

Trust in the context of strategic alliances

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Abstract

This paper explores the phenomenon of trust and its significance in the context of strategic alliances. Following a discussion of the literature, exploratory, qualitative case study based research is presented in order to develop an improved understanding of the phenomenon. The findings of the study show that trust plays a significant role in strategic alliances, being used as a risk reduction strategy as alliances are initiated. An extensive list of antecedents proposed in the literature is supported as are three levels of development. The paper's contribution lies in the development of an extended model of trust, its drivers, antecedents and levels and how these influence subsequent perceptions.

Keywords

Relationship marketing, trust, strategic alliances, drivers, antecedents, development, qualitative methodology

Introduction

The New Zealand wine industry forms the basis of the cases used in this research exploring the construct of trust and its development in strategic alliances. This industry was established by migrant Dalmatian and Croatian families approximately one hundred years ago, initially making wine for their own consumption and gradually developing into an industry. During the growth of the industry, severe resource constraints were experienced and as a result, families worked collaboratively in order to expand, some providing grapes, others wine-making and bottling facilities, and others logistics and distribution (Scott, 1977). Although these wineries eventually became large commercial operations the collaborative model continued to be used. Thus the industry has a long history of alliances based on trust, not contractual obligations or equity holdings, making it an ideal context for this research.

Trust in Strategic Alliances – The Literature

Several authors propose that trust is a key characteristic of strategic alliances, Morgan and Hunt (1994) state that successful relationship marketing requires both commitment and trust. By inferring that the relationship marketing paradigm is part of a bigger, developing, network paradigm, the alliance concept is developed within the relational paradigm (Harker & Egan 2006; Scherling & Wang, 1998; Cowles 1996; Sako 1992). Three types of trust are thought to relate to strategic alliances, contractual trust, competence trust, and goodwill trust. These classifications demonstrate the interrelated nature of trust and commitment in the relationship and alliance models (Heffernan, 2004; Scherling & Wang, 1998). As relationships that are characterised by high levels of trust and commitment are proven to perform better, the alliance seems the preferable model for cooperative relationships (Kauser & Shaw, 2004; Scherling & Wang, 1998). Furthermore, managers view trust as being the central and most important component of success in strategic alliances and relationship building (Rodriguez & Wilson, 2004; Kwon & Suh, 2004; Inkpen & Currall, 2004; Morgan and Hunt, 1994).

Relationship building is an integral part of the process of building commitment to the alliance, with participants in networks having to develop a shared understanding of both the context and the processes in which they will engage, in order to achieve their goals (Nohria & Eccles, 1992, Borys & Jemison, 1989; Axelrod, 1984). A further rationale for the importance of trust in strategic alliances is its role as a social control factor, where trust can substitute for formal legal contracts (Rodriguez & Wilson, 2004; Goldberg, 1980).

Trust is seen as a key determinant of good relationships, a critical factor if risk and incomplete information are present and an inter-organisational governance mechanism (Morgan & Hunt, 1994; Heide, 1994). Anderson and Narus (1990) suggest that the nature of trust differs between individual and group settings.

However, the works of Anderson and Narus (1990), Morgan and Hunt (1994), Schurr and Ozanne (1985) and Dwyer, Schurr and Oh (1987) have investigated trust in a number of settings with the central importance of trust being affirmed in commitment-trust theory (see also Rodriguez & Wilson, 2004; Kwon & Suh 2004; Kauser & Shaw, 2004).

Hoyt and Huq (2000) examined the role of trust in supply chain relationships and identified a variety of aspects of the phenomenon which are supported in more recent findings, including that the success of strategic alliances is enhanced by sharing both assets and information (Rodriguez & Wilson, 2004; Kwon & Suh, 2004), trust and collaboration can help stimulate learning (Inkpen & Currall, 2004), effective communication is critical (Kwon & Suh, 2004; Kauser & Shaw, 2004) and trust based relationships are becoming more common as they reduce risk. Further, they propose that mutuality is dependant on the existence of trust and that trust is time dependant as it is a result of successful performance. Finally, they see a relationship between trust, collaboration and sustainable competitive advantage as, from the perspective of the resource based theory of strategy; collaboration gives access to additional scarce resources.

