Building Trust in International Alliances

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Two facts stand out unambiguously in today's global business. One, international alliances are proliferating, underscoring the strategic importance managers increasingly attach to "competition through cooperation." Two, trust is key to successful international alliances. Together, these two facts point to the need to better understand trust, a task that was attempted in an earlier article (Parkhe, 1998). Yet such understanding, while necessary, is not sufficient. This article, the second of a two-part series, shows how partners can proactively manage an alliance relationship in order to develop trust. Toward this goal, the discussion includes trust generation through process-based, characteristic-based, and institutional-based mechanisms, which are to a significant degree within alliance managers' control. Managers must also be mindful of several critical features of alliance dynamics. These are described in some detail, as is the need to appropriately "calibrate" trust level in an alliance to the lifecycle stage of the alliance. With proper management attention, too much and too little trust can be avoided.

Trust but verify.
—Russian proverb

It hurts in my heart to hear Northwest say the trust is gone.
—KLM president Pieter Bouw

In the 1960s, General Motors Corporation's annual reports often contained explicit references to not reaching out to other companies. GM prided itself on doing things in-house. IBM, 3M, and scores of other companies similarly were corporate loners. That was then. The differences today are striking. Companies are entering into alliances with greater frequency and urgency, and in many cases alliances touch the very core of participants' vital competitive advantages. This fundamental shift is accompanied by deep changes in corporate and industry cultures.

For example, Ford was a company that tended to be strongly top-down, with a rigid hierarchy, and that managed external relations unilaterally. A Ford decision was final and was not explained even when the other party was not satisfied. With U.S. nationals in-charge of most overseas divisions, Ford was also "culturally challenged." Today, the company is more flexible. Ford explains more and listens more (Lewis, 1990). Teamwork is easier, major foreign offices are headed by for-

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eign nationals, and Ford’s participation in alliances is much easier and greater than before. Importantly, these changes inside Ford and those in its external relations are not unrelated. As Dan Ciampa, CEO of the Rath and Strong consulting group put it, “Unless an organization knows how to foster collaborative relationships internally, it won’t be good at making such relationships outside.”

Ford is not alone; numerous other companies have also undertaken serious reforms. Xerox’s Palo Alto Research Center recently developed new products jointly with Sun Microsystems Inc. The Center’s head, John Seely Brown, understands how the current wave of alliances gives companies a track record of cooperation: “People who think they can screw each other because we are going to terminate six months later are missing the point, because what we’re building is a web of trust and shared understandings” (Byrne, 1993). Often, relationships with inauspicious beginnings solidify into major partnerships. In 1986, Texas Instruments sued eight Japanese companies, including Hitachi, for dumping memory chips and violating intellectual property rights. TI demanded—and got—stiff royalties totaling over $315 million. But during this process, “Hitachi had to lay its cards on the table to negotiate royalty payments,” says Pat Weber, president of TI’s semiconductor group. The haggling gave the companies not only “a damned good understanding of each other’s technology, but a good respect for each other’s capability.” In December 1988, TI stunned the industry by announcing a partnership with its former adversary, Hitachi.

Plainly, we are entering a new era, an era in which cooperation and competition often coexists between alliance partners. In this environment, understanding and managing the “softer” side of collaborative relationships becomes crucial. Drawing upon ideas developed in my previous article (Parkhe, 1998), this article shows how managers can purposefully cultivate trustful alliance relationships. Toward this goal, the next section discusses how trust-generation mechanisms (Zucker, 1986) that are within management’s control can be effectively implemented in international alliances. The following section addresses the evolution of cooperative relationships over time. As partners deal with each other in an alliance, they learn more about each other’s motives, capabilities, and attitudes toward control, conflict, cooperation, and competition. Trust may deepen as a relationship matures, but this process is hardly automatic. Trust must be nurtured continually because, like a house of cards, trust is hard to build and easy to destroy, which strongly suggests that alliance dynamics must be managed carefully. Following this discussion, I argue that alliances go through various stages of lifecycle, and at any particular stage of a relationship, the level of trust must approximately “match” the lifecycle stage.

**Production of Trust in International Alliances**

At least three bases exist for the occurrence and growth of trust in relationships (Zucker, 1986). These include
process-based, characteristic-based, and institutional-based trust. Each of these trust-building factors is, to some degree, within management's control, and each factor therefore merits attention during the design and implementation stages of an alliance. Each will be discussed in turn.

**Process-Based Trust Production**

Consistency of past behaviors tends to generate expectations of predictability. Consistent, reliable interactions thus tend to produce an impression of trustworthiness. Such an impression is further strengthened if both parties to an alliance anticipate a mutually beneficial relationship extending well into the foreseeable future. Thus, trust can develop from the alliancing process itself, and furthermore, trust is seen to be at once forward-looking (tied to expectations of a promising future) and backward-looking (tied to a reassuring past history). As described below, backward-looking trust development can be based upon alliance partners' private history of cooperation or a company's reputation, and forward-looking trust develops from expectations of a continuing, mutually productive relationship.

**Process-based Trust from Ongoing Interactions with Alliance Partner**

At least initially, people are unsure of the trustworthiness of persons or companies they have never dealt with before. In alliances, therefore, managers match observed (actual) behaviors against expected (cooperative) behaviors. The better this match, the more confident one becomes in placing trust in a partner. Trust is usually slow and difficult to build up, yet it is quick and easy to tear down. Lewis (1990) described this process as follows: "People learn differently from negative and positive experiences. Just one unpleasant incident ..... imprints the event on your memory. Like touching a hot stove, you keep your distance after that. A good experience, by contrast, must be repeatedly reinforced before people accept the pattern".

