars of trust: A model and general implications," *Academy of Management Review*, 23 (1998): 422-37.
- (6) P.S. Ring and A.H. Van de Ven, "Structuring cooperative relationships between organizations," *Strategic Management Journal*, 13 (1992): 483-98.
- (7) Koza and Lewin, op. cit.
- (8) See, for example, R. Dore, "Goodwill and the spirit of capitalism," *British Journal of Sociology*, 34 (1983): 459-82, and A. Madhok and S.B. Tallman, "Resources, transactions and rents: Managing value through interfirm collaborative relationships," *Organization Science*, 9 (1998): 326-39.
- (9) A. Zaheer and N. Venkatraman, "Relational governance as an interorganizational strategy: An empirical test of the role of trust in economic exchanges," *Strategic Management Journal*, 19 (1995): 373-92.
- (10) There is evidence, for example, that interpersonal and inter-organizational trust are not comparable for reasons related to the focal object: A. Zaheer, B. McEvily and V. Perrone, "Does trust matter? Exploring the effects of interorganizational and interpersonal trust on performance," *Organization Science*, 9 (1998): 141-59. Others argue, however, that the composition of trust is comparable across vantage points. D.M. Rousseau, S.B. Sitkin, R.S. Burt and C. Camerer, "Not so different after all: A cross-discipline view of trust," *Academy of Management Review*, 23 (1998): 393-404.
- (11) Sheppard and Sherman, op. cit., 427.
- (12) I.R. Macneil, "The many futures of contract," *Southern California Law Review*, 47 (1974): 688-816.
- (13) In Macneil's terms, the transaction is "sharp in-sharp out."
- (14) We owe this eloquent phrase to R. Axelrod, *The evolution of cooperation* (New York: Basic Books, 1984).
- (15) A. Ariño and J. de la Torre, "Learning from failure: Towards an evolutionary model of collaborative ventures," *Organization Science*, 9 (1998): 306-25. This is consistent with Rousseau *et al.*'s definition of trust, op. cit., 395: "Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another."
- (16) For more on the importance of this distinction see Zaheer *et al.* (1998), op. cit.

- (17) See, for example, R.C. Mayer, J.H. Davis, and F.D. Schoorman, "An integrative model of organizational trust," *Academy of Management Review*, 20 (1995): 709-34; and B. Nooteboom, H. Berger, and N.G. Noorderhaven, "Effects of trust and governance on relational risk," *Academy of Management Journal*, 40 (1997): 308-38.
- (18) Y. Doz, "The evolution of cooperation in strategic alliances: Initial conditions or learning process?" *Strategic Management Journal*, 17 (1996): 55-83.
- (19) R.J. Lewicki and B.B. Bunker, "Developing and maintaining trust in work relationships," in Kramer and Tyler, op. cit. (1996), pp. 133-73; and D.H. McKnight, L.L. Cummings, and N.L. Chervany, "Initial trust formation in new organizational relationships," *Academy of Management Review*, 23 (1998): 473-90.
- (20) T.K. Das and B.S. Teng, "Between trust and control: Developing confidence in partner cooperation in alliances," *Academy of Management Review*, 23 (1998): 491-512.
- (21) T. Khanna, "The scope of alliances," *Organization Science*, 9 (1998): 340-55.
- (22) J.S. Coleman, "Social capital and the creation of human capital," *American Journal of Sociology*, 94 Special Supplement (1988): 95-120; M. Granovetter, "Economic action and social structure: The problem of embeddedness," *American Journal of Sociology*, 78 (1985): 481-510; and L.G. Zucker, "Production of trust: Institutional sources of economic structure," in B.M. Staw and L.L. Cummings (eds.), *Research in Organizational Behavior*, 8 (Greenwich, CT: JAI Press, 1986).
- (23) F. Fukujama, *Trust: The Social Virtues and the Creation of Prosperity* (New York: The Free Press, 1995); and L.C. Huff, "Understanding differences in the formation of trust: Individualistic vs. collectivist cultures," CIBER Working Paper No. 00-03 (2000), University of Hawaii.
- (24) C. Lane and R. Bachmann, "The social constitution of trust: Supplier relations in Britain and Germany," *Organizational Studies*, 17 (1996): 365-96; S.P. Shapiro, "The social control of interpersonal trust," *American Journal of Sociology*, 93 (1987): 623-58; and J.D. Lewis and A.J. Weigert, "Trust as a social reality," *Social Forces*, 63 (1985): 967-85.
- (25) R.S. Burt and M. Knez, "Trust and third party gossip," in R. Kramer and T. Tyler (eds.), *Trust in Organizations: Frontiers of Theory and Research* (Thousand Oaks, CA: Sage, 1996), 68-89; J.B. Barney and M.H. Hansen, "Trustworthiness: Can it be a source of competitive advantage?" *Strategic Management Journal*, 15 S2 (1994): 175-203; and C.W.L. Hill, "Cooperation, opportunism, and the invisible hand: Implications for transaction cost theory," *Academy of Management Review*, 15 (1990): 500-13.
