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On the Evolution of Trust, Distrust, and Formal Coordination and Control in Interorganizational Relationships

Toward an Integrative Framework

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In this article, the authors discuss the evolution of trust, distrust, and formal coordination and control in interorganizational relationships. They suggest that the degrees to which managers trust and distrust their partners during initial stages of cooperation leave strong imprints on the development of these relationships in later stages of collaboration. This derives from the impact of trust and distrust on (a) formal coordination and control, (b) interorganizational performance, and (c) the interpretations that managers attribute to the behavior of their partners. Collectively, the authors' arguments give rise to a conceptual framework that indicates that there is a high propensity for interorganizational relationships to develop along vicious or virtuous cycles. By integrating and reconciling previous work on the trust-control nexus and by emphasizing the dynamics associated with it, the article contributes to a more comprehensive and refined understanding of the evolution of interorganizational cooperation.

Keywords: *trust; distrust; formal coordination; formal control; evolution; interorganizational relationship*

Interorganizational governance issues have attracted growing attention from academics and practitioners, due to an the increasing number of alliances, outsourcing relationships, and other forms of interfirm exchange and the significance attributed to governance issues associated with these relationships (see Gulati & Singh, 1998; Kale, Dyer, & Singh, 2002; McEvily,

Perrone, & Zaheer, 2003a). The corresponding literature distinguishes several means by which cooperating parties may govern these relationships, primarily emphasizing trust and formalization (Bijlsma-Frankema & Koopman, 2004; García-Canal, Valdés-Llaneza, & Ariño, 2003; Luo, 2002; Poppo & Zenger, 2002). In line with this, different theoretical perspectives on the significance of trust and formalization, and on the interplay between them, have emerged. In particular, contributions have emphasized (a) that trust and formalization may act as substitutes (e.g., Das & Teng, 2001; Dyer & Singh, 1998; Gulati, 1995; Inkpen & Currall, 2004; Zaheer & Venkatraman, 1995), (b) that they may function as complements (e.g., Deakin & Wilkinson, 1998; K. J. Mayer & Argyres, 2004; Poppo & Zenger, 2002; Sitkin, 1995; Zucker, 1986), (c) that they have a variety of performance effects (e.g., Kern, 1998; Luo, 2002; K. J. Mayer & Argyres, 2004; Sydow & Windeler, 2003), and (d) that they may develop along self-reinforcing cycles (e.g., Ghoshal & Moran, 1996; Inkpen & Currall, 2004; Macaulay, 1963; Zand, 1972).

Despite these contributions, the relationships between trust and formalization remain far from clear (Maguire, Philips, & Hardy, 2001; Sydow & Windeler, 2003), and much theoretical input is still needed to understand how they work as governance mechanisms (Bachmann, 2001). In particular, the roles of trust and formalization in the process of relationship development and their evolution during cooperative endeavors deserve more attention (De Wever, Martens, & Vandenbempt, 2005; Ferrin, Bligh, & Kohles, this issue; Inkpen & Currall, 2004). In line with this, calls have been issued for more integrative approaches toward theory development and more dynamic representations of the trust-control nexus (Bijlsma-Frankema & Costa, 2005; Bijlsma-Frankema & Koopman, 2004). In this article, we undertake a first step in this direction by addressing the following research question: How do trust and formalization evolve in interorganizational relationships?

To investigate this question, we distinguish trust from distrust and formal coordination from formal control. We then introduce a conceptual framework in which we incorporate two other variables: interorganizational performance

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and managers' interpretations of partner behavior. This framework contributes to the literature in two ways. First, it transcends prior work on interorganizational governance issues through the systematic integration of a range of contributions on the roles of trust and formalization in interorganizational relationships and on the interrelationships between them (as advocated by Bachmann, 2004; Bachmann, Knights, & Sydow, 2001; Bijlsma-Frankema & Koopman, 2004; McEvily et al., 2003a). Second, by reconciling apparently inconsistent arguments and empirical evidence on the trust-control nexus (Bachmann et al., 2001; Bijlsma-Frankema & Costa, 2005), we are able to describe how interorganizational governance may evolve, something that has received little attention in the literature thus far (Inkpen & Currall, 2004; Klein Woolthuis, Hillebrand, & Nooteboom, 2005). We explain why trust and distrust during initial stages of cooperation leave strong imprints on the development of collaborative relationships in later stages of development by elucidating their impact on formal coordination and control, interorganizational performance, and the interpretations that managers attribute to the behavior of their partners.

