

MSc Thesis

Management Control of Inter Organizational Relationships ("IOR")



An analysis of how Management Control Systems and Trust affect one another during the evolutionary phases of an IOR in the IT market in the Netherlands

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Pretext

By completing this MCs thesis, I have gained knowledge of what it is like to work in the field of academia. Although my initial goal of completing this last part of university has passed, I feel thankful towards all of those who have helped me with their support, guidance and of course patience. Without their help I would not have been able to see it through to the end.

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Executive Summary

One factor that is a certainty in the world of business is change. Companies constantly need to deal with change in order to perform and stay ahead of their competitors. One of the requirements to ensure they meet their targets is to start partnerships with other companies that share a common goal. This thesis researches the way these partnerships work, evolve and, in particular, focuses on the way trust (competence, goodwill and contractual trust) and control (outcome, action and personal cultural controls) affect one another during the evolution of the relationship.

The thesis initially provides a review of the current academic literature regarding the subject of trust and control during the evolutionary phases of an Inter Organizational Relationship. This revision leads to my conclusion that there is no clear consensus that trust and control work as complements (or substitutes). Where one article states that trust and control work as complements, the other suggests the contrary. Additionally very little has been researched about this subject when keeping the evolution (contact/contract phase, execution phase and outcome phase) of the relationship in mind.

By conducting two case studies of partnerships in the Information Technology sector in the Netherlands, I have tried to compare my findings to the literature and try to add new insights into the academics debate. Although both case studies differed in the way trust and control worked, it seemed as if the performance of the relationship was a very important factor in the way trust and control worked. In addition to the performance, dependence, network and the level of detail in the contractual agreements were also factors that influenced the way trust and control worked in the partnership. Where network plays an important role in finding a suitable partner in the contact/contract phase, it is the dependence that determines which partners has more control over the other. The performance and level of detail in the contractual agreements decide when an in or decrease of trust and control is required.

Both partnerships required a high level of competence trust in the contact contract phase of the relationship. The level of trust, however, didn't seem to affect control as the level of MCS was dependent on the complexity and importance of the results of the relationship. In the execution phase of the relationship in the GA Partnership it was clear that an increase of control had an initial negative impact of the level of trust. This was followed by an increase of trust (as soon as the results improved) which subsequently resulted into a decrease of control. The main factor seemed to be the performance of the relationship. If the results deteriorated it caused a decrease of trust and increase of control and vice versa. This development seemed to continue in the outcome phase of the relationship. In the case studies it seemed as if trust and control worked as supplements in the LB partnership and substitutes in the GA partnership. Since the contractual agreements were much more detailed in the LB partnership in combination with the fact that both companies were more equally dependent on the relationship and the performance overall seemed satisfactory it resulted into far fewer fluctuations in trust and control when compared to the GA partnership.

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1. Introduction

This paper encompasses my research study within the master thesis theme Management Control of Inter Organizational Relationships (here after “IORs”) of the Open Universiteit. This chapter is meant to provide a global description of the subject following with the central research question. The chapter ends with information regarding the methodology, techniques and literature used.

1.1 Subject

Nowadays companies seem to form more and more alliances with the goal of getting a competitive edge on their competitors (Tomkins 2001, Meira, Kartalis, Tsamenyi and Cullen 2010). These alliances (or partnerships if you will) are made in order to advance common and or complementary goals and to secure common interests. The goals and interests could range from improved efficiencies to cost savings or even getting access to markets that are impossible to enter without local partnership. Some clear examples of these IORs are alliances in the aviation or car manufacturing industries. This trend has not gotten unnoticed by academics (Vélez, Sánchez and Álvarez-Dardet 2008, Poppo and Zenger 2002, Vosselman and van de Meer-Kooistra 2009, Tomkins 2001 etc.). This development, however, calls for a better understanding especially when looking from a Management Control perspective. How do these companies manage and control their activities? How far are they willing to go with regards to share information with companies for a common goal? How effective are these alliances and what are these connected to these alliances? These are just a few questions that each company should ask itself.

Despite the opportunities, these partnerships also present companies entering into IORs with risks. Initiating a partnership implies trusting others to do tasks that you normally do yourself. To hedge or control themselves against these risks, these companies engage in Management Control Systems (here after “MCS”) (Meira, Kartalis, Tsamenyi and Cullen 2010). MCS are levers companies engage in to control their business activities and behavior. MCS can imply performance management systems, formal (legal) contracts or even accounting techniques. It is used to encourage, enable and force managers and employees to act in the interest of the organization and, in the case of alliances, the partners of the organization to meet the objectives of organizations (Cäker and Siverbo, 2011). In this thesis I will describe, analyze and review three types of MCS; outcome controls (controls that are purely focused on the end result of the relationship. Example: drafting a clause in the agreement that states certain consequences when a final result is not made), action controls (Controls that are focused on the processes of the relationship. An example is a using an ERP system in which you force the users to follow certain processes) and personal-cultural controls (controls that are focused on the personnel in the relationship such as ensuring that everybody is satisfied). I will further discuss these forms of control in Chapter 2.