Drivers and Antecedents of Trust

The presence of risk is widely acknowledged as being significant, trust is only necessary in risky or uncertain situations (Bretherton & Carswell, 2001; Scherling and Wang, 1998). Trust based strategic alliances are growing in number and in complexity, as a response to increasing competition, growing internationalisation and the increasing complexity of products and services such that organisations do not have the necessary resources to compete and, therefore, are forming networks to share resources and competences, (Bretherton & Gunaratne, 2001).

A considerable number of antecedents of trust are proposed in the literature and these are discussed briefly below. Reputation influences the development of trust, since, in the absence of perfect information, decision makers may be influenced by the reputation or image of the potential partner (Kwon & Suh, 2004). The initiation of trust may also be impacted by the presence of shared values in organisational cultures (Winklhofer, Pressey & Tzokas, 2006; Bretherton and Carswell, 2001), while communication also plays a significant role, as does the use of power (Kwon & Suh, 2004; Kauser & Shaw, 2004; Mohr & Spekman, 1994; Anderson and Narus, 1990). When a partner is

threatened they are likely to engage in other alliances in their search for resources (Bretherton and Carswell 2001). Ethical behaviour is also considered as playing a critical role in the initiation and development of trust (Callaghan and Shaw, 2001) while inter-firm adaptation is considered as indicating trust-worthiness (Ganesan, 1994; Hallen, Johansson and Seyed-Mohamed, 1991).

Successful performance appears to be a pre-requisite for trust, with empirical results showing a direct link between inter-organisational trust and performance (Kausar & Shaw, 2004; Zaheer, McEvily & Perrone, 1998; Larson, 1992). A feature of this type of alliance is that the relationship contributes significantly to rapid growth and economic success (Larson, 1992). It is important to ensure continuity in the relationship, with those individuals involved in structuring the alliance also being key in the ongoing management (Lewis, 1992). Trust grows with experience, enabling each party to predict the other's future behaviours and the level at which obligations are met, it emerges through the assessment of motives and develops through a transference process (Doney and Cannon, 1997). Trustworthy behaviour means that individuals exhibit reliable behaviour; that statements and behaviour prior to making commitments are consistent with the individual's real desires and that the individual does not take advantage of unforeseen opportunities (Bromiley and Cummings, 1995), they suggest that "our predictions of behaviour may be tested best by using perceptions of trust rather than measures of whether the focal entity merits trust" (1995, p.26).

The existence of different types of trust or different levels of trust is another common theme, summarised below in table 1.

Table 1 Levels of trust

Author	Model
Rousseau et al, 1998	Deterrence based Calculus based Relational based
Dwyer, Schurr and Oh, 1987	Unilateral Bilateral
Lewis, 1992	Level 1 – co-operation based on personal relationships and regulation Level 2 – establishing relational conditions Level 3 – strategic and operational integration
Sako and Helper, 1998	Contractual trust Competence trust Goodwill trust

Source: adapted from Bretherton and Carswell 2002

The development of the relationship between alliance partners has been categorised into three phases: early co-operation, the establishment of conditions necessary to build the relationship and finally closer integration, both operationally and strategically, where a significant level of trust is established, (Lewis, 1992).

Figure 1 is an attempt to consolidate the previous research on trust, its drivers, and antecedents, levels of development and how these affect subsequent perceptions of the drivers, showing the circularity of the various phenomena involved.

