TRUST WITHIN INTERFIRM COOPERATION: A CONCEPTUALIZATION

1 Introduction

Research activities on the establishment, development, and maintenance of successful cooperation have grown considerably (see special issues on the subject in the Journal of Business Research, the Academy of Management Review, and the Journal of Management). Within this domain, a construct that has received particular attention with regard to B-2-B relationships is trust (Anderson and Narus, 1990; Ripperger, 1998).

Empirical evidence in numerous articles and books has consistently shown that trust facilitates coordination (e.g., by replacing formal contracts), reduces conflicts, and enhances longevity within business relationships. Consequently, trust contributes to a decrease in control and coordination costs (see, e.g., Fukuyama, 1995; Roessl, 1996; Ripperger, 1998; Sydow and Windeler, 2003). In view of the profits the construct of trust yields, companies should pay particular attention to the trust-developing process and factors that lead to the evolution of trust. A profound knowledge of the evolution of trust and the determinants in the trust-developing process allows companies to exert influence specifically on the establishment, development, and maintenance of business relationships.

Although a vast amount of literature naming trust as a determinant of performance of interfirm cooperation exists (see, e.g., Adler, 2001; Ring and Van de Ven, 1992), the study of trust is often scant and underdeveloped. This study therefore aims to open the black box by conceptualising trust in interfirm cooperation and systematising the determinants in the trust-developing process against the background of sociological perspectives (see Luhmann, 2000; Coleman, 1990) and principal-agent theoretical considerations. The paper is structured as follows. Based on the analysis of the deficits of the classical coordination mechanisms market and hierarchy, in the second section of this paper, trust is presented as a third ideal-typical mechanism for coordinating cooperation mechanisms market and hierarchy. In the third section, the discussion of different types of trust against the background of their effectiveness concerning the establishment and maintenance of highly complex transaction relationships based on long-term objectives leads to a trust definition that takes the uncertainties of the trustor regarding the behaviour of the trustee within cooperation into account. In view of the profits the construct of trust yields, the trustor’s characteristics and situational perceptions that lead to the evolution of trust within cooperation are discussed in the fourth section. Next, based on the analysis of the trustor’s un-
certainties concerning the cooperation partner, the mode of action of the trustee’s characteristics in the trust-developing process is hypothesised in the fifth section. In the conclusion, the paper presents a model that conceptualises trust as a two-dimensional construct and hypothesises the effect of the trustee’s and trustor’s characteristics on the development of trust in cooperation.

2 Coordination Mechanisms

The topic of interfirm cooperation is becoming increasingly important. Volatile markets as well as the possibilities induced by the new technologies require strategies to ensure competitiveness. As the only enduring advantage stems from the ability to generate a continuous flow of new advantages (Harvey et al., 2001), flexibility in terms of being able to quickly adapt to changes (Volberda, 1996) is of particular importance. One strategy for flexible adaptation is to enter into interfirm cooperation (D’Aveni, 1995).

Cooperative relationships are an important source of resources, learning, and thus competitive advantage (Arino et al., 2001; Hanna and Walsh, 2002). The advantages of business-to-business relationships arise from the functioning coordination of the partners’ behaviour within the areas of the cooperation. Only if each partner in a cooperative arrangement forgoes short-term opportunism and advantages in favour of common long-term objectives can the cooperative relationship lead to competitive advantages for each cooperation partner (Roessl, 1996). Hence, cooperators make themselves and their success dependent on the behaviour of their cooperation partners (Wurche, 1994). In order to ensure his own benefit, the cooperator has to make sure that his partner acts in accordance with the cooperation agreement (i.e., in a cooperative manner; see, e.g., Spremann, 1990). This combination of dependence and uncertainty concerning the partner’s behaviour (the principal-agent problem) makes it possible for the latter to act on his own behalf and to pursue short-term interests (instead of common long-term interests) without being subject to sanctions. The option of behaving unfairly towards the cooperator without being detected, and not exhibiting the expected behaviour, is referred to as latitude of opportunistic behaviour (Provan and Skinner, 1989; Dahlstrohm and Boyle, 1994; Noorderhaven, 1995; Wathne and Heide, 2000) is equally limited, depending on the context. Credible sanction threats (Buckley and Casson 1988) require sufficient sanctioning powers on the part of the cooperator (e.g., pledge; see Backhaus, 1992), as well as the ex-ante knowledge of the desired behaviour of the cooperation partner and its consequences (Eberl, 2004) and the ex-post identification of this behaviour (Dwyer et al., 1987; Spremann, 1990; Backhaus, 1992) (for contingent claim contracts, see Heide and John, 1988). Furthermore, the successful hierarchical governance requires a consistent monitoring of the cooperation partner’s behaviour (i.e., the vitreous interaction partner). It has been shown that, as a dominant coordination mechanism, hierarchical governance is limited (organisational failure), especially in those areas of interfirm cooperation where the objectives cannot be programmed at all or only at prohibitively high transaction costs (Ring and Van de Ven, 1992; Ripperger, 1998). Facing the deficits of market and hierarchy as coordinating mechanisms within cooperative arrangements, cooperation research has proposed an alternative mechanism that is particularly well suited as a coordination mechanism in situations of both market and organisational failure. This coordination mechanism is referred to as trust (e.g., Adler, 2001).