The interdependency that alliances create between firms has implications for management accounting; control and performance of inter organizational relationships. In inter-firm relationships parties rely on trust mechanisms and have to deal with the unpredictability of the markets in which they conduct business. This interaction between MCS and trust seems to be a recurring subject in the academics literature regarding MCS and IOR's (Vélez, Sánchez en Álvarez-Dardet 2008, Poppo en Zenger 2002, Vosselman en van de Meer-Kooistra 2009, Tomkins 2001 etc). Researching MCS and alliances seems to require taking a closer look at the way MCS is affected by aspects such as trust. It is my intention to do just that in this thesis. Therefore, in this thesis, I will work with the following trust concepts; contractual trust (trust in the contractual terms and conditions that have been agreed

upon), competence trust (trust in the competences and abilities of the partner) and lastly goodwill trust (trust in the partner that they will only engage in a manner that is constructive to the relationship and only has good intentions). I will further discuss these forms of trust in Chapter 2.

Looking at the current literature one can see that there has been quite a bit of publications around the interaction between trust and MCS within an IOR (Vélez, Sánchez and Álvarez-Dardet 2008, Poppo and Zenger 2002, Vosselman and van de Meer-Kooistra 2009 etc.). Despite these academic efforts we cannot conclude that a consensus has emerged. Where for instance one paper seems to indicate that MCS strengthens trust within mature relationships (Vélez, Sánchez and Álvarez-Dardet 2008), we can see contradicting findings researched by Tomkins (2001) that indicate that trust is damaged by the introduction of MCS within mature relationships. As noted above, this debate around the interaction is still ongoing and is providing us with contradictions continuously.

In the second chapter of this thesis I will provide an overview of the above mentioned contradictions in this debate. The goal of this thesis is to provide new insights into IORs. I intend to add another element to my research into the interaction between trust and MCS within IORs by categorizing the contradictions to see what we can conclude from it and subsequently put those findings to use in conducting my own research during which I will analyze the interaction as the relationship evolves. This evolution could provide us with a more detailed look at this interaction spread over the evolutionary phases of the alliance. From the perspective of the contact/contract, execution and outcome phase (Van de Meer-Kooistra and Vosselman 2000, Das and Kumar 2007) I will try to shed new light on this subject with the hope of provide new insights.

As noted earlier there are IORs in practically every business which provides us with interesting research opportunities. I have decided to research IORs in the IT market in the Netherlands. The reason for this decision is two-fold. One is the fact that I have working experience in several IT companies in the Netherlands which provides me with easier access to information. The other is the fact that IT is an ever-evolving business in which IORs are very common. After my review of the current literature culminating into propositions, I will put those to the test in a field study in the IT market in the Netherlands.

1.2 Questions

This paper intends to provide an answer to the following main question:

How do MCS and trust affect one another during the evolutionary phases of an IOR in the IT market in the Netherlands?

1.2.1 Sub Questions

In order to answer the main question adequately, I have drafted the following sub questions each targeted at a specific area of the paper. The research starts with a thorough review of the current literature around this subject and acts as the basis of the paper.

- 1. What has been written and researched thus far regarding the interaction between MCS and trust during the evolutionary phases of an IOR?**
- 2. What conclusions or trends can we draft basing on the literature findings?**

Following these sub questions, I will engage in an empirical field study in which I will research and see if these propositions can be proven in the field. With this I intend to add new findings to the literature that I have referred to earlier.

3. To what extent are the literature findings confirmed in the findings of the field research conducted in the IT market in the Netherlands?

4. What new findings can we add to the field of literature based on the results of the case study?

1.3 Methodology and techniques

This thesis provides the reader with a review of the current academic literature regarding the subject of control and trust within corporate partnerships. When we review the literature it is clear that MCS, alliances, the interaction between trust and MCS and even the interaction within alliances have received quite a bit of academic attention (Vélez, Sánchez en Álvarez-Dardet 2008, Poppo en Zenger 2002, Vosselman en van de Meer-Kooistra 2009, Tomkins 2001 etc). By reviewing the literature I've tried to expose gaps in knowledge and/or identify broad academic consensus to be able to put those findings to the test.

Following the literature research, I will conduct two case studies of companies that have formed an IOR in the IT market in the Netherlands. By using qualitative research interviews of key personnel involved in these partnerships, I will try to describe and analyze the relationships and in particular the way trust and control develop during the evolution of the relationship.

These case studies are then followed by a discussion chapter meant to identify patterns and insights learned from the case studies. Based on the discussions chapter, I will then provide my conclusions as well as implications for further research.

2. Literature Research

2.1 Introduction

This chapter is meant to provide an overview of the current literature in which I will pay close attention to the contradictions. In addition to this overview, I will also provide information on the evolutionary phases of an IOR and research the literature from an evolutionary perspective resulting into the formulation of propositions.

2.2 Theoretical framework

There is a noticeable trend in today's corporate world that companies are increasingly working together (Contractor en Lorange 2002). This development brings a lot of questions from a business as well as scientific perspective such as "Why would companies trust others for success? or "What effect do these partnerships have on company morale, identity or even control?". Entering into a partnership like this means that companies will have to trust others and accept less control in business transactions. This development has attracted a lot of academic attention. In particular the interaction between trust and control within an IOR (Vélez, Sánchez en Álvarez-Dardet 2008, Poppo en Zenger 2002, Vosselman en van de Meer-Kooistra 2009, Tomkins 2001 etc). Despite the amount of research being put in to this subject, there is a clear lack of general consensus. Where one article seems to suggest that MCS and trust complement each other (Poppo and Zenger 2002), other research suggests otherwise.