- (26) G.A. Bigley and J.L. Pearce, "Straining for shared meaning in organization science: Problems of trust and distrust," *Academy of Management Review*, 23 (1998): 405-21; and R. Gulati, "Does familiarity breed trust? The implications of repeated ties for contractual choice in alliances," *Academy of Management Journal*, 38 (1995): 85-112.
- (27) F.L. Jeffries and R. Reed, "Trust and adaptation in relational contracting," *Academy of Management Review*, 25 (2000): 873-82; L.D. Browning, J.M. Beyer, and J.C. Shelter, "Building cooperation in a competitive industry: SEMATECH and the semiconductor industry," *Academy of Management Journal*, 38 (1995): 113-51; and P.S. Ring and A.H. Van de Ven, "Developmental processes in cooperative interorganizational relationships," *Academy of Management Review*, 19 (1994): 90-118.
- (28) See Y. Doz, op. cit., for a discussion of expectations and their importance in alliance outcomes.
- (29) See Browning *et. al.*, op. cit., for a discussion of this concept in the context of the SEMATECH consortium.
- (30) A. Ariño, "To do or not to do? Non-cooperative behavior by commission and omission in inter-firm ventures," *Group and Organization Management*, forthcoming, 2001.
- (31) D. Meyerson, K.E. Weick, and R.M. Kramer, "Swift trust and temporary groups," in Kramer and Tyler, op. cit. (1996), 166-95.
- (32) For an interesting study of these kinds of conditions, see S.S. Cohen and G. Fields, "Social capital and capital gains in Silicon Valley," *California Management Review*, 41-2 (1999): 108-30.

- (33) See Zucker, op. cit., for this set of ideas.
- (34) In addition to those cited above, see P.M. Doney, J.P. Cannon, and M.R. Mullen, "Understanding the influence of national culture on the development of trust," *Academy of Management Review*, 23 (1998): 601-20; and J.M. Hagen and S. Choe, "Trust in Japanese interfirm relations: Institutional sanctions matter," *Academy of Management Review*, 23 (1998): 589-600.
- (35) R.M. Kanter, "Collaborative advantage: The art of alliances," *Harvard Business Review*, 94 (July/August 1994): 96-108.
- (36) Lane and Bachmann, op. cit.; and Shapiro, op. cit.
- (37) See, for example, the cases cited in R. Reich and E.D. Menkin, "Joint ventures with Japan give away our future," *Harvard Business Review*, 64 (1986): 78-86.
- (38) M.L. Gerlach, *Alliance Capitalism* (Berkeley, CA.: University of California Press, 1992).
- (39) A. Parkhe, "Partner nationality and the structure-performance relationship in strategic alliances," *Organization Science*, 4 (1993): 301-324.
- (40) A. Ariño, J. Vilá, M. Abramov, I. Skorobogatykh and I. Rykounina, "Partner selection and trust building in Western European-Russian joint ventures: A Western perspective," *International Studies of Management and Organization*, 27-1 (1997): 19-37.
- (41) We should not treat firms as unitary actors. Specific subsidiaries, divisions, offices, etc., may have reputations for trustworthiness that are quite different from those enjoyed by the parent firm as a whole. This would be particularly true in the case of highly diversified firms.
- (42) M. Schweinsberg and F. Bidault, "Fiat and Peugeot's SEVELNORD Venture (A): Laying the Foundations for a Second Success," in J. de la Torre, Y. Doz and T. Devinney, *Managing the Global Corporation* (New York: McGraw-Hill, 2001), 271-81.
- (43) G. Lorenzoni and C. Baden-Fuller, "Creating a strategic centre to manage a web of partners," *California Management Review*, 37-3 (1995): 1-18.
- (44) See, for example, R.M. Kanter, op. cit.; W.W. Powell, "Trust-based forms of governance," in Kramer and Tyler, op. cit. (1996) describes four generic types –networks of place, R&D networks, business groups, and strategic alliances and collaborative manufacturing arrangements– each with a "different path to cooperation."
- (45) See W. Spencer and P. Grindley, "SEMATECH after five years: High technology consortia and U.S. competitiveness," *California Management Review*, 35-4 (1993): 9-32; and W.G. Ouchi and M. Bolton-Kremen, "The logic of joint research and development," *California Management Review*, 31-1 (1988): 9-33.
- (46) P.S. Ring, and G. Rands, "Sensemaking, understanding, and committing: Emergent transaction processes in the evolution of 3M's microgravity research program," in A.H. Van de Ven, H. Angle, and M.S. Poole (eds.), *Research on the Management of Innovation: The Minnesota Studies* (New York: Ballinger/Harper Row, 1989), 337-66.
- (47) For definitions see P.S. Ring, "Fragile trust and resilient trust and their roles in cooperative interorganizational relationships," *Business & Society*, 35 (1996): 148-75.
- (48) Doz (1996), op. cit.
- (49) P.S. Ring, "Transacting in the state of union: A case study of exchange governed by convergent interests," *Journal of Management Studies*, 4 (1997): 1-25 at 14-15.