The article proceeds along the following lines. We start by defining the main constructs in our study. Subsequently, we introduce our conceptual framework, and we explain how trust, distrust, and formal coordination and control may evolve during collaborative relationships. We do so by consecutively discussing the effects of trust and distrust on formal coordination and control, on interorganizational performance, and on managers' interpretations of partner behavior. We conclude with a brief summary, the theoretical and practical implications of our study, and opportunities for further research.

Defining the Main Constructs

In this paragraph, we define the major constructs in our study, starting with trust. Rousseau, Sitkin, Burt, and Camerer (1998) define trust as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another" (p. 395). This definition implies that trust involves choice (Luhmann, 1988) and the existence of risk (R. Mayer, Davis, & Schoorman, 1995). Nooteboom (1999) explicitly addresses these points in his definition of trust, stating that it "entails that one does not expect to be harmed by a partner even though she has both the opportunity and the incentive to be opportunistic" (p. 203). His definition indicates that trust consists of a subjective state of positive expectations (Das & Teng, 2001) and that the partner and his or her behavior are the objects of

trust (Inkpen & Currall, 2004). Accordingly, we follow R. Mayer et al. (1995) in defining trust as

the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party. (p. 712)

Trust encompasses not only the belief in the ability of a partner organization to accomplish a task but also the belief in the goodwill or positive intentions of this partner and the perception that it adheres to acceptable values (R. Mayer et al., 1995; Serva, Fuller, & Mayer, 2005). Moreover, as we recognize that individual managers and not organizations as a whole trust their partners (Dodgson, 1993; Ferrin et al., this issue; Zaheer, McEvily, & Perrone, 1998), we refer to interorganizational trust in this article, being “the extent of trust placed in the partner organization by the members of a focal organization” (Zaheer et al., 1998, p. 142).

Although trust and distrust are sometimes viewed as two ends of a continuum, several scholars acknowledge that they are separate but related constructs (Hardin, 2004; Lewicki, McAllister, & Bies, 1998; Sitkin & Roth, 1993). Following Lewicki et al. (1998), we therefore define *distrust* as “confident negative expectations regarding another’s conduct” (p. 439) that manifest themselves in fear, vigilance, or suspicion (Sitkin & Roth, 1993). Distrust thus derives from the negative hypothetical possibility regarding a partner’s behavior and actions (Bachmann, 2001). It arises when partners have an interest in behaving opportunistically (Williamson, 1985). We contend that trust and distrust coexist, not only because partners can trust each other in one respect and distrust each other regarding other issues (Lewicki et al., 1998) but also because partners may cultivate trust and distrust at the same time so as to reap the benefits from both and to compensate for the weaknesses associated with each of them individually. Trust, for example, always remains a fragile mechanism (Dodgson, 1993), which prompts Langfred (2004) to state that “a little skepticism never hurt anyone” (p. 391). This indicates that certain combinations of trust and distrust may be most beneficial to interorganizational cooperation than others. To conclude, we thus embrace the idea that trust and distrust coexist (see Miles & Creed, 1995).

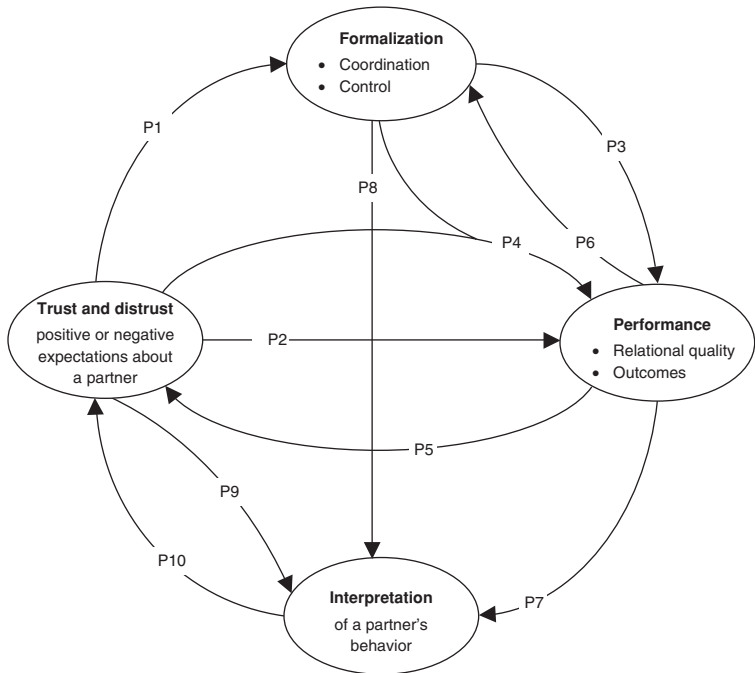
Although trust and distrust involve the expectations of managers concerning their partners, formalization involves actual interference in collaborative endeavors. It consists of the codification and enforcement of inputs, outcomes, and interorganizational activities (Bijlsma-Frankema & Costa, 2005; Das &