Before I engage in this debate, I would like to address a theoretical framework that has emerged for understanding how managers design these IORs. Reason for this is to provide some understanding as to why these IORs have emerged. Secondly it will also shed some light on how these partnerships are arranged.

2.2.1 Transaction Cost Economics

Transaction Cost Economics ("TCE") is a central theory in the field of Strategy. It addresses questions about why firms exist in the first place (i.e., to minimize transaction costs), how firms define their boundaries, and how they ought to govern operations.

Ronald Coase and Oliver Williamson have been given much credit for the work on TCE. In the article "*The Nature of the Firm*" (Coase, 1937) it was made clear that deciding the transaction costs of a firm would be the most defining task that would shape the structure of the company: "*firms exist and choose their boundaries according to the benefits of organizing transactions administratively versus through the market*". However it wasn't until Williamson's "*Transaction Cost Economics*" (2009) that TCE really gained noticeable attention.

TCE explains that one will make a rational choice in deciding what is best for the company. Economic gain is the main driver in TCE behavior. Optimal governance structure is determined by asset specificity, uncertainty and transaction volume. It is a transactional approach of doing business in which also opportunism plays an important role.

Poppo and Zenger (2002) state that TCE provides a framework that explains how managers create governance arrangements. The authors state that managers adjust the characteristics of the governance structure to the exchange hazards that are connected to special asset investments,

difficult performance measurement or uncertainty. To hedge these risks they make use of formal contracts with measures to absorb possible negative outcomes.

As said previously economic gain is the primary driver in TCE behavior. It provides us with an explanation for when companies form alliances. As explained earlier in this thesis, alliances are formed when entities have a common goal that would generate better returns when working together as opposed to trying to achieve that goal individually.

2.2.2 The interaction between MCS and Trust within an IOR

This subchapter is meant to provide an overview on what has been researched regarding the interaction between MCS and trust within an IOR. In a later subchapter I will go back to these findings to broaden the scope with the evolutionary phases of the relationship.

As noted earlier in this thesis, a broad consensus within the academic literature is difficult to find. The oldest paper I refer to is written by Andrea Larson in 1992. In it she states that within the IOR there are of course MCS (she refers to legal contracts), however those are subject to the social controls of within the relationship. This implies that trust plays a significant, perhaps even dominant, role in the IOR that she wrote about.

Cyril Tomkins published “Interdependencies, trust and information in relationships, alliances and networks” in 2001. His paper focuses on the fact that all relationships depend, to some extent, on trust. He defines trust as the belief of one party that the other party will not act against his or her interests (goodwill trust). Control is defined as information about plans, processes and results coupled with appropriate sanctions for inappropriate behavior. In addition, he also refers to the use of contracts in a relationship. The major value of contracting, according to Tomkins, is the ability to set down goals and methods to enable mutual planning, rather than being a control-device. He recognizes the apparent lack of trust related research and states that in the beginning of the relationship control can lead to trust. In an inverse U-shaped example of a relationship, control is needed to create and support continuing trust. As trust becomes established at the higher levels in later stages of the relationship, it is likely that less information will be needed to sustain that relationship. Furthermore, Tomkins states that the existing accounting techniques, which he refers to as information, seem to be adequate for addressing the different specific issues at each stage/phase of the relationship. These statements, however, are based on theoretical work and, in my opinion, require empirical research to put it to the test.

The statements made by Cyril Tomkins seem to be strengthened by Poppo and Zenger (2002). Based on empirical research they tested if both “components” trust and MCS in the relationship work against each other. Their research brought fourth some interesting conclusions, namely that MCS and trust actually complement each other. The managers they interviewed appear to couple their increasingly customized contracts with high levels of relational governance (and the other way around).

Langfield-Smith and Smith (2003) also conducted a case study of an outsourcing relationship. In it, the authors look at how control mechanisms and trust work together to achieve control. Their findings draw on a model by Van der Meer-Kooistra and Vosselman (2000) which provides three patterns: a market based pattern (this pattern characterizes a dominant market mechanism where the outsourcer often looks for partners through competitive bidding and where the price is the

dominant factor in the contact phase of the relationship. As the relationship moves forward, the outsourcer uses regulatory measurement and evaluation of the output of the chosen partner as a control device), a bureaucracy based pattern (essential to this pattern are the specified norms, standards and rules by which the bureaucratic mechanism follows. In the contact phase potential suppliers are selected on specific criteria which are required to make their offers through prescribes procedures. Selection of the suppliers takes place by means of specified criteria. As the relationship evolves, this pattern of strict norms, standards and rules remains dominant) and a trust based pattern (where trust plays a dominant role in all stages of the relationship which for instance results in framework contracts with little to no detailed contractual writing). In the case study of Langfield-Smith and Smith (2003) the characteristics of the outsourcing transactions seem to meet the requirements of a trust based pattern of control, and control was achieved through the development of outcome controls and social controls and through the development of trust, particularly goodwill trust (trust that the other partner will not intentionally harm them and have positive expectations),. As the performance standards became more specified and as the contract developed, the trust based pattern of control began to move towards a bureaucratic form of control. The change in the control pattern shows us the importance of the evolution of the relationship. Additionally it is interesting to see how MCS and trust interact in the case study. The authors describe how trust is used to build control in the beginning of the relationship and evolved into a more procedural form of cooperation.

