Thomas Mellewigt, Glenn Hoetker, Antoinette Weibel*

Editorial
Governing Interorganizational Relationships: Balancing Formal Governance Mechanisms and Trust

Alliances allow firms to "pool imperfectly tradable resources in order to gain greater efficiency in the use of existing resources as well as opportunities to create new resources" (Dussauge/Garrette/Mitchell 2000: 207). Not surprisingly, firms often engage in interorganizational relationships as a means of solving complex problems. Indeed, the formation rate of interorganizational relationships has increased dramatically in recent years. Accompanying the increasing number of relationships has been a dramatic increase in their variety and the means by which they are governed. This special issue aims at exploring firms' investment decisions related to alliances as well as the design and management of collaborative agreements.

To be successful, a relationship must accomplish two goals, namely identifying the optimal combination of productive knowledge across parties and mitigating the risks of opportunistic behavior (Mitchell/Dussauge/Garrette 2002; Nickerson/Zenger 2004). The performance of the alliance thus depends critically on the selection of appropriate governing and coordinating mechanisms. Work drawing primarily on transaction cost economics has argued that increases in exchange hazards will lead to the greater use of formal governance mechanisms (Mayer/Argyres 2004; Williamson 1991). At the same time, a parallel literature has put its focus on more relational governance mechanisms based largely on trust and social identification, e.g., establishing teams, frequent direct managerial contact, shared decision making and joint problem solving (Gulati 1998; Uzzi 1997).

The appropriate balance of formal and relational governance mechanisms in managing relationships is the topic of considerable ongoing research. This special issue contributes to this research stream by exploring a set of innovative ideas on the management of interorganizational relationships. Each of the four articles collected in this issue puts a special focus on governance mechanisms and factors which may determine the monitoring and coordination of these relationships. They reflect the actual variety of interorganizational relationships, because this issue includes papers on explorative R&D alliances, asymmetric alliances and relationships between industrial

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* Prof. Dr. Thomas Mellewigt, University of Paderborn, Department of Management, D – 33098 Paderborn, Germany,
phone: +49-5251-602097, fax: +49-5251-603242, e-mail: organisation@notes.upb.de.

Prof. Glenn Hoetker, College of Business, University of Illinois at Urbana-Champaign, Champaign, IL, 61820, USA,
phone: +1-217-265-4091, fax: +1-217-244-7969, e-mail: ghoetker@uiuc.edu.

Dr. Antoinette Weibel, University of Zurich, Institute of Organization and Administrative Science, CH – 8032 Zurich, Switzerland,
phone: +41-1-634-2919, fax: +41-1-634-4942, e-mail: antoinette.weibel@iou.unizh.ch.

buyers and suppliers. The articles also illustrate the theoretical and methodological variety in this field.

The issue starts with a conceptual paper by *Dries Faems, Maddy Janssens, René Bouwen and Bart Van Looy* focusing on the governance of explorative R&D alliances. Alliances are a useful tool to share the costs associated with the exploration of new technologies and increasingly gain importance in practice. In contrast to exploitation alliances which are mainly entered in order to jointly utilize complementary resources, explorative alliances imply a partnership between otherwise independent firms in order to jointly experiment and discover new technological opportunities. Hence, the latter involve more risk taking than exploitation alliances. The governance of explorative R&D alliances has been relatively neglected, especially in awareness of the risks that collaborating firms are facing, namely opportunism and coordination costs. Drawing on transaction cost economics (TCE) and organization theory (OT) and considering the literature on new product development (NPD), the authors aim at filling this gap and develop two alternative governance strategies which refer to these substantial risks. Based on TCE and OT, the authors argue that formal governance mechanisms hamper opportunism and coordination problems. Conversely, the literature on NPD suggests that formal governance mechanisms impede the exploration of technological opportunities and are hence counter-productive. Consequently, Faems et al. propose an alternative perspective. Drawing on social network theory and the NPD literature they develop two alternative governance strategies: the first one refers to the *collaboration with embedded partners*, i.e., alliances with firms which are trusted and with whom interfirm routines have been established, while the second one recommends a *balance between formal and relational governance mechanisms* which are viewed as complements rather than substitutes. Formal tools are used to manage relational issues, while the relational ones facilitate information sharing among alliance partners. Therefore, this paper is an innovative theoretical contribution which bears potential for future empirical studies on alliances.