Teng, 2001). The principal exponent of formalization in interorganizational relationships consists of contractual planning, which refers to the process of “projecting exchanges into the future” (Macneil, 1980, p. 4) and to the contracts eventuating from this process. According to transaction cost economists and agency theorists, contracting is primarily aimed at curbing opportunistic behavior and establishing control over partner organizations. It does so by raising the costs of self-interested activities, changing payoff structures and incentives, and increasing the transparency of relationships and objects of monitoring (Oxley, 1997; Williamson, 1985).

However, formalization is not only a means to control, but it also a coordination function, which is gradually receiving more systematic attention in the literature (e.g., Carson, Madhok, & Wu, 2006; Foss & Foss, 2005; Gulati & Singh, 1998; Klein Woolthuis et al., 2005; Madhok, 2002; K. J. Mayer & Argyres, 2004). Although control problems are primarily rooted in differences in motivation and interest between partners, coordination problems generally arise from the cognitive limitations of individuals. These problems may persist even though partner interests may be aligned (Foss & Foss, 2005; Gulati, Lawrence, & Puranam, 2005). From a coordination perspective, contracts may then be interpreted as a means to pursue the alignment of activities and as technical aids to managing relationships (Klein Woolthuis et al., 2005). They help partners to decompose tasks and to establish and communicate activities. This is particularly significant for interorganizational relationships in which tasks have to be continuously geared to each other and in which joint decision making between partners is required (Gulati & Singh, 1998).

As we argue that trust, distrust, and formal coordination and control affect interorganizational performance and the interpretation that managers give to their partners' behavior, we also define these constructs here. Interorganizational performance concerns both “the degree of accomplishment of the partners' goals . . . and the extent to which their pattern of interactions is acceptable to the partners” (Ariño, 2003, p. 23). Support for this stance is provided by De Rond (2003), who found that participants in alliances between pharmaceutical companies and biotechnology firms did assess the performance of their relationships not only on economic or strategic outcomes but primarily on factors such as the ease or smoothness of cooperation, the extent to which conflicts prevail, and the partners' satisfaction with coordination and communication processes (see also Luo, 2002; Poppo & Zenger, 2002). When we discuss interorganizational performance, we therefore consider the outcomes achieved in a relationship and the relational quality underlying these outcomes (Ariño, 2003; Ariño, De la Torre, &

Figure 1
The Evolution of Trust, Distrust, and Formalization in Interorganizational Relationships



Ring, 2001). Finally, in the context of this article, interpretation is defined as the meaning that is attributed to a partner's behavior.

Now that we have defined the main constructs in our study, we elucidate how trust, distrust, and formal coordination and control may evolve in interorganizational relationships. We do so by explaining the research framework depicted in Figure 1. The general thrust of our argument is that managers' expectations during initial stages of cooperation—in terms of the levels of trust and distrust that they hold toward their partners—have a major impact on the development of these relationships in later stages (see also Doz, 1996; Ferrin, Bligh, & Kohles, 2005; Klein Woolthuys et al., 2005). This

stems from their influence on formal coordination and control, interorganizational performance, and the favorability with which managers interpret the behavior of their partners. These effects increase the likelihood that existing expectations are reinforced and that trust and distrust develop along vicious or virtuous cycles.

Trust and Distrust Affecting Formal Coordination and Control

A large body of literature proposes that trust may act as a substitute for formal control, as higher degrees of trust reduce the need for control (e.g., Das & Teng, 2001; Dyer & Singh, 1998; Gulati, 1995; Inkpen & Currall, 2004; Zaheer & Venkatraman, 1995). From this perspective, trust and formal control consist of “functionally equivalent strategies for absorbing uncertainty and dealing with the freedom and indeterminacy of other agents” (Knights, Noble, Vurdubakis, & Willmott, 2001, p. 329; see also Reed, 2001; Zucker, 1986). Both forms of governance increase the perceived predictability of social actors’ future behaviors (Luhmann, 1979; Nooteboom, 2002). This implies that if managers lose trust in their partner, more resources have to be invested in formal control (Dyer & Chu, 2003), while increments in trust reduce the need to do so (Inkpen & Currall, 2004; Zaheer et al., 1998). This substitution effect between trust and formal control is conditional on the existence of a certain degree of distrust. After all, if managers do not have any reason to distrust their partner (e.g., the perceived opportunities and payoffs for opportunistic behavior by a partner are low), a lack of trust does not have to be compensated by an increase in formal control. This leads us to our first proposition (see also Figure 1).