Alliance managers can put knowledge of this asymmetry to good use. First, the ease of trust destruction is reminiscent of a cardinal rule taught to freshman medical students: Do no harm. It is important for a physician to contain damage before he or she can attempt healing and recovery. Likewise, managers attempting to build trust must first prevent trust erosion, particularly in youthful alliances where trust is only beginning to emerge. Trust is brittle, and once damaged, it is doubly difficult to reestablish. Knowing this should help focus attention, especially in the critical early stages of a relationship, on avoiding surprises, being trustworthy and being known to be trustworthy.

However, anticipating and preventing possible damage to a trustful relationship is only the first step. Next, managers must actively employ the principle of "repeated reinforcement of positive experiences" to nurture trust. Thus, in their ongoing interactions, alliance partners should install formal and informal channels of communication that improve behavior transparency. The goal is two-fold: one, to ensure that each partner knows of the other's alli-
anc-related actions on a timely basis, so that each company may make inferences about the other side’s ability and willingness to uphold the letter and spirit of the alliance; and two, to minimize surprises and to resolve behavioral discrepancies quickly and amicably. Over time, sustained attention to such measures may lead to tighter personal bonds between alliance managers, improving the “sociopsychological filter” through which information regarding an alliance and alliance partner is processed (Parkhe, 1998). Such process-based trust development often has spillover benefits well beyond the immediate alliance at hand, to the relationship as a whole. For instance, after years of successful cooperation, General Electric and Snecma (a French aero-engine manufacturer) work together almost as a single team, with substantial joint learning, mutual high regard for each other’s skills, and considerable shared understandings about how each firm thinks and works (Lewis, 1990). Issues get resolved faster and easier, as there is a great deal of mutual comfort. In turn, this makes it easier to initiate and develop new programs together, as Snecma demonstrated when it chose GE over Pratt & Whitney.

One key requirement for such mutual comfort to arise is sustained involvement at all phases of an alliance by people at the operational, planning, and senior management levels. Yet this is often not done. One study of alliances found that senior management involvement declines precipitously with time. The study, conducted by Coopers & Lybrand (an accounting and consulting firm) and Yankelovich, Kelley, and White (an opinion research firm), showed that 46% of senior management time allocated to alliances goes into the conceptual phase of developing an alliance. This figure drops to 23% during development of the business plan, and shrivels to just 9% by the time a management system for a new alliance is being structured.

The consequences of senior management inattention can be disheartening, as shown by the unhappy marriage of General Motors and Isuzu. GM owns a hefty stake (37.5%) of Isuzu, yet GM was blindsided when Isuzu posted a $381 million pretax loss on sales of $9.02 billion (Miller & Treece, 1992). GM’s vice president for Asian and Pacific operations, Thomas S. McDaniel, conceded: “We found ourselves not very knowledgeable about the problems and how Isuzu got into them.” Surprisingly, such senior management indifference reached all the way to the top of GM hierarchy, where officials couldn’t even correctly pronounce the name of the company with whom GM had shared a 21-year alliance history. At a press conference, former GM chairman Robert C. Stempel mispronounced Isuzu as “eye-zoo-zoo,” followed by vice-chairman John F. Smith Jr.’s “eh-zoo-soo.” The correct pronunciation: “eee-soo-zoo.” Contrast this example with the emphatic views of James R. Houghton, Corning Glass Works chairman, on the need for personal involvement by top managers:

When we formed a joint venture with Ciba-Geigy in 1985 (Ciba Corning Diagnostics Corporation), I insisted that I go on the board along with the highest executive from Ciba-Geigy. Such visible commit-
ment underlines the new company’s importance. It also says to the employees of the joint venture that the two partners are regularly talking and agreeing on policy issues. If such roles are delegated, the opportunity for divisiveness is greater” (Houghton, 1987, p. 14).

In the early 1940s, James Houghton’s father, who was then Corning’s chairman, boarded a train four times a year to travel from upstate New York to upstate Michigan for Dow Corning board meetings. At the time, Dow Corning annual revenues were relatively small (about $200,000). But the senior Houghton’s active support set a strong example for others at Corning.

Process-based Trust from Reputation Effects

The above discussion pointed to how a shared cooperative history can spark process-based trust. Often, however, a company has little direct prior experience with an alliance partner. Trust may still develop in such relationships, based not on direct interactions, but rather on a partner’s reputation. A reputation represents a cumulative record of past behaviors. By extrapolating a past record into the future, third parties can make vicarious inferences about likely future behavior of an alliance partner. The better a company’s past record, the stronger its reputation, and the more comfortable we feel is assuming continuing trustworthiness in the future.

Quite literally, a good reputation is becoming one of the greatest assets a company can possess. As international alliances contribute more to companies’ global competitiveness, so the importance of reputation as a trustworthy alliance partner will correspondingly grow as well. Like other valuable assets, a reputation requires deliberate, upfront investments. What sorts of investments are required, and what sort of a reputation should alliance managers seek to build?

To take the second question first, two of the keys to a successful cooperative strategy are to be Nice (never being the first to cheat) and to be Provocable (always swiftly taking reprisals against partners who cheat) (Axelrod, 1984). Earning a reputation for being Nice requires the “investment” of diligent work in developing mutual understanding, and of self-restraint, as a company purposely forgoes certain short-term gains that a partner may perceive to be exploitative in nature. The message is simple and powerful: Play fair with the other side before you can expect them to play fair with you. This means each partner recognizes the other’s interests in entering into an alliance, and attempts to structure and run the alliance in such a way that it serves the interests of all parties involved. For example, putting your best people into an alliance tells everyone, including your partner, that the alliance is important to you (Byrne, 1993). Conversely, not offering your best and brightest sends a signal that is not conducive to building trustful relationships.

Another technique to strongly convey fair play can be called “issue spotting.” Lewis (1990) suggests that rather than expecting a partner to raise all issues that affect its interests, one can take the lead. Proactively bringing issues to a partner’s attention when you spot them reduces surprises, and helps
build confidence that each partner is looking out for the other’s interests. Executives and board members routinely do this for each other in successful alliances, including Autolatina, Ciba Corning Diagnostics, and the Ford-Mazda alliance.

