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Dissertation

The Development of Trust at Multiple Levels in Strategic Alliances

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Abstract:

Most of prior multilevel studies on trust in inter-organizational relationships place much emphasis on specifying the level of analysis at which trust occurs (i.e. individual, group, or organization level) while overlooking the level of management, which refers to the hierarchical echelons within an organization. In addition, more often than not, the inter-organizational context where trust develops is not specified. Integrating both levels-of-analysis and levels-of-management perspectives, the dissertation investigates the distinctive trust dynamics at two hierarchical echelons, to understand the cross-level interaction between these echelons which leads to the establishment of shared trust in the partner organization and the formation of organization-level trust, and to contemplate the factors that might lead to within-organization trust heterogeneity. The focus on the management level also enables to discern contingencies associated with the trust development process in horizontal alliances as opposed to vertical alliances. Adopting the case study method, the alliance between KLM and Northwest Airlines is investigated to illustrate key concepts in the developed theoretical framework and to build a stronger case for future large-scale empirical studies.



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CHAPTER 1: INTRODUCTION

1.1. Motivation for the dissertation

Trust has emerged as a key topic in the research of hybrid models of organization such as strategic alliances (Menard, 2013). Not only does trust serve as an effective instrument to cope with the uncertainties which are inherent to the operation and management of an inter-organizational relationship (McEvily, Perrone and Zaheer 2003) or to help reduce the transaction costs involved in detailing complex contractual safeguards (Dyer and Chu, 2003), it also enables parties to create an inter-organizational competitive advantage through relationship-specific investment, knowledge sharing, and mutual adaptation (Dyer and Singh, 1998). Without trust, value creation of a business is impossible (Suchanek, 2015).

In such an inherently multilevel system as strategic alliances, trust functions at the individual, group and organizational levels, making it theoretically and empirically imperative for researchers to simultaneously tackle the issue of trust at varying levels of analysis (Klein, Dansereau and Hall, 1994). Scholars have attempted to distinguish between trust at different levels, yet little is known about the causal mechanisms that drive the cross-level evolution of trust, i.e. how the subject and object of trust travel from the interpersonal level to the inter-organizational level over time. In addition, most studies assume

homogeneity of organizations, in which all individuals play similar roles in establishing and running the strategic alliance, and thus have a homogeneous experience of the development of trust. While this assumption makes the empirical research on inter-organizational trust more feasible, it appears problematic in the sense that it prevents us from capturing the true meaning of trust across organizational hierarchies. In addition, while the interplay between the strategy formulation entities and the strategy implementation entities has been a central theme in management research, it is still a fruitful area for exploration with respect to the establishment of inter-organizational trust.

In response to the recent call for finer-grained research on trust in organizational settings (Fulmer and Gelfand, 2012), the dissertation is expected to bring more realistic assumptions about multilevel nature of trust to the management of inter-organizational and therefore to enrich management theories, empirical research, and real-world practice.

1.2. Objectives of the dissertation

The objectives of this dissertation are threefold: *(i)* to provide a theoretical framework that explains the process by which trust is developed across different levels of analysis as well as different levels of management, *(ii)* to specify the interactive mechanisms between corporate-level trust and operating-level trust, and *(iii)* to illustrate a certain set of concepts discussed in the theoretical framework by investigating the case study of KLM-Northwest Airlines alliance.

1.3. Key contributions of the dissertation

This dissertation contributes to the contemporary discourse on trust in organizational settings in several ways. First, it adds to the literature on trust with a detailed conceptualization of trust dynamics at both the corporate and operating levels over different stages of two types of strategic alliances, namely horizontal alliances and vertical alliances. Second, it identifies several contextual factors that hinder the movement of trust across analytical levels as well as across the organizational hierarchy, thus contributing to within-organization trust heterogeneity instead of trust as an organization-level shared construct. Finally, to the best of my knowledge, this research effort is among very few in the literature which have attempted to provide a holistic conceptualization of distinctive interactive mechanisms by which trust dynamics at different management levels can influence each other. Moreover, one strategic alliance was selected to illustrate a certain set of concepts in the theoretical framework and thereby, build a stronger case for future large-scale empirical studies.

1.4. Structure of the dissertation

The dissertation consists of five chapters. Chapter 1-Introduction provides an overview of the study, including the motivation, the objectives, the key background, I will discuss the existing literature on the concept of trust and trust building in strategic alliances as well as the hierarchical perspective on boundary spanning roles in the context of inter-organizational relationships. The central

part of the dissertation, Chapter 3-Theoretical Framing, presents the theoretical framework for cross-level trust development over four stages of a strategic alliance, with key conceptualizations being summarized and highlighted in a separate section. These conceptualizations include the integration of level of analysis with level of management to analyze the phenomenon of trust, the emergence of within-organization heterogeneity with regard to trust, and the difference between trust development processes in horizontal and vertical alliances. Chapter 4 is dedicated to the empirical investigation of the strategic alliance between KLM and Northwest Airlines to illustrate the conceptualization of the interplay between corporate-level trust and operating-level trust that has been underlined in Chapter 3. The dissertation culminates in Chapter 5 by discussing limitations of the dissertation as well as several implications for both management researchers and business practitioners.

CHAPTER 2: THEORETICAL BACKGROUND

2.1 The concept of trust in strategic alliances

2.1.1 Definition of trust

The construct of trust has a long history and broad relevance (Fulmer and Gelfand, 2012). It effectively embraces diverse disciplinary domains, including economics, psychology, sociology and ethics (Rousseau, Sitkin, Buit, and Camerer, 1996). Each domain has its own assumptions about trust, leading to a proliferation of definitions and conceptualizations of trust. While trust tend to be viewed as either calculative or institutional in economic studies, it is often treated as a socially embedded property of interpersonal or inter-organizational relationships by sociologists. Psychologists, on the other hand, normally base their evaluations of trust on the characteristics of trustors and trustees and maintain their focus on a number of intrinsic cognitions that these characteristics produce. From the ethical perspective, trust is built on three components: ability (which is associated with the trustor's expectation that the trustee is capable of performing the agreed tasks), non-opportunism (which is concerned with the trustee's willingness and ability to abstain from seeking advantage at the expense of the trustor), and righteousness (which refers to the trustee's adherence to the laws and the moral norms that are designed to protect the legitimate interest of its stakeholders) (Suchanek, 2012). In fact, from both a conceptual and a

methodological point of view, a phenomenon as complex as trust is hard to investigate with any degree of consensus.

Parkhe (1998: 223) contends that trust in the context of strategic alliances concurrently possesses economic, sociological and psychological properties. He also points out key common dimensions in these varying definitions of trust. First, trust intrinsically entails uncertainty. Two types of uncertainty in strategic alliances include uncertainty about future incidents and uncertainty about the partner's behavior. In this environment of dual uncertainty, trust arises as fundamental organizing principle. Second, trust involves vulnerability, which refers to the risk of losing something valuable to the trustor. Typically, the magnitude of the expected gain from trustworthy behavior is lesser than the potential loss resulted from untrustworthy behavior. Third, trust is placed on a party whose behavior is beyond the trustor's control, thus each alliance partner only exert partial influence on alliance outcomes. Likewise, Gargiulo and Ertug (2005) maintain that trust is a belief that indicates the potential trustor's expectations toward the potential trustee. Not only these expectations should be grounded on the trustee's goodwill toward the trustor (i.e. the trustee does not have an intent to conduct opportunistic behavior) but also on the trustee's ability to honor these intentions (Suchanek, 2012).

In line with these authors, this dissertation adopts the conceptualization of trust proposed by Mayer, Davis and Schoorman (1995). Accordingly, trust is "the willingness of a party (the trustor) to be vulnerable to the actions of another party

(the trustee) based on the expectation that the trustee intends and is able to perform in ways that will not harm the trustor in a particular situation, irrespective of the trustors ability to control the trustee's behavior” (ibib., 712). Mayer et al. (1995) also take this concept of trust a step further by offering the distinction between trust and other concepts which have been associated and/ or confused with trust, including cooperation, confidence and predictability. Specifically, trust is not always a good proxy for cooperation since cooperation does not necessarily expose the trustor to risk. In addition, cooperation can happen between parties who do not trust each other (ibid.).

The difference between confidence and trust lie in the presence of risk. In the case of trust, risk must be acknowledged and assumed while this is not the case with confidence. Luhmann (1988) provides an example to clearly distinguish trust and confidence “If you do not consider alternatives (every morning you leave the house without a weapon!), you are in a situation of confidence. If you choose one action in preference to others in spite of the possibility of being disappointed by the action of others, you define the situation as one of trust” (Lumann, 1988: 102).

While both trust and prediction are used to reduce uncertainty, trust must go beyond predictability to be meaningful (Mayer et al., 1995). Equating trust with predictability suggests that an actor who can behave in a self-interested fashion is also trusted as long as his behavior is consistent because the actor is predictable. Trust differs from predictability in the potential trustor’s willingness

to take risk and to be vulnerable. In other words, the other actor's predictability is not sufficient to make an actor willing to take risk. For instance, if an individual's manager always gets mad upon the delivery of bad news, he is predictable. Nevertheless, this predictability of the manager will not increase the probability that the individual will take risk and convey bad news to the manager. By contrast, predictability can decrease the probability that the individual will trust and be willing to be vulnerable to the manager.

2.1.2 Levels of trust

Trust is an inherently individual level phenomenon, which can be attributed to an organization only because the organization is made up of individuals who effect the inter-organizational relations (Nooteboom, Berger, and Noorderhaven, 1997). As such, organization-level trust has been defined as a shared attitude held collectively by members of a given organization (Zaheer, McEvily, and Perrone, 1998). In spite of having an essentially similar logic, interpersonal trust and inter-organizational trust are distinct constructs (Zaheer et al., 1998), and one can exist in the absence of the other (Jeffries and Reed, 2000). For example, Barney and Hansen (1994) suggest that trust between managers of partner firms may be strong while trust between the partner firms, in general, is weak, thus causing divergences between interpersonal trust and inter-organizational trust within a joint venture. In another empirical investigation, Zaheer et al. (1998) find that interpersonal trust and inter-organizational trust play different roles in affecting negotiation processes and exchange performance.

That trust is not isomorphic across levels of analysis suggests that trust may be a meso concept (House, Rousseau, and Thomas-Hunt, 1995). Researchers have only recently started to stipulate and connect the individual- and organizational-level trust relations in order to advance the meso framework of trust. Presently, research converges at the two key processes that help transform interpersonal trust (i.e. trust between boundary spanners) into inter-organizational trust (i.e. collective trust between two partner organizations). Namely, these two processes are the transference of trust in an individual to trust in an organization and the institutionalization of trust (Kroeger, 2011; Schilke and Cook, 2013). In the former process, the trust of the focal organization's boundary spanner in his or her individual counterpart is generalized to the partner organization as a whole because the counterpart's trustworthiness acts as a referent or a signal regarding the trustworthiness of the partner organization. The institutionalization of trust happens as the trusting behavior and attitude initiated by the boundary spanner enhances common understanding and is perceived as a routine among organizational members.

However, these studies, as well as most of extant trust literature, place a great degree of emphasis on specifying the level of analysis at which the construct occurs in a theoretical model (i.e. individual-, group-, or organisation-level) while ignoring the level of management, which refers to the hierarchical echelons within an organization (Waldman and Yammarino, 1999). Consistent with the level-of-analysis focus, scholars tend to rest their studies on an implicit

assumption of within-unit homogeneity (Klein, Tosi, and Cannella Jr, 1999), which is manifest in their equating of the top management with the organization, without regard to the other organizational members who may participate in the inter-organizational relationship and who may differ from the top management in their perceptions, experiences, and behaviors. Zaheer et al. (1998: 142) argue that theories of inter-firm relationships that merely treat trust as a property of organizations without articulating the relation between the micro and macro levels are inaccurate, as they “anthropomorphizes the organization” (ibid.).

Furthermore, each organizational member is assigned to a certain position in the organizational hierarchy, which accordingly associates him/her with a particular role. An organizational role indicates the expectations regarding the position incumbent’s involvement in the operational and strategic duties (Floyd and Lane, 2000), thus restricting and guiding his/her conduct in the organization (Nooteboom et al., 1997). In an inter-organizational alliance, individuals participating in an alliance from both sides are likely to play varying roles depending on the position they hold in the organizational hierarchy. Zaheer et al. (2002) maintain that “individuals at higher and lower hierarchical levels (...) each see the world in qualitatively different ways” (2002: 348), thus they posit, “interpersonal trust between top managers may need to be understood differently than that between individuals at other levels of the organization.” (ibid.). Likewise, Salk and Simon (2003) hold that, with respect to attitudes, individuals who develop strategic intentions of an organization are clearly distinct from

individuals who implement them at the operational level. In their recent review paper, Fulmer and Gelfand (2012) strongly urge researchers to articulate how trust is conceptualized at the inter-organizational level and to take into consideration the different nature and characteristics of trust of multiple actor groups which are relevant to the inter-organizational relation but do not belong to the group of key informants (typically top management team members). With this dissertation, I argue that understanding the management level is vital given that trust is a multilevel phenomenon. The focus on the different levels of management allows me to simultaneously investigate the distinctive trust dynamics at two hierarchical echelons, to understand the cross-level interaction between these echelons which leads to the formation of shared trust in the partner organization and the establishment of organization-level trust, and to consider the factors that might lead to within-organization trust heterogeneity.

The focus on the management level also provides me with an interesting opportunity to discern contingencies associated with the trust development sequence in different types of inter-organizational cooperative relationship, which is hardly found in existing theoretical conceptualizations (e.g. Ring and Van de Ven, 1996; Schilke and Cook, 2013). I distinguish between cooperative relationships with suppliers/ customers (vertical alliances) and cooperative relationships with competitors (horizontal alliances) and argue that the nature of the role of boundary spanners at different hierarchical levels in these alliances affects the trust outcome at each relationship stage.