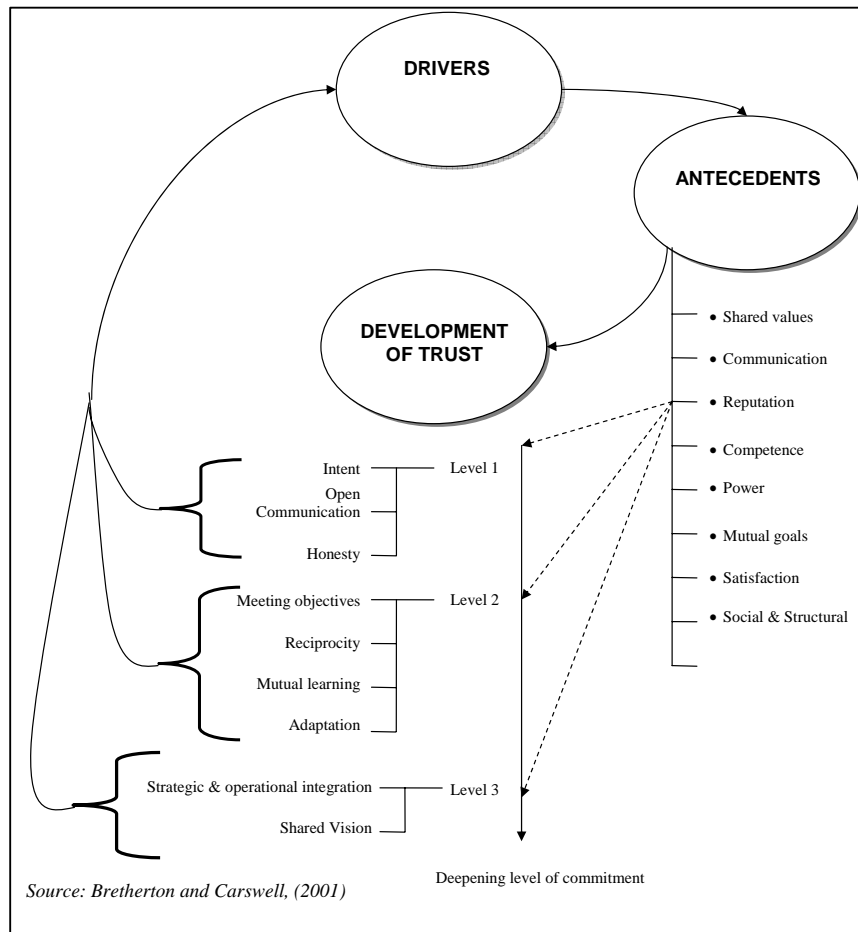


Figure 1: Trust in business-to-business relationship development

Using this conceptual model this research poses the following questions:

1. What are the drivers and antecedents of trust?
2. How is trust developed and how does it affect the subsequent perception of the drivers?

Methodology

This research is part of a larger program looking at how the management of strategic alliances impacts upon organisational performance and the role that trust plays in these alliances. A qualitative, case study design, using both within-case and cross-case analysis, has been adopted in order to explore the model proposed in figure 1 (Yin, 1994 and Miles & Huberman, 1994). A purposive sample of twelve wineries was chosen, seven wineries had out-performed the industry over the past five years and five of them had under-performed it (Yin, 1994, Perry and Coote, 1994 and Eisenhardt, 1989). Since all the wineries are either divisions of larger organisations or are privately owned there is little information on performance available in the public domain so they were chosen by an expert panel (Spekman, Salmond & Lambe, 1996). The expert panel were asked to nominate over performers and under-performers in each of the three categories used by the Wine Institute of New Zealand, category one being up to 200,000 litres, category

two being 200,000 litres to 2 million litres and category three being over 2 million litres. The wineries chosen were consolidated into the following organisations; the over-performers were Montana (category 3), Cloudy Bay, and Grove Mill (category 2), and Craggy Range, Goldwater Estate and Te Awa Farm (category 1). The under-performers were Villa Maria (category 3), De Redcliffe and Lincoln (category 2) and Riverside Wines and Gillan Estate (category 1).

The data was gathered using semi-structured interviews based on a protocol which was developed from initial unstructured interviews. The questions were structured around the value chain model, as alliances tend to be formed to perform certain functions along the value chain or value system (Porter, 1985 and 1990) thus looking first at inbound logistics, then operations (wine making) then outbound logistics, sales and marketing and finally the various support activities. Company, industry and commercial reports were used to allow a better understanding of the organisation and to achieve triangulation of the data (Yin, 1994, Lincoln & Guba, 1985 and Jick, 1979). This approach has been taken to ensure that the research has been conducted in such a way as to achieve credibility, transferability, dependability and confirmability, (Lincoln & Guba, 1985). The phenomena surrounding trust, its drivers, antecedents, levels of development and its subsequent influence on the perception of the drivers were analysed for each winery, and then were analysed by size of winery and by over and under-performance.

