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Why strategic networks often fail: Some empirical evidence from the area of Naples

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HIGHLIGHTS

- This paper examines the reasons for network failures in an Italian context.
- Key determinants include previous experience and an awareness of a need for collaboration.
- It is suggested these factors may also apply to other industries.

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ABSTRACT

The literature on inter-firm collaboration primarily concentrates on successful cases and tries to explain why and how they obtained their success. On the other hand, there are fewer contributions that study the reasons for inter-firm relationships failure. This paper responds to that deficiency by providing evidence as to why inter-firm collaboration fails, and identifies processes where it is possible to pass from a difficult and complex relationship (where mutual trust is not notably present) to situations of recovery and re-positioning. Empirical evidence is presented from two specific areas in the Campania Region (Italy) to test a proposed theoretical model that identifies the importance of partners' previous experience and their awareness of the importance of inter-firm cooperation as determinants of the survival and success of the collaboration.

1. Introduction

The general literature on inter-firm collaboration mainly focuses on successful cases, endeavouring to explain why they are successful. The same is also broadly true of studies of tourism networks. Certainly there are many examples of successful networks. One study, that of Erkuş-Öztürk and Eraydin (2010) examined the case of Antalya, a Turkish seaside destination. Tourism flows to this area started in the 1960s, which then became the "second most attractive province for foreign companies" and Turkey's most "dense tourism area" (Erkuş-Öztürk & Eraydin, 2010). Antalya is an example of an environmentally sustainable tourism network that supports the joint participation of private firms, semi-public organisations and the community in order to develop policies and planning based on sustainable development. This network is considered successful at the local level with regard to the implementation of sustainable policies, although its national and global linkages are still weak (Erkuş-Öztürk & Eraydin, 2010).

A further example that Novelli, Schmitz, and Spencer (2006) suggest, is the Healthy Tourism Lifestyle Cluster in the United Kingdom. This network was established to position East Sussex as a "healthy lifestyle" destination. The creation of this network has led small and medium enterprises (SMEs) to cooperate with the area's different actors in order to increase the attractiveness of the entire destination. This kind of network has improved the quality of the services, has led to the co-creation of marketing activities and to shared involvement in the area's annual events (Novelli et al., 2006.)

However, very few contributions provide an in-depth study of the reasons for inter-firm relationships' failure. This gap in the literature has led us to develop a conceptual and an empirical investigation aimed at identifying the main reasons for alliances failing. We also investigate whether there are processes that can help them progress from a difficult and complex relationship (without mutual trust) to a new recovery and repositioning situation that can produce successful results.

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This paper's analysis comprises a review of the literature, thus updating previous studies, to identify the gaps that still exist. This is followed by an empirical study of two specific tourism areas in the Campania Region (Italy). The analysis of this study tests the theoretical model to assess if partners' previous experience and their awareness of the importance of interactions can result in their collaboration failing, rather than surviving and/or being a success).

2. Literature analysis and theoretical framework

In this paper, we endeavour to answer important research questions with reference to networks' failures:

1) what are the main relational problems in strategic networks' failure?
2) is the trust/distrust relationship between the extremes of a continuum linear, or are there more complex connections?
3) which managerial decisions and actions could control and overcome distrust and make the system work?

With regard to these research questions, the transaction cost aspect always plays a significant role in inter-firm analysis, since it is linked to opportunistic behaviours in contexts in which investments in the relationship are extremely firm-specific (Coase, 1987; Williamson, 1981, 1985).

In spite of the meaning and content that many authors attribute to trust (Barney & Hansen, 1994; MacDuffie, 2010), we – in keeping with the resource-based perspective – consider trust as an output, the result of specific approaches and connected strategic resources (Barney, 1991). In other words, if specific resources and capabilities are found in a relationship, reciprocal trust may result in terms of "confident positive expectations regarding another's conduct" (Lewicki, McAllister, & Bies, 1998 p. 439), rather than "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another" (Rousseau, Sitkin, Burt, & Camerer, 1998, p. 395).

According to this view, once established, trust itself can become a resource. This concept is close to that of "mutual trust" (Eberl, 2004; Fink, 2005; Mayer, Davis, & Schoorman, 1995; Svensson, 2001, 2006) between network actors because the involved stakeholders adjust their behaviours mutually, since their cooperation first generates trust and is then based on reciprocal trust. One of the main gaps emerging from studies on mutual trust is that they (Deutsch, 1962; Mayer et al., 1995; Newcomb, 1956; Svensson, 2001, 2006; Walster, Walster, & Berscheid, 1978) develop the issue from a dyadic perspective (A trusts B and B trusts A) without taking the network vision and the trust-balanced perspective of each actor into account.