2.1.3 Trust development in strategic alliances

It is acknowledged that, as in other contexts, the development of trust in the context of strategic alliances encompasses both cognitive and affective elements (McAllister, 1995). However, within the scope of this dissertation, I focus solely on the cognitive dimension. The cognitive dimension of trust centers on the perceptions of an actor's trustworthiness and the expectations of reliability and predictability in the behavior of one actor by another (Mayer et al., 1995). Trust development is thus often depicted as a trustor's process of learning about the trustworthiness of the trustee through experience and repeated interactions (e.g., Mayer et al., 1995; Ring and Van de Ven, 1994). These interactions, which can be direct between the actors or indirect via a third party, are conditioned by a number of relational factors, including reputation, prior affiliation and communication (Nielsen, 2001; Parkhe, 1998). In the following, each will be discussed in turn.

Reputation: Particularly in the lack of cooperative history with a specific party, the potential trustor will rely on reputation of that party in the marketplace to decide whether or not trust should be initiated (Schilke and Cook, 2013). Reputation provides clues on the party's professional competence, benevolence, honesty and predictability (Dasgupta, 1988), leading to the emergence of trust. A good reputation suggests increased likelihood of trustworthy behavior in the future (Parkhe, 1998). The resource-based theory maintains that a good reputation may serve as a valuable intangible asset which enable firms to build

sustainable competitive advantage (Saxton, 1997).

Prior affiliation: The willingness to invest in developing trust and maintaining long-term relations is strongly correlated with a firm's previous experience with the partner as well as the extent to which positive or negative expectations have been archived (Nielsen, 2001). As such, trust is seen as an accumulation of satisfactory experiences between firms. Furthermore, partners with a long-standing cooperation history are more likely to go through critical "shake-out" periods of conflicts and disputes (Doz, 1996). Having survived these periods, the partners establish mutual trust, mutual liking and good working relationships (Faems, Janssens, Madhok, and Van Looy, 2008). Trust accumulated from prior engagements subsequently serves as a solid basis for firms to justify their involvement in the following alliances as well as their trust in the partners given the specific context of the new alliances (Gulati, 1995).

Communication: In a broad sense, communication can be defined as "the formal as well as the informal sharing of meaningful and timely information between firms" (Nielsen, 2001: 21). According to Mohr (2004), communication enhances the transparency of both parties' agendas and prevents the potential emergence of "hidden agendas" (Mohr, 2004: 9). Communication also enables the learning about partners as well as the comparison between words and actions, thus allowing firms to draw more accurate inferences about the trustworthiness and the future behavior of the partner. Similarly, Aulakh et al. (1996) find that communication positively impacts the level of trust between partners in strategic

alliances. This is because communication enhances the alignment of expectations and perceptions between alliance partners, which is conducive to trust development. Das and Teng (1998) identify several reasons for the significant role of communication in trust building. First, communication facilitates the process of collecting evidence of the partner's credibility and trustworthiness. Second, communication provides a basis for continuing interaction, through which partners are able to cultivate common values and norms, leading to the development of trust. Nielsen (2001) emphasizes the importance of timely communication, as the quality of previous communication precedes the development of present trust. The accumulation of trust subsequently results in improved communication, indicating that trust and communication are interdependent and likely to influence each other according to which period of the relationship is being studied.

The review on these relational factors provides a foundation for my investigation into trust development processes. Arguably, each factor contributes to varying extents to the establishment and maintenance of trust at multiple hierarchical levels, which will be discussed in detail in Chapter 3.

2.2 Boundary spanning roles in strategic alliances

2.2.1 Nature of boundary spanning roles in strategic alliances

Organizations comprise of and are operated by individuals (Aulakh, Kotabe and Sahay, 1996) who enact inter-firm relations (Nooteboom et al.,

1997). However, not all organizational members are engaged in effecting the inter-organizational collaboration to the same degree. The management of alliances, joint ventures and other forms of cooperative strategies are often entrusted to boundary spanners whose roles are to process information from the partner organization, represent the interests of their own firm, and "link organizational structure to environmental elements" (Aldrich and Herker, 1977: 218). In the context of running several alliances, Doz and Hamel (1998) discuss the network manager role as providing a central point for exchange and communication, overseeing free riders, storing member information and performance, and maintaining behavior norms. Child, Faulkner and Tallman (2005) highlight the crucial role of 'intercultural boundary spanners' in international joint ventures in bridging two organizations or individuals from different cultures.

Much attention has been focused on the social facets of alliance management and the vital role of interpersonal relations (Adobor, 2006; Child et al., 2005; Hutt, Stafford, Walke and Reingen, 2000). It is argued that an alliance's social network and the necessity for boundary spanning happen at manifold levels, including top management, middle management and operational levels (Hutt, et al., 2000). Interpersonal relationships add to the formal structure and play an important role in expediting communication and learning, resolving conflict, building trust, speeding decision-making, and discovering new possibilities for collaboration (ibid.). Similarly, Adobor (2006) picks up on the

theme of personal relationships and suggests that while the realization of the benefits of personal ties mainly occurs during early stages, the dysfunction of these ties tend to happen during later stages. According to him, in the context of a strategic alliance, personal ties have both advantages and disadvantages (ibid.). The key advantages are accelerating the formation process, establishing and bolstering trust, contributing to reducing uncertainty and decreasing relational risk (ibid.). By contrast, the main disadvantages include the fate of an alliance relying on these personal relationships, the swelling commitment to a course of action, the potential increase of relationship-specific agency and transactions costs, and the conflict of interest (ibid.).

The function of boundary spanners in collaborative contexts is frequently subject to substantial ambiguity and tension due to the problems stemming from managing without power, the need to thwart the partner firm's opportunistic behavior and to maintain a balance in terms of the accountability to the alliances and to their own organizations (Williams, 2010). Working in such an environment is argued to require a specific set of skills and competencies. Child et al. (2005) refer to the following skills as the most important in alliance management: capacity to work with individuals over whom they possess no immediate authority, capacity to develop trusting relationships, ability to work in and manage interdisciplinary teams, negotiation skills, capacity to work in fluid working environments, being able to deal with ambiguity and manage personal stress.

2.2.2 Hierarchical perspective on boundary spanning roles

Following Janowicz-Panjaitan and Noorderhaven (2009), I hereafter differentiate between boundary spanning agents at two levels of the organizational hierarchy, namely corporate level and the operating level, and consequently between inter-organizational trust at the corporate level and inter-organizational trust at the operating level. Corporate-level trust is defined as the shared attitude of the focal organization's corporate-level boundary spanners toward their counterparts in the partner organization (ibid.). Likewise, operating-level trust between organizations is conceptualized as the trust commonly held by the operating-level boundary spanners of the focal firm toward their counterparts from the partner organization (ibid.).

2.2.2.1 Trust at the corporate level

Corporate-level boundary spanners represent their organizations to negotiate the resources that they are willing to devote to collaborative effort (e.g. know-how, market access, financial resources) to receive the outputs that they desire from the alliance (e.g. greater efficiency, increased legitimacy, new intellectual property). Since each partner's expected gains from the relationship depend on the other's contributions, agreements on inputs and outputs generate a certain configuration of resource interdependence between the partners (Pfeffer and Salancik, 1978). The larger the intended extent of cooperation, that is, the more inputs are provided or outputs are demanded, the greater the

interdependence among partners as well as the need for a high level of cooperation among them, *ceteris paribus* (Gulati and Sytch, 2007).

Due to the resource interdependency of the parties to an alliance, the key corporate-level concern is that the partners would not behave as agreed regarding contributions or payoffs (Gulati, Wohlgezogen and Zhelyazkov, 2012). Specifically, organizations may shirk (i.e. contribute less than agreed), or try to claim more benefits than agreed by way of misappropriation of partner resources or alliance outcomes, or by way of holdup, which refers to the exploitation of a superior bargaining position to negotiate more favorable terms (*ibid.*). Such concern stems from the fact that alliance partners are independent economic actors who uphold control over their own resource allocation decisions, possess varying and probably conflicting strategic objectives (Park and Ungson, 2001), and are likely affected by diverse sets of environmental factors (Koka et al., 2006). External pressures or internal choices can cause partners to demonstrate different levels of interest in the collaboration, and even conflict of interest and competition in the relation.

Trust stands to be especially beneficial in the presence of such behavioral uncertainty. Mutual trust at the corporate level functions as a safeguarding and controlling mechanism that promotes stability and equity in alliances (Gulati and Sytch, 2008) and reduces partner firms' motivation and inclination to involve in opportunistic behaviors (Lane et al., 2001). As corporate-level boundary spanners trust each other, they will invest more in relation-specific resources

(Inkpen and Currall, 1998; Perry et al., 2004). Partners with high specificity in a trusting relationship tend to solve problems by means of negotiation, put up with unfavorable actions on the part of the counterpart as short-term upheaval, and assess each other in accordance with a long-term horizon (Ganesan, 1994). By affirming good faith in the reliability and intention of partner behavior, trust allows corporate-level boundary spanners on both sides to involve in constructive interpretation of each other's actions (Zaheer et al., 1998). Trusting boundary spanners maintain positive affect toward the counterparts by dismissing negative issues in ways that confirm their positive trusting attitudes (Lawler et al., 2000). This does not mean that they innocently ignore negative elements in the relationship, but they make fewer negative attributions (ibid.).

To the extent that partners are satisfied with the alliance, they may experience an escalation of relational commitment and trust. Enhanced commitment and trust can, in turn, aid the renegotiation of formal agreements since actors are less likely to suspect underhanded motives (Das and Kumar, 2011). It also expedites informal adaptation without the need to change formal documents, which is particularly advantageous in turbulent environments (Ring and Van de Ven, 1992).

2.2.2.2 Trust at the operating level

While cooperate-level boundary spanners are in charge of negotiating resource contribution and outcome distribution and designing the overall

structure and system of the alliance, it is the operating-level boundary spanners who directly involve in the designation and execution of information sharing, feedback mechanisms and decision making in the relationship so as to consolidate and structure partners' efforts, and to combine partners' resources in a productive way (Gulati et al., 2012). At the outset, corporate-level boundary spanners may harbor wrong or incomplete assumptions about the partner organization's cultural and structural idiosyncrasies and the coordination requirements of the joint action. During the implementation phase, operating-level boundary spanners would need to "correct" such assumptions through learning about their individual counterparts, the partner organization as a whole, and about the task they aim to perform (ibid.). For example, scientists from a small entrepreneurial firm may gradually apprehend that the informal decision-making process of their firm does not work in collaborations with large bureaucratic organizations (Doz, 1996). Likewise, engineers of a U.S. automobile company may learn how to navigate its cultural and linguistic differences with its foreign partners (White, 2005). Such task-related learning is mainly based on trial and error, on near-misses in the course of the relationship, and on insights gained from coordination failures (ibid.).

So what is the role that operating-level trust would play in these situations? Alliance partners engage in coordination efforts to handle the task interdependence that can flow from the production technologies in use or from a given division of labor (Raveendran, Puranam and Warglien, 2012), and to

manage uncertainties emerging from internal tasks or the external environment (Bensaou and Venkatraman, 1995). Given task interdependencies, task uncertainties, and environmental uncertainties in a strategic alliance, key coordination concerns are whether partners can collectively recognize and manage them efficiently. Greater interdependence and uncertainty in an alliance may increase coordination costs and may also increase the likelihood of coordination failures (Gulati et al., 2012). Coordination failures can cause notably unfavorable consequences for the alliance as a whole: they result in operational delays and inefficiencies, possibly thwarting partners from realizing pre-defined alliance goals (Mohr and Spekman, 1994).

Empirical research shows that trust encourages boundary spanners at the operating level to become highly aware of the organizational processes and procedures that their counterparts follow and give them greater flexibility to transcend their pre-specified roles in adapting to changing circumstances (Doz, 1996). Under high interdependence, operating-level trust facilitates mutual adjustment and allows the smoother synchronization of critical tasks as the alliance unfolds (ibid.).

Trust at the operating level is of particular importance to alleviate apprehensions regarding the sharing of valuable information or knowledge; the resulting information exchange, mutual learning, and socialization assist in maintaining effective integration and coordination (Janowicz-Panjaitan and Noorderhaven, 2009). First, learning entails risk because acknowledging an error

or seeking for help can indicate incompetence and may affect a person's image in a negative way (Edmondson, 1999). Trust contributes to generating the climate of psychological safety (Edmondson, 1999), and thus can favorably alter learning behavior of the workgroup that is made up of individuals from different organizations. Second, individuals may rebuff learning because it might dispute their prevailing concepts of self (Brown and Starkey, 2000). If a source of knowledge is perceived to be trustworthy, defiance from internalizing the knowledge provided by that source can be partly overcome (McEvily et al., 2003). The source's trustworthiness can be considered as "a proxy for quality and veracity of the knowledge conveyed" (ibid., 97). Thirdly, individuals who perceive knowledge as a power source might refuse sharing it (Szulanski, 1996) or even establish barriers to thwart its unintended leakage. Trust promotes free information exchange as actors feel no need to shield themselves against opportunistic behavior of their counterparts (Jarillo, 1988). All things considered, it can be posited that higher operational-level trust alleviates the perceived risks associated with the learning process, leading to increased knowledge sharing between boundary spanners of the alliance partners.

However, the learning processes as a result of operating-level trust may not always lead to better coordination. Mutual learning can be maladaptive if it locks partners into competency traps and renders them reluctant to relinquish settled but suboptimal inter-organizational routines and processes (Levitt and March, 1988). The consequences of such rigidities would be especially harmful

when the environmental conditions changes, demanding new formal structures and informal routines entirely unlike those that have been previously used (Zollo and Reuer, 2010).