Findings

As can be seen in **table 2 below**, trust plays a significant role for all the wineries, each box ticked showing that the interviewee supports that particular proposition, thus eight of the wineries thought that new relationships were drivers of the need for trust and nine thought that an unfamiliar environment was also a driver, no alternatives were offered that could not be categorised in this way. Overall the key driver for the majority of wineries is risk reduction in unfamiliar environments. This is achieved by using trust as a risk reduction strategy, ensuring that the antecedents that they feel are important are present and then moving through different levels of trust as relationships develop.

Antecedents

The antecedents proposed by Bretherton and Carswell (2001) in **figure 1** are all supported but also significant is “time” or “patience”. With several of the interviewees commenting that time had to elapse or patience had to be shown in order for trust to develop. This links to antecedents such as shared goals and performance, as these are only achieved over time. The most critical antecedent for developing deeper levels of trust is performance and the second most important is bonding. Next are communications, shared culture and trusting beliefs. Perhaps surprisingly, although they were mentioned, there was scant support for the proper use of power, an organisation’s reputation and ethical behaviour.

Table 2 Trust drivers, antecedents and levels

	Montana	Villa Maria	Cloudy Bay	Grove Mill	De Redcliffe	Lincoln	Craggy Range	Kumeu River	Goldwater Estate	Te Awa	Riverside Wines	Gillian Estate	Total
Trust Drivers													
New relationships	✓	✓		✓	✓	✓	✓		✓	✓			8
Unfamiliar Environment	✓	✓			✓	✓	✓	✓	✓	✓	✓		9
Antecedents													
Communication	✓	✓				✓	✓	✓		✓	✓	✓	8
Performance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	11
Shared culture	✓	✓					✓	✓		✓	✓	✓	7
Mutuality				✓		✓	✓	✓			✓	✓	6
Use of power	✓		✓				✓						3
Reputation								✓				✓	2
Ethics	✓						✓	✓					3
Bonding		✓			✓	✓	✓	✓	✓	✓	✓	✓	9
Trusting beliefs	✓						✓	✓	✓	✓	✓	✓	7
Levels													
Contractual (1)	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	11
Operational (2)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
Strategic (3)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12

In addition to the summary shown in **table 2** the following are quotes from the interviews, supporting the findings.

George Fistonich, owner and CEO of Villa Maria suggests several antecedents, including communications, trusting beliefs, social bonding and mutual learning:

“Our base philosophy has been totally transparent and gives long-term security, so our wine makers are viticulturalists, and anything we do [with] the grape growers is very open and our grape growers can come in and taste the wine out of the tanks. We keep a very open, transparent relationship”, *personal interview*.

Trusting beliefs and trusting intentions are also affirmed by others:

“It [trust] definitely plays a role, yes; it is vital, with our growers as well as our financial partners. We wouldn’t bother going into an agreement unless we trusted the people”, Ken Anderson, CEO, De Redcliffe Wines, *personal interview*.

“It’s all about trust. We don’t like to pay lawyers, so a lot of it relies on personal trust and [the] relationships that you have with individuals”, Michael Brajkovich, winemaker, Kumeu River, *personal interview*

Ken Anderson, of De Redcliffe, goes on to support commitment, balance of power and social bonding as being significant:

“We see it as more of a partnership type of arrangement, very much based on personal relationships. We have the agreements in place but on top of that you have the personal relationships, you have to have trust”, *personal interview*.

Shared values and culture and trusting beliefs are also supported in the data:

“We will choose other companies from around the world that share a similar philosophy to our own, and that will allow us to build alliances with them... we always deal with

family companies. You have people in those companies that are either employees or owners that are passionate about what they do”, Steve Smith, CEO, Craggy Range, *personal interview*.