Lewis (1990) takes this thought further, arguing that a winning strategy is to always be constructive. In an ideal relationship, he notes, each side behaves rationally, fully understands the other’s views, communicates well, is reliable, avoids coercion, and respects the other as someone whose perceptions and interests deserve to be taken into account. Yet in reality, perceptions and interests of partners are likely to differ somewhat. To improve your ability to work together and advance your interests, it pays to be constructive, which is akin to Axelrod’s strategy of being Nice.

This may be easier said than done, however. Many managers are too competitive for their own good (Axelrod, 1984), unable or unwilling to break out of an “us versus them” mindset. As Dick Dulude, a Corning group president, reported: “We have had some ‘tough guys’ as partners … If you regard another person as impossible, or expect a difficult person to change, you have little hope of building effective relations. You have to change yourself to make things work better, and they generally will” (Lewis, 1990: 241). This pattern of investing effort into learning a partner’s legitimate needs, and working to fulfill them, can create a Nice reputation.

Still, no matter what the reputation, companies must run the “chemistry test” on each prospective partner. William Norris, founder of Control Data and a pioneer in using cooperative ventures internationally, was told by cynics that a proposed joint venture with the Romanian government would bleed Control Data of its computer peripherals technology, and then the Romanians would dump the venture. Norris decided to go on a fishing trip with the prospective partners on the Danube. He became convinced that these people were straightforward, and signed the agreement, which turned out to be mutually profitable (Lynch, 1989).

Process-based Trust from a Long “Shadow of the Future”

Another trust-producing mechanism that lies within management’s control deals with maintaining expectations of a continuing, mutually productive relationship over the foreseeable future. Such expectations of profits in the future tend to promote cooperative behavior in the present. In other words, the future casts a shadow back upon the present, generating trustful behavior. (Conversely, cooperation and trust tend to suffer with the approach of the terminal date of an alliance.)

The shadow of the future is tied to alliance partners’ time horizons, frequency of interactions, and behavior transparency. Long time horizons refer to a far-sighted outlook toward a cooperative relationship, reflecting a high value placed upon future payoffs from a partnership. Frequent interactions are achievable by slicing up large activities into smaller ones. This leads to cooperative performance reviews (matching of actual versus expected behaviors) at
shorter and more regular time intervals, which in turn strengthens cooperation and increases trust. And behavior transparency refers to the speed and reliability with which alliance partners learn about each other’s actions (or in chess language, “moves”). Quick and reliable information ensures high behavior transparency, which minimizes misunderstandings, reduces uncertainty, and encourages sustained cooperation. In sum, long time horizons, frequent interactions, and high behavior transparency are factors that alliance managers can influence in order to lengthen the shadow of the future and enhance process-based trust.

LSI Logic Corporation, manufacturer of custom-made microchips, discovered out of necessity how a shared and interdependent future can cast a shadow back upon the present and generate trust (see Davidow & Malone, 1992). As is often the case, rigid contractual procedures used to govern LSI’s relationships with its customers. But the company realized that it could manufacture and deliver new products to customers faster than those customers could move contracts through their own legal departments. Says Wilfred Corrigan, LSI’s CEO: “Our most aggressive customers said to us, ‘Look, stock the product on our verbal order because we can’t process the paper to you and you can’t process the paper internally fast enough for the time window we have to operate in.’” So, LSI chose to forge ahead with production and let the paperwork follow weeks or months later. America’s leading producer of gate arrays now enters into long-term business relationships, trusting that the other side is equally responsible and fair-minded.

Characteristic-Based Trust

International alliances press into contact companies that may be quite dissimilar in their background characteristics. Two of such characteristics are societal cultures of headquarters countries and corporate cultures of partner firms (Parkhe, 1991). The greater the similarity of societal and corporate cultures, the greater may be the knowledge of and familiarity with each other’s modes of thinking and behaving, hence the greater the comfort level and the lower the learning cost and time. Conversely, building trust may be harder when cultures are highly dissimilar, since homogeneous expectations and shared assumptions about the alliance may not exist as readily. Harder, but not impossible. It is important to realize that with sufficient investment of time and effort, the obstacles to trust-building imposed by differences in characteristics can be effectively managed.

For example, we’ve all heard the stereotypes: cryptic British reserve, irreverent American informality, Italian chaos, French protocol, German rigidity, Japanese vagueness, and Latin American disregard for punctuality (Lewis, 1990). Valid or not, such stereotypes point to the need to look for and understand differences in perception and interpretation of phenomena. Trust generation is possible both where cultural similarity already exists between partners, and also where delib-

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erate efforts are undertaken to understand and overcome differences.

Cultural differences can be subtle or obvious, trivial or fundamental. For example, communication patterns vary between low-context countries (such as the United States), where most information is contained in explicit codes, such as spoken or written words, and high-context countries (such as Saudi Arabia), where sending and receiving messages is highly dependent upon the physical context and non-verbal communication. Such differences can impact initial negotiations before alliance formation, as well as ongoing communications afterward. Effectively dealing with communication and countless other areas of potential cultural differences requires investing in intercultural awareness training programs, encouraging informal contact, and improving behavior transparency. Managers who fail to take these steps may soon join the ranks of AT&T group executive Robert Kavner, who regretted after the failed AT&T-Olivetti alliance, "I don’t think we or Olivetti spent enough time understanding behavior patterns. We knew that culture was different but we never really penetrated. We would get angry and they would get upset" (Wysocki, 1990).

On the other hand, managers who represent Corning in its foreign optical fiber ventures attend, with their spouses, Berlitz classes for six to eight weeks of full-time language and cultural training. (Interestingly, this practice is used even where English is widely used, since some prior knowledge of local social norms helps managers get accepted, and allows them to pick up nuances in meetings.) At Japan’s NEC, managers going abroad get elaborate training in Western customs. This includes differences between Japanese and American decision making, several periods of simulated negotiations with non-Japanese, and a course in English conversation so intense that teachers are replaced every few days. Even Western social etiquette is covered—table manners, cocktail party conversations, and English-language jokes.