The conceptual paper by *Per Erik Eriksson* refers to procurement and the management of buyer-supplier relationships. The dominant logic for analyzing procurement processes is transaction cost economics (TCE) which is criticized for not distinguishing between governance structures and governance mechanisms and research on industrial buying behavior (IBB) which is characterized by an excess of descriptive empirical studies and a too small conceptual foundation. Thus the author develops a framework which integrates both streams. In so doing, he outlines, on the one hand, a conceptual model drawing on TCE on the choice of a suitable combination of governance mechanisms and, on the other hand, using the IBB literature, a procedure for achieving an appropriate mix of governance mechanisms. In contrast to Williamson who argues that a single governance structure fits a particular transaction, Eriksson suggests a mix of governance mechanisms for different types of transactions. He outlines six types of transactions which vary regarding the frequency of their occurrence and the degree of asset specificity, and recommends the appropriate tools to manage them. The latter differ with regard to the level of emphasis on price, trust and authority. Since it is insufficient to identify which combination of mechanisms is useful for a certain transaction without knowing how to obtain it, a procedure for their achievement is provided. Drawing on principal agent theory, Eriksson integrates TCE and IBB and identifies output, process and social control as different types of control. Their suitability varies during the different stages of the buying process and thereby affects the levels of price, trust and authority. A particular strength of this paper is the development of *procurement situations* in which different transactions require the *simultaneous use of several governance mechanisms* to a varying extent and *different types of control*. It is very applaudable to enrich TCE with the idea of governance mechanisms, even more so because in combination with the IBB literature these mechanisms become evident.

The paper by *Senad Rothkegel, Ljiljana Erakovic and Debbie Shepherd* focuses on the relationship dynamics in alliances between large firms and SMEs. Few studies have looked at the specific pitfalls in such asymmetric alliances where dependence is mostly to be found on the SME side. In this situation the issue of confidence arises; the more dependent firm can gain confidence in the partner's cooperative behavior by relying on trust, commitment or/and by imposing controls. The authors explore these issues with four in-depth qualitative case studies of strategic alliances between large firms and SMEs in New Zealand. An analysis of the cross-case patterns highlights three areas of concern. First, *trust* emerged as an important topic in all cases as it was perceived to create a more conducive atmosphere of collaboration and to raise commitment of the partners. There is, however, an important difference regarding the content of trust: large firms judge their partner's ability to be most important whereas SMEs seem to be more concerned with their partner's goodwill. This difference reflects clearly the power issue as SMEs have much more at stake; an opportunistic partner may ultimately threaten their survival. Second, a *mutuality of interests* was shown to be important. The perception of common ground and a certain commitment to the common cause clearly proves to be even more important in large firms. In the large firm a committed top-management team additionally acts as ambassadors for the alliance and disseminates important information faster to boundary spanners. Third, *personal ties* were found to be an essential condition for partnering effectively. Two issues emerged: a good chemistry between top-managers seems to be pivotal. Furthermore personal ties are also important at lower hierarchical levels, which makes high staff turnover a serious threat for the functioning of the alliance. To conclude, this paper is a first step towards a long-needed thorough analysis of asymmetrical alliances. Further research is needed to dig more deeply into the interplay of the analyzed variables, e.g., how does interorganizational trust and power relate and how can trust be complemented by formal controls in order to reduce the overall risks of the SMEs in such an alliance.

Tally Hatzakis and Rosalind Searle study the evolution of trust between organizations. While it is broadly accepted that trust is a powerful tool for managing the uncertainties present in interorganizational relationships, relatively little work has looked at *who* is responsible for actually building and applying trust by framing and managing uncertainties. Using two case studies, Hatzakis and Searle apply Goffman's (1972) categories of situational, relational and interpersonal risk to frame issues of risk and trust between stakeholder organizations. The comparison between the two case studies, "FinCo", a large financial services provider, and "Build-IT", a multinational construction management group, reveals both similarities and striking differences. Both teams failed to identify in advance a key interest group, the public, who was each projects' end-user. Both teams actively managed the framing of situational risks, primarily by setting the rules governing interaction between team members. However, Build-IT developed monitoring procedures to guarantee transparency, while FinCo developed their performance measurement and monitoring procedures to disguise their interests and enhance their ability to control their partner's behavior. Not surprisingly, more trust developed within the Build-IT relationship. Critically, although trust was violated in each case, Build-IT was able to maintain communication and relations with the problematic stakeholder. FinCo, in contrast, became estranged from their partner and ultimately abandoned the venture. The insightful comparison of the two companies is a particular strength of this paper. The authors are able to identify critical contingencies in the evolution of trust that would not be evident from the study of a single firm.

All articles in this issue make their own suggestions for promoting our understanding on the management of interorganizational relationships. Strikingly the interplay of trust and formal governance mechanisms is a core topic in all papers. Rather than simply analyzing whether trust and formal governance mechanisms should be seen as substitutes or complements all authors decided to scrutinize this issue with a much finer grained analysis. Both concepts are unbundled and various facets are discussed. Furthermore new variables such as power asymmetries or relationship norms are introduced. Altogether this provides us with a clearer picture and seems more appropriate for the complex issue at hand. We hope that you will gain some important new insights and enjoy the selected contributions.

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