Dekker (2004) builds his paper on Transaction Cost Economic reasoning that managing appropriation concerns, resulting from a partner's potential opportunistic behavior, can be an important objective of control in inter-organizational relationships. Consistent with these arguments, a case study of a strategic alliance between two firms on the supply and joint innovation of railway safety systems provides evidence that in addition to appropriation concerns, coordination requirements and the social context of the alliance significantly influence its formal control structure. The findings suggest that using transaction cost economic reasoning only would provide an insufficient explanation of the alliance's formal governance structure. So here we see another confirmation of the importance of trust in IOR's. These indicate that MCS alone would not explain why IORs work the way they do. As Dekker mentions, other aspects such as the social context of the alliance are also a very important element. He does not go into the evolution of the relationship itself, but does seem to indicate that (goodwill) trust seems to result in a lesser association between transaction hazards and use of control mechanisms (even though they were extensively used in his case study to coordinate tasks).

In more recent academic work this debate has continued. Kamminga and van de Meer-Kooistra (2007) conducted two case studies in which they test three different control patterns based on a literature review: content-based, consultation-based and context-based. They concluded that the case studies provided evidence that supported their theoretical model and mentioned the important impact of institutional characteristics on joint venture control. Another interesting conclusion is dynamics within the relationship: "Over time joint venture control may change, as is illustrated by the Delesto case study. In Section "Dynamics", we discussed how changes in transaction and relational characteristics may lead to changes in joint venture control. We focused our discussion on changes from one control pattern to another. However, as mentioned in Section "Dynamics", changes may also take place in the joint venture governance structure as such and in management control within a control pattern." This seems to confirm the change in control pattern in the case study conducted by Langfield-Smith and Smith (2003).

Velez, Sanchez and Alvarez-Dardet published in 2008 “Management Control Systems as Inter-Organizational trust builders in evolving relationships: Evidence from a longitude case study”. The aim of their paper is to further research the effect of MCS development on established trust in mature relationships. In it they refer to Tomkins (2001) several times and challenge the notion that MCS damages trust when trust has reached a high level in a relationship. Their case study provides evidence that in an open-ended and evolving relationship, MCS actually complements and builds trust. Velez, Sanchez and Alvarez-Dardet refer to “formal MCSs” which seems to indicate that while Tomkins views accounting techniques as MCS, Velez, Sanchez and Alvarez-Dardet view it MCS as a broader set of policies and procedures used to ensure that the partner’s behavior is consistent with the goals and objectives of the IOR. Examples of MCS are contracts which Tomkins does not regard as a controlling technique.

Vosselman and van der Meer-Kooistra (2009) state that trust has been shown to play important roles in inter-firm transactional relationships in the way that it helps to produce control and add to control, either as an aspiration or as a positive state of mind. However, there can also be a controversy between control and trust. Control may decrease the level of trust in situations where it exceeds the necessary compensation for legitimate negative behavioral expectations.

In 2011, the most recent paper that I refer to in this thesis, Cäker and Siverbo published their work into Joint Ventures and how the dynamics of control operate with regards to the relational factors that affect them. Having researched three case studies with Joint Venture companies they are able to make several conclusions regarding their objectives, namely (1) to describe the way control and relational factors correlate in Joint Ventures and (2) add to the discussion around the relationship between trust and control. Vertical control packages (control between owners of the company that is a partner in the Joint Venture and the Joint Venture itself) and horizontal control packages (control between the owners of companies that are partners in the Joint Venture) and the way different types of trust affect them such as competence trust (trust in the technical capabilities of others), goodwill trust (trust that the other partner will not intentionally harm them and have positive expectations), system trust (trust in institutions and formal/informal rules that the other will follow) and calculative trust (Noteboom, 2002) (trust based on the calculation that it is too costly for partners to act opportunistically or leave the partnership). With regards to the second objective of the authors they state that, based on their findings, trust is potentially unaffected by the introduction of formal controls. Also, a high ambition to maintain trust leads to underdeveloped formal control.

Taking into account the conclusions and implications all of these papers, it should be obvious that no clear consensus has been found and that further research is necessary in order to understand these differences. To highlight these differences I have summarized the findings per authors in the following pages.