Proposition 1a: In the presence of distrust, increases in trust reduce the need for formal control, whereas decreases in trust augment the need for formal control.

Trust also exhibits a positive relationship with formalization, in that higher degrees of trust enable higher levels of formal coordination and control (Dekker, 2004). Trust facilitates open communication and negotiations on the details of contracts, “including the thorny sensitive clauses like relationship termination” (Klein Woolthuis et al., 2005, p. 831). Furthermore, by facilitating information sharing (Dyer & Chu, 2003; Dyer & Singh, 1998), and

by functioning as a “lubricant of economic exchange” (Knights et al., 2001, p. 312), trust enables parties to record aspects of their relationships in formal contracts and other formal documents. Distrust, instead, entails low degrees of information exchange and limited opportunities for observing and learning from partners (Maguire et al., 2001), which reduce their possibilities to formalize the relationship. We contend that the enabling character of trust and the restricting nature of distrust pertain to both formalization’s coordination function and its control function. After all, communication and information exchange are conducive to codification and enforcement in general. Moreover, as the coordination and control functions of formalization are strongly intertwined, an enabling or restricting influence on one of them will generally affect the other function as well (Foss & Foss, 2005; Madhok, 2002). This leads us to the following proposition (see also Figure 1).

Proposition 1b: Decreasing levels of distrust and increasing levels of trust augment the ability of managers to establish formal means of coordination and control.

Performance Effects

In this paragraph, we discuss the performance effects of trust, distrust, and formal coordination and control featuring most prominently in the literature.

Basic Levels of Trust and Excessive Levels of Distrust

Basic levels of trust function as a prerequisite for interorganizational cooperation because they help to generate and maintain interaction and social order (Bachmann et al., 2001; Inkpen & Curall, 2004; Luhmann, 1979; Reed, 2001). In particular, “in the face of unknown conditions, unintended consequences, existing zones of uncertainty, and the prevailing dialectic of control, social interaction always requires some trust” (Sydow & Windeler, 2003, p. 79). Otherwise, interorganizational relationships would be pervaded by very high levels of uncertainty, causing managers to continually question the motives and competences of their partners (Das & Teng, 2001; McEvily et al., 2003a). In such cases, managers become less willing to take risks, and they refrain from sharing perspectives and knowledge (Bijlsma-Frankema, 2004; March & Olsen, 1975). Similarly, we contend that excessively high levels of distrust prohibit beneficial cooperation as well, as potential partners may become reluctant to initiate relationships or because their relationships

are pervaded by so much suspicion that they are not able to capitalize on joint opportunities for value creation. We capture this in Proposition 2 (see also Figure 1).

Proposition 2: Very low levels of trust and very high levels of distrust have a negative effect on interorganizational performance.

Basic and Excessive Levels of Formal Coordination and Control

Analogue to trust, basic levels of formal coordination and control generally form a precondition for people to engage in transactions with external partners as well (Bachmann, 2001; Dasgupta, 1988; Johnson, McMillan, & Woodruff, 2002; Malhotra & Murnighan, 2002). Irrespective of the level of trust, certain levels of coordination and control are necessary to endow participants in interorganizational relationships with a degree of certainty, stability, and guidance (Langfred, 2004; Weick, 2001), without which chaos is likely to reign (Luo, 2002; Mintzberg, 1994; Volberda, 1998). In this respect, Dyer and Chu (2003) notice that "it seems that even for high-trusting relationships, it is necessary to spend some effort up-front to make sure that the responsibilities of each party are clearly spelled out" (p. 64). Support is also provided by Hoecht's (2004) study of collaborative research projects, in which he found that legal instruments such as detailed contracts were considered normal rules of the game, which were not even relaxed if parties had long cooperative histories.