In summary, the above discussion indicates that as the roles of boundary spanners vary significantly across the hierarchical levels, their key concerns in the alliance as well as their exposure to and experience with the partner organization also differ. This difference is characterized by the type and the source of information about the counterparts which boundary spanners are faced with, and also the timing of the interactions with the counterparts that they are engaged in (Zaheer et al., 2002). Arguably, these factors, in turn, affect the trust development processes at the respective hierarchical level. These processes will be examined in detail in Chapter 3.

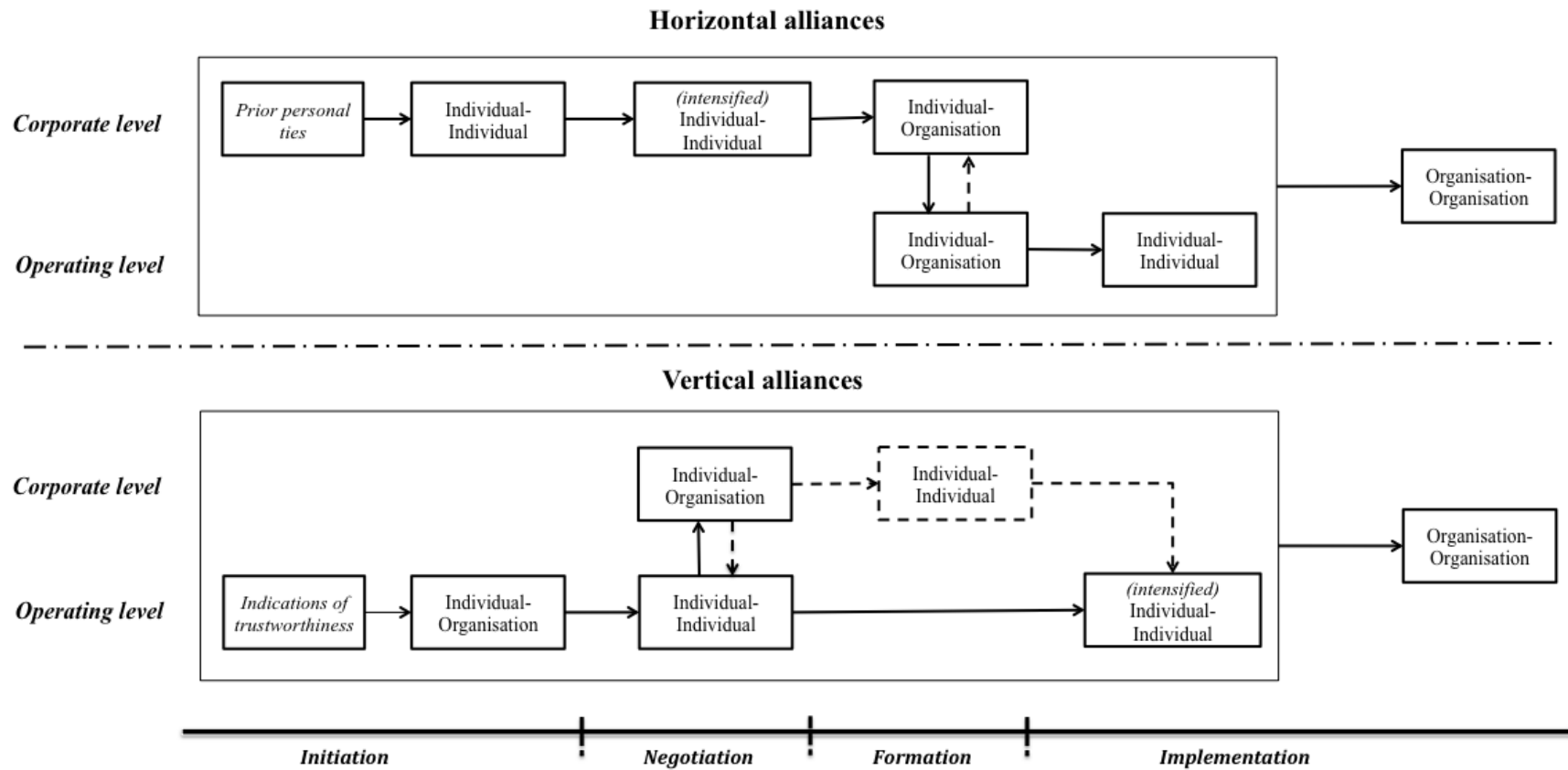
CHAPTER 3: THEORETICAL FRAMING

3.1 Theoretical model of trust development in strategic alliances

Based on the existing literature of alliance life cycle models, four stages of a typical alliance relationship, namely initiation, negotiation, formation, and implementation, have been identified (Das and Teng, 2002). The initiation stage is characterized by partner identification and selection (ibid.). The negotiation stage involves developing joint expectations about parties' motivations, possible investments, and perceived uncertainties of the relationship via formal bargaining and informal sense-making (ibid.). In the formation stage, resources are committed, and the governance structure of the partnership is established (ibid.). As prospective parties enter the implementation stage, all relationship agreements come into effect (ibid.).

In the subsequent discussion, I structure the theoretical framework of trust development at two hierarchical levels around these four developmental stages. The juxtaposition of horizontal alliances and vertical alliances clearly depicts the similarities and differences in the cross-level trust development process of these alliances. Figure 1 presents the model of trust development across hierarchical levels in both types of strategic alliances.

Figure 1: The trust development process in strategic alliances



3.1.1 Initiation stage

In horizontal alliances, top managers play a crucial role in initiating, negotiating, and forming the alliances due to the strategic challenges and subtle tensions inherited in the coopetition (i.e. cooperate with competitors) process, which will likely threaten the firms' competitive position in the market if not managed properly (Das and Teng, 2000; Silverman and Baum, 2002). During the initiation stage, top managers' existing social ties, which have been founded via prior associations (e.g. if managers used to work for the same company or have completed a business deal together) or existing relationships (e.g. serving as an independent board member of the same firm or sitting on the board of advisors of the same professional association), provide support in partner identification (Wong and Ellis, 2002). These social ties also aid in the attraction of potential strategic partners and new alliance opportunities (Geletkanycz and Hambrick, 1997). Such relationships, which are characterized by frequent interaction and intimacy, allow top managers to examine their potential counterparts in terms of personality, individual competence, personal skills, and interests. This comprehensive set of personal factors, which results from highly informative personal exchanges and "gut feel" rather than the CEO role itself (Zaheer, Lofstrom, and George, 2002) helps build interpersonal trust between the senior executives and forms the basis for initiating a relationship between the respective organizations.

By contrast, vertical alliances between buyers and suppliers are normally initiated at the operating level (e.g. account manager, divisional manager) due to their practical knowledge and functional role in maintaining and developing the firms' supply chain (e.g. Narayandas and Rangan, 2004; Perrone, Zaheer, and McEvily, 2003). Unlike corporate-level boundary spanners, who rely upon their personal executive network to identify potential alliance partners and establish interpersonal trust with potential executive counterparts, operating-level boundary spanners tend to examine the trustworthiness of a prospective partner organization as a whole during the initiation stage. This is because firms are likely to retain a record of a number of relevant suppliers/buyers for a specific product/service, with which the degree of prior business involvement of the focal operating-level boundary spanners might vary. Inferences about the partner organization's trustworthiness can be drawn from previous interactions between the two organizations, from the prospective partner organization's general reputation in the marketplace, and from institutional categories to which the partner organization belongs (Schilke and Cook, 2013).

Proposition 1a: During the initiation stage in horizontal alliances, individual-individual trust of the focal corporate-level boundary spanner towards his/her counterpart is established.

Proposition 1b: During the initiation stage in vertical alliances, individual-organization trust of the focal operating-level boundary spanners towards the partner organization is established.

3.1.2 Negotiation stage

The negotiation stage is characterized by intensive formal bargaining and informal sense-making processes through which the negotiators jointly learn about the potential risks and benefits of the business deal and try to achieve a congruence of purpose, values, and expectations (Ring and Van de Ven, 1994).

In horizontal alliances, these processes are important for corporate-level boundary spanners to re-assess and make an informed judgment of the trustworthiness of their individual counterparts in the context of the potential alliance. Corporate-level trust is thereby intensified and becomes more relevant to the alliance, resulting in psychological contracts (Ring and Van de Ven, 1994) between the corporate-level boundary spanners, which in turn increases the likelihood of concluding formal negotiations to a strategic alliance.

In the vertical alliances, these processes engender the transformation of the nature of the trust relationship between operating-level boundary spanners, from individual-organization trust to individual-individual trust. Interpersonal, first-hand experiences that occur during this stage not only offset initial judgments of the partner organization as the basis for trust but also lead the focal operating-level boundary spanner to make an informed evaluation of the trustworthiness of his/her individual counterpart and form an experience-based, personal trust relationship. In a qualitative study of buyer–seller relationships, Narayandas and Rangan (2004) observe that in mature industrial markets, an

individual–organization trust is often an antecedent to participation in interpersonal negotiations. When boundary spanners were engaged in on-going, intense personal interactions, this trust platform was replaced by psychological contracts regarding the need for cooperation between the partner organizations (ibid).

Moreover, the progression of trust from the operating level to the corporate level also occurs at this stage as the operating-level boundary spanners attempt to influence as well as broker corporate-level trust in the partner organization. This occurs in order to ensure that their integrity in the alliancing process is not cast in doubt by their superiors and to gain legitimacy for their trusting behavior and attitude towards the individual counterpart as well as the partner organization. Empirical research shows that corporate managers' primary concern regarding strategic alliances is related to the fact that their firms may have to confront agency problems caused by operating-level representatives who may strive to negotiate better personal compensation or positions, shift their primary allegiance to the alliance, or misuse knowledge generated within the alliance to compete with the parent firm (Fang, Palmatier, Sheer and Li, 2008). Thus, regardless of the operating-level boundary spanners' trust in a counterpart's trustworthiness, acting on that trust is inherently risky if it runs counter to the corporate level's beliefs. Operating-level boundary spanners face less risk in acting on their own trust in their counterparts if the corporate-level trust confirms their trust. Corporate-level boundary spanners, on the contrary, are receptive to

the trust information provided by operating-level boundary spanners while seeking to establish their trust towards the partner organization because their hands-on experience in the alliance is still limited at this stage.

Proposition 2a: During the negotiation stage in horizontal alliances, individual-individual trust between corporate-level boundary spanners is intensified.

Proposition 2b: During the negotiation stage in vertical alliances, individual-individual trust between operating-level boundary spanners is established. This interpersonal trust facilitates the establishment of individual-organization trust at the corporate level.

3.1.3 Formation stage

During the formation stage, both sides to the strategic alliance consider committing different types of resources to the alliance.

In horizontal alliances, both the transference of trust across analytical levels and the movement of trust across hierarchical levels happen at this stage. The trust that the corporate-level boundary spanner has established with his/ her individual counterpart during the negotiation stage will be transferred to the partner organization. The transferability of trust has been discussed extensively in the literature (McEvily et al., 2003). The transference from individual-individual trust to individual-organizational trust can only occur if the individual's conduct is considered as representative of the organization by the

potential trustor (Doney and Cannon, 1997). In the context of strategic alliances, it can be argued that the attitudinal and behavioral patterns of the corporate-level counterpart can be attributed to the organization that he/she represents. As a result, the trust that the focal corporate-level boundary spanner has established in his/her individual counterpart during the negotiation stage will be transformed into trust in the partner organization during the formation stage.

The movement of trust from the corporate level to the operating level can also be observed. Corporate-level boundary spanners are motivated to influence the operating-level trust in the partner organization because they want to ensure that a certain level of consensus is reached between decision-making and decision-executing entities so that decisions can be smoothly implemented (Floyd and Wooldridge, 1992). In addition, due to the lack of personal interaction with and first-hand knowledge about the alliance partner at the operating level, operating-level boundary spanners likely seek information from corporate-level managers in order to establish preliminary trust in the partner organization.

In vertical alliances, the direct involvement of corporate-level boundary spanners in the formation stage is contingent upon the nature of the investment and the governance structure required (Brennan and Turnbull, 1999). If the alliance involves significant relationship-specific investments, which would make the focal organization strategically vulnerable to potential opportunistic behaviors of the partner organization, goodwill and commitment is bound to be

sought and a stronger form of trust needs to be established at the higher echelons. Accordingly, senior executives will engage in interpersonal interactions and intensive joint sense-making with their counterparts which, in turn, triggers the development of individual-individual trust between corporate-level boundary spanners.

Proposition 3a: During the formation stage in horizontal alliances, individual-organization trust on behalf of the focal corporate-level boundary spanner toward the partner organization is established. This trust facilitates the establishment of individual-organization trust at the operating level.

Proposition 3b: During the formation stage in vertical alliances, individual-individual trust might be established at the corporate level, depending on the nature of the investment required.

3.1.4 Implementation stage

In horizontal alliances, operating-level boundary spanners take responsibility for the daily implementation of alliance agreements. As the alliance progresses, they have the opportunity to become actively involved in interactions with their individual counterparts. This, in turn, gives rise to interpersonal trust development. The initial trust between boundary spanners at the operating level is typically role-based. Role-based trust relates to the expectation that the role occupant has the necessary technical competencies to

perform their role in the alliance and that he/she will fulfill the responsibilities and obligations associated with the roles he/she occupies (Kramer, 1999). Hence, it is not the role occupant who is trusted as much as the institutional system that produces and maintains role-appropriate behavior (Meyerson, Weick, and Kramer, 1996). To this point, trust in the partner organization will serve as a basis for role-based trust between operating-level personnel.