3 Trust as a Coordination Mechanism

The discussion of trust as a coordination mechanism within cooperation requires the differentiation between instrumental and norm-based trust (Osterloh and Weibel, 2000). Instrumental trust refers to the exogenous conformation of the cooperation partner’s behaviour with the cooperation norms: It can be specified as behaviour based on rational considerations (Luhmann, 2000). The cooperator trusts his cooperation partner because other possible behaviour than the expected one is less attractive for the latter (e.g., due to control, sanctions). In contrast, norm-based trust is intrinsically motivated: The cooperator trusts his cooperation partner because he expects the latter to neglect the existing latitude of opportunistic behaviour,
thus behaving in a cooperative manner. Therefore, the point of departure for norm-based trust is the cooperation partner’s perceived trustworthiness. A perception of high trustworthiness on the part of the cooperation partner may induce the cooperator to realise acts of trust. Such risky advance performance signals the cooperation partner that he has rendered himself unprotected due to the trust placed in him (Roessl, 1996). Although the latitude of opportunistische behaviour still exists in the case of norm-based trust—due to the absence of control and sanction mechanisms—the cooperators’s blanching out of the partner’s latitude of opportunistische behaviour reduces behavioural uncertainty (Ripperger, 1998). By rendering himself unprotected towards the partner, the cooperor reduces the partner’s inclination to behave opportunistically; thus, uncertainty is further reduced (Roessl and Fink, 2006).

This leads to the conclusion that the complexity of the cooperation arrangement and the risks concerning the cooperation partner’s behaviour can partly be absorbed through norm-based trust. By determining a common objective, the necessary contributions of the cooperation partner can be coordinated in order to achieve long-term objectives (McAllister, 1995; Rousseau et al., 1998). This resolves the double contingency issue (Luhmann, 1984) and prevents the development of social dilemmas such as the prisoner’s dilemma from the outset (Ostrom, 1990). Furthermore, the strategy of evolving a business-to-business relationship based on norm-based trust enables the development and maintenance of long-term transaction relationships. Due to both market and organisational failure, such relationships would otherwise (e.g., based on instrumental trust) not take place (Roessl, 1996; Adler, 2001).

Referring to these remarks about norm-based trust as a well-suited coordination mechanism in situations of both market and organisational failure, and with reference to sociological perspectives (see Luhmann, 2000; Coleman 1990) and principal-agent theoretical considerations, trust is defined as the anticipation/assumption that the cooperation partner will—despite the absence of protection measures—behave in a cooperative manner allowing for a risky advance performance by waiving stipulated protection and control mechanisms to restrict the latitude of opportunistische behaviour. Thus, the trust decision has a two-dimensional structure: The decision to place norm-based trust in the cooperation partner becomes manifest in acts of trust (e.g., refraining from implementing control and sanction mechanisms to ensure the desired cooperation partner’s behaviour), which are motivated by a positive trust expectation (i.e., the expectation that the cooperation partner is reliable and will voluntarily refrain from behaving opportunistically) (Ripperger, 1998). Since business-to-business relationships are managed by individuals who act on behalf of their organisations, in this paper the issue of trust is examined at the individual level (see, e.g., Cummings and Bromiley, 1996; Child, 1998; Becerra and Gupta, 2003; Enke et al., 2007).

### 4 Characteristics of the Trustor as Determinants of the Development of Trust within Cooperation

In view of the profits the construct of trust yields (see, e.g., Ring and Van de Ven, 1994; Fukuyama, 1995; Sydow and Windeler, 2003), cooperating companies should pay particular attention to the factors that facilitate the evolution of trust. A profound knowledge of the determinants in the trust-developing process enables companies to exert influence specifically on the establishment, development, and maintenance of business-to-business relationships.

In order to explain the construct of trust in the form of a theoretical model integrating the trustor’s personal characteristics and situational perceptions as variables that influence the decision calculus of the cooperator in his role as a trustor, a differentiation between subjective expectations and objectively observable behaviour is necessary. A decision to place norm-based trust in the cooperation partner exists if the cooperor places an act of trust (risky advance performance) and this placement was motivated by a positive trust expectation. However, not all cooperative behaviours are based on a positive trust expectation, and a positive trust expectation does not always lead to a cooperative behaviour. Therefore, cooperation is not necessarily a signal for trust, and trust is not always a sufficient condition for cooperation (Ripperger, 1998).