Very high levels of formal coordination and control can be detrimental to interorganizational performance as well because they may entail "cumbersome, overregulated, and impersonal processes that individuals are forced to adhere to" (Beck & Kieser, 2003, p. 794; Weibel, this issue). Excessive formalization leads to conflict and disagreement among parties (Ring & Van de Ven, 1994). It also has a retarding effect on creativity and innovation, and it inhibits the flexibility that is needed for coping with complex, ambiguous, and unstable task environments (Mintzberg, 1994; Nooteboom, 1999; Volberda, 1998). High levels of formalization may further stifle desirable mutual accommodations (Ireland, Hitt, & Vaidyanath, 2002; Nooteboom, 1999) and easily degenerate into formalism (Balogun & Johnson, 2004; Mintzberg, 1994; Starbuck, 1983). Finally, they may result in areas of unilateral dependence (Lusch & Brown, 1996; Macneil, 1980), hold-up problems (Klein, Crawford, & Alchian, 1978), and considerable transaction costs (Williamson, 1985). We

therefore contend that, all else remaining equal, very low and very high levels of formal coordination and control have a negative effect on interorganizational performance. We capture this in a third proposition (see also Figure 1).

Proposition 3: Very low and very high levels of formal coordination and control have a negative effect on interorganizational performance.

Combinations of Governance Forms

Hitherto, we have described several individual effects of trust, distrust, and formal coordination and control on interorganizational performance. However, we also advance that combinations of these governance forms may affect interorganizational performance. We focus on one particularly precarious combination here, consisting of a high level of trust joined with low levels of distrust and formal control. In this situation, the danger lurks around the corner that a firm becomes an easy target for exploitation by greedy partners (Wicks, Berman, & Jones, 1999; Zeng & Chen, 2003). This risk arises from the fact that trust may be based on systematic biases (Jeffries & Reed, 2000; McEvily, Perrone, & Zaheer, 2003b) and from the notion that firms can never completely rule out that partners see it as advantageous to cheat (Lane & Bachmann, 1997). It is reinforced by the fact that even trustworthy partners can be relied on to be untrustworthy if the incentives are large enough (Dasgupta, 1988). Anderson and Jap (2005) therefore advance that “while cozy relationships sound good in theory, such relationships also provide an opportunity for covert activities designed to systematically cheat a partner” (p. 78). Similarly, Langfred (2004) argues that, under certain conditions, trust can be harmful, as it encourages actors to suspend judgment of others. This could manifest itself in the initial denial of problems, in giving others the benefit of the doubt, and in giving second chances more frequently (Hoetker, 2005). Managers asking themselves, “Our partners are so trustworthy; how could they be exploiting us?” may be reminiscent of such cases (Anderson & Jap, 2005, p. 76).

In fact, trust may go so far that “one takes the relation for granted and does not continuously think about opportunities to gain extra advantage from it, nor does one consider the other to do so” (Klein Woolthuis et al., 2005, p. 816). An example consists of a relationship between an automaker and one of its suppliers as described by Anderson and Jap (2005). The automaker invested heavily in this relationship, which eventuated in a high level of mutual trust. However, the automaker’s trust was abused by the supplier,

which “cut corners in a calculating manner” (Anderson & Jap, 2005, p. 77). Such examples show that trust sometimes “binds and blinds, making economic actors insufficiently vigilant and excessively vulnerable” (McEvily et al., 2003b, p. 98) and that trust can lead to naïveté and a take-it-for-granted mind-set in which relationships are put on cruise control (Anderson & Jap, 2005; Carson, Madhok, Varman, & John, 2003). If trust is not accompanied by certain degrees of healthy suspicion or formal controls, an organization risks being cheated or missing out on major opportunities. We capture this in a fourth proposition (see also Figure 1).

Proposition 4: Relationships in which high levels of trust are accompanied by low levels of distrust and/or formal control entail higher performance risks than relationships in which high levels of trust are accompanied by higher levels of distrust and/or formal control.

Changes in Trust, Distrust, and Formal Coordination and Control

As the framework in Figure 1 shows, interorganizational governance is not a static phenomenon. During the relationship, managers may update their expectations and wish to bring about changes in the coordination and control mechanisms that they adopt (Bijlsma-Frankema & Costa, 2005; Wicks et al., 1999). Such changes become more likely when interorganizational performance—in terms of the relational quality experienced and the outcomes achieved—is considered weak or worse than expected in early stages of cooperation.