The point of these programs is to move from culture shock to culture empathy, so managers understand how their views are colored by their background, how their behavior can impact cross-cultural dealings, and how to recognize cultural influences in others’ conduct. Such efforts can pay off nicely in overcoming cultural differences and generating trust between partners. In an empirical study, Johnson, Cullen, Sakano, and Takenouchi (1997) found that partner cultural sensitivity is an important contributor to trust-building for both U.S. and Japanese alliance partners. Similarly, contrary to popular belief, Park and Ungson (1997) found the international alliances they studied to be more, not less, stable than domestic alliances. Why? One possible explanation is that learning between partners may offset cultural differences. In addition, these authors noted, prior relationships between partners create trust and familiarity. Trust reduces opportunistic behavior and can facilitate conflict resolution. And familiarity enhances a partner’s transparency and reduces the costs of monitoring its activities.
Institutional-Based Trust Production

The above discussion suggested that process-based trust may arise from past or future interactions, and characteristic-based trust may arise from attributes of a partner, such as societal and corporate cultures. But each of these requires detailed, specific, non-transferable information regarding a partner. What about cases where such information is not available? And what about fast-changing situations where any available information is soon outdated? There is a third way. This way relies for generation of trust upon formal mechanisms, as described below.

Institutional-based Trust from Intermediary Mechanisms

The more assured a company feels that its alliance partner will follow through on its promises, the more trustworthy the partner will be, by definition. Greater assurance of cooperative behavior can be achieved by structuring an alliance relationship so that (a) the attractiveness of cheating is reduced, (b) the cost of cheating is increased, and/or (c) the gains from cooperation are increased. Two types of mechanisms are available to bring about these results. The first type seeks to discourage cheating before it occurs, while the second type seeks to punish cheating after it has occurred. Either way, the purpose is to develop an alliance structure that provides built-in incentives toward cooperative, trustworthy behavior.

The first mechanism seeks to prevent wrongdoing before its occurrence, requires a show of good faith by both sides. Each company can take actions that "lock" it into the alliance and create costly obstacles (exit barriers) to casually abandoning the relationship. For example, nonspecific assets, such as general purpose trucks and airplanes, are salvageable if an alliance breaks down; such assets therefore provide no clear cues about desire to cooperate or to cheat (Williamson, 1985). But alliance-specific assets (such as Donnelly's new plant built solely to manufacture exterior mirrors for Honda) are not easily redeployable. Companies can show good faith through a variety of such upfront commitments, including entering into reciprocal agreements (e.g., guaranteed purchase of each other's products and services at guaranteed prices) and making nonrecoverable investments. Nonrecoverable investments include specific physical assets like plant and equipment, but go further to also include site specificity, human asset specificity, and dedicated assets (Williamson, 1985). In each case, these involve alliance-specific costs (1) that are incurred in advance of alliance commencement and (2) whose value for alternative uses is greatly reduced, sometimes to the level of scrap value only. Put another way, these costs are largely sunk.

The second mechanism seeks to promote cooperative behavior by reducing potential gains from cheating through prospective punishments after the fact. Opportunism can be deterred through contractual safeguards, or legal stipulations in the partnership agreement, that inflict penalties for omission of cooperative behaviors or commission of violative behaviors. By anticipating at least
some of the possible contingencies, and by stipulating appropriate provisions (and punishments) for each contingency beforehand, such measures attempt to produce clearer expectations and fewer surprises, and thus increase the level of confidence in each other's likely behavior. Note, however, that these provisions are primarily preventive, not punitive. Companies typically hope that these safeguards never have to be used, so their purpose is deterrence beforehand, not revenge afterward.

Institutional-based Trust by Providing Implicit "Guarantees"

Another institutional-based mechanism designed to produce trust and signal one's trustworthiness also relies on formal social structures. A five-star hotel, an R-rated movie, a CPA degree, and an MD diploma all have something in common. In each case, an independent, qualified body has attested publicly, "To Whom It May Concern," that the holder of the certificate or credential meets certain standards of competence and performance. The goal is to reveal company or individual attributes that are general (beyond particular transactions) and objective (anyone would reach the same conclusions). Such objectivity rests on membership in a professional subculture within which carefully developed behavior patterns are expected to be followed, suggesting a baseline level of trustworthiness. However, unlike the mechanisms discussed above, implicit guarantees of competence or trustworthiness are not yet available in the context of alliances. Is a "databank" or a clearing house of prospective alliance partners possible, from which one may choose companies depending upon specific alliance requirements? Important implications flow from this line of thought, as discussed in the final section of this paper.

Managing Alliance Dynamics

From the standpoint of building trust, five features of ongoing alliance management are noteworthy.

Understand the Trust Timeline and Sequence

Friendly relationships can turn hostile rather quickly, and vice versa. In 1983, Hitachi agreed to pay $300 million to settle a major lawsuit filed against it by IBM, which had accused Hitachi of stealing IBM technology. Yet soon afterward, the companies' collaboration was strong and growing. Hitachi supplied IBM with some high-end printers that IBM resold under its own label. In turn, Hitachi resold under its own name some IBM-made notebook PCs. And in a "continuation of a warming trend" in the two companies' relationship, IBM and Hitachi reached a pact in 1992 to jointly develop the "brains" and printing mechanism for a new generation of high-volume printers.