- (50) A. Ariño and P.S. Ring, "Learning from failed negotiations," working paper, IESE, Barcelona (2000).
- (51) Meyerson, Weick and Kramer (1996), op. cit.
- (52) Perhaps the standard a firm might use to evaluate the reasonableness of its partner's defection, and thus its tolerance of it, would be whether, if faced with similar circumstances, they would have acted in a similar manner.

- (53) John Locke, *An Essay Concerning Human Understanding* (first published in 1690), in R.M. Hutchins (ed.), *Great Books of the Western World* (Chicago: Encyclopedia Britannica. 1952), 35: 83-395.
- (54) This view is similar to the concept of deterrence-based trust summarized in Rousseau *et al.*, *op. cit.*, 398-99.
- (55) An example of an extreme interpretation of one's obligation to a covenant of obedience would be God's command to Abraham to sacrifice his son Isaac, requiring a breach of trust in one of the most sacred human relationships, that of a father with his child. Abraham does not invoke force majeure as a rationale for not obeying God, and is prepared to commit this act of allegiance regardless of the consequences until such time as he is relieved of the obligation.
- (56) David Hume, *A Treatise of Human Nature* (1739-40); and Thomas Reid, *Essays on the Active Powers of the Human Mind* (1740). We are indebted to Ahmet Aykaç and Charles Wisemann at Theseus Institute for a clarification of this debate and for elucidating the distinction between modern (reformed) and traditionalist (orthodox) religious views on some of these issues.
- (57) Powell (*op. cit.*, 63) argues that "trust is neither chosen nor embedded, but is instead learned and reinforced, hence a product of ongoing interaction and discussion." Ring and Rands, and Ring and Van de Ven (*op. cit.*) have described processes that facilitate this learning as constituting "sense-making, understanding and committing". The partners will focus on defining tasks and collaborative processes and will keep tabs on each other's goals and motives.
- (58) Ariño and de la Torre (1998), and Das and Teng (1998), *op. cit.*
- (59) This story is told in disguised form in Ariño and de la Torre (1998), *op. cit.*
- (60) Ring (1996), *op. cit.*
- (61) *Aviation Week*, Show News On Line, 9/10/98.
- (62) Burt and Knez, *op. cit.*, 281.
- (63) A. Ariño and J. de la Torre, "Equity and efficiency in collaborative processes: The NAMCO-Hexagon joint venture case," CIBER Working Paper series, The Anderson School at UCLA (1999) no. 99-11.
- (64) P. Coy, "The alliance manager: I'm OK, you're OK," *Business Week*, 10/25/99, 77.
- (65) A. Madhok and S.B. Tallman, *op. cit.*
- (66) See, for example, J.B. Heide and G. John, "Do norms matter in marketing relationships?," *Journal of Marketing*, 56 (1992): 32-44; Macneil *op. cit.* and Madhok & Tallman *op. cit.* for evidence of this behavior.
- (67) R. Gulati, T. Khanna, and N. Nohria, "Unilateral commitments and the importance of process in alliances," *Sloan Management Review* (Spring 1994): 61-69.
- (68) A. Ariño and Y. Doz, "Rescuing troubled alliances... before it's too late," *European Management Journal*, 18 (March-April 2000): 173-82.
- (69) Several studies of trust suggest that the willingness of the parties to share information with each other helps to build trust: R.M. Kanter, *op. cit.*; A. Larson, "Network dyads in entrepreneurial settings: A study of the governance of exchange relationships," *Administrative Science Quarterly*, 37 (1992): 76-104; and J.B. Thomas and L.K. Trevino, "Information processing in strategic alliance building: A multiple-case approach," *Journal of Management Studies*, 30 (1993): 779-815.
- (70) F. Gee and Y. Doz, "General Electric and Snecma (C)," INSEAD case (1996).
- (71) G. Jacobson and J. Hillkirk, *Xerox: American Samurai* (New York: Macmillan, 1986).
- (72) K. Arrow, *Information and Economic Behavior* (Stockholm: Federation of Swedish Industries, 1973), p. 24.
- (73) Ring (1996), *op. cit.*, 152.

- (74) For evidence of this see: A. Ariño and J. de la Torre (1998), *op. cit.*; L.D. Browning *et. al.*, *op. cit.*; B. Gray, *Collaborating: Finding Common Ground for Multiparty Problems* (San Francisco: Jossey-Bass, 1989); P.S. Ring, *op. cit.*; and E.J. Zajac and C.P. Olsen, "From transaction cost to transaction value analysis: Implications for the study of interorganizational strategies," *Journal of Management Studies*, 30 (1993): 131-45.
- (75) P. Coy, *op. cit.*
- (76) R. Gulati, *op. cit.*
- (77) See R.S. Burt and M. Knez, *op. cit.*, and R.J. Lewicki, D.J. McAllister, and R.J. Bies, "Trust and distrust: New relationships and realities," *The Academy of Management Review*, 23 (1998): 438-58.