Expectancy Disconfirmation

When interorganizational performance is relatively weak, managers may come to perceive their partners as being less trustworthy than they originally thought them to be. This assertion derives from work on expectancy disconfirmation theory, which concurs that managers’ perceptions of performance trigger a comparison of actual behavior and outcomes against their expectations (Oliver, Balakrishnan, & Barry, 1994). When positive disconfirmation prevails, trust in a partner is reinvigorated. In the case of negative disconfirmation, managers may blame their partners for the discrepancy between actual and expected performance. Accordingly, they may perceive that their partner is less trustworthy (March & Olsen, 1975). In a

similar vein, negative disconfirmation may cause managers to experience a relatively high propensity to act so as to reduce deviations between actual performance of the relationship and their expectations. This urge to act, or feeling that something has to be done, may translate itself into a heightened level of formal coordination and control (Sitkin & Bies, 1993). Accordingly, we propose that levels of interorganizational performance achieved in early stages of cooperation affect the development of trust and formal coordination and control in subsequent stages through the confirmation or disconfirmation of expectations (see also Figure 1).

Proposition 5: The lower interorganizational performance is in early stages of cooperation, the larger the decline in trust in subsequent stages of development.

Proposition 6: The lower interorganizational performance is in early stages of cooperation, the more managers perceive a need to increase formal coordination and control.

Interpreting the Behavior of Partners

Changes in trust and distrust also stem from the interpretation that managers attribute to the behavior of their partners. These interpretations, in turn, depend on the performance that has been achieved during earlier stages of cooperation, the degrees of formal coordination and control that have been adopted, and the expectations of managers regarding their partners. Concerning performance, we believe that managers become more inclined to interpret the behavior of their partners negatively when the quality of a relationship is low or when the outcomes of a relationship are unfavorable. In contrast, when performance levels are high, there is no need to blame the partner, and his or her behavior is therefore likely to be interpreted in a more favorable way. This is captured in the following proposition (see also Figure 1).

Proposition 7: The higher the level of interorganizational performance in prior stages of cooperation, the more positive are managers' interpretations of the behavior of their partner.

Considering formal coordination and control, we propose that higher levels of formalization make it easier for managers to interpret the behavior of their partners. Formalization assists them in creating shared expectations, and it helps them to define and agree on the coordination and control of activities and outcomes (K. J. Mayer & Argyres, 2004). In contrast, when

formalization is low, much room is left for widely different perceptions and frames against which meaning is made. Such a situation occurred, for example, in an alliance between Ciba Geigy and Alza, where the absence of reasonably detailed contractual agreements led to “growing suspicions and tensions as each partner was searching for clues in the behavior of the other” (Doz, 1996, p. 68). In this and similar cases, it becomes much harder for managers to interpret the behavior of their partner. The clarity of definitions and expectations that results from formalization thus facilitates assessments of a partners’ behavior (Carson et al., 2006; Malhotra & Murnighan, 2002). This leads us to the following proposition (see also Figure 1).

Proposition 8: The higher the level of formalization, the easier it becomes for managers to interpret the behavior of their partners in subsequent stages of development.

Finally, as managers make sense in ways that minimize the discrepancies between their expectations and their observations (Kahneman & Tversky, 1973), the behavior of partners is generally interpreted so that it reinforces existing preconceptions of trust and distrust (March & Olsen, 1975; Weick, 1995). Consequently, initial levels of trust and distrust strongly influence whether behavior by a partner results in spirals of distrust, defensive behavior, conflict, and increased emphasis on monitoring and control (Ghoshal & Moran, 1996) or in increased levels of commitment and trust in a partner (Klein Woolthuis et al., 2005). High levels of distrust, for example, lead managers to interpret their partner’s behavior in a less favorable light than would be the case if high trust prevailed (Kramer, 1994). When managers distrust their partners, they hesitate to reveal information, reject influence, and evade control, which complicates trust building and reinforces distrust, potentially causing partners to fall into spirals of suspicion (Anderson & Jap, 2005; Zand, 1972). Acts by partners that are intended to restore trust may even increase suspicion and alienate partners further from each other (Avadikyan, Llerena, Matt, Rozan, & Wolff, 2001; Hoecht, 2004; Liebeskind & Oliver, 1998; Sitkin & Stickel, 1996). Such acts may be perceived as evidence that a firm’s goodwill or competence is thrown into doubt, rendering them signals of distrust (Costa, 2003; Das & Teng, 1998, 2001; Ghoshal & Moran, 1996; Jap & Ganesan, 2000; Poppo & Zenger, 2002; Sitkin & Roth, 1993). Formalization does not contribute to coordination or control here, but it becomes destructive, undermining the development of trust (e.g., Lewicki et al., 1998; Sitkin & Roth, 1993). It may discourage partner contributions to