It is thus useful to diagnose the chronological sequence by which one or more of the trust-development sources discussed above are activated in building trust. Although the actual sequence may vary substantially from one relationship to the next, one hypothetical sequence might unfold as follows. Companies A and B are put in touch
with each other by company C, which has positive working experiences with both A and B (trust induced by reputa-
tion effects). As alliance negotiations get under way, A and B discover common positions on corporate values and strategic tracks (characteristic-based trust). Encouraged, A and B push further into issues of structuring the deal. They come to a mutually satisfactory agreement on strengthening cooperation by adopting a reciprocal purchase agreement plan (discouraging cheating before it occurs), as well as provisions for legal sanctions (imposing punish-
ments if cheating should occur) (inter-
mediary mechanisms). The alliance commences operations, and A and B observe with pleasure as the other side lives up to the letter and spirit of the cooperative agreement, even in—rather, especially in—unanticipated situations (process-based trust from ongoing inter-
actions). The alliance is successful, and A and B begin to contemplate expanding the scale and scope of the relation-
ship (lengthening shadow of the future). By being alert to such a sequence (e.g., reputation effects → alliance structur-
ing → growing cooperative history → shadow of the future), a manager can better understand trust-building trig-
gers, as well as accurately reinforce a partner’s perceptions.

Build Trust Slowly

Another advantage of constructing a trust timeline is that it underscores the attractiveness of starting each relation-
ship in small, measured, specific steps, instead of huge deals. As each partner learns about the other’s culture, proce-
dures, and trustworthiness, cooperation can gradually be expanded as needed to fill strategic needs.

Texas Instruments Inc. and Hitachi Ltd. started slowly in 1988, doing joint research to develop new memory chips. By 1996, the two companies had greatly deepened their relationship, jointly funding a $500 million chip plant near Dallas. Robert England, head of TI’s memory-chip operations, says much of the first year was spent “bridging the culture gap,” because they soon discov-
ered they had different decision-making processes: “In an American company, you have a meeting to discuss an issue, brainstorm, and then you decide.” At Hitachi, executives usually came to a decision among themselves and then used a meeting to ratify it. Now, the two companies have learned to meet half-
way.

Former Ford president, Philip Benton Jr., concurred: “It’s absolutely essential to start slowly to build trust. The first time two companies work together, the chances of succeeding are very slight. But once you find ways to work together, all sorts of opportunities come up—and your likelihood of severing that relationship and starting the whole process over again becomes remote. Learning to work together is so hard, it would be foolish to throw all that away just because you see another girl across the street” (Sherman, 1992, p. 78).

In the context of speed of trust-build-
ing, it is worth noting that all industries are not equal. Different industries seem to have different concepts of time, so that clock-time comparisons between, say, the contract research industry and the auto industry would be almost meaningless. In the contract research
industry, alliances tend to be very short, typically not lasting more than a few months. In contrast, time runs at a snail’s pace in the auto industry. The cycle time for a platform can easily last five to seven years before major changes are made to the platform. This is also the typical length of time for a single contract for a part. The notion of time is still more sluggish in trucks. In Ford’s F-series truck, one master contract between Ford and a supplier was used for thirty years (with annual revisions) before a new contract was written, when the truck platform was redesigned. In short, the time frame for building trust must be understood in relation to “industry-based” time, not clock time.

Watch for Divergence of Partners’ Strategic Directions

Regardless of how long two companies may have worked together, managers should remember that the strategic fit of a once-perfect match may diminish as the partners’ evolving internal capabilities, strategic choices, and market developments pull them in separate directions. Germany’s Siemens AG and South Korea’s Lucky-Goldstar Group set up a joint venture company, Goldstar Telecommunications, in 1970 to seek technology cooperation in telephone communications, particularly in mechanical public exchange systems. However, the tie-up began to wane in the early 1980s as Korea’s telephone communications system turned from mechanical to electronic systems. In 1992, the alliance formally ended.

Siemens has also witnessed other deals dissolve with the changing strategies of its partners. Alfred Prommer, a former Siemens vice president involved in crafting alliances, describes the shock of executives in Munich when they were informed in a totally unexpected phone call that their strategic partner in computers, RCA Corp., had decided it no longer had any interest in making computers: “It was just unbelievable that they [Siemens executives] get a phone call saying, ‘OK, we were just in a board meeting and we just decided to get out of computers.’”

David E. Gold, managing partner of Indosuez Technology Group, a venture capital fund in Menlo Park, California, says anytime there is an alliance, such a possibility exists: “Things will always change, and they won’t always change with the same velocity or in the same direction for the two companies.”

Trust building is still possible when the technology underlying an alliance changes or when a relationship no longer makes strategic sense for one or both of the partners, because such situations provide opportunities to build reputation. A relationship can be severed in unseemly ways, or in constructive ways that take into account the other side’s legitimate interests. Openly and constructively managing diverging partner interests reinforces trustworthiness, and such behavior may become known beyond the particular relationship to a broader audience of future potential alliance partners, creating solid reputation.

Further, in volatile industries with rapidly changing strategies, trust between alliance partners can be maintained even when specific alliances are terminated. In some high-technology
industries, for example, flexibility built into the alliance structure allows partners to adjust to changes in their internal and external environments. Such flexibility can be attained by entering into a general (or blanket) cooperative agreement, such that the overall relationship outlasts individual alliances. RCA and Sharp have a long-established cooperative agreement within which they have worked on a series of specific ventures over the years. The relationship fades when an alliance ends, to be reactivated later on an as-needed basis.

**Watch for Asymmetry in Value Creation or in Value Appropriation**

Value creation in an alliance depends first on whether the market and competitive logic of the venture is sound, and then on the efficacy with which the partners combine their complementary skills and resources, i.e., how well they perform joint tasks. Each partner then appropriates value in the form of monetary and other benefits (Hamel, 1991).