Frequent and varied interactions over time lead to these formal role relationships becoming socially embedded in an incremental and accelerating progression of socialization and accommodation (Ring and Van de Ven, 1994). Due to the enhanced knowledge and understanding of the counterpart, the focal operating-level boundary spanner comes to assess the counterpart as an individual, not just as a role incumbent. The true motives and intentions of the counterpart become more visible, and emotional attachments will be developed. At this stage, role-based trust is transformed into relational trust.

In vertical alliances, the interpersonal trust that has developed between operating-level boundary spanners from both sides over the previous stages are intensified during the implementation stage. The unanticipated issues that characterize the execution of the alliance contract allow them to engage in intensive information exchange, knowledge sharing and joint problem solving. The focal operating-level boundary spanners thus become more identified with their counterparts, being willing to take risks and go beyond their prescribed roles to do what is needed for the alliance (Doz and Hamel, 1998).

Proposition 4a: During the implementation stage in horizontal alliances, individual-organization trust on behalf of the focal operating-level boundary spanner towards the partner organization forms the basis for role-based individual-individual trust towards his/her counterpart. Through intensive and varied interactions, this role-based trust is transformed into relational individual-individual trust between operating-level boundary spanners.

Proposition 4b: During the implementation stage in vertical alliances, individual-individual trust on behalf of the focal operating-level boundary spanner towards his/her counterpart becomes intensified.

Indirect interaction between corporate-level trust and operating-level trust: The above discussion considered the cross-level movement of trust throughout the different stages of a strategic alliance whereby trust at one hierarchical level can directly impact trust at the other hierarchical level. In this section, we continue to investigate the indirect, cross-level effect of trust in strategic alliances. Specifically, it is considered how the outcome of trust at one hierarchical level can impact trust at the other hierarchical level. This effect becomes prominent when the alliance comes into implementation stage.

Alliance governance is the most significant outcome of the initiation and negotiation stages at the corporate level since it defines how the alliance is organized and regulated as well as how the partners manage and influence the

evolution and performance of the alliance over time (Doz and Hamel, 1998). Empirical studies reveal that corporate-level trust leads to the application of a broad contractual governance structure, which is characterized by an overlapping task division and the presence of obligations to exchange information between the two alliance partners (Faems et al., 2008). These coordination provisions increase the points of contact between operating-level boundary spanners and thus, the extent of possible interactions between them. Intensive interactions are conducive to the development of trust at the operating level. The higher degree of exposure to individuals from the partner organization and joint activities in a broad, dense interface potentially provides a basis for the development of competence-based trust (Levin and Cross, 2004). By creating channels through which differences in opinion can be resolved, these coordination provisions are important for mitigating misunderstandings of the kind that raise questions about the intent of the counterparty and for retaining goodwill trust after a conflict has arisen (Malhotra and Lumineau, 2011).

However, the governance structure and other organizational systems that are designed and determined at the corporate level for the alliance to operate within normally do not do justice to the true complexity of this task. Such complexity, which is accentuated by differences between the two organizations' structure, processes, and culture, is likely only to be discovered and experienced at the operating level (Doz, 1996). Mutual adjustment as a result of operating-level trust will cut through the complexity, enhance the predictability of

interactions, and give partners a sense of procedural justice. This facilitates trust development at the corporate level in the sense that the corporate-level boundary spanners will have a clear view of what it is going to be like working with the partner organization in practice. More importantly, the efficiency benefits of successful collaboration at the operating level enhance the perception on behalf of corporate-level boundary spanners that joint value creation will be possible, leading them to perceive the commitment and intention of the counterparts with regard to the alliance more positively (Faems et al., 2008).

Proposition 4c: The development of trust at the operating level is positively impacted by broad contractual governance structures which result if corporate-level trust is high.

Proposition 4d: The development of trust at the corporate level is positively impacted by mutual adjustment and successful collaboration which result if operating-level trust is high.

An emergence of organization-level trust: The focus of the dissertation so far has been placed on the development of trust at the personal level (i.e. individual-individual and individual-organization trust) across two hierarchical levels. Drawing on social influence literature, it is also possible to explore why and how boundary spanner trust may be diffused throughout the organization and become an attribute collectively held by the organizational members toward the partner firm, or organization-level trust (Zaheer et al., 1998).

Social influence theorists argue that human behaviors can be influenced by social norms, which are defined as "rules and standards that are understood by members of a group, and that guide and/or constrain social behavior without the force of law" (Cialdini and Trost, 1998, p. 152). There are two types of social norms: descriptive norms, that specify what most people do in a particular situation, and injunctive norms, which are derived from what most people approve or disapprove of (ibid.). In a recent review of the social influence literature, Cialdini and Goldstein (2004) identify three main reasons that lead individuals to conform to a given social norm. First, they want to make accurate decisions and hence, they use evidence of other people's behaviors to identify the most effective course of action. This reason is particularly relevant when the situation facing the decision-maker is novel, ambiguous or uncertain, when the source of reference is similar to them, and when those people have visible signs of success, such as wealth, power, or status. Second, people are motivated to build and maintain satisfying social relationships by seeking to be in agreement with others, thereby creating a smooth interaction and increasing affection. Finally, conformity to a social norm can also occur simply because individuals want to avoid the conception of themselves as different, deviant or intransigent or because they want to sustain a positive self-image, for example as a cooperative team player. All in all, the concept of social norms indicates an important factor that might influence the degree to which people are affected by the behavior of others: the degree to which they identify with those others (e.g. Wenzel, 2004).

The idea is that when the level of identification is high, other people's behavior will have a larger influence on observers' social norms. This can be explained by social-identity theory according to which group members tend to use their own group to maintain or enhance a positive social identity and self-esteem (Tajfel, 1982). As a consequence, group members are motivated to conform to norms that provide them with an in-group identity, rather than an out-group one (ibid.).

Based on the insights regarding social influence processes, I argue that in strategic alliances, boundary spanners can play a crucial role in disseminating their trusting conduct to their fellow organizational members, thereby accelerating organization-level conformity. Specifically, trusting attitudes and behaviors, which have resulted in enhanced inter-firm collaborative performance, will be made observable and clearly communicated to organizational members. Because boundary spanners are perceived to be powerful, authoritative people in the organization, these trusting attitudes and behaviors will be likely taken as a guideline for effective action in the focal inter-organizational relationship. Newcomers, who are fresh to the alliance and might not have had a chance to directly observe or receive information from the boundary spanners, are likely to feel motivated to adopt this trusting conduct in order to establish coordinated interactions with and win affection from the existing members. Gradually, the trusting conduct, which was initiated by the boundary spanners, can become embedded in the relationship and accepted as the behavioral norm within the focal organization. Individuals who belong to the focal organization

acknowledge the joint efforts to sustain certain trusting norms and thus, even when their personal preference would imply an alternative course of actions, they are still committed to the norms indicating the focal organization's trust perceptions toward the partner organization. The stronger the organizational members identify with each other and with their own organization, the more likely they are to opt to uphold these trust beliefs.

Proposition 4e: Boundary spanner trust is diffused among the focal organization via the mechanism of normative social influence, gradually leading to the emergence of organization-level trust towards the partner organization.

3.2 Boundary condition of trust development

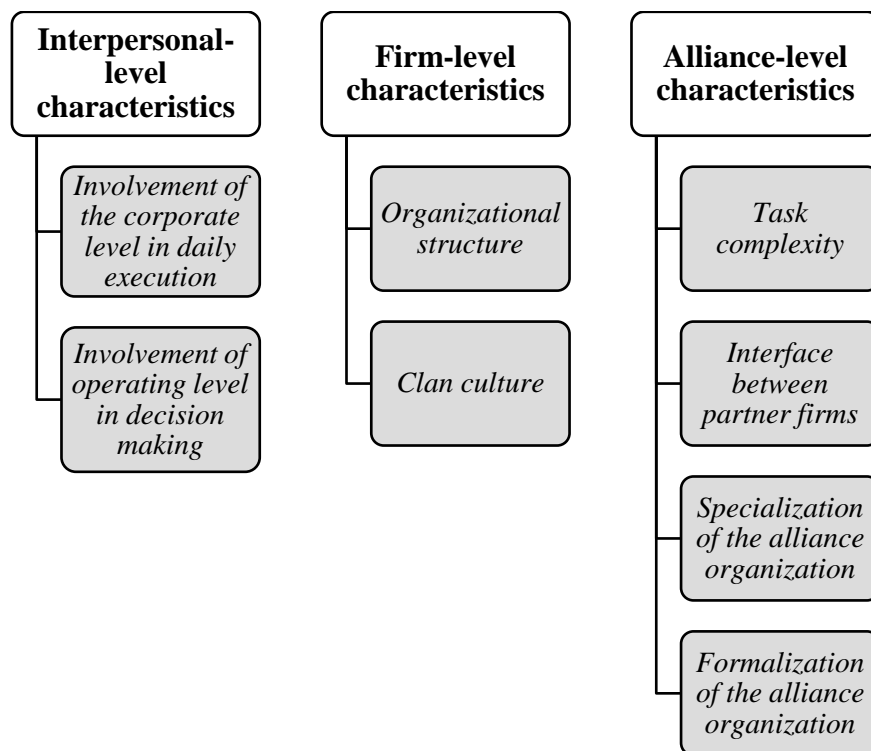
In the previous section, I have examined the interplay between corporate-level trust dynamics and operating-level trust dynamics. This interplay not only enables the movement of trust across hierarchical levels but also accounts for the transformation of the form of trust (i.e. individual-individual trust versus individual-organization trust), resulting in trust as a shared attitude toward the partner organization.

However, a shared attitude may vary in terms of its persistence, the number of people sharing it, and the extent to which it is prevalent in the functional relationship on a day-to-day basis. I now draw attention to the factors that may condition the development of trust as a shared attribute across

organizational hierarchies in a strategic alliance. In other words, I will consider potential causes of trust heterogeneity within an organization. I believe that understanding such factors are important due to several potential negative consequences that within-organization trust heterogeneity may yield in strategic alliances. First, within-organization trust heterogeneity may result in poor decision implementation. Specifically, if operating-level members have less trust toward the partner organization than the top management, they may show less commitment to the alliance and may question the wisdom of the top management's decision regarding the alliance. Thus, they may subvert these decisions or not exert themselves sufficiently to carry out the top management's directives successfully. Moreover, within-organization trust heterogeneity may lead to inadequate intra-organizational coordination as organizational members may find it arduous to coordinate their efforts with colleagues who differ in their trust and commitment in the alliance. Finally, within-organization trust heterogeneity may cause boundary spanners of the focal organization to give mixed signals of trust and commitment to the partner organization, making the focal organization appear inconsistent, unpredictable, and unreliable in the eyes of the partner organization. This situation would negatively affect the relationship quality between the parties, and over time, can jeopardize the alliance.

An overview of these boundary factors is provided in Figure 2 below.

Figure 2: Boundary factors of trust development



Source: own illustration

3.2.1 Interpersonal-level characteristics

Interpersonal-level characteristics influence the interface between the corporate-level and operating-level boundary spanners. This interface is characterized by the involvement of the corporate level in the daily execution of the strategic alliance as well as the involvement of the operating level in the strategic decision making process.

Involvement of the corporate-level boundary spanners in daily execution: Direct involvement in the alliance execution process will increase the visibility of top managers, thus enhancing their social influence on the lower-level personnel (Friedkin, 1993) and facilitating the dissemination and reinforcement of trust

beliefs. In addition, when top managers provide hands-on oversight of the strategic alliance, the operating members are likely to follow top managers' lead as well as to mimic the behavior modeled by the top managers, thus trusting in and collaborating with the alliance partner in the manner that the top managers intend. However, top managers often work under time restrictions (Tengblad, 2002); as the alliance tasks become routinized, their active participation in the different aspects of the alliance starts to decrease. If the inter-organizational relationship is stable, operating-level boundary spanners' trust in the partner organization may persist. However, if the nature of the alliance changes over time, and the corporate-level boundary spanners stay detached from the day-to-day interactions between their firm and the partner organization, the alignment of trust between corporate-level and operating-level boundary spanners in the partner organization may diminish.

Proposition 5a: The more involved the top managers are in the day-to-day operations of the strategic alliance, the less heterogeneous the organization-level trust in the partner organization will be.

Involvement of operating-level boundary spanners in strategic decision-making: A strategic alliance involves a series of strategic decisions, ranging from partner selection and choice of alliance structure to the on-going adaptation and re-negotiation of the alliance. The participation of operating-level boundary spanners in the decision-making process bridges the trust gap between the two hierarchical levels with regard to the partner organization in two ways. First, it

provides opportunities for communication and clarification, which enhances the operating level's understanding of the alliance context as well as the suitability and trustworthiness of the partner organization in a manner that aligns with the corporate-level boundary spanners' perception. Second, it accelerates the upward feedback from the operating level to the corporate level on the actual trustworthiness of the partner organization, consequently reducing the trust-related information asymmetry between the two levels as the alliance evolves.

Proposition 5b: The more involved the operating-level boundary spanner is in the decision-making process, the less heterogeneous the organization-level trust in the partner organization will be.

3.2.2 Firm-level characteristics

Organizational structure: Extant literature posits that organizational size and structure accentuate the asymmetries of interest between different hierarchical levels, as do the temporal and physical constraints on the contact between the interacting parties (Hambrick, Finkelstein and Mooney, 2005). In small, single-business organizations, top management has more opportunities to interact with and gain insight into the processes and perspectives from lower organizational levels. Conversely, highly complex organizational structures promote the potential for filtering and the distortion of information throughout the organization (Fence, 1970). Such distortion and filtering may make the achievement of a trust consensus between hierarchical levels more challenging.

