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Uncertainty in interorganizational collaboration and the dynamics of trust: A qualitative study

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ABSTRACT

The field study presented in the article illustrates how trust is operationalized in business practices. It shows that deciding to engage and remain in collaborative relations characterized by high uncertainty is influenced by reciprocal interactions among (i) transactional and relational attributes, (ii) organizational and environmental characteristics, (iii) governance structures and processes, and (iv) acts of suspension. Our framework demonstrates that exchange partners sometimes need to suspend (i.e., accept and embrace) risks in a non-calculative manner. Thus, building on a qualitative study of collaborative software development projects, this paper calls for the dynamic treatment of governance mechanisms in interorganizational relationships.

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1. Introduction

Organizations increasingly seek opportunities for value creation through interorganizational relations (Börjeson, 2015; Grant & Baden-Fuller, 2004; Ireland, Hitt, & Vaidyanath, 2002), which are inherently uncertain and involve risks (e.g., Lumineau & Quelin, 2012; Oxley, 1997; Parkhe, 1993; Poppo & Zenger, 2002; Williamson, 1985). One mechanism of interorganizational governance in an uncertain environment is trust (Schilke & Cook, 2013). Research on trust distinguishes between two perspectives (Gulati & Nickerson, 2008; Kramer, 1999): governance scholars adhering to the calculative tradition have concentrated on the ways in which risks can be reduced (David & Han, 2004; Oxley, 1997; Williamson, 1985, 1991), while scholars belonging to the relational tradition have argued that partners sometimes need to embrace and accept risks (Beckert, 2006; Buskens, Batenburg, & Weesie, 2003; Möllering, 2001; Simmel, 1992; Tillmar & Lindkvist, 2007). Apart from a few notable exceptions (e.g., Puranam & Vanneste, 2009; Ring & van de Ven, 1994; Schilke & Cook, 2013), scholars have largely thought about governance issues in interorganizational

exchanges statically, from the calculative perspective. A number of authors have called for the study of reciprocal interactions among a wider range of governance variables to offer a more dynamic and integrative perspective (e.g., see de Rond & Bouchikhi, 2004; Mesquita & Brush, 2008; Puranam & Vanneste, 2009; Schilke & Cook, 2013).

This paper investigates how interorganizational governance actually unfolds in collaborative relationships. We ground our argument in a qualitative study of software product development collaboration in an emerging economy. Since trust is a particularly important issue in relationships characterized by high uncertainty, interdependence, and threats of opportunism (Li, 2012; Nikolova, Möllering, & Reihlen, 2015; Schilke & Cook, 2015), such a research subject provides an excellent context for this study. Thanks to the qualitative and interpretative character of our fieldwork, we illustrate how different theoretical perspectives actually play out in practice (Bamberger, 2008; Sandberg & Tsoukas, 2010; Schilke & Cook, 2015) and address the need to rely on practitioners' firsthand trust experiences to reveal their different meanings (Bijlsma-Frankema & Costa, 2005; Keyton, 2008; Kramer, 1996; Möllering, 2006).

We argue that decisions to engage and remain in collaborative exchanges are initially influenced by reciprocal interactions between transactional and relational attributes, organizational and

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environmental factors, and governance structures and processes. Our empirical work also illustrates that partners sometimes face residual risks that cannot be alleviated by reciprocal interactions, and then partners may pursue non-calculative processes of suspension (Bachmann, 2001). This study engages with recent literature on the tensions and dualities in the social sciences (Farjoun, 2010) and increasing focus on interdependencies and complementarities of concepts specifically within the trust research domain (e.g., Bachmann & Kroeger, 2017; Bijlsma-Frankema & Costa, 2005; Cao & Lumineau, 2015; Möllering, 2005). Our findings show that calculation and suspension are two sides of trust. Our work thus shifts researchers' attention from the coexistence of both perspectives toward possible interdependencies and opportunities for cross-pollination (Li, 2015).

We proceed as follows. First, we briefly explain the theoretical foundations of our empirical work developed on the basis of a literature review conducted in the light of our empirical goals. Subsequently, we elaborate on our field study and its main results, which are captured in a research framework. In the discussion, we highlight the main implications of our findings, the study's limitations, and promising avenues for future research.

2. Theoretical background

Two perspectives dominate the research on the governance of interorganizational relations and trust: the calculative and the relational approach. The first one focuses on actors as rational entities and suggests that organizations undertake various actions to reduce risks and secure their position when initiating and maintaining collaborative relations. Table 1 presents these actions tentatively grouped in three categories, taking as a starting point the function of described mechanisms as minimizing risk.