<u>Author(s)</u>	<u>Findings</u>
Larson (1992)	<p>“Relationships were governed by social controls arising from norms of trust and reciprocity. Formal contracts were only rarely discussed by the informants. It became clear that to understand fully how the structures functioned on a daily and weekly basis required examination of informal and implicit social contracts. The relative unimportance of formal contractual aspects of exchange and, in contrast, the significance of trust and reciprocity norms appears to reflect the reality of economic exchange: it takes place within and is shaped by social control.”</p>
Van de Meer-Kooistra and Vosselman (2000)	<p>Two case studies conducted: NAM and SRTCA. During contact and contract phase the NAM case study is a clear example of an IOR that is based on formal controls where trust plays an insignificant role. In the SRTCA case this does not seem to hold as there is a clear influence of trust in the relationship between SRTCA management and the consortium they outsource to.</p>
Tomkins (2001)	<p>“A conceptual examination of the relationship between trust and information suggested that the conventional argument that there is a simple monotonic inverse relationship between employment of trust and the provision of information is simplistic. An inverse U-shaped function is appropriate when the dynamics of relationship life cycles are considered. It was also found to be conceptually useful to distinguish between information needed to create and support continuing trust (Information Type 1) and information needed for mastery of events (Information Type 2). Information Type 1 will directly affect the degree of trust and then subsequently be influenced by it. Trust intensity will also show what cannot be taken as given and influence the focus of control behavior, which, in turn, generates the demand for Information Type 2. Interaction over Information type 2 will also provide experience that will influence the state of trust and, through that, feed back into demands for more or less Information Type 1.”</p>

<u>Author(s)</u>	<u>Findings</u>
Poppo and Zenger (2002)	<p>“Our results show that managers tend to employ greater levels of relational norms as their contracts become increasingly customized, and to employ greater contractual complexity as they develop greater levels of relational governance. We suggest that customized contracts narrow the domain around which parties can be opportunistic. Customized contracts specify contingencies, adaptive processes, and controls likely to mitigate opportunistic behavior and thereby support relational governance. Our results also suggest that contractual complexity and relational governance function as complements in explaining satisfaction with exchange performance. Contract complexity indirectly increases exchange performance by increasing relational governance, which in turn increases exchange performance. Similarly, greater relational governance appears to positively affect contractual complexity, which in turn increases exchange performance.”</p>
Langfield-Smith and Smith (2003)	<p>“The characteristics of the outsourcing transactions seemed to meet the requirements of a trust based pattern of control, and control was achieved through the development of outcome controls and social controls and through the development of trust, particularly goodwill trust. The development of trust may be compatible with the development of tighter accounting controls and contracts, if trust is already well-established and those controls develop in a supportive and cooperative manner, involving both parties.”</p>
Dekker (2004)	<p>“The findings suggest that using transaction cost economic reasoning only would provide an insufficient explanation of the alliance’s formal governance structure. Although the partners’ high level of goodwill trust seemed to weaken the association between the transaction hazards and use of formal control mechanisms, such mechanisms were nevertheless extensively used to facilitate the coordination of alliance tasks. The case findings comply with Tomkins’ (2001) suggestion that “the major value of contracting may lie in it being a device to set down goals and methods to enable mutual planning, rather than being primarily and ex-post control device”</p>

<u>Author(s)</u>	<u>Findings</u>
Kamminga and van de Meer-Kooistra (2007)	"We discovered that in the Gas Sales case, where the contribution of crucial expertise by Gas resulted in a high level of trust." "In addition, control was very much focused on creating a good relationship. Trust formed an essential part of the co-operation between the managers of Gas and the managers appointed by Electricity Corp."
Vélez, Sánchez and Álvarez-Dardet (2008)	"Our results confirm that MCSs generate trust when they are used to coordinate activities by improving the provision of relevant information." "Our case study reveals that, in a mature and close IOR, the introduction of new MCSs does not necessarily reduce trust. We found that, although the relationship between the manufacturer and its distribution channel was longstanding, its objectives, activities, dependencies, and assumed risks evolved over the period of study. These evolutions caused the level of confidence required by the parties to be dynamic and have no zero-sum constraints (Das & Teng, 1998), and this might have been the reason why the MCSs increased trust."
Vosselman and van der Meer-Kooistra (2009)	"The further contract specification in the course of the relationship not only created but also signaled trust, thus not only producing thin trust but also accelerating the process of building thick trust. Conversely, the creation of effective formal control structures incorporated in a governance structure is a process that could in itself be accelerated by the goodwill trust that is built into the relationship. Therefore, there is an interaction between trust building and the writing of formal control structures. Trust building accelerates contract specification, and contract specification accelerates trust building."
Cäker and Siverbo. (2011)	"Our study supports earlier research on how trust may replace formal controls by reducing uncertainty of behavior (Groot and Merchant, 2000; Langfield-Smith, 2008). In our three cases, goodwill trust, system trust and calculative trust in horizontal cooperation and competence trust and goodwill trust in vertical cooperation created by good performance were important explanations of the adoption of narrow and loose control packages. We also found that broader and tighter controls were introduced when trust diminished, which is in accordance with Emsley and Kidon (2007) and Langfield-Smith (2008)."

The debate starts with Larsson (1992) stating that social controls were dominant in the relationship and to a lesser extent formal controls such as legal contracts. This is clearly challenged by most of the other authors above (Van de Meer-Kooistra and Vosselman 2000, Tomkins 2001, Poppo and Zenger 2002, Langfield-Smith and Smith 2003, Dekker 2004, Kamminga and van de Meer-Kooistra 2007, Vélez, Sánchez and Álvarez-Dardet 2008, Vosselman and van der Meer-Kooistra 2009 and Cäker and Siverbo 2011). Furthermore Van de Meer-Kooistra and Vosselman (2000) suggest that trust played an insignificant role in one of their case studies, the findings of Vélez, Sánchez and Álvarez-Dardet (2008), Vosselman and van der Meer-Kooistra (2009) and Cäker and Siverbo (2011) suggest the importance of trust in an IOR. When looking at the most recent articles listed above (Vélez, Sánchez and Álvarez-Dardet 2008, Vosselman and van der Meer-Kooistra 2009 and Cäker and Siverbo 2011), the findings seem to suggest a complementary function between MCS and trust. As I continue with this paper I will come back to these statements to see if I can find more evidence that supports the notion that MCS and trust complement each other.

