Trust and Its Impact on Cooperation in Alliance Networks: Theory and Practice

Włodzimierz SROKA
wsroka@wsb.edu.pl
Academy of Business in Dąbrowa Górnicza, Poland

Abstract. At present we can observe the increasing role of cooperation among companies all around the world. Cooperation includes many forms, such as alliances, joint ventures, networks, clusters, outsourcing and others. Trust is one of the most important factors of success of any cooperation activity, because it can lower transaction costs, increase productivity and innovativeness, facilitate inter-organizational relationships and resolve conflicts. Therefore the paper discusses the basic problems of trust in alliance networks. The text consists of theoretical deliberations devoted to alliance networks and trust. The practical case of the company from machine industry that formed a portfolio of alliances based on trust is also an important part of the text. The conclusion of the paper is that portfolio of alliances based on trust is worth pursuing.

Keywords: Alliance networks; Trust; Cooperation; Partnership

1. Introduction

At present we can observe the increasing role of cooperation among companies all around the world. Cooperation includes many forms, such as alliances, joint ventures, networks, clusters, outsourcing and others. If such the activity is to be successful, there must some level of trust between partners. Trust is one of the most important factors of success of any cooperation activity, because it can lower transaction costs, increase productivity and innovativeness, facilitate inter-organizational relationships and resolve conflicts. It is also the key success factor of any cooperation (Faulkner 2004, p. 359), especially when it relates to companies from different countries. Relationships based on trust lead to greater exchange of knowledge between partners, and this is one of the most important goals of alliance networks. Therefore scholars from various disciplines, including organization and management, marketing, sociology, economy and psychology express their interest in the role of trust. Each of these areas has its own significant contribution to the nature of trust and processes where it grows (Sroka 2011). Taking this into consideration the purpose of this article is a presentation of impact of trust on cooperation in alliance networks. The paper consists of theoretical and practical parts. The first parts analyses the concept of trust and the idea of alliance network (portfolio). In turn the second part of the text concentrates on the formation of alliance portfolio by the Polish engineering company. The text is based on the latest literature devoted to inter-organizational cooperation as well as practical experience of the author in creating the cooperative ventures.

2. The concept of alliance network

The literature indicate a wide conceptual variety of alliance networks (portfolios), which differ in both the scope of cooperation, the nature of interconnections (network of relationships), the number of companies. Some companies have a portfolio of bilateral alliances. Sometimes, like Corning, it involves up to hundreds of partners. Other companies take part in complex webs of mutually dependent relations.

There are many definitions describing the alliance networks. Economic sociologists define a network as a form of organized economic activity that involves a set of nodes, e.g. organizations or individuals linked by a set of relationships (Gulati 2007, p. 2). Acc. to Jarillo (1988), a network organization is an intensional, long-term agreement between different organizations aimed at profits, which allow them to reach (keep) advantage vis-à-vis their competitors outside the network. The companies in the network are independent, and mutual relations between them are fundamental to their competitive position. In this concept Jarillo considers the ‘hub firm’ as an essential factor: this company sets up the network and takes a pro-active role in making sure that the network functions well. Another definition of alliance network describes it as the group of companies linked by ties that vary in formality, but are stable and significant enough to create reasonably persistent inter-firm structures (Rowley et al.)
Gomes-Casseres (2004, p.43-52) treats alliance network as a set of firms that cooperate with each other in a multilateral relationships and also competes in a particular competitive domain.

Generally alliance network is a group of firms linked together through the various alliances to compete in a specific domain, i.e. in the specific business, on the specific market, or technology, either with other alliance networks as well as with individual companies. Other terms of the network of alliances include: a portfolio of alliances, multilateral alliances, constellations, groups of alliances, or octopus strategy. Irrespective of the differences between the definitions of alliance network, some features are common to all: the existence of multiple parties (at least three), voluntary cooperation, independence of the partners, the relationship between them.