a relationship, provoke human fights and aversions to change (Bijlsma-Frankema, 2004), and give rise to a low trust atmosphere, which is frequently reciprocated with even more formal constraints, possibly eventuating in “inflationary spirals” of increasingly formalized relationships (Sitkin & Roth, 1993, p. 367) and in relationships that are locked up in formalities (Nooteboom, 1999; Parkhe, 1993). Van Marrewijk (2004) offers an example of such a spiral in his description of Unisource, an alliance of Swedish Telia, Dutch KPN Telecom, Swiss Telecom, and Spanish Telefónica. He clarifies that as trust did not develop, the partners turned to more formal control mechanisms. This slowed down decision-making processes and diminished the competitiveness of the alliance, so that trust and commitment deteriorated even more.

Conversely, when participants in interorganizational relationships initially experience high levels of trust, attempts by their partner to establish higher levels of formal coordination and control may be regarded as symbols of the sharing of values and the articulation of communal norms and customs (Zucker, 1986). Participants then presume that the other party is acting in good faith, and they will interpret partner behavior more positively (Adobor, 2005; Uzzi, 1997). In these situations, a partner’s willingness to formalize becomes a signal of commitment (Klein Woolthuis et al., 2005), indicating that he or she cares about the relationship and that he or she intends to put efforts into achieving the objectives set earlier on (Serva et al., 2005). Higher levels of trust then ensue, which enable partners to capture other aspects of the relationship in formal documents again (K. J. Mayer & Argyres, 2004; Poppo & Zenger, 2002). We capture this in a final set of propositions.

Proposition 9: The higher the level of distrust and the lower the level of trust that managers have in their partners, the more negative is their interpretation of the behavior of their partners.

Proposition 10: The more positive managers’ interpretations of the behavior of their partners are, the lower the level of distrust and the higher the level of trust during subsequent stages of cooperation.

Collectively, our framework supports Doz’s (1996, p. 77) idea that initial conditions characterizing interorganizational cooperation have “disproportionate” effects on the development of interorganizational relationships. Low levels of trust and high levels of distrust in early stages of cooperation, for example, entail a high need for formal control and a low ability to install formal means of coordination and control (Proposition 1). The resulting combination of trust,

distrust, and formalization has a negative impact on interorganizational performance (Proposition 2, Proposition 3, and Proposition 4), which subsequently diminishes trust and increases distrust (Proposition 5). In addition, low levels of interorganizational performance lead to an increase in formal coordination and control (Proposition 6) and entail negative interpretations of partner behavior (Proposition 7). As these interpretations are also shaped by the degrees of formal coordination and control (Proposition 8) and by initial degrees of trust and distrust (Proposition 9), trust is likely to diminish even more, whereas distrust tends to increase even further (Proposition 10). The framework thus shows that starting conditions—in the form of trust and distrust—may trigger vicious and virtuous cycles of development (Adobor, 2005; Gambetta, 1988; Macaulay, 1963; McEvily et al., 2003b). This observation is congruent with Zand's (1972) spiral reinforcement model and with findings from Anderson and Jap (2005), indicating that a significant portion of the more than 200 industrial partnerships they studied exhibited the formation of dysfunctional spirals of distrust.

Discussion

In this article, we have developed a conceptual framework on the evolution of trust, distrust, and formalization in interorganizational relationships. Building on the work of other researchers (Doz, 1996; Ferrin et al., 2005; Klein Woolthuys et al., 2005), we argued that starting conditions—consisting of initial levels of trust and distrust—leave strong imprints on the development of cooperative relationships. Starting conditions not only influence the degrees of formal coordination and control and the levels of performance achieved in early stages of cooperation, but they also affect how managers interpret the behavior of their partners. As a result, trust, distrust, and formalization tend to develop along self-reinforcing paths. Our assertions were captured in an integrative conceptual framework that reconciles hitherto fragmented views on the evolution of trust, distrust, and formalization in interorganizational relationships.