This sounds like the result of a decision process with deep roots in cognitive and more rational aspects as well as in affective and more emotional and instinctive factors (McAlisster, 1995 p. 25). Once trust is generated, this supports many further developments in the relationship in terms of reducing governance costs (Bidault & Jarillo, 1997; Gulati and Nickerson, 2008; Rowley, Behrens, & Krackhardt, 2000), since less coordination is required if trust is higher. It improves the "network climate" by leveraging its harmony (Rampersad, Quester, & Troshani, 2010; Song, Dyer, & Thieme, 2006) as well as through a better "understanding each other's point of view" (Gupta, Raj, & Wilemon, 1986, p. 12). However, its strongest roots are always the parties' specific competences and capabilities.

Besides trust, another important aspect that should be taken into account is related to the effects of dependence (Jiang & Henneberg, 2011) in network collaboration. It should be highlighted that, according to the main assumptions of the resource-dependence theory (Pfeffer & Salancik, 1978), firms are rarely internally self-sufficient, they therefore try to establish network relations that can generate strategic benefits for themselves and for the network as a whole. The degree of dependence helps establishing long-term relationships if the dependence level is high, and short-term relationships if the dependence level is low. Provan and Skinner (1989) point out that, according to this view, high levels of dependence generate high cooperation with little opportunism. MacKenzie (1996) similarly argues that trust and dependence are interrelated, since risky actions are more predictable if dependence is high, as they can threaten the relations and the associated benefits. If dependence is linked to common goals, partners are more oriented towards sharing information (Srinivasan & Brush, 2006) and cooperation (Sandhya & Mrinalini, 2004).

In the literature, the main studied concepts regarding situations in which this virtuous circle does not take place, are those of untrust, distrust and mistrust (McAlisster, 1995). *Untrust* refers to situations in which one of the parties does not even expect trustworthy behaviour from a generally *trustworthy* partner. *Mistrust* refers to unintentional untrustful behaviours (Luhmann, 2005; Marsh & Dibben, 2005). *Distrust* occurs in typical transaction costs situations as "it is very costly for partners to evaluate the quality of resources and assets the other takes to the exchange (adverse selection – Akerlof, 1970) and/or the quality of the resources and assets brought to the relation (moral hazard – Holmstrom, 1979); besides, they often have to make specific investments, subject to hold-up vulnerabilities (Klein, Crawfors, & Alchian, 1978)" (Della Corte, 2009, p. 416).

The most difficult situation to manage is undoubtedly that of distrust, since there are objective reasons not to expect trust from a counterpart (opportunistic behaviours). However, no studies in the literature undertake an in-depth analysis of the roots of, or the main reasons for, relationships' failures.[1] Moreover, transaction cost economics (TCE) concentrates on the process and lacks a focus on individual backgrounds and consequent behaviours. This article thus analyses partners' specific resources and competences that, according to resource-based logic, may be non-valuable and therefore the main reasons for distrustful behaviours.

This problem is exacerbated if more than two parties are involved, since there is a complex set of multidirectional relationships to control and to manage successfully, with each party showing differing approaches to, and behaviours regarding, each of the other actors and the network as a whole. This is another significant gap in the literature, which mainly analyses the problem of trust in business relationships with reference to two parties' strategic alliances, rather than trust to networks and business systems.

Furthermore, there is a lively debate on the question whether trust and distrust differ and should therefore be considered opposing concepts (Luhmann, 2005; Marsh & Dibben, 2005; Smith, 2005), or whether they can co-exist (Lewicki et al., 1998; Moody, Galleta, & Lowry, 2010).[2] While the traditional view states that trust and distrust are contradictory concepts, a new perspective supports the underlying "functionally equal" meaning (Erdem, Imai, & Keane, 2003). According to this emerging vision, trust and distrust may have positive impacts on relationships in terms of outcomes. While most scholars agree that trust influences value creation in networks positively, some literature contributions on

[1] Hold-up problems refer to "the general business problems in which each party to a contract worries about being forced to accept disadvantageous terms later, after it has sunk an investment, or worries that its investment may be devalued by others" (Milgrom & Roberts, 1992). They occur when contractual parties have incentives for making non-verifiable investments that are relationship-specific (Coase, 1937; Rosenkranz, Schmitz, 2004; Williamson, 1975).

[2] In this case, literature recalls the concepts of "hot groups" (Leavitt & Lipman-Blumen, 1995) and "good fights" (Eisendhart, Kawajy, & Bourgeois, 1997).