In 1980, TRW Inc. and Fujitsu Ltd. entered into a joint venture with the idea that TRW would market Fujitsu-made point-of-sale terminals, automated teller machines, and small-business computers in the United States. Fujitsu would thereby gain access to U.S. markets, and TRW would have the products to become a player in new business markets. But by 1982, the deal collapsed and Fujitsu bought out TRW’s share of the joint venture. Explained Sidney Webb, who was president of TRW-Fujitsu: “It became apparent ... that to penetrate the U.S. market with Fujitsu products was going to take a lot longer than was originally expected. TRW came to the conclusion that, whereas in Fujitsu’s case this joint venture was at the heart of their computer business and that they must do it no matter what it takes and how long it takes, in TRW’s case it was very peripheral to their core businesses. So TRW concluded that it didn’t make any sense to continue to do something that wasn’t in the main thrust of their business” (Alster, 1986). In this failed venture, the problems of value-creation asymmetry were compounded by significant characteristic-based differences between the partners. TRW was using standard U.S. methods for computing payback periods, whereas Fujitsu was playing a game equally standard in Japan, building long-term market share. A second basic difference involved technical core versus non-core activities. If an alliance is not in the core of one partner (TRW), but at the center of another’s business (Fujitsu), difficult issues of unequal commitment arise. Absent a foundation of trust, these partners were unable to cope with the challenges.

More recently, U.S. Airways entered into an alliance with British Airways in 1993, when the former was in tough economic straits. But after British Airways unveiled its link-up with American Airlines in June 1996, U.S. Airways sued the U.K. carrier. US Airways has long considered the deal one-sided in British Airways’ favor, that is, highly asymmetric in value appropriation. One factor was that U.S. Airways had to give up lucrative routes to Britain from Philadelphia, Baltimore, and Charlotte, N.C. The two carriers are still embroiled in a dispute over departure
times from Charlotte that has delayed U.S. Airways' plans for new service between Charlotte and London's Gatwick Airport and has also delayed British Airways' plans to begin new Denver-Gatwick flights (Goldsmith, 1998).

How then can trusting relationships be built? One key is to minimize perceptions of asymmetry in value creation or in value appropriation and, especially in a relationship of unequals, to treat the weaker partner fairly (Kumar, 1996). Fairness encompasses two types of justice: distributive justice, or the perceived fairness of the outcomes received, and procedural justice, or the perceived fairness of the powerful party's process for managing the relationship.

For instance, one of the guiding principles of Marks & Spencer, the British retailer, is to work closely with suppliers in long-term partnerships in order to achieve distributive justice. This company believes that manufacturers, especially those in the Far East, are often so keen to get its business that they will accept prices that are too low to warrant the investments necessary for improving their operations and products further. Because Marks & Spencer seeks long-term relationships with suppliers, it views that situation as unacceptable—as one that hurts both sides. Thus, when a manufacturer realized in 1995 that it had miscalculated the amount of labor required to make a kitchen product (and was therefore losing money on the deal), Marks & Spencer cut its own gross margin on the product and gave that money to the manufacturer.

In building trust, both distributive and procedural justice are important. But which is more important, the perceived fairness of the outcomes received or the perceived fairness of the stronger party's process for managing a relationship? In the auto industry, manufacturers are generally in a stronger position than dealers, and in a study of 800 dealers in the United States and the Netherlands, Kumar (1996) expected distributive justice to be more important, since dealers were thought to care only about margins and outcomes. Counterintuitively, procedural justice was found to be far more important. The study revealed dealers' reasoning for this finding: Outcomes are affected by many factors (including competitive conditions), only some of which are under the control of the more powerful auto manufacturers. However, a manufacturer is always considered in control of its policies and procedures. The weaker partner (dealer), therefore, sees the manufacturer's system of procedural justice as reflecting more accurately the manufacturer's real attitudes toward the dealer.

**Staffing Issues**

The fifth critical element of effectively managing alliance dynamics involves attaching adequate importance to the actual management positions in the alliance membrane, and filling these positions with the "right people." The right people, according to Ellis (1996), are much like diplomats. They are able to create an environment of trust, maintain broad strategic vision, and feel empathy for others, even those who are still competitors in other areas. They act
as a shuttle between the partners, creating relationships, reminding their own team to focus on the big picture, and explaining opposing viewpoints.

Asks Ellis, are these special managers born or made? A little of both. Some of their characteristics are unteachable competencies—inner traits such as optimism, cleverness, creativity, pragmatism, and vigilance. Other aspects can be taught. For example, companies can help managers develop a broad perspective by giving them assignments lasting several years at a time in different parts of the business.

One option for companies seeking good alliance managers is to gradually develop teachable skills in promising candidates. A second option is to hire a professional alliance manager. (However, such managers have no long-nurtured internal networks necessary for alliance success.) A third, and perhaps best, option is to hire a few people in every department who already have the unteachable traits described above—the traits that enable someone to adapt more quickly if promoted to alliance management (Ellis, 1996).

An important corollary of the above discussion is that turnover of alliance managers must be minimized. These managers act as boundary spanners between alliance partners, and close personal ties between such persons are key to building trust. Thus, limiting their turnover ensures continuity, preserves institutional memory, and ultimately helps generate interfirm and interpersonal trust. Conversely, companies that play the “power game” (Kumar, 1996) prefer their managers not to develop personal relationships with their counterparts, fearing such ties will weaken managers’ resolve to push hard for the best possible deal. To prevent that from happening, Jose Ignacio Lopez, GM’s former purchasing czar, reassigned buyers to suppliers with whom they had not dealt.

Still, more companies are playing the “trust game,” not the power game. And in the trust game, continuity is vital. In Ciba Corning Diagnostics (CCD), both partners recognize the importance of continuity, so when key people at Ciba or Corning have changed jobs or retired, they have usually remained on the board. In contrast, the president of a large Japanese tool maker, dealing with a U.S. partner that had gone through three ownership changes over the preceding decade, complained: “We never know who we are dealing with” (Lewis, 1990).

Companies are creating new positions of responsibility that reflect the heightened importance of the trend toward alliances (with titles such as vice president-joint ventures, director of intercompany relations, and so on). Take Hewlett-Packard, a company considered very adept at working with competitors. Since 1984, H-P has sold more than 15 million laser printers that use a motor made by Canon Inc. of Japan. In ink-jet printers, meanwhile, H-P and Canon each sell models using different technologies, and “we compete like hell in the marketplace,” says John Eaton, business development manager for H-P. H-P keeps its many alliances running smoothly by designating one employee as a “relationship manager.” Says Mr. Eaton: “That person is supposed to say, ‘Hey guys, we’re in..."
this alliance for good business reasons. Yeah, we know we compete in other places and things. But let’s keep that in one place and keep this alliance in another” (Templin, 1995).