Existing literature provides evidence that in highly centralized organizations, there is less goal and interest conflict as well as less potential for divergent perspectives (Wooldridge and Floyd, 1990). Fredrickson (1986) reported that a high level of formalization reduces goal incongruity by clearly demarcating norms of behavior and by establishing well-defined expectations regarding management aspects. Based on these findings, we argue that in highly centralized and formalized organizations, corporate-level and operating-level boundary spanners are more likely to develop a homogeneous level of trust in the partner organization.

Proposition 6a: The more centralized and formalized organizations are, the less heterogeneous the organization-level trust in the partner organization is.

Clan culture: Clan culture is characterized by strong norms and intense socialization. In a clan organization, a variety of social mechanisms reduce differences between individual and organizational goals and produce a strong sense of community (Ouchi, 1980), and open communication and employee involvement are highly encouraged (Cameron and Quinn, 1999). As a result, attitude and behavior of organizational members is likely to be homogeneous, even in situations that involve risk and ambiguity. Clan organizations not only adhere to trust-based organizing principles and practices internally, but also apply these ideals to relationships outside the organization (Dyer and Ouchi, 1993). Members of such organizations have a strong propensity to trust their

exchange partner as well as to develop a trusting inter-organizational relationship (ibid.).

Following this train of thought, it can be argued that operating-level boundary spanners of clan organizations are inclined to develop trust in the partner organization, and along the way, align their trusting attitudes and behaviors with those of the corporate-level boundary spanners. The corporate-level boundary spanners, on the other hand, find it easier to disseminate their trust beliefs to the lower echelons due to the intense socialization and collective sense-making that characterize the clan culture of their organization.

Proposition 6b: In organizations where clan culture is prevalent, organization-level trust in the partner organization is less heterogeneous.

3.2.3 Alliance-level characteristics

Alliance complexity is related to the functioning of alliances, including their operational performance and instability (McCutchen Jr., Swamidass, and Teng, 2008; Park and Ungson, 2001). Killing (1988) considers alliance complexity as a function of two aspects: the complexity of the task the alliance sets out to accomplish and the complexity of its organizational structure. I argue that both aspects influence the development of organization-level trust in strategic alliances. Regarding the latter aspect, the multidimensional framework for alliance organizational structures proposed by Albers, Wohlgezogen and Zajac (2013), which has its roots in the classic organizational design literature,

can be applied to discuss three relevant structural parameters for alliance, namely the interface between partners, the specialization, and the formalization of the alliance organization.

Task complexity. According to Killings (1988), task complexity depends on several factors such as alliance objectives, duration, nature of products and markets, number of business functions, and environmental uncertainty surrounding alliance activities. Specifically, strategic alliances with high task complexity usually have multiple objectives, encompass several business functions, span over a longer time horizon, and deal with many products or markets (ibid.). High task complexity is associated with high work interdependence, high outcome uncertainty and high environmental uncertainty, leading to an equivocal mix of risks and benefits of the strategic alliance for the organizations involved (ibid.). Corporate-level boundary spanners, who have negotiated the collaboration, focus on the long-term payoffs of the alliance, and view it as part of the corporate strategy. They may develop higher trust and commitment to the alliance. In contrast, organizational members at the lower levels, who focus on operational, day-to-day problems that require immediate energy and effort in fixing them, may question the merits of the involvement.

In addition, Haunschild and Sullivan (2002) suggest that under complex circumstances, firms tend to have to deal with a multiplicity of underlying issues, rather than being able to focus on any one particular attribution, due to the diverse spectrum of information which organizational members have access to.

Following this logic, I posit that greater task complexity stimulates heterogeneity in the perceptions and attitudes of corporate-level and operating-level personnel toward the partner firm when a specific event occurs. This, in turn, is likely to undermine the establishment and maintenance of a homogeneous level of trust across organizational hierarchies. For example, in the event of an unanticipated technological problem which leads to delays in the delivery of collaborative outcomes, operating-level engineers, who directly engage in the implementation process, may consider it as a technical uncertainty that can happen to any scientific projects, thus refraining themselves from placing a blame on their counterparts. By contrast, corporate-level managers of the focal firm, who emphasize the contractual milestones and alliance outcomes, may start to question the good intention and commitment of the partner firm's management (e.g. they might assume that the engineers committed to the alliance were not adequately competent). As a result, corporate-level managers may hold back their trust in these counterparts.

Proposition 7a: The lower the level of task complexity in the strategic alliance, the less heterogeneous the organization-level trust in the partner organization is.

Interface between partner firms: The interface dimension captures the network of personal ties among the partner firms' boundary spanners. The interface between partner organizations can vary in strength, which depends on the number and the type of boundary spanners engaged in the alliance, the

number of connections among these boundary spanners, and the intensity of the interaction among them (Albers et al., 2013). While a narrow interface is based on only a few connections among boundary spanners and low frequency of interaction between partners, a broad interface provides a higher degree of network closure and high frequency of inter-firm interaction (ibid.).

I reason that when the interaction between the operating-level boundary spanners and the partner organization are highly frequent and strong ties are developed, they are likely to obtain information, signals and cues that are different from those captured by the corporate-level boundary spanners, and vice versa. A narrow interface can also make it less challenging for top managers to impose control over the trusting behavior and attitude of lower-level personnel. Therefore, the alignment of trust between the corporate-level and operating-level echelons in the partner organization may be enhanced.

Proposition 7b: A narrow interface between alliance partners reduces the heterogeneity of organization-level trust on behalf of the focal organization towards the partner organization.

Specialization of the alliance organization: Specialization within the alliance refers to the degree to which alliance activities are differentiated from other organizational activities within the partners' internal organization. Put differently, specialization refers to the degree to which organizational members involved in the alliance focus exclusively on alliance tasks (Albers et al., 2013).

If employees involved in an alliance have numerous non-alliance-related responsibilities within their respective organizations, the alliance specialization is considered to be low. Conversely, the higher the number of alliance-specialized positions and the higher the employees' degree of specialization, the higher the degree of specialization in the alliance structure overall (ibid.).

I argue that specialized organizational members are more likely to share a comparable level of interest in and commitment to the alliance as well as to have equal access to partner information and alliance functioning, causing them to form more closely aligned trust perceptions. Furthermore, it will be easier for corporate-level managers to communicate and disseminate their trust perceptions among a focused group as compared to those who have to communicate to a diverse group whose limited attentional resources are split across several responsibilities.

Proposition 7c: The more specialized the alliance is, the less heterogeneous the organization-level trust on behalf of the focal organization in the partner organization will be.

Formalization of the alliance organization: Formalization describes the codification and standardization of rules, procedures, plans, and documentation to guide alliance activities. The greater the variety of tasks and contingencies that are covered by rules, procedures, and documentation requirements, and the more

detailed the prescribed standardized responses are, the more highly formalized the alliance structure is (Albers et al., 2013).

In highly formalized alliances, the transparency of "who is doing what and when" is high; organizational members perform the same tasks repeatedly, they experience few novel expectations, and are thus likely to develop idiosyncratic perceptions of the trustworthiness of their firm's alliance partner or of the merits of the inter-organizational relationship (ibid.). By contrast, in alliances characterized by a low level of formalization, employees working across organizational boundaries must rely on experience, judgment and intuition to resolve work quandaries. Accordingly, they are unlikely to be united in their perceptions, attitudes and behaviors, resulting in a lower level of trust consensus across organizational hierarchies.

Proposition 7d: The more formalized the alliance is, the less heterogeneous the organization-level trust on behalf of the focal organization in the partner organization will be.

3.3 Discussion

This chapter has investigated the trust dynamics across hierarchical levels, the trust development process in both horizontal and vertical alliances, and the factors that may impede the movement and transformation of trust. There are several core insights into multilevel theorizing about trust in strategic alliances

that can be derived from this investigation, and I will highlight each of them in the further discussion below.

3.3.1 Integration of level of analysis and level of management

The level of analysis has unequivocally dominated the multilevel research on trust because it effectively addresses the issues regarding the co-existence of interpersonal trust and inter-organizational trust in inter-organizational relationships, the functional relation between them has been a particular point of focus in order to avoid "anthropomorphization" of an organization (Zaheer et al., 1998). However, multilevel theorists have suggested that scholars of organizational phenomena should begin to investigate collective constructs with a fine-grained understanding of the nature of interaction among organizational members because it is these interactions which allow collective constructs to emerge and be maintained (Morgeson and Hofmann, 1999). Arguably, the nature of such interactions closely relates to the different roles that organizational members occupy in the organizational hierarchy. A role reflects the expectations regarding to the role incumbent's contribution to the strategic tasks as well as operational tasks (Floyd and Lane, 2000). Hence, roles confine and guide organizational conduct (Nooteboom, Berger and Noorderhaven, 1997). This approach of studying particular roles stresses the relevance of the level of management as a distinguishing feature in multilevel research.

In my multilevel analysis of trust in strategic alliances, the incorporation of both level of analysis and level of management perspectives allows insight into the multiple forms of trust as well as the cross-level interactive interface in the focal organization to be gained.

At the *intra-subjective level* (or individual) level, trust exists in the form of individual-individual and individual-organizational trust as the corporate-level boundary spanner and the operating-level boundary spanner seek to develop their own trust in the partner organization as well as in their corresponding counterparts. Here, boundary spanners rely on their personal frame of references for determining the level of trust they develop (Goffman, 1974). Such frames are constructed based on the information, experience, and interest that they acquire based on their organizational roles and responsibilities at the relevant stage of the strategic alliance (ibid.).

However, the development of a frame for reference of trust does not take place in social isolation; it is shaped by interactions with others who are engaged in similar endeavors. Thus, at the *inter-subjective level* (between two hierarchical echelons), my analysis reveals three interactive mechanisms by which trust at one echelon can be impacted by trust at the other echelon. I name these mechanisms information exchange, mutual influencing, and functional interaction.

The *mechanism of information exchange* is based on the logic of information processing theory, which suggests that the quality of a decision is influenced by the amount and category of information that the decision maker collects, interprets and synthesizes during the decision making process (Dooley and Fryxell, 1999). Including extensive and exhaustive information is beneficial to decision processes, even when the decision making also requires a high speed, because it leads to a more comprehensive picture of the issue at hand and a lower probability of omitting relevant information (Eisenhardt, 1989). Thus, in order to make better-informed trust decisions in strategic alliances, corporate-level and operating-level boundary spanners will be motivated to seek a broad spectrum of information from each other. For example, during the implementation stage in horizontal alliances, operating-level boundary spanners tend to incorporate information from operating-level boundary spanners, who have already had intensive interaction with the partner organization in previous stages, so as to make their own judgment of a partner's trustworthiness.

The *mechanism of mutual influencing* is built on the interpersonal process perspective in strategy implementation (Bourgeois and Brodwin, 1984), which suggests that both the top and middle management teams have motives for influencing each other. Specifically, the top management team uses their interaction processes to establish commitment to and understanding of the strategy among the stakeholders of the strategy implementation process. They aim to instill a strong sense of organizational recognition and individual

ownership. The middle management team, on the other hand, exert pressure on the top management team in order to receive resources, sell issues, or win the top management team's support for their course of strategic action. This logic can also be applied to the trust development in strategic alliances. For example, during the negotiation stage in vertical alliances, operating-level boundary spanners seek to influence the corporate-level trust in the partner organization in order to gain legitimacy for their trusting behavior and attitude and to ensure that their integrity in the alliancing process is not subject to doubt.

The *mechanism of functional interaction* posits that the outcome of trust at one hierarchical echelon creates favorable conditions for the development of trust at the other hierarchical echelon. For example, the broad application of governance structures, which are a result of trust at the corporate-level, allows for more intensive interaction, communication and joint problem solving at the operating level, which is, in turn, conducive to the development of operating-level trust.

Finally, at the *collective* (or organization-) level, the intra-organizational diffusion of boundary spanner trust is enacted via the mechanism of social influence. Specifically, the trust in the partner organization, which has been shared between corporate-level and operating-level boundary spanners is actively articulated to other organizational members as a norm. Hence, other members of the organization are inclined to conform to this norm in order to achieve their goals of acting effectively, maintaining social relationships, and managing their

own self-conception. By incorporating insights from the social influence literature, we contribute a new perspective on the micro-processes underlying organizational institutionalization to the emerging stream of micro-institutional literature (Powell and Colyas, 2008).

3.3.2 Within-organization trust homogeneity vs. heterogeneity

Most existing trust studies have adopted an (usually implicit) assumption of within-organization homogeneity, resulting in the treatment of trust as a shared construct (e.g. Gaur, Mukherjee, Gaur and Schmid, 2011; Krishnan, Martin and Noorderhaven, 2006; Zaheer et al., 1998). The main benefits of this assumption are isomorphism, parsimony, and practicality for both theoretical and empirical research. However, it is important to consider the implications for research if this assumption of within-organization homogeneity is incorrect. What if the organizational members, especially boundary spanners, do not feel equally trustful of or committed to the partner organization? If the assumption of within-organization homogeneity is erroneous, empirical studies that have been based on this assumption are subject to measurement error. In addition, trust researchers' ability to study potentially important intra- and inter-organizational dynamics, resulting from disagreement between corporate-level and operating-level echelons in their trust toward the partner organization, have been undermined. For example, how do corporate-level managers ensure that the unwanted sharing of tacit knowledge will not happen due to "over-trust" at the operating level? How should a partner organization respond to mixed signals of

trust emanating from the focal organization? As a result, we can offer little or no practical advice to managers struggling with these issues.