2.2.3 The evolution of an IOR

There has been a lot of research with regards to Inter Organizational Relationships in general, (Vélez, Sánchez and Álvarez-Dardet 2008, Poppo and Zenger 2002, Vosselman and van de Meer-Kooistra 2009, Tomkins 2001 etc) however, for this paper we need examine what has been researched about the interaction between control and trust within this relationship spread over the evolutionary phases of the relationship itself. With regards to that last element of our main question, it is apparent that researchers have taken an interest in researching so-called “post-formation processes” (Das, 2001). This does not look the case for the pre-formation processes with the exception of a handful of publications (Tomkins 2001, Vélez, Sánchez and Álvarez-Dardet 2008).

Tomkins (2001) refers to the following different stages of a relationship: exploratory/screening, building commitment, long term commitment established and later in life in the relationship. He does not describe the different stages in detail, but does provide information characteristics at each stage in table 2, page 179.

In addition to Tomkins there are of course more authors who have researched the evolutionary phases of alliance development such as Ring and Van de Ven (1994) who speak of the negotiation, commitment and execution phase. Das and Kumar (2007) refer to a formation, operation and outcome stage.

For this paper I will draw on the following phases that characterize the evolution of an alliance:

2.2.2.1 Contact/Contract phase

The partnership starts with the contact/contract phase. At this point both parties will look at potential partners that meet certain attributes such as a reputation of trustworthy behavior and that have a proven track record of technical and management competences to perform the activities well, (Van de Meer-Kooistra and Vosselman 2000, Tomkins 2001). Selecting candidates on these requirements can be done by reviewing experiences with present or previous cooperation with other firms or by requesting information from the party directly.

An important aspect to this phase of the relationship is the legal side of it. When both parties are in agreement they will need to draft a contract with terms and conditions that specify the rules and

various control mechanisms that motivate the parties to act in a trustworthy manner and commit to the partnership. Examples of what the agreement specifies are: parties' authority and responsibility, the gathering and supplying of information, evaluation of the activities, payment structure, etc). This type of contract enables the parties to create an atmosphere in which goodwill trust can grow during the following phase: the execution phase (Van de Meer-Kooistra and Vosselman 2000).

2.2.2.2 Execution phase

During the execution phase the partnership begins to execute what has been contractually agreed. The partnership takes on the task of achieving the negotiated objectives during the previous phase. At this point both parties get the opportunity to learn from and about the partner. It will also provide them with the opportunity to influence each other's perceptions of desirability as a partner (Das and Kumar 2007).

In this phase the transactions take place and the parties will control whether the activities and output are in accordance with the contractual rules. The parties also have to react to changes in circumstances due to which activities may be changed (Van de Meer-Kooistra and Vosselman 2000, Das and Kumar 2007).

2.2.2.4 Outcome phase

In the outcome phase of the relationship, the performance of the partnership will be evaluated. At this point both parties can choose (depending on what has contractually been agreed) a number of actions: stability, reformation, decline or perhaps termination (Das and Teng 2002).

It is at this stage that the parties re-evaluate their strategies depending upon the patterns of interdependencies that come to characterize the relationship. Positive strategic, financial, and technological interdependencies will enhance the commitment to the partnership whereas negative interdependencies may lower their commitment (Das and Kumar 2007). Most critical here is whether there is a positive or a negative interdependence between the parties and this will have a significant impact on whether the parties will enhance their commitment or terminate the partnership altogether (Das and Kumar 2007).

2.2.3. The interaction during the evolutionary phases

In this chapter I will try to categorize the literature referred to in subchapter 2.2.2 into the different evolutionary phases identified in subchapter 2.2.3.

As mentioned earlier in this paper, it is not difficult to find academic findings regarding the interaction between MCS and trust within an IOR. However, when we take a closer look, by analyzing this interaction spread over each phase of the relationship, the field of research tends to shrink. Of the articles that I referred to in the chapter 2.2.3 only a handful of the authors generated useful findings regarding the interaction during each phase. The following articles that I refer to put emphasize on the timing and stage of the relationship when looking at the effects of MCS and trust.

Cyril Tomkins (2001) indicates that in the beginning of the relationship, which he refers to as exploratory/screening and building commitment yet we refer to it as the contract/contact phase, it requires several interactions where information is shared which leads to greater trust in the relationship (commitment and execution phase). He presents a figure in which the interaction is shown over the course of the relationship. The inverse-shaped figure shows trust increasing in the beginning and decreasing towards the end. As the relationship matures from the initial state of low

level trust, there will be a positive association between trust and information simply because trust in itself cannot be increased without further information. As the trust intensity established, less information is needed to sustain the relationship which is why the figure depicts a negative association at the later stages of the relationship. Tomkins (2001) later provides us with several tables in which is specified which type of information are needed to build/support trust spread over the phases exploratory/screening, building commitment, long term commitment established and later life.