Referring to the trust act, we can summarise that it becomes manifest in the risky advance performance and in refraining from the implementation of control and sanction mechanisms to reduce the cooperation partner’s latitude of opportunism: The trustor gives resources to the trustee (e.g., open and honest information), which the latter can use to create gains or losses for the cooperor. By making himself vulnerable through these specific investments, the trustor’s trust act constitutes a unilateral dependency on the trustee’s behaviour (Rousseau et al., 1998; Luhmann, 2000). The trustee’s ability to cause losses on the part of the trustor and thus the trust risk are rooted in the electoral freedom of the trustee between honouring and betraying the trust decision (Coleman, 1990). The decision of the trustor to take the hold-up risk without protection is—among other factors—based on his risk propensity and his situational risk perception: As risk is inherent in trusting others, we hypothesise that the risk propensity will affect the likelihood that the trustor will place a trust act positively (as shown in Figure 1). Moreover, we hypothesise that the situational risk perception will affect the likelihood the trustor will place a trust act negatively, because trusting in such situations goes along with higher risks (as shown in Figure 1). The risk perception involves the trustor’s beliefs about situation-specific likelihoods of gains and losses, neglecting the influence of the particular trustee (see, e.g., Coleman, 1990; Mayer et al., 1995).

Apart from the risk propensity and the situational risk perception, we assume that the expectation that the trustee will voluntarily refrain from behaving opportunistically,
and thus not misappropriating the trustor’s specific investments (Ripperger, 1998), affects the trust the trustee has for the trustor. Referring to this trust expectation, the cooperator has to decide whether the potential trustee is trustworthy; yet this characteristic is to a large extent concealed before entering into a trust-based relationship. The trust expectation therefore rests on the accredited intensity and stability of the trustee’s motivation. In the course of assessing the trustee’s behavioural intention, the trustor is confronted with subjective uncertainties concerning the latter’s real preferences as well as with objective uncertainties concerning the effects of exogenous factors and the behavioural restrictions.

In the context of reducing subjective uncertainties, the relevance of the trust propensity becomes apparent. We hypothesise that the propensity to trust as a personality trait will affect the likelihood the trustor will develop a positive trust expectation. The propensity to trust might be understood as the generalised willingness to trust others. As the trustor is confronted with limited information in the course of assessing the potential trustee’s trustworthiness in a specific situation, he will develop generalised expectations based on past interactions with others (Rotter, 1967). As substitute information, such generalised expectations (i.e., the propensity to trust) can then influence the trust expectation in a specific situation (Currall and Judge, 1995; Mayer et al., 1995). As the degree of the propensity to trust reflects the success of the trust strategy in the past, the expectation that the trustee will voluntarily refrain from behaving opportunistically will be higher as others have more reliably behaved towards him in similar situations in the past (as shown in Figure 1).

To sum up, we assume that not only the trust and risk propensity as personality traits of the trustor, but also the situational risk perception impact the trust formation process.

5 Characteristics of the Trustee as Determinants of the Development of Trust within Cooperation

Control and sanction mechanisms can only be waived if the trustor gets information from which he can infer it to be more likely that the trustee will act according to the trust expectation (Weiss, 1992). The trust expectation therefore is—in addition to the trustor’s trust propensity—mainly influenced by the trustee’s personal characteristics. Butler (1991) identified ten conditions as personal characteristics of the trustee that positively impact the trustor’s perception of the trustee’s trustworthiness in a specific situation: availability, capabilities, consistency, discreetness, fairness, integrity, loyalty, openness, promise fulfillment, and receptivity. Another empirical study has shown that perceived capabilities, willingness, sincerity, integrity, tactfulness, and confidentiality are positively related to trust (Moorman et al., 1993). According to Mayer et al. (1995), ability, benevolence, and integrity as characteristics of the trustee determine trustworthiness and therefore ultimately ensure that this person is more trusted.

Because of the overlapping contents between Butler’s ‘Conditions of Trust Inventory’ and Mayer et al.’s ‘Factors of Trustworthiness’ (as shown in Figure 2), we forego a comprehensive description of Butler’s determinants. However, we will refer to them in the course of the following analysis of Mayer et al.’s determinants: Benevolence as a trust determinant can be understood as “the extent to which a trustee is believed to want to do good to the trustor, aside from the direct benefits to the trustor of the service rendered.”