While the proposed trust development model indicates the emergence of trust as a shared attribute between corporate-level and operating-level boundary spanners and ultimately, among other organizational members, this study is the first to make a fundamental distinction between these two hierarchical echelons with reference to their roles, their degree of involvement, and the developmental sequence of their trust in the alliance. This distinction provides a sound rationale for my investigation into multiple factors that may cause within-organization trust heterogeneity in strategic alliances. Specifically, I posit that within-organization trust heterogeneity is more likely to be observed in organizations which are characterized by less involvement of the corporate-level boundary spanners in day-to-day execution activities and of operating-level boundary spanners in strategic decision-making. Likewise, less formalized and centralized, organizations where clan culture is less prevalent, and the alliances which are characterized by high task complexity, high formalization, high specialization, and broad inter-partner interface are also all likely to exhibit a greater degree of trust heterogeneity.

3.3.3 Context of analysis: vertical alliances vs. horizontal alliances

Multilevel theorists have long stressed the influential role of organizational setting in understanding multilevel phenomena in organizations as

it defines the forms and outcomes of interaction among organizational members and the underlying emergence processes by which a collective construct might emerge (Morgeson and Hofmann, 1999). While explaining and contrasting varying contextual settings is arguably an inevitable step in the procedures of empirical trust studies, few theoretical scholars make this issue explicit in their conceptualizations or frameworks of trust in inter-organizational relationships.

To the best of my knowledge, this study is among the pioneering theoretical research which attempts to apprehend the trust development process between different types of inter-organizational relationships. The inclusion of the level of management in my multilevel analysis makes this approach possible because it encapsulates the differences in the roles, the degree and the sequence of involvement of corporate-level and operating-level boundary spanners. For example, in vertical alliances, the trust development process begins at the operating level, rather than at the corporate level as is the case in horizontal alliances, due to the crucial role of functional managers in initiating and negotiating the inter-firm collaboration. Furthermore, this initial trust between operating-level boundary spanners in vertical alliances is established under the form of individual-organization trust while the initial trust of corporate-level boundary spanners in horizontal alliances is individual-individual, based on personal ties and knowledge beyond the immediate context of the organization.

CHAPTER 4: ILLUSTRATIVE CASE STUDY

4.1 Objective of the empirical study

The objective of this empirical chapter is not to test all the propositions included in the stagewise model of trust development as depicted in Chapter 3 due to practical reasons of data collection. Rather, it aims to illustrate a certain set of concepts that have been discussed in the functional interaction mechanism between corporate-level trust and operating-level trust (refer to section 3.3.1 - Integration of level of analysis and level of management/ Inter-subjective level) by examining real-life strategic alliances. This initial case study analysis lays the foundation for future investigations which can be conducted on a larger scale to test the theoretical framework and propositions that I have developed.

For the purpose of this empirical study, the research question is refined and re-formulated as: what is the nature of interplay between corporate-level trust and operating-level trust?

In the previous section, I have suggested that trust at one level can be directly or indirectly influenced by trust at the other level. Such relationships are reflected in Table 1.

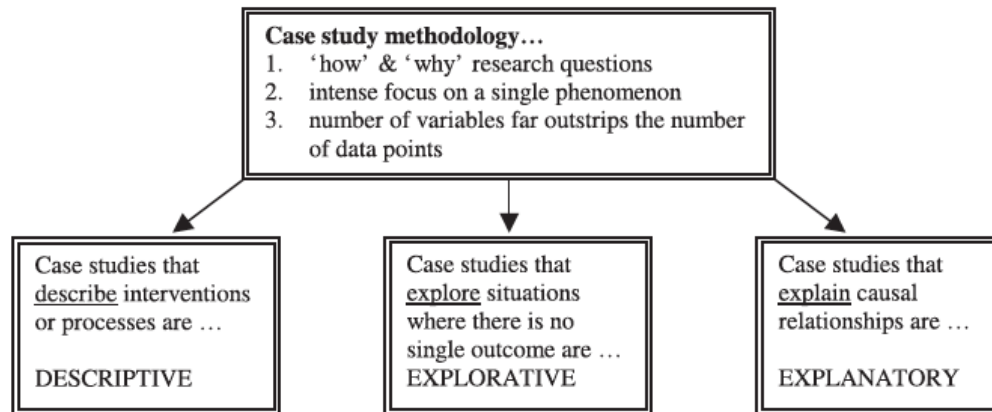
Table 1: Summary of proposed cross-level influence of trust

<i>Influencing direction</i>	<i>Direct influence</i>		<i>Indirect influence</i>	
	<i>Characteristics</i>	<i>Key stage of influence</i>	<i>Characteristics</i>	<i>Key stage of influence</i>
Corporate level --> Operating level	– Communication of trustworthiness of the partner organization, thus contributing to establishing initial trust between operating-level personnel.	Formation	– Application of a broad contractual governance structure which allows for intensive interaction and information sharing between operating-level personnel. These activities are conducive to operating-level trust building.	Implementation
Operating level--> Corporate level	– Communication of the partner trustworthiness to the corporate-level managers to gain legitimacy for their collaborative behavior	Implementation	– Successful collaboration at the operating level leads the corporate-level managers to perceive the counterparts' intentions and commitment to the alliance more positively.	Implementation

4.2 Rationale for case study methodology

A case study “is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 2003: 13). A case study is especially preferable when the researcher seeks an answer to a "how" and "why" question about a contemporary phenomenon within real life contexts over which she/he hardly has control. Unlike statistical sampling methods, the case study approach does not require a minimum number of cases. Rather, it allows the investigator to retain holistic and meaningful insights into single real life events.

Yin (2003) further identifies three categories of case studies, namely exploratory, explanatory, and descriptive case studies. The typical objective of exploratory case studies is to prepare a framework for further investigation of the phenomenon observed. Thus, fieldwork and data connection are conducted before the study questions and hypotheses are finalized. Explanatory case studies, on the contrary, seek to use collected data in order to explain the phenomena and offer the possibility of investigating cause-and-effect relationships. Finally, descriptive, or illustrative, case studies set to illuminate a phenomenon and the context in which it actually occurred based on theoretical constructs. Therefore, in a descriptive case study, the investigator must start with a descriptive theory to support the analysis of the phenomenon; otherwise they will face the possibility that the study lacks rigor and complications may arise throughout the study.

Figure 3: Different types of case studies

Source: own illustration

The descriptive case study method was chosen because of the following considerations. First, this empirical study deals with the "how" question type about the way corporate-level trust and operating-level trust affect each other in strategic alliances, which arguably is the key advantage of the case study approach as opposed to the other approaches. Second, the main objective of the empirical study is to illustrate certain concepts proposed in the theoretical model of trust development with actual examples, and in doing so, establishing a link between theory and practice and demonstrating the viability of the proposed model. Third, the case study methodology allows the researcher not only to develop an overall understanding of the trust phenomenon in the investigated alliances but also to discern intricacies associated with the trust building process at multiple hierarchical levels. Finally, the strategic alliance that was selected for

analysis represent a phenomenon over which the researcher apparently has no control.

4.3 Research Design

4.3.1 Data collection

Yin (2009) identifies six sources of evidence for case study research, namely documentation, archival records, interviews, direct observation, participant-observation, and physical artifacts, on which he notes that no single source has a complete advantage over all the others. This study adopted the documentary evidence. The variety of documents ranges from letters, memoranda, email correspondence, announcements, meeting minutes, progress reports and annual reports to formal studies or evaluations of the similar "case" that the author is studying, news clipping and other media articles.

According to Yin (2009), the strengths of documentary evidence include stability (i.e. can be reviewed repeatedly), unobtrusiveness (i.e. not created as a result of the case study), exactness (i.e. contains exact names, references and details of event), and broad coverage (i.e. long span of time, many events, many settings). The weaknesses comprise of retrievability (i.e. can be difficult to find), biased selectivity if collection is incomplete, reporting bias (i.e. reflects unknown bias of author), and access (maybe deliberately withheld). Considering these strengths and weaknesses, Yin (2009) suggests that documentary evidence best fits the case study research which aims to infer from documents so as to provide

the clues that are worthy of further investigation. This is also the purpose of my empirical study.

In order to illustrate the theoretical discussion in Chapter 3, the strategic alliance between KLM and Northwest Airlines was investigated. The rationale for choosing these specific alliances is based on data availability, which enables the simultaneous examination of both corporate-level trust and operating-level trust, and the fact that they are prominent alliances in their own industries (i.e. aviation and pharmaceutical, respectively). Data for the KLM-Northwest Airlines alliance were collected from multiple documentation sources, including news clipping, press releases and formal studies.

4.3.2 Data analysis

Data collected was analyzed using the qualitative content analysis technique. "Content analysis is a catch-all term covering a variety of techniques for making inference from 'texts'" (Bernard, 1995: 339). Content analysis was used for all text data gathered in the case of KLM-Northwest Airlines alliance.

The process of content analysis begins with coding. The purpose of coding is to reduce the number of data units and enable the assembly of diverse concepts associated with the focal phenomena (Strauss and Corbin, 1990). As such, data are fragmented, conceptualized and grouped back in a new way. Throughout the coding operation, the investigator should recurrently ask the following questions about the data being gathered: "Of what topic, unit, or aspect is this an instance?"

What questions about a topic does this item of data suggest? What do I see going on here? What are people doing? What is happening? What kind of events are at issue here?" (Lofland and Lofland, 1995: 186). These questions will aid the investigator in capturing the intricacies of the phenomena being studied and developing initial codes (ibid.). Subsequently, these basic codes will be re-examined and combine into focused codes. Codes that appear unfit for the overall scheme will be eliminated (ibid.).

The next step in the process of content analysis is defined as memoing (Miles and Huberman, 1994). A memo, which can be of any length, allows the investigator to reflect on the focused codes as well as on specific constructs. Such memos will be stored separately and possibly used afterward to remind the investigator of their thoughts at that time and/or to support future sets of constructs. These two processes are iterative throughout the collection and analysis of data, defining the investigator's increasing understanding of the phenomenon over time.

In order to provide a clear insight into the analyzed data, I hereby present the steps taken in my analysis. Data analysis includes two steps.

First, the entire collected data were read thoroughly, and all trust-related statements were identified. In addition to coding a number of statements as expressions of trust, a comment was attached to each statement describing its

trusting nature, i.e. why the statement was seen as a signal of trust/ trust building/ trust deterioration in nature.

Second, all quotations were revisited and coded in a way to specify if the quotation refers to the corporate-level trust (i.e. trust between top management people of the parent companies), or the operating-level trust (i.e. trust between people who were assigned by their own firms to work together within the alliance), or the impact of corporate-level trust on operating-level trust, or the impact of operating-level trust on corporate-level trust. However, many quotations did not fit the conceptualizations of trust and inter-dependence between corporate-level trust and operating-level trust that had been discussed in the theoretical sections in a straightforward manner. A judgment had to be made about which concept the quotation was referring to. The use of comments forced me to explicate and justify the coding of each quotation, thereby increasing intra-coder reliability (Miles and Huberman, 1994: 64), i.e. the likelihood of me coding the quotations in the same way if I had to do it over again.

4.3.3 Validity and reliability of the study

According to Yin (2003), four quality criteria are relevant to case study research: construct validity, internal validity, external validity, and reliability. Internal validity in case study research deals with locating generative mechanisms that aid in determining inferences about real-life experiences (Sykes, 1990), thus it mostly concerns explanatory cases in which investigators'

inference is critical (Tellis, 1997). Accordingly, the following section focuses on construct validity, external validity and reliability.

Construct validity: According to Emory and Cooper (1991), construct validity makes sure that the concepts being investigated are adequately operationalized (see also McDaniel and Gates, 1991). In other words, construct validity "testifies to how well the results obtained from the use of the measure fit the theories around which the test is designed" (Sekaran, 1992: 173). Yin (2003) suggests that construct validity can be achieved via using triangulation, maintaining a chain of evidence, relying on literature to develop operational measures, and having key informant review case study reports. In my study, construct validity was considered by basing on a theoretical framework (Chapter 3) to establish a data analysis guideline which includes concepts of corporate-level trust and operating-level trust from theory as well as by using multiple sources of evidence.

External validity: External validity is referred to the analytical generalizability of a particular set of research findings to a broader theory (Yin, 2003). Case studies do not aim at inferring overall findings from a sample to a population, but rather to identify and develop understandings about patterns and relationships that are theoretically significant. External validity can be achieved by associating the findings with theory and accompanying the findings with descriptions that are detailed enough to allow judgment of the generalizability to other contexts (Riege, 2003). Other useful techniques include the use of multiple

case studies, cross-case analysis, deliberate interview protocol, and the use of coding and analysis procedures (Miles and Huberman 1994). Due to the descriptive nature of this study, external validity was ensured by adequately linking the cases with the concepts and propositions in the proposed theoretical framework (Chapter 3), making the contributions to theory more viable. The procedures of coding and analysis was also used for the purpose of external validity.

Reliability: In case study research, reliability refers to the repeatability of operations of the case study (Yin, 2003). To ensure reliability, it is required that case study procedures are executed in order to identify a trace of documentation. Techniques that can be used for reliability tests are the use of case study protocols and the creation of case study databases so as to enhance overall integrity of the research (Parkhe, 1993). In this study, reliability was established by means of maintaining a case study protocol during data collection.

4.4 Results

4.4.1 Alliance background

Since its inception in 1991, the strategic alliance between the Dutch airline KLM and the American airline Northwest Airlines has been acknowledged as the most integrated and profitable alliance in the airline industry. Starting with a joint code sharing agreement, in which Northwest Airline purchased half of the seats on the KLM-operated trans-Atlantic flights, the alliance gradually formed a

trans-Atlantic joint venture (JV) that make the two carriers mutually dependent in their business segment. The joint venture was grounded on an evergreen agreement with a minimum term of ten years (till 2010). After 2007, either firm can terminate this alliance within three years' notice. Table 2 below illustrates the key characteristics of the JV.