Vélez, Sánchez and Álvarez-Dardat (2008) refer to Tomkins' (2001) finding that additional MCS in the mature stage of the relationship (outcome phase) will damage trust. However, in the case study conducted by the researchers one can conclude that in the mature phase, the introduction of new MCSs does not necessarily damage trust which seems to contradict Tomkins (2001). It should be noted that this statement made by Vélez, Sánchez and Álvarez-Dardat (2008) is based on a case study while Tomkins (2001) did not conduct field research. The case study depicted a relationship that was already engaged, so there are no relevant findings to be made regarding the interaction in the contact/ contract phase. Their empirical findings suggest that in an established IOR, increments of trust may lead to a greater need for control. They state that in a mature relationship the introduction of new controls (action, results and personnel-cultural controls) in turn leads to greater trust. For instance, when personnel-cultural controls such as satisfaction surveys objectively state that both parties are satisfied with the IOR, it will lead to greater goodwill-based trust. Another example can be given about the introduction of results-based controls such as financial figures. When these controls indicate that the relationship is producing satisfying results, it will then lead to greater competence-based trust as both parties will have more trust in the competence of their partners.

So where Tomkins (2001) and Dekker (2004) state that when MCS is increasing beyond the level that is initially required it will damage trust, Vélez, Sánchez and Álvarez-Dardat (2008) state otherwise. Another interesting aspect to point out is the fact that Tomkins refers to one project, however Vélez, Sánchez and Álvarez-Dardat discuss the fact that the relationship evolves even after that first project. They state that the introduction of more MCS leads to more trust which then leads to new projects with more MCS and more trust. That cycle is potentially never-ending.

Although Velez, Sanchez and Alvarez-Dardet refer to Tomkins's work in their paper, it is not a fair comparison as the authors of both papers define MCS differently. Where Tomkins views accounting techniques (he refers to the use of information) MCS, Velez, Sanchez and Alvarez-Dardet look at MCS as a much broader set of tools parties use to ensure control. This is especially true when looking at the way the authors of both papers view contracting. Where one party considers it as a MCS technique (Velez, Sanchez and Alvarez-Dardet) the other doesn't (Tomkins). Also, one should note that Tomkins' work was done in 2001 when much less academic material was available regarding this topic and Tomkins based his conclusions on academic literature while Velez, Sanchez and Alvarez-Dardet compounded their findings with a case study.

2.3 Implications for field research

Having researched the literature with regards to MCS, trust and evolutionary phases within an Inter Organizational Relationship, we can now determine that the findings of each paper don't always confirm the findings of other articles.

So far we have seen several articles indicating that MCS and trust complement each other (Vélez, Sánchez and Álvarez-Dardat 2008, Poppo and Zenger 2002), but also authors that seem to suggest the contrary (Tomkins 2001). When looking at the way MCS and trust correlate during the evolutionary phases of the relationship, we have seen statements made by Tomkins (2001) that trust complements MCS in the contact/contract phase and when trust diminishes in later stages of the relationship it seems to have a similar effect on MCS. These findings however are not confirmed by a case study conducted by Vélez, Sánchez and Álvarez-Dardat (2008) which seems to contradict this interaction with respect to the outcome phase of the relationship.

Vélez, Sánchez and Álvarez-Dardat (2008) also provide a suggestion for further research. Their case study revolved around a manufacturing firm and its 176 distribution members and one of the findings in their research is that MCSs worked as trust-builders even when trust was well established. An interesting avenue would be to research another industry, such as IT, to see if it would lead to the same conclusions.

In order to add new insights to this debate, I've chosen to add the following elements to my research. First of all I am going to select two different partnerships and analyze the interaction between trust and control during the evolutionary phases which I have described in chapter 2.2.3. Furthermore when looking at MCS and trust I will distinguish between action, outcome and personal cultural controls and the way they interact with goodwill, contractual and competence trust. By working with these definitions, I've tried to choose definitions that we're most commonly used in comparative research as well as being convinced that these definitions should sufficiently categorize all flavors of trust and control. The following chapter will provide additional information.

3. Field Research

In previous chapters I provided an introduction and a review of the current literature with respect to the interaction between MCS and trust within an IOR during the evolution of the IOR. With this chapter I intend to incorporate the findings that I garnered thus far in field research. Due to the lack of clear consensus in the academic community, I felt it was absolutely necessary to conduct a study of my own, to be able to add new findings based on empirical research to the current discussion.

The decision to conduct a case study is motivated by a number of factors. First of all, I wanted to base my findings on empirical research instead of merely theoretical research. I noticed that some articles did not conduct a case study on their own (Tomkins 2001) and the findings left me wondering if those were true in practice. Secondly, since little consensus can be found in the literature around this topic, I felt that the topic in question was not understood well enough which would justify conducting additional field research in order to add something new to the debate.