Theoretical and Practical Implications

The model and arguments advanced in this article have significant implications for researchers and practitioners. They show how apparently inconsistent arguments and empirical evidence on the trust-control nexus can be reconciled and describe how governance forms may evolve in interorganizational relationships. More specifically, our framework suggests that monocausal

explanations for observations on governance forms provide incomplete accounts of reality (see also Bachmann, 1998; Möllering, 2005) and that an integrative approach to theory development has to be taken to fully understand the evolution of these governance forms in interorganizational relationships. Moreover, our arguments indicate that neither trust nor formalization should become ends in themselves, as this could lead to naïveté or rigidity, respectively. Inquiries into interorganizational governance should therefore be accompanied by performance assessments, which help to make sure that trust and formal coordination and control do not become final aims (see also Suen, 2005). Furthermore, the model indicates that managers have to seriously consider refraining from interorganizational cooperation when starting conditions are unfavorable as well as breaking off relationships that are characterized by negative self-reinforcement in early stages of cooperation. Although this may seem obvious, we emphasize it here because many relationships persist although prospects are bad (Inkpen & Ross, 2001). We suggest that this may partly derive from managers being unaware of the significance of starting conditions and self-reinforcing effects.

Future Research

Several avenues for further research can be identified. A first and promising research direction could be to investigate the extent to which the relationships in our framework are contingent on the nature of economic exchanges and the legal regimes in which cooperation takes place. These factors may explain a relatively large share of the variance in trust and control (Bijlsma-Frankema & Costa, 2005). Sitkin and Stickel (1996), for example, have indicated that the degree of formalization should match the nature of the task performed to prevent escalating cycles of trust deterioration from developing. Moreover, Williamson (1985) advanced that relationships that are embedded in uncertain environments and for which parties have to make investments in relation-specific assets demand more formal control than relationships for which these investments are not required. Others have argued that formal control is problematic in exploration contexts (Oxley, 1997), as the scope of relationships cannot be clearly defined in advance, behaviors cannot be observed, and performance tends to be ambiguous (Carson et al., 2006; Das & Teng, 2001; Dirks, 2000; Hoecht, 2004; Sitkin & Roth, 1993; Sitkin & Stickel, 1996; Wicks et al., 1999). Although the trust-based mode of governance is probably risky here (Carson et al., 2006), it may be the only option for leveraging the resources that are critical to competitive advantage (Bijlsma-Frankema, 2004; Bijlsma-Frankema & Koopman, 2004; McEvily et al., 2003b).

In a similar vein, different institutional environments give rise to distinct relationships between trust and formalization (Deakin & Wilkinson, 1998; Rus & Iglič, 2005). Contractual agreements in the United Kingdom, for example, are frequently the result of exhaustive negotiations in which each party attempts to impose conditions on the other. Contracts then easily become a signal of low trust. In Germany, instead, contracts are used to reassure partners of the common or shared legal principles to which they wish to adhere, something fostering trust (Bachmann, 2001). These examples indicate that the relationships that we have depicted in our framework are contingent on the nature of economic exchanges and on the legal regimes in which these take place, something clearly deserving more attention in future research (Bijlsma-Frankema & Costa, 2005).

A second option for future research concerns the ambiguity that surrounds the intentions that partners have and their ability to communicate these intentions (see also Carson et al., 2006; Klein Woolthuis et al., 2005; Serva et al., 2005). This is important as interpretation processes can be fraught with missteps and errors and systematic biases (March & Olsen, 1975), so that the development of trust is affected by the ability of trading partners to "read each other" and their ability to "signal trustworthiness" (Carson et al., 2003). Third, and in line with research by Ferrin et al. (this issue) and Serva et al. (2005), our framework may be refined by distinguishing the actions and reactions from one party from those of another party. This would offer a better reflection of the reciprocal nature of trust building between partners. Fourth, more attention could be paid to the negative consequences or dysfunctions of trust and the positive aspects or functions of formalization so as to develop a more balanced perspective on these governance forms. The positive sentiments surrounding most research on trust (Dirks & Ferrin, 2001) and the negative connotation that many people have with formalization (Beck & Kieser, 2003) may be replaced by images of both concepts that are closer to reality. Finally, research efforts could focus on the interventions that managers undertake to make sure that trust and formalization do not degrade or escalate beyond certain levels. Insights into the ways in which self-reinforcing cycles can be broken and how trust can be repaired could further advance our understanding of the evolution of trust and formalization in interorganizational relationships.

Concluding, we have developed a conceptual framework showing that trust and distrust during initial stages of cooperation leave strong imprints on the development of collaborative relationships in later stages of development. This stems from their impact on formal coordination and control, interorganizational performance, and the interpretations that managers

attribute to the behavior of their partners. Our framework reconciles hitherto fragmented views on the evolution of trust, distrust, and formal coordination and control in collaborative relationships, thereby offering a fertile basis for further theorizing in this field.

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