Finally, in alliances that cut across large, multunit firms, greater structure is required (Lewis, 1990). For example, Ford’s various divisions are scattered worldwide, but Mazda’s operations are relatively centralized and coordinated in Hiroshima. So as the Ford-Mazda alliance grew, coordination became an issue. In response, each firm set up a staff function as its side of a single interface (Northern Pacific Business Development at Ford, International Business Development at Mazda) where relationship issues could be discussed. Joint programs continue to be managed within relevant line structures in each firm, and program people continue to interact with each other directly. As a complement to these links, the two staff groups meet monthly, and they have become the forum for monitoring and reinforcing the alliance.

CALIBRATING TRUST LEVEL TO MATCH COOPERATIVE RELATIONSHIP

As noted, there is a delicate tradeoff between reliability and flexibility (Parkhe, 1998). Flexibility is necessary for partners to have a viable relationship in the face of changing circumstances, yet unlimited flexibility affords companies the opportunity and incentive to cheat, reducing the reliance partners can place on each other. Thus, always giving the other side the benefit of the doubt (reflecting too much trust) sets oneself up for exploitation, while treating all poor outcomes as opportunistic behavior (reflecting too little trust) creates a spiral of joint retaliation (Heide & Miner, 1992). So where is the line separating too much and too little trust, and what is the “appropriate” level of trust at particular stages (Lei, Slocum, & Pitts, 1997) of a relationship?

Guarding Against Too Much Trust

Mature alliances often progress from low to high levels of trust over time, as a variety of trust-generating mechanisms (discussed above) provide opportunities for partners to assess each other’s trustworthiness. Unduly hastening this process, by placing too much unwarranted trust in an untested partner, can expose a company to grave damage, including possible loss of “family jewels” such as core technologies.

In 1986, engineer-turned-entrepreneur Anthony LaPine decided to apply innovative new technology to build 3.5-inch hard disk drives. He persuaded Prudential Bache Trade Corp. to join him, and together they identified Kyocera Corp., a low-cost Japanese producer of drives, as the third member of their high-tech alliance. A factory was built, and production began in Japan with the use of LaPine technology. Just months later, Kyocera began slowing shipments of disk drives to LaPine’s customers, who as a result defected in droves. Sales plummeted, prompting wholesale layoffs at LaPine. LaPine eventually filed suit in California against Kyocera, charging that Kyocera “had fraudulently induced LaPine to
enter agreements in order to gain access to LaPine’s technology and proprietary information.” Looking back with 20/20 hindsight, LaPine probably placed too much trust too soon in Kyocera.

Likewise, Acme-Cleveland Corp. once licensed Mitsubishi Heavy Industries to manufacture and sell one of its machine tools, only to watch Mitsubishi become its rival in the U.S. market. Acme-Cleveland incorrectly assumed Mitsubishi’s ambitions were limited to Asia. Now, says CEO B. Charles Ames, Acme-Cleveland is being “darn careful to make sure the company that is going to manufacture (telecommunications equipment) for us does not have any apparent interest in getting into (the U.S.) market.” And, he adds, Acme-Cleveland will make sure that its licensing agreements include market restrictions.

Moral: A company can trust too much too soon, without sufficient cues from a partner that the trust (and the vulnerability it creates) will not be abused.

Although such abuse may not always occur, it is best to think ahead, to make contingency provisions (e.g., limits to information sharing, terms of a breakup), and to remember that full disclosure of all proprietary knowhow is never required, even to the most trustworthy, long-term alliance partners. As Lewis (1990) notes, even competitors can build trust if they segregate their conflict, and conflicting objectives are less of a problem than deception about them. Trust requires honesty, which in turn requires clarity about where full disclosure should not be expected. For example, Kraar (1989) reports that for all its new acceptance of interdependence with Hitachi in developing a DRAM chip, Texas Instruments “is zealously guarding its technological jewels.” The agreement with Hitachi catalogues precisely the intellectual property that belongs to each company.

Several additional ways exist to guard against too much trust and to safeguard core knowhow. One way is to share only the results of applying technology. At General Electric’s aircraft engine group, technological knowhow resides in the engineering skills, documents, and computer software used to design and produce the high-temperature sections of jet engines. Snecma’s core strengths include its high-pressure compressor technology. Such knowhow can be used for alliances, as long as it is not disclosed.

Another way is to define an interface between two partners’ separate parts while they keep their core technologies to themselves. CFM International is an alliance created by GE and Snecma in 1974 to collaborate on the development of jet engines. When CFM builds on the proprietary skills of the two parents, GE and Snecma do the relevant work in their own facilities. Each company’s knowhow is safe, because it would be hard to reverse-engineer the completed engine modules they transfer to each other. Nor is it necessary for core technology to stay at home. Rockwell International safeguarded truck axle knowhow in a European joint venture with Fiat’s IVECO unit by putting a Rockwell engineer in charge of the alliance’s engineering records. This way,
the information could be physically located in the venture, yet accessible only to Rockwell’s engineers.

In short, match trust level to the stage of evolution of a cooperative relationship, keeping in mind that cooperation has limits. With progressive and reciprocal increases in trust on both sides, the scale and intensity of cooperation can gradually be increased. Such calibrated increases in cooperation provide some assurance against untimely, excessive trust levels.