The goal of the case study is to research the development of trust and management control systems during the Contact/Contract, Execution and Outcome phase of an Inter Organizational Relationship. Since I conducted a literature review previously and wanted to research those findings within a case study of my own, I decided to perform an exploratory case study to see if I could find explanations for my literature findings and possibly discover new patterns that could produce new input to the current academic debate about this topic. This goal required a research method that enabled me to analyze and explore the relationships and, in particular, the way the various forms of trust and control developed during the course of the relationship. Quantitative research methods would've failed to accurately uncover the necessary information since research of this nature requires looking into the detailed dynamics in relationships. Using case studies as research method, it enabled me to conduct a descriptive and exploratory analysis of the relationships and thus provided me with the required information.

Instead of randomly selecting companies with the request to research their partnerships, I decided to approach three companies in the IT market in the Netherlands. Due to my working experience in this field, I had the opportunity to connect to a number of companies fairly easily which provided me with the best position to get an approval to conduct the research. Because of the sensitivity of the information I was convinced that I would have the best chance to get approval by contacting companies that I already knew instead of companies that didn't know or perhaps didn't trust me. Aside from the availability, these partnerships of course also fit the profile of the type of IOR I required. I decided to conduct two case studies using these three companies so that I would have the ability to compare the findings of my own case studies instead of only being able to compare the findings of one case study to the literature.

After getting the approval from all three companies, I conducted the case study by researching the companies and interviewing key employees connected to the IOR. These employees were selected based on the requirement that they had to be involved in the IOR and would be able to provide me with information regarding the different phases of the partnership. Where possible, I also tried to make a distinction between employees that were involved from a management perspective and employees that were involved from an operational perspective.

Each employee interview was done by providing the employees with the questions beforehand, giving them an opportunity to prepare and get acquainted with the terminology and questions. The

questionnaire (see Appendix A) was drafted with open questions in the following five chapters: General, Alliance specific, Contact/Contract phase, Execution phase and Outcome phase. In total six interviews were conducted of which four focused on the partnership between LA and GA and the remaining two on the partnership between LA and LB. Although it was not possible to interview more than two employees in the LA and LB partnership, I purposely selected more employees to interview in the LA and GA partnership to be able to validate the information provided. If one employee would make a statement, than I would be able to get a confirmation from another employee to validate its correctness. Finally after each interview I provided the employee with their answers in writing so that they could review and, if desired, make corrections to the information before I would use it in my report. In the following two Figures I have outlines a number of details for each interview.

LA & GA Partnership				
Company	Interviewee Title/Function	Length Interview	Location Interview	Date Interview
LA	Director	60 minutes	In Person	22-08-2013
LA	Consultant	75 minutes	In Person	14-08-2013
GA	Operations Director	75 minutes	Teleconference	06-09-2013
GA	Company Leader	75 minutes	Teleconference	09-09-2013

Table 1. Details conducted interviews LA & GA Partnership

LA & LB Partnership				
Company	Interviewee Title/Function	Length Interview	Location Interview	Date Interview
LA	Director	45 minutes	Teleconference	27-08-2013
LB	Founder	60 minutes	In Person	04-09-2013

Table 2. Details conducted interviews LA & LB Partnership

Furthermore to ensure a sufficient level of rigor in the qualitative work (Gibbert and Ruigrok, 2010) I have summarized the following four criteria:

1. Construct Validity

Construct validity refers to the degree to which a test measures what it claims to be measuring. By conducting the interviews and observing the interviewees, my goal was to research the way trust and control developed during the course of their relationship with the partner.

By the triangulation (Gibbert and Ruigrok, 2010) of interview data coming from both companies, and in the case of the GA partnership, multiple employees from each company, I have tried to ensure a sufficient level of construct validity.

Secondly, by providing the reader a clear view of the initial questions leading up the case studies, by showing the questionnaire (Appendix A) for each interview, by the discussion of the data collection and data collection circumstances (see above), I have tried to strengthen the construct validity furthermore.

In order to ensure all interviewees understood the subject matter as well as the concepts such as the various forms of trust, control and the evolutionary phases of the relationship, I provided them with the required descriptions days (sometimes weeks) before the actual interview. During the start of the interview I discussed (and where needed clarified these concepts) once more to make sure the interviewees knew how to answer all questions.

Lastly, by drafting the questionnaire in such a way that certain questions were meant to only focus on the defined forms of control or on the defined forms of trust, I was able to fairly easily translate the examples provided during the interview to the concepts that needed to be researched. In doing this I enabled myself to sufficiently research the way these forms of control and trust worked throughout the partnership.

2. Internal Validity

Internal Validity refers to the causal relationships between the variables and results (Gibbert and Ruigrok, 2010). In other words how plausible the causal connection is between the variables used in the conducted research and the conclusions.

Where possible, I've tried to use the same research variables as the articles from the literature research (type of interview, type of questions), however as completing two case studies I was able to determine 4 variables that dictate the results of the partnership.

Even though both case studies lead to different conclusion (one partnership showed that control worked as a substitute while the other partnership showed that they worked as complements), it became clear to me that those outcomes were determined by the network, performance, level of detail in the contract agreements and the dependence between both parties in the relationship. Where network played a crucial role in finding a suitable partner in the contact/contract phase, it is the dependence that determined which partner had more control over the other (as can be seen in the GA partnership). The performance and level of detail in the contractual agreements decided when an