Figure 1: Trustor’s Characteristics as Determinants

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Figure 2: Consolidation of Butler and Mayer et al.’s Determinants

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from an egocentric profit motive” (Mayer et al., 1995: 718). Therefore, Butler’s factors of loyalty, openness, availability, and receptivity can be subsumed under the concept of benevolence. However, Butler and Cantrell (1984), based on their experimental study, dilute the importance of loyalty and openness in the trust-developing process. The results of a study conducted by Davis et al. (2000) corroborate in turn their hypothesis that the perceived trustee’s benevolence influences the evolution of trust on the part of the trustee positively. As benevolence implies that the trustee does not endanger the trustor, even if there is a stimulus for doing so (Gambetta, 1988), this factor can be of relevance in independent decision-making situations: However, benevolence is not a sine qua non condition: Within a trust relation the inclination towards opportunistic behaviour is reduced, so that the partner can blank out the other’s latitude for opportunistic behaviour and thus act despite this latitude of behaviour. The reduced inclination to behave opportunistically arises from the actor’s mutual belief that the other does not want to endanger the relationship and the associated long-term objectives in favour of short-term advantages (due to self-interest in lieu of benevolence). Thus, the trustor can expect the trustee to behave in a trustworthy manner, even if he cannot observe the trustee’s benevolent orientation (Lindskold, 1978). To sum up, benevolence is not a sine qua non condition, yet the trustor will be more inclined to be vulnerable to the actions of a benevolent interaction partner than to the actions of a partner whose benevolence is cast into doubt (Kee and Knox, 1970).

The sine qua non condition for the development of a positive trust expectation on the part of the trusting cooperator is the perceived long-term orientation of the trustee (Anderson and Narus, 1990). The fulfilment of the trust expectation depends on two factors: the ability and the willingness of the trustee. Due to the information asymmetries between the cooperation partners, the trustor is unsure whether the trustee is not only able to behave according to the trustee’s expectations, but is also willing to behave accordingly. The trustee’s long-term orientation reduces the trustee’s subjective uncertainties concerning the willingness of the trustee (Ganesan, 1994). Due to his long-term orientation, the trustee relies on relational exchanges to maximise his profits over a series of transactions (short-term orientation is characterised by reliance on efficiencies of market exchanges to maximise the profit in single transactions). Because of this perceived orientation, the trustor expects the trustee to refrain from behaving opportunistically as such behaviour would collide with the long-term orientation being a prerequisite of successful cooperation. Therefore, as shown in Figure 3, we assume that long-term orientation positively influences—via the ‘trust expectation’ dimension—the placement of a trust act.

The perception of the trustee “that the trustee adheres to a set of principles that the trustee finds acceptable” (Mayer et al., 1995: 719) defines the integrity of the trustee. Integrity as a trust determinant is mainly associated with the factors of discreetness, fairness, promise fulfilment, and consistency (Butler, 1991). The nucleus of integrity is that it enables the trustor to believe in the trustee’s promise to forgo short-term advantages in favour of long-term advantages. Contrary to benevolence, the trustor can base his perception of the trustee’s integrity not only on personal information from past interactions with the latter, but also on credible communications from third parties about the trustee (Mayer et al., 1995). The results of the study conducted by Davis et al. (2000) lead to the conclusion that the perceived integrity of the trustee is an important determinant of the trust expectation.

Ability as a trust determinant can be understood as the sum of skills and characteristics of a trustee that enable him to have influence within some specific domain (Mayer et al., 1995). As previously mentioned, the trustor is unsure whether the trustee is not only willing to fulfil his expectation, but is also able to fulfil his expectation. If the trustor expects the trustee to possess the necessary skills to fulfil the intended tasks, he will be in favour of placing a trust act (Davis et al., 2000). Ability as a trust determinant impacts the trust act as its perception does not lead to the expectation that the trustee will voluntarily refrain from behaving opportunistically, but rather to the confidence in the trustee’s potential, which in turn motivates the placement of a trust act.

6 Conclusion

Summarising, we have modelled the decision to trust as a process that begins with a trust expectation and can finally result in a trust act. We have hypothesised that the expectation that the trustee will voluntarily refrain from
behaving opportunistically is influenced by the benevolence, integrity, and long-term orientation of the trustee as well as by the trustor’s propensity to trust. Furthermore, we have assumed that the manifestation of a risky advance performance and the refraining from implementing control and sanction mechanisms are influenced not only by the trust expectation, but also by the trustee’s risk propensity and the situational risk perception and the trustee’s ability.

Therefore, the model proposed in this paper explicitly considers both characteristics of the trustee as well as the trustor. It differentiates between subjective and objective dimensions of the construct and also differentiates trust from its determinants.

Summing up, there are many areas in inter-organisational studies in which trust has played a key role. Therefore it is of high relevance to identify the determinants of trust formation. We tried to meet the requirements stated by Mayer et al. (1995: 730), whereby the process through which trust develops should be further explored by conceptualising the construct of trust and by identifying and analysing the key role of determinants in the trust formation process within cooperations.

References