3. The concept of trust in business

Trust plays an important role in facilitating economic exchange between companies, being the most critical factor in the exchange relation (Hau-siu Chow 2008). If the companies are to start cooperation, there must be a certain level of trust between them. Trust is one of the key success factors of not only alliance networks but also any partnership. The others are: communication and its features and techniques for conflicts solving (figure 1)\(^7^8\).

\[\text{Figure 1. Factors of partnership's success}\]
\[\text{Source: Mohr, Spekman 1994}\]

The literature provides various definitions of trust. Bradach and Eccles (1989) state that trust is expectation that exchange partner will not act opportunistically, despite short-term incentives and uncertainty concerning the long-term benefits. In turn Das and Teng (1998) say that trust is a positive attitude and reliability towards the partner in risk situation. According to Fukuyama (1995), trust is expectation of regular, honest and cooperative behaviour that is based on jointly shared standards and principles. Trust could be also defined as a common belief that neither partner will behave opportunistically, and that will not use the partner’s weaknesses, or as practically expressed expectation towards the partner that its reactions will be good for us (Sztompka 2002, p.312). It is worth adding that network members can be linked by many types of connections and flows, such as information, materials, technologies, or knowledge.

\[\text{78 Some scholars are of the other opinion. For example, to address alliance failure, a Delphi Study was conducted to identify the role of trust and alliance performance outcomes in the areas of contractual and management control, resource sharing, and network flexibility for the successful development of partnerships within the meeting and events industry. The study’s purpose was to address the influence of trust on performance outcomes using the Delphi method. The finding of this study was that, in general, leadership-based practices had a greater influence on virtual strategic alliance performance than trust-based practices. A majority of the expert panel included trust as a contributor to the collective performance of the alliance when alliance members work as a team to meet or exceed individual member’s goals and net profit objectives (Preston-Ortiz, 2010).}\]
financial resources, technological support, and connections may be informal, and totally trust-based or more formalized.

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

The results of previous cooperation can have an impact on trust in potential new partners in the future (Echols, Tsai 2005). The company will be more willing to show confidence to a potential partner if its organizational culture promotes credibility and trust as a natural way of doing business. Process of trust building is also influenced by other factors, such as cultural aspects, standards and norms of behaviour (Doney et al. 1998). If partners share the same norms and values, there is a much higher chance for building relationships based on trust. In turn in case of cultural differences among partners, there is much more problems. Generally, trust building is also possible in such a situation, however its building is done in a different way. On the other hand it is necessary to state that trust – and its level - between partners is very hard to observe and measure (Sroka 2008).

4. The role of trust in networks – the case of a company from machine industry

4.1. Description of the company

The company “ZPAR” is a medium-size entity (more than 100 employees) that was established in 1996 in order to mitigate social effects of plants restructuring programmes in the area of Silesia. In the space of years the company’s scope of activity changed. At present the company operates in the following areas: mechanical plant (maintenance, repairs, machining, steel structures, technological accessories), and training centre (trainings, advisory services, job assistance). These are the two main areas of company’s operations that deal also with employees outsourcing.

Mechanical plant has a diversified machine park, with a few dozen of numerous machines, such as CNC lathes, vertical lathes, planer mills, band-saws and other equipment. The area of production halls is more than 7000 m2. As a company with huge and diversified production, technological, organizational possibilities, and also due to its existence on the metallurgical, mining, railway, tram and power engineering markets, and most of all, thanks to the qualified team of employees, it is capable of meeting even the most demanding requirements of its customers.

4.2. Creation of a portfolio of bilateral alliances

Because of the rapid changes in the business environment, and economic crisis, the company’s Management Board decided to enter into cooperation with other entities. This decision was preceded by an analysis of strategic alternatives concerning the possibilities of external development, including mergers and acquisitions. The company also realizes internal development through re-building of existing facilities, e.g. it built and launched a training centre for welders, which significantly expanded the range of trainings offered. Due to the limited financial possibilities, as well as a market demand barrier, the company’s Management Board decided that the acquisition or merger is not possible. An additional argument was the fact that these transactions involve time-consuming procedure. The best development strategy was the portfolio of several bilateral alliances with other players from two core areas of the company’s activity, such as mechanical treatment and training. From the very beginning, it was assumed that they will have a complementary nature.

Alliances within the portfolio have been created acc. to two basic models. In the first model (figure 2), every company has a 50 % stake in joint venture however no separate organization was created. Both partners contributed into an alliance their own competences (product, service, market etc.). As a result of these competences joining, a new product develops, which is then sold on the markets of both partners. Out of four alliances concluded by the company, three has such a nature. It is more beneficial than a competence-market alliance, as potential and competences of partners are more balanced over the time of cooperation.
In the second, i.e. competence - market model of bilateral alliance, every company also has a 50% stake in joint venture and no separate organization is created. One company brings into an alliance its own competences (product, service, market etc.), whilst its partner's contribution is the market served. As a result of joining of these two elements, a new product develops, which is then sold on the markets of partners. Such type model of cooperation is beneficial, at least in a short term perspective. However from the very beginning the potentials of partners are unbalanced and it can be even enhanced over the time of cooperation, if one of the partners will be more effective in organizational learning. One alliance of the said company has the form presented by this model.