**Guarding Against Too Little Trust**

Just as it is possible to trust too much too soon, it is possible to trust too little too late. Using undue caution, that is, unwillingness to trust despite solid cues of trustworthiness appropriate for the lifecycle stage of a partnership, is costly. Indeed, it is easy to focus on vulnerability to exploitation stemming from too much trust, while overlooking the high pricetag associated with too little trust. This pricetag includes the loss of much of what makes alliances attractive in the first place, including the cost-cutting, synergy-producing, efficiency-enhancing benefits of trust. In addition, cautions Lewis (1990), “Too little trust will backfire: It creates ill will and reduces the incentive to work harder at being reliable” (1990, p. 247).

Too little trust may be said to exist when: (1) A partner’s general reputation, specific alliance history, or future strategic interests signal trustworthiness, yet these trust-producing cues are ignored; and (2) Very high safeguards are erected, safeguards that don’t accurately reflect current knowledge regarding a partner. Recall that safeguards are devices that seek to reduce gains from opportunism and increase the cost of opportunism. Safeguards are not costless, and overreliance on them for alliance governance can exact a price so high that it erases any gains from cooperation.

In the biotechnology industry, for example, many recent alliances are based on the concept of “milestones.” These are predetermined goals that must be achieved to trigger payments. Thus, payments by Britain’s Smith-Kline Beecham PLC to Cephalon Inc. in West Chester, Pennsylvania, are based on milestones. Such an alliance structure involves low vulnerability and reveals correspondingly low trust. But it also disengages SmithKline and Cephalon managers from events within the alliance or in the biotechnology industry, relinquishing control of their interactions to a mechanical policy of milestones. Although such a structure may suit the limited purpose of some alliances, in many situations that require adaptation, judgment, and the building of progressively greater levels of trust, it falls short.

In sum, companies are constantly groping to find the “right” level of trust at particular stages of a partnership. In these efforts, managers must avoid committing Type I error (rejecting a true hypothesis, or not trusting a trustworthy partner) as well as Type II error (accepting a false hypothesis, or trusting an untrustworthy partner). As shown, both errors can be expensive, and in their own distinct ways, both trusting too much and trusting too little can wipe out gains from an alliance strategy.
The new global competition is far more subtle and interesting than the old global competition. Companies are increasingly pooling their costs, risks, and rewards in international alliances, which have emerged as a major competitive weapon. The relations between companies are now marked less by frontal attacks between direct competitors, and more by the potential for flank attacks, Trojan horses, and hidden agendas, in short, ties where trust will play a growingly important role as a counterweight to the potential hazards in alliancing. Consequently, understanding trust in international alliances, and using this understanding to effectively build trust, become crucial management tasks. A previous paper (Parkhe, 1998) addressed the former task; the present paper attempted to deal with key aspects of building trust in international alliances.

As a first step, managers must know the various trust-building factors that are within their control, and learn to appropriately use each factor, consistent with particular partners and partnerships. Three such trust-building factors were described: process-based, characteristic-based, and institutional based generation of trust. The key points that emerged from this discussion are that purposeful action by managers of alliance partners can lead to development and growth of trust, and such purposeful action often involves deliberate investments—of management time, funds, compatible infrastructure with partner firm, and so on.

Furthermore, building trust also requires an appreciation of five important features of alliance dynamics. The first of these is to understand the paths by which, and timing with which, trust has developed in a particular alliance. This understanding can help further cement strong points of a relationship, while redressing the weaker points. The second aspect is to build trust slowly, since needless haste can be costly and destabilizing. The third feature to focus on is each partner's strategic direction, for a divergence in directions can be addressed effectively if there is trust between partners and flexibility of alliance structure. The fourth element of alliance dynamics concerns asymmetry in alliance value creation and value appropriation. Perceptions of asymmetry can lead to trust erosion, while perceptions of fairness lead to a stronger, more robust alliance. Finally, trust building calls for close attention to staffing issues, including selecting the right type of people, putting them in appropriate positions in the alliance interface, and limiting their turnover.

Next, this paper asked the question, is it possible to trust too much or too little in an alliance? The answer in both cases is yes, which means a "calibration" of the level of trust to the stage of an alliance relationship is desirable. Ways to guard against too much or too little trust were discussed, along with relevant and timely real-life examples.

In sum, this paper took note of the strong trend toward collaboration, often between direct competitors. While such a trend is unmistakable, it is possible to overdraw conclusions from it, including some authors' premature forecast of an emerging "culture of cooperation." Effective collaboration requires a sober
assessments of trust. Trust arises along certain paths in each relationship. To effectively build trust, managers must pay close attention to these paths. Where these paths are not open, other institutional-based mechanisms for deliberate production of trust may be available.

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NOTES

1. A good reputation includes two additional properties, according to this research (Axelrod, 1984). One is to be Forgiving (quickly reciprocating cooperation), and the other is to be Clear (not being too clever or difficult for a partner to understand). Together, the four elements (being Nice, Provocable, Forgiving, and Clear) add up to a surprisingly simple and effective interaction strategy known as Tit for Tat, which consists of (1) starting with cooperation and then (2) matching each move (cooperation or cheating) that a partner makes. Earning a reputation for a Tit for Tat player seems to effectively tap the benefits of cooperation without permitting a partner to take undue advantage of oneself.

2. It can be debated whether such institutional arrangements actually produce trust, or whether they are merely a functional substitute for it (see Granovetter, 1985, p. 489), and indeed, Husted (1989) recommends the term “trust-like behavior.” Nonetheless, the fact remains that the mechanisms described below seek to align alliance partners’ incentives in ways that promote trustworthy behavior. In Barney and Hansen’s (1994) terminology, this would be classified as semi-strong form trust.

3. For instance, huge manufacturers such as Mercedes-Benz sell their products through small mom-and-pop dealers. And major retailers such as France’s Carrefour, Japan’s Ito-Yokado, Britain’s Marks & Spencer, and America’s Toys R Us buy from numerous relatively small manufacturers.

4. Interested readers may wish to read Reich and Mankin (1986) and Hamel (1991) for numerous additional examples of (a) placing too much trust in an alliance partner, and (b) viewing alliances as “races to learn.”

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