Shared values and social bonding are further supported by Gus Lawson, CEO, Te Awa Farm:

“We probably spend a lot of time enjoying wine and food in each other’s company, because that is when someone is going to show their true colours I believe”, *personal interview*.

The final word goes to Terry Gillan, CEO of Gillan Estate, affirming time and social bonding as important:

“It’s all alliances, and a lot of it is because we’ve been here 10 years and I’ve built it up. The people are friends of mine and they come for dinner and I go around [to] their place for dinner”, *personal interview*.

The development of different levels of trust

All three levels of trust proposed by the model were supported in the cases, this is particularly apparent when the typology of contractual, (level 1), operational, (level 2) and strategic, (level 3) trust is used. Some of the wineries have relationships at all three levels simultaneously, sometimes at the same stage in the value chain. This is particularly the case with contract grape growers, where relationships range from transactionally based purchasing through to joint brand development. Contractual trust is present in all the wineries that are using contract grape growers and who are subcontracting parts of the winemaking process. It is also evident in the relationships with international distributors. Operational trust is widely referred to with regard to both key contract grape growers and established distributors. In the interviews, reference was regularly made to agreed actions and outcomes, and to achieving agreed performance levels. Strategic trust is present in several relationships with clear reference being made to strategic alignment between organisations. Also referred to at the strategic level, were the division of profits, brand and market development, and the specific use of trust as a risk reduction strategy, the development of long-term shared plans and outcomes and, perhaps most significantly, jointly achieving sustainable competitive advantage.

The influence of trust levels on driver perception

The influence that the different levels of trust have on the perception of the drivers is difficult to ascertain. Although there is a considerable amount of evidence that all three levels of trust are extant there is limited explicit evidence of the final link proposed in the model. There is some evidence in statements made about it being better to be in alliances than in competition with certain wineries and that the whole industry is about alliances. The other implicit evidence is that the wineries have employed the same strategy when faced with a similar decision, that is, they have used trust based strategic alliances to enter subsequent relationships with grape growers and distributors, once it initially proved successful. However, this final link requires further research to confirm the extent of its existence and influence.

Discussion

The drivers in figure 1 are supported, with new relationships being entered into at various stages of the value chain. Other drivers referred to are a growing level of

internationalisation, the development of technology and increasing competition. These are all situations involving risk and incomplete information, thus, all the drivers proposed are supported. The most frequently identified risk is actually entering into strategic alliances, that is new relationships, this being the most frequently referred to “driver” related concept in the interviews. This may be a phenomenon peculiar to the wine industry within New Zealand, however, as Bretherton and Gunaratne (2001) noted, with the increasing scarcity of resources and capabilities, organisations are finding, more and more, the need to work together for mutually beneficial outcomes. Bretherton and Carswell’s (2001) model, figure 1, is supported and extended by the data. Figure 2 below incorporates the conclusions drawn from this research. The list of antecedents has been consolidated and time and mutual learning have been added. It is actually implied by antecedents such as performance, as this can only be demonstrated over time. Contractual, operational and strategic levels of trust are supported and it is felt that these terms effectively consolidate those used in other research, either explicitly or implicitly. The final link between levels of trust developed and subsequent perception of risk is supported implicitly by the fact that similar strategies are repeated once proved effective, for example, trust based strategic alliances have been used to enter several new markets.