Transaction attributes expose partners to risks associated with the potential for opportunistic behavior by their counterparts (Williamson, 1985, 1991). Partners mitigate their concerns by aligning these risks with appropriate governance structures in an efficient manner (Buskens et al., 2003; Williamson, 1985). A focus on *relationship characteristics*, on the other hand, emphasizes that transactions are interconnected, not independent, events (e.g., Batenburg, Raub, & Sniijders, 2003; Granovetter, 1985). In addition to transaction particulars, the study of governance of interorganizational relations includes *environmental and organizational factors*. Here, the focus shifts away from the best generic institutional form for organizing a particular transaction and toward the best way for a specific firm embedded in a particular environment to organize such a transaction (Madhok, 2002; Williamson, 1999). Finally, researchers have focused their attention on a range of *governance structures and processes* that are used to alleviate exchange hazards. This perspective stresses actors' agency in shaping the governance of interorganizational relations. The calculative approach illustrates how organizational representatives initially assess a partner's trustworthiness to ensure that the partner has incentive to act in the partnership's interest. Recent contributions to the literature on governance of interorganizational relationships emphasize the dynamic character of this process and encourage (i) the inclusion of organizational and environmental characteristics as explanatory variables, (ii) the incorporation of embeddedness in governance discussions, and (iii) complementing the current emphasis on governance structures with a focus on governance processes.¹

¹ Researchers have increasingly paid attention to the cognitive- and coordination-related aspects of governance mechanisms and processes (e.g., see Mesquita & Brush, 2008). In this paper, however, we focus on the governance of exchange hazards.

The other (relational) tradition, grounded mainly in sociology literature, emphasizes that individuals often act despite the existence of exchange hazards (Beckert, 2006; Möllering, 2001; Simmel, 1992; Tillmar & Lindkvist, 2007). Scholars in this tradition argue that not all risks can be mitigated, suggesting that they must be accepted and embraced for an individual to take action (trust-as-a-choice perspective; see, e.g., Li, 2007; PytlikZillig & Kimbrough, 2016). This corresponds to the ideas of radical uncertainty (Knight, 1921) and beliefs that we cannot foresee or anticipate the future, as human beings' behavior is unpredictable and indeterminate (Bachmann, 2001, 2011). Moreover, individuals may exhibit varying behaviors in response to the same stimuli depending on their emotional state, experience, and awareness of a situation (MacLeod & Rutherford, 1992). Consequently, exchange hazards can never be reduced completely.

These enduring risks may preclude potential exchange partners from engaging and remaining in collaborative relations. However, as our empirical data also show, actors mitigate or embrace and accept such residual risks (Beckert, 2006). In the latter case, they take a leap of faith (Möllering, 2006), implying that they initiate and/or maintain collaborative relationships *despite* the existence of risks (Bachmann, 2001; Luhmann, 1988; Newell & Swan, 2000). Actors rely on this form of trust to embrace any enduring risks (Beckert, 2005). From this perspective, trust implies that actors are willing to proceed without defending, buffering, or protecting themselves against risks and that they may accept the presence of uncertainty. Consistent with existing literature (see Table 2), we discerned three types of suspension: (i) creation of fictions, (ii) bracketing of concerns, and (iii) willingness to believe. Building on these, actors appear to bridge the gaps among what is known, what is not yet known, and what will never be known (Beckert, 2005; Möllering, 2001, 2006; Simmel, 1992) in that they accept and embrace the exchange hazards labeled as residual risks.

Building on a unique qualitative study, we advance these observations one step further, showing that scholars should also take the reciprocal interactions among these governance variables into account. Moreover, our fieldwork provides empirical backing for the idea that emergent, non-calculative processes of suspension may offer complementary explanations for firms' decisions to initiate, continue, refrain from, or terminate interorganizational relationships.

3. Research setting and methods

Since we aim to explore practitioners' views on the governance of interorganizational relationships (e.g., Möllering, 2006; Tillmar & Lindkvist, 2007), we adopt an interpretative research approach that allows us to discover how the existing theory on the governance of collaborative endeavors compares to how collaboration is experienced and conceptualized by practitioners in their natural contexts (Bamberger, 2008). To this end, the first author spent almost two years in the field, conducting interviews and observing interactions between customers and suppliers.

3.1. Research site and context

Our fieldwork describes the collaboration between customers and suppliers in developing tailor-made software products. Such relationships generally entail control and coordination problems. Although the supplier retained responsibility for both the design activity and the implementation of the product at the customer's site based on customer specifications in the projects we analyzed (a black-box type of collaboration), the supplier required close collaboration and customer involvement to develop a shared definition of customer expectations. The analyzed projects also

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