Table 2: Key characteristics of the KLM-Northwest JV

Type of partnership	Joint venture agreement but without new legal entity
Type of contract	Evergreen contract, with 10-year minimum term till 2010. Either firm can terminate this JV within three years' notice.
Independence	KLM and Northwest remain separate entities
Reduced uncertainty	Trans-Atlantic targets achieved
Common interest	Both in the same market
Co-ordination/ Execution	Full co-ordination/ Joint sales
Focus	Passenger and cargo business
Influence	Alliance Steering Committee
Financial impact	50/50 split contribution/ revenues

(Source: Wahyuni, 2003: 172)

A need for both airlines to join forces was triggered by several industry-wide developments, namely deregulation and market liberalization.

In the 1970s, the US government made an important decision about slackening the protectionism for its indigenous airlines. Since then, deregulation had become an imperative trend in the airline industry, shortly being emulated by the European governments. Subsequently, regulations that these governments

instituted with regard to their national carriers further reduced. In the 1990s, the first Open Skies Agreement was signed between the US and the Netherland, resulting in the partial removal of restrictions on US-Europe trans-Atlantic flights.

Deregulation, together with overcapacity, increased the level of rivalry, which is inherently high in the airline industry due to the growing number of airlines and the limited number of routes. While the air traffic kept increasing, the ticket prices were substantially decreased and many carriers had witnessed undesirable financial performance for years. Therefore, in order to remain competitive in the world market, it was imperative for Northwest Airlines to expand its route network to Europe and for KLM to establish its entry and extend its operations into the U.S market. For both carriers, it would be more cost effective to purchase aircrafts and the other assets and supporting systems to operate a worldwide-extended network.

KLM recognized Northwest Airlines as the best partner for them after analyzing all potential partners in the United States because of three reasons. First, with respect to the scope of business, both KLM and Northwest Airlines possessed a strong combination of passenger and cargo. Second, considering the potential of the Pacific market, it was very critical for KLM to integrate the U.S, European, and Pacific markets. Third, in comparison with other U.S carriers, including Delta and United Airlines, Northwest Airlines had more international experience at the time and could be seen as the most international U.S airline.

By contrast, Northwest Airlines did not conduct any partner selection. Their collaborative relationship with KLM basically commenced due to the ownership position of the Dutch carrier in Northwest Airlines (as a result of Northwest Airlines' invitation to participate in their leverage buyout).

4.4.2 Impact of corporate-level trust on operating-level trust

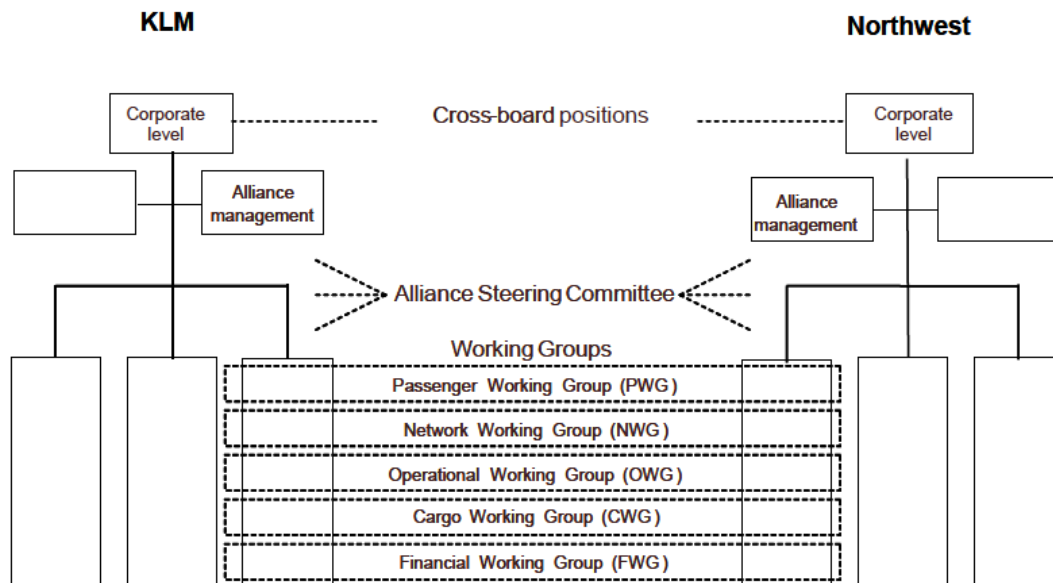
While the common practice for American firms to do business is to rely on contracts to cope with every facet of their business, it was surprising that the partnership between Northwest and KLM officially began in 1993 without a formal contractual consonance. Instead, both companies essentially relied on mutual trust to build up their partnership, leading to the development of "a series of protocols" that describe the way they would organize their partnership.

"We agreed on the concept and as long as you trust each other, and keep working out the details defining how to implement the alliance and people keep refining protocols, then it ultimately is accomplished. It is not a defined legal process...but it worked" (Northwest Senior Vice President of Alliances, quoted in Wahyuni, 2003)

These protocols comprised of both unwritten behavioral principles and formal written rules that were drawn from best practices in the field as well as the best experience-based procedures. Over time, refinements have been made to these protocols in accordance with changes in the business environment.

When the collaborative relationship was challenged by the equity issue in 1997, both airlines determined to enhance their positions in the alliance by formulating a concrete joint venture contract which formalized the intense informal collaboration that emerged over the previous period as well as specified the entire terms of cooperation. The objective of this arrangement is not only meant to protect the interest of the participating companies but also to ensure that their partner will not behave opportunistically. Both companies realized how important this alliance to their company; hence they have explained on paper the exit rules and the obligations of the alliance partners in the event of termination of the alliance before the due date. A high penalty for breaking such an agreement would make the alliance partner seriously consider the consequences before taking their decision. Yet, both KLM and Northwest confessed that they could not include every detail and that mutual trust between alliance partners was still one of the key foundations that made the partnership work.

The adoption of this enhanced master alliance consonance lead to the establishment of a new governance structure as depicted in Figure 4 below.

Figure 4: Governance structure of KLM-Northwest joint venture

(Source: De Man, Roijackers and de Graauw, 2010: 10)

In this new structure, the top level comprises of cross-board positions of two CEOs. The CEO of KLM serves as a non-executive director on Northwest's board while the CEO of Northwest sits on the supervisory board of KLM. Such arrangement indicates mutual commitment from both sides as well as the significance of the partnership to both carriers.

The management and coordination of alliance activities were conducted via the Alliance Steering Committee and several functional working groups. The Steering Committee, made up of executive vice presidents and senior vice presidents from both airlines, is in charge of framing alliance-level strategic plans. Operating directly under the Alliance Steering Committee, five functional Working Groups take responsibility for managing operational matters, including

the route network and the deployment of aircraft (Network Group), marketing and sales (Passenger Group), ground service, baggage claim, catering (Operational Group), cargo (Cargo Group), and financial issues (Finance Group). There are also specialized alliance management functions at both KLM and Northwest Airlines which aid in the functioning of the joint venture, including organizing Steering Committee meetings, mediating in conflict circumstances, managing the external relations of the joint venture in the context of a larger cooperative network in the airline industry.

The following will discuss the main characteristics of this alliance governance structure and the associated impacts on the operating-level interaction and trust building.

(i) Multilevel joint problem solving: Both airlines work together in a number of areas such as joint offices and joint ground handling. KLM and Northwest also share their core competencies concerning IT, sales techniques, marketing strategy, customer relations management, and alliance management. Issues that arise during the execution of alliance agreement will be initially discussed within the working group. If these issues cannot be resolved at this level, they will be referred to the Steering Committee. Issues that are not settled within the Steering Committee will be escalated to the CEOs as stipulated in the joint venture contract. Nevertheless, since 1997, CEOs have never been formally engaged in such an escalation procedure.

"Since 1997, there has never been a disruption or something serious. An escalation has never gone higher than a steering committee, even in the steering committee, many issues are avoided. Until now, there has never been a dispute that came up so high. Of course there were disputes that escalated to Senior Management levels but they were resolved without putting them on the CEO tables". (KLM Vice President of Alliances, quoted in Wahyuni, 2003)

This bottom up process encourages operational levels from both alliance parties to actively involve in intensive interaction and communication, so that not only they obtain precise information about the problems emerged at their corresponding function but also actively involve defining the problem's specific nature and devising practical solutions to them. Such joint problem definition and joint problem solving make up leeway for the operational levels to develop trust in each other. All across the alliance field, there is a great deal of information sharing and specific information is not withheld. With respect to the fear of spill-over control, the alliance partners noted that confidentiality was not a problem for them because this type of business openness on the part of all participating companies is a vital ingredient in such a partnership.

"...it is not useful to conceal something from our partners because we are sharing a great number of activities in the field. KLM and Northwest are working just like one family who shares everything

and makes sure that they provide the best for the two airlines." (KLM Director of Alliances, quoted in Wahyuni, 2003)

(ii) *Consensus-based decision making*: The most typical characteristics of this alliance was the fact that two co-chairmen assume equal power in the decision making process and no decision can be made without the approval of both alliance partners.

"It [the contractual governance structure] requires that working groups should attempt to reach consensus. If they cannot reach a consensus at one level, then you go to the next level. But the objective is to reach a consensus... Sometimes we say OK... I am not happy but I will accommodate your wishes if you can accommodate some of ours. You learn to reach a consensus on each issue, and it works" (Northwest Senior Vice President of Alliances, quoted in Wahyuni, 2003)

The above quote demonstrates that as for corporate levels, it is imperative for the operational levels from both sides to reach mutual understanding in every conflicting issue. If consensus could not be obtained, they would try to work it out with their partner. The maintenance of such collaborative, tolerant and reciprocal attitude within the alliance is beneficial to the building of mutual trust at the operational level.

(iii) *Expertise-based controls*: In principle, both alliance partners shared an equal degree of control over the partnership. However, their different

expertise led to a varying degree of power over the decisions regarding their areas of expertise. For instance, Northwest Airlines has accumulated more experience in the U.S than in Europe, thus Northwest assumes more control power over the U.S market. In addition, Northwest possesses tremendous knowledge in the field of e-commerce and distribution, which encourages KLM to involve in a useful learning process. By contrast, Northwest has learnt a great deal from KLM with respect to the subjects of revenue management and strategy planning among other things.

"This is a true joint decision. Everything we have done is done jointly. We consult each other on a 50-50 basis. Of course we also have different expertise, if they are better in special areas we will ask them to lead it or at least to learn from them. For instance, generally American airlines are very good in e-commerce and distribution. Europe is a little bit lagging behind in development so we can learn a lot from them. (KLM Alliance Manager, quoted in Wahyuni, 2003)

The expertise-based control mechanisms enhanced mutual exchange of expertise as well as widen the working interface at the operational level. Through such intensive interaction and information sharing, trust was developed between the operating personnel from the alliance partners.

(iv) *Intensive communication*: The alliance between KLM and Northwest was designed in such a way that there were intensive, multiple contact points

between all the counterparts who worked together for the alliance. For example, the Alliance Steering Committee is scheduled to meet every three months to make an evaluation and discuss the overall aspects of the alliance. More often than not, these meetings ended in a joint dinner so that everyone could gather and develop social relationships with other team members. In addition, both companies have their own alliance departments that work closely with each other to make sure that communication is optimal. At the operational level, Northwest and KLM set up an 24/7 operational control center, which enables intensive communication to anticipate problems that may arise during the operationalization.

Through this communicative interaction, both parties stimulate mutual understanding within the alliance. Trust and personal relationships have been developed over years at multiple hierarchical levels, overlaying with the role-based relationships

"So we basically have very tight links at all levels, from the very senior level all the way to the working level so that there are people who have constant communication with each other to make sure that we have a good cooperation. (Northwest Vice President Operation Administration, quoted in Wahyuni, 2003)

"To take the alliance work, we need a lot of trust and a lot of communication. If you don't have communication, you don't have

trust... With communication, you understand the issues, you talk to each other very openly and then you develop trust." (Northwest Senior Vice President of Alliances, quoted in Wahyuni, 2003)

4.4.3 Influence of operating-level trust on corporate-level trust

The huge scope of the partnership between KLM and Northwest triggered abundance of intricacies in their relationship. The most critical situation in their cooperation happened during the period 1994-1997. At that time, KLM had an intention to increase its stake in Northwest Airlines, whereas Northwest Airlines skeptically perceived that KLM had attempted to gain more control over their firm.

"They can wrap themselves in tulips all they want. Their real agenda is controlling Northwest Airline" (Former Northwest Chairman, quoted in Eiben, 1996)

KLM, on the other hand, claimed that by means of expanding their share in Northwest, they would be able to influence the fate of the KLM-Northwest joint venture. They were wary of the Northwest stakeholders' actions because all of these actions suggested that the stakeholders were keen on selling their share as rapidly as possible, thus impairing the long-term interest of existing shareholders and possibly pushing KLM and Northwest into a critical situation.

"We never wanted to control Northwest. We only wanted to protect the alliance. That was our main objective because the alliance was a

lifeline for us... and the only way to protect the alliance was to buy out participating shareholders" (The Former CEO of KLM, quoted in Wahyuni, 2003)

This tension destabilized the alliance relationship and destroyed the trust between the top management of both companies. At the corporate level, it was believed that trust had eroded over time.

"It hurts in my heart to hear Northwest say the trust is gone." (Former KLM CEO, quoted in Eiben, 1996)

This equity debate provoked uncertainty about the future of the partnership, causing concerns at the operational level. Operating-level personnel put their best effort in ensuring the survival of the alliance.