Four alliances were concluded so far. They include partners with similar resources (human, capital, material) and market potential, with one in terms of production activity and the second in terms of training activities. Cooperation agreements were signed in the period 2009-2010.

Selection of companies to conclude bilateral alliances was preceded by the comprehensive analysis of potential partners. The key selection criterion was the existence of a strategic fit between the examined company and its potential ally. The potential partners could not be the direct competitors, however it should be noted that a small scale competition between parties was allowed. The most important factor was the complementary nature of the activity carried out by a potential partner, either in terms of skills and competencies, equipment and/or the markets served. For example, two companies offer training services and thus become potential competitors. But on the other hand, one company focuses on business trainings, whilst the second one concentrates on special trainings (computer, maintenance of cranes, etc.), unless it can also offer business trainings.

The second important criterion was the potential partner's established brand on the market (letters of reference, the work carried out and/or training projects), the existence in the business for a long time or reputation among business partners. The entities shortlisted were offered to sign bilateral alliances. An important factor was also that the entities selected were well known to the ZPAR's Management Board because they were involved in the buying and selling transactions. This cooperation took place in the last few years and involved realization of at least a few orders. This means that trust occurred between the company and its potential partners. A proposal to conclude cooperation agreements was placed to three companies and they all responded positively.
Beside these two main criteria, there were also several other subcriteria that would have to be met by the prospective partner. All the companies were compared to them (table 1).

### Table 1. Adjustment between ZPAR and potential partner

<table>
<thead>
<tr>
<th>No.</th>
<th>Criteria</th>
<th>Adjustment level (degree of meeting the selection criteria) 1-5 points*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Complementary capabilities and skills</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Similarities with partner (culture, size, trust, conflict solution, strategic goals, risk)</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Financial power (ROE, ROI, ROA, profits, level of debt, liquidity ratios)</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Tangible assets (equipment, technology, organization of the production)</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Intangible assets (reputation and brand, patents, HRM)</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Market competences (knowledge of rivals)</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Experience in joint projects</td>
<td></td>
</tr>
</tbody>
</table>

* 1 point – low adjustment, 5 points – very big adjustment

### 5. Benefits to the company

The agreements concluded by this company brought several benefits. First of them was the possibility to strengthen the business. Due to the cooperation, the company’s sales rose by approximately 15 percent. It would not be rather possible without a cooperation. It allowed to increase the market share, however this increase was relatively small, and thus to improve the competitive position of both ZPAR and its alliance partners. Furthermore, the cooperation is done in two directions, and a nature of the agreements (they are very similar and only their scope vary), does not limit any company in its functioning. Secondly, the close cooperation between ZPAR and its partners generated new products (services), which were sold on the markets of particular alliance partners. Thirdly, on the basis of new products generated it possible to build up further skills and new business opportunities. It relates especially to the European Union projects which are realized by ZPAR. Fourthly, the businesses concluded so far allowed for further improvement of trust between all the partners. Therefore allies plan to extend the cooperation at the realization of new projects. It should be however noted that ZPAR has also real challenges, e.g. how to maintain the cooperation, e.g. whether to tie the relationships with the partners?
Every partner is interested to cooperate, however no closer relationships (e.g. minority investments, cross-sharing) are planned at present.

6. Conclusion

Theoretical deliberations were devoted to trust in network organizations and presented in the paper. In turn the second part of the text has a practical nature and describes a case of the company from machine industry that has built up an alliance portfolio, and the role of trust in this process. This approach has a universal character and may be utilized to the different network types.

The paper has a couple of limitations, mostly associated with practical case which was presented. Firstly, it is relatively hard to estimate whether the alliance portfolio of the examined company will succeed. The main reason is a short time which passed from the creating the portfolio. On the other hand, no venture is free from the risk. Secondly, the company exists in a traditional sector of economy, which cannot be regarded as a turbulent environment. Therefore, despite its universal character, there is no confidence, whether the model could be utilized in more complex business sectors.

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

References


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