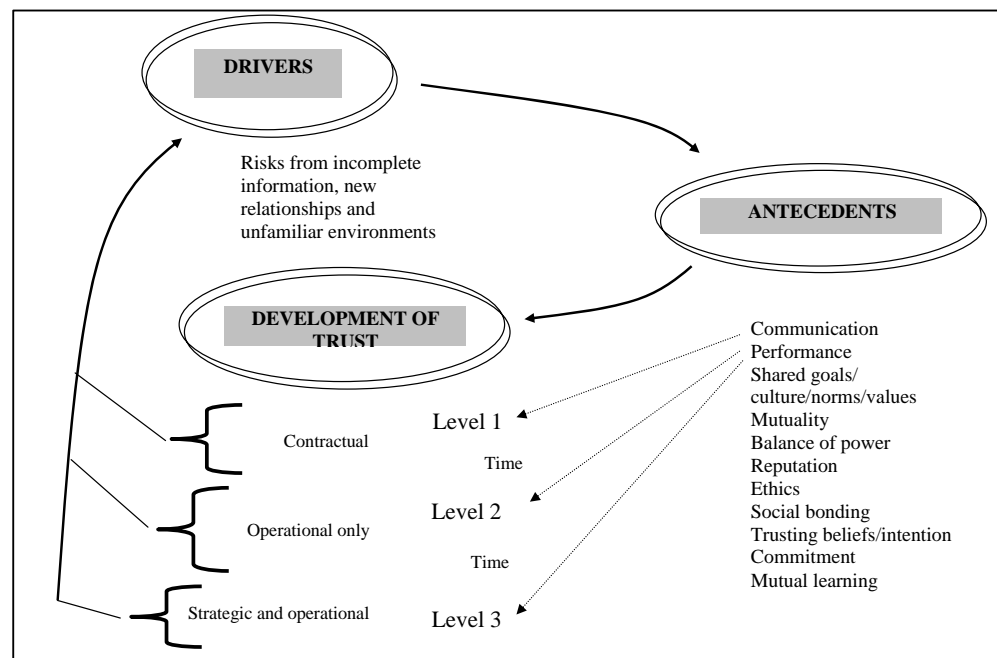


Figure 2: The circularity of trust

Adapted from Bretherton and Carswell, (2001) using the data referenced in this research

All the antecedents of trust proposed in the model appear in the cases. Parties entering into trust-based relationships need to establish and achieve mutual goals, also referred to were the existence of shared values, norms and cultures, social bonding and open, regular and effective communication, the reputation of the individual or the organisation, competence, in the form of performance outcomes of the partner, being dealt with ethically, and the level of satisfaction from past experiences with the partner were, also, discussed as factors that are antecedent to the development of trust based relationships. Having control over the process of relationship management was a theme

that was mentioned when the respondents were discussing factors they consider before engaging in relationships that require a degree of trust. Communication was cited frequently, indicating that the need to feel in control is satisfied by regular opportunities to communicate prior to engaging in and further developing a trust based relationship. Commitment, passion and friendship were also mentioned in the interviews, thus highlighting the potential for social bonding and social interaction activities in the development and maintenance of trust based relationships. However, some antecedents emerged which are not in the original model, the first being the desire for mutual learning, in order to develop specific capabilities which the organisation lacks. The other was time, or patience, which seems to be an antecedent to the development of level two and three trust.

Conclusions and managerial implications

Trust appears as an important phenomenon in most relationships and is central to all relational exchanges, (Cowles, 1996 and Morgan & Hunt, 1994). There is also evidence that inter-organisational trust and performance are positively linked, (Zaheer, McEvily & Perrone, 1998 and Larson, 1992). Trust and commitment are shown as being critical in the development of strategic alliances, (Morgan & Hunt, 1994 and Sherman, 1992). As such, the model presented in this paper goes some way to helping practitioners understand and manage the trust building and development processes. Many organisations are involved in new supply and distribution relationships with trust playing a key role in reducing risk. The model shows the antecedents that are necessary for trust to develop in these strategic alliances, though all of them may not be present or necessary in every relationship.

What the model further implies is a number of pragmatic considerations for those entering into relationships. Firstly, negotiations should be broad in terms of reciprocity, especially initially, as it is in these interactions that each partner gauges elements such as mutual goals, the power balance and common values, all factors that will enhance or inhibit the development of trust. For the same reasons, post the relationship being established and formalised, it is important that a company monitors its own behaviour, and not just that of its partner. This suggests that human resource systems, such as selection, induction and performance management should be aligned with encouraging and developing the sorts of employees that will display the desired competencies inherent in the antecedents. A further critical factor is the level of trust and organisations should decide the level at which they require an alliance to operate - whether a transactional relationship is appropriate, or whether it should become operational or strategic.

Further research should look at the final link between the level of trust developed and its effect on the perception of the drivers. Also larger samples and looking at other industries using survey based methods would allow statistical generalisation.

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