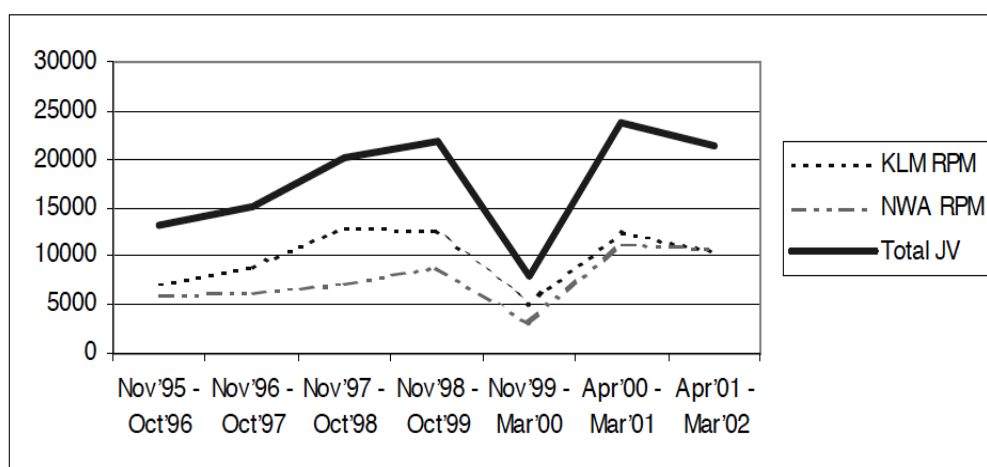
"It is sort of like a family. If mom and dad are having a little fight, the kids get together... they support each other. Similarly, the JV continued to work very well. On the operational side, the trust has never gone away. On the board level, the equity issue became a problem. Both companies realized that they had to work together in the long run. It was subsequently agreed for NW to repurchase its equity and for the JV to become a 50-50 joint venture." (Northwest Senior Vice President of Alliances, quoted in Wahyuni, 2003)

Interestingly, the Northwest management affirmed that this equity issue did not have a significant impact on the day-to-day activity of the JV. It certainly

brought a cloud to the alliance because there was uncertainty about the future; however, people who ran the alliance had an excellent working relationship during that period of time. Trust never disappeared at this management level. Figure 5 shows that the JV's RPM (Revenue Passenger Miles) continued to increase until 1998 and then significantly dropped in 1999 because of the pilots' strike in Northwest Airlines.

"The alliance continued to grow at a healthy rate; new cities and new flight were added all the time, and there was an additional coordination of marketing efforts and so on. When the equity issue became an issue at the highest level of management, the people who operated the JV stayed close together and continued to develop the JV. (Northwest Senior Vice President of Alliances, quoted in Wahyuni, 2003)

Figure 5: The JV's Revenue Passengers Miles (x 1,000,00)³



(Source: Wahyuni, 2003: 199)

On realizing how significant the alliance was for them, both airlines endeavored to devise a solution. Previously, KLM was convinced that strategic alliances could only work if the partners had an equity stake in each other's firms. This view steadily changed over time because in 1997 they realized that if the partners had trust in each other, it would not be critical to possess a share in their counterpart. Thus, KLM's top management was determined to sell back their whole share and focused on improving their business co-operation by formulating a long-term alliance agreement with Northwest Airlines. Also, they made further commitment to strengthen their cooperation by changing some central tenets of the joint venture consonance, namely, improving the capacity contribution from 60:40 to 50:50 and integrating the sales functions of both firms.

"We came to the conclusion that a strategic alliance can be very successful without having an equity share. It can help in some cases but having an equity share in your partner does not mean that you have a successful alliance. Trust depends on common agreement of objectives and how we can get along together in the relationship. This is more important than having a stake." (KLM Director of Corporate Strategy, quoted in Wahyuni, 2003)

KLM's decision to release their equity stake in Northwest Airlines was apparently a sensible solution for the JV. The trust of Northwest was

simultaneously regained as they were convinced by the new contractual arrangement that it was not KLM's intention to conquest Northwest's management.

CHAPTER 5: IMPLICATIONS, LIMITATIONS AND CONCLUSION

5.1 Implications of the dissertation

The dissertation has provided a theoretical framework that explains the process by which trust is developed across different levels of analysis as well as across different levels of management over the life cycle of a strategic alliance. In addition, the interactive mechanisms between corporate-level trust and operating-level trust have been articulated, and a certain set of concepts discussed in the theoretical framework has been illustrated using the case study of KLM-Northwest alliance.

This dissertation offers *several implications for future research*. First it encourages scholars to utilize carefully specified measures of corporate-level trust and operating-level trust when examining alliancing behavior and explaining alliance outcomes, and to focus on explicating mechanisms that isolate and also connect corporate-level trust and operating-level trust. Researchers might as well be interested in empirically testing my propositions as well as theoretically expanding the model of performance consequences in the case of trust divergence. Other thought-provoking questions that are still left unanswered include what triggers and ends the positive/ negative reinforcement loop of corporate-level trust and operating-level trust? In a recent study, Sloan

and Oliver (2013) find that critical emotional incidents can unexpectedly punctuate the partnership process and serve as turning points in the development of trust, contributing to a dynamic cycle of trust building that led to an expansion of partnership objectives. Based on similar argumentation, future research can be devoted to investigating some sorts of critical incidents during the course of the relationship that cause an erosion of trust at one level which could not be recovered by virtue of high trust at the other level.

Second, corporate-level and operating-level trust relations may be associated with varying outcomes of an inter-organizational relationship, thus both individual and joint effects of corporate-level trust and operating-level trust are worthy of further investigation. Future research could build on similar efforts in the field of relationship ties. For example, a recent study by Huang, Luo, Liu, and Yang (2013) find that in inter-organizational exchanges, lower-level ties are more effective than higher-level ties in promoting mutual communication, knowledge sharing, and cooperation between parties. The synergistic effects of interpersonal ties at both levels are also reported. Specifically, the coexistence of the ties between top executives and the ties between salespersons and buyers strengthens the positive effects of interpersonal ties on facilitating external presentation behaviors (i.e., conflict resolution and cooperation). In contrast, the synergy between corporate-level and operating-level interpersonal ties on fostering information processing behaviors (i.e., communication and knowledge sharing) is less prominent.

Third, as the nature, drivers, and consequences of trust witness significant changes over the course of an inter-organizational relationship, investigations of trust must take into account the relationship stage. Each relationship stage involves particular actors and alliance activities, which, in turn, influence trust. In addition, while the excessive use of single key informants, mostly top managers of the organizations, have proved beneficial for data collection of empirical research on trust, the argument that those senior executives can adequately represent the entire organization may not be universally true. For example, as the relationship enters the implementation stage, the role of corporate-level trust may not be as prominent as the role of operating-level trust. As multilevel theorists suggest, conceptualizing trust at the organizational level as a shared construct is not the only way and often not the best way (Kozlowski and Klein, 2000). Most constructs emerge at the unit-level through a combination of compositional and compilational processes and can be partly characterized by shared attributes and partly by dispersion of attributes among unit members. Thus, it would be useful to investigate the extent and the degree to which unit members converge or diverge in their levels of trust in a referent, for it may help to understand the effects of unit-level constructs. By identifying the boundary conditions that temper the development of trust into a collective, organization-level property, I promote the search for more context-sensitive trust research that takes into account trust heterogeneity between different hierarchical levels of an organization.

Fourth, the level-of-management focus on theorizing the development of trust in strategic alliances reveals that such process differs across organizational hierarchies. For example, in horizontal alliances, corporate-level boundary spanners initially form their individual-individual trust in their counterparts based on personal ties and knowledge beyond the focal organization. By contrast, the preliminary trust at the operating level exists in the form of individual-organizational trust based on the indications of partner trustworthiness (e.g. information from the corporate-level boundary spanners) that are relevant to the focal organization. These differences suggest the potential to advance the current understanding of alternative processes at the upper echelons (Carpenter, Geletkanycz and Sanders, 2004). Accordingly, scholars can start questioning the boundaries of upper echelons theory (*ibid.*) regarding to what relational processes are carried by the top management team in comparison with the rest of the organization.

Finally, it is acknowledged that the present theoretical framework is of greater relevance to medium-larger firms than to smaller firms where the corporate-level boundary-spanning role and the operating-level boundary-spanning role are often occupied by the same person. Future studies can advance this framework by taking into account influences of firm size on the development of trust at each stage of an alliance's lifecycle as well as on the trust development processes in asymmetric alliances, i.e. alliances between big and smaller firms, to discern the intricacies which result from the size difference between partners. In

a study on the alliance between an entrepreneurial biotech firm and a pharmaceutical multinational corporation, Doz (1996) observes that the boundary spanners from the biotech firm, accustomed to informal and speedy contacts at all levels in their organization had trouble understanding the hierarchical approach in the pharmaceutical corporation. Thus, they tended to escalate all issues to the top managers whom they knew personally during the initiation and formation stages of the alliance and abstained from building trusting relationships with lower echelons in their partner's hierarchy who were most able to address the operational issues emerged during the implementation stage of the alliance.

The dissertation also offers *managerial implications*. First it suggests a more down-to-earth approach to strengthening inter-organizational trust, that is to pose the questions of what type of inter-organizational trust should be strengthened (i.e. corporate-level trust or operating-level trust, or both) and which aspect of performance would become better when a certain type or both types of inter-organizational trust is/are strengthened. This approach prompts managers to accurately locate the problem of trust in the organizational hierarchies and to adequately evaluate the magnitude of its consequences on both alliance performance and the trust at the other level. Answering these questions will help managers devise a solution that better addresses the trust problem they are facing.

Second, that trust exists distinctively at different hierarchical levels implies that managing trust in strategic alliances is not only about managing partner trust but also about managing the extent of trust divergence between corporate level and operating level of the same organization. Uncontrolled trust divergence may cause excessive internal tension between corporate-level and operating-level boundary spanners, leading to individual dissatisfaction at work and poor alliance implementation. Moreover, in case of trust divergence, boundary spanners at different levels would give mixed signals of trust and commitment to the partner organization, making the focal organization appear inconsistent, unpredictable, and unreliable in the eyes of the partner organization. This will negatively affect the relationship quality between alliance partners, and over time can jeopardizes the alliance.

5.2 Limitations of the dissertation

In the earlier chapters, I have identified the key contributions of the dissertation; nevertheless, these contributions are restricted by the choice that I made with regard to the theoretical framing, research design and the strategic alliance for empirical study. The following section will discuss both theoretical and methodological limitations of this dissertation.

One theoretical limitation is concerned with the literature review. While the importance of adopting the level-of-management approach to deriving insights into the multilevel nature of trust in inter-organizational relationships

was underscored, this contribution would have been strengthened if a contrast between the echelons approach and other existing intra-organizational mechanisms that also affect the cross-level development of trust, such as communication, roles and culture, were included.

Moreover, the present theoretical framework did not consider the additional stage of alliance termination. The rationale was that the core idea of my model lies in the processes by which trust develops across organizational hierarchies and becomes shared as an organization-level attribute. Therefore, integrating the termination phase might extend the model into the opposite direction of unshared trust, potentially resulting in parsimony issues. However, my model apparently suggests within-organization trust heterogeneity. To the extent that trust is not shared across different hierarchical levels, the alliance is less prone to continuation. In this respect, a discussion on the termination phase of strategic alliances would be beneficial.

Methodological limitations of this dissertation mainly result from the utilization of secondary data. As the original data were not gathered to address my specific research inquiry, I was not able to access to more insightful information on the multiple forms of trust over different stages of a strategic alliance as well as other interactive mechanisms between corporate-level trust and operating-level trust. The data collection process itself was also beyond of my control, making it difficult to account for particular problems such as interviewee misunderstanding of the interview questions and interviewer/

investigator bias. In addition, content analysis, although conducted with diligence, was done by only one researcher, thus remains subjective. Finally, the illustration of the theoretical framework would be more robust via cross-case analysis if multiple strategic alliances were examined.

5.3 Conclusion

In conclusion, this dissertation has been devoted to systematic theorizing about the dynamics and multilevel nature of trust in strategic alliances. My theoretical framework demonstrates that as an alliance evolves and goes through different developmental phases, the nature and consequences of different forms of trust across different hierarchical levels of the organization are likely to vary. More importantly, the framework focuses on the dynamic interplay of trust between levels, examines the influence of a range of contextual variables on the movement and transformation of trust - issues which have been largely overlooked in the existing literature and provides trust scholars with some suggestions regarding the direction which theoretical and empirical investigations could take in future. I am strongly convinced that a truly multilevel view of trust, which acknowledges the distinct existence of trust at multiple levels as well as the dynamical interplay between multiple levels of trust, will bring researchers closer to the actual meaning of trust in the business world.

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APPENDIX

ACADEMIC PRESENTATIONS AND MANUSCRIPTS

1. Nguyen, L. and Srinivasan, V. 2014. A stagewise model of trust development in strategic alliances. Paper presented at the 74th Annual Meeting of the Academy of Management (AOM), Philadelphia, PA, USA.
2. Nguyen, L. and Srinivasan, V. 2015. La vie en rose: Sources and effects of positive emotions in strategic alliances - a boundary spanning role perspective. Paper presented at the 2015 Annual Meeting of the Academy of International Business (AIB), Bengaluru, India.
3. Nguyen, L. 2015. Effects and dynamics of trust at multiple levels in strategic alliances. Paper presented at the 31st European Group for Organizational Studies (EGOS) Colloquium, Athens, Greece.
4. Nguyen, L. 2015. The effects and dynamics of trust across organizational hierarchies in strategic alliances. Paper presented at the International CASiM Research Colloquium on Trust, Leipzig, Germany.
5. Nguyen, L. and Srinivasan, V. Towards a hierarchical model of trust development in strategic alliances. Manuscript revised and re-submitted for 2nd review of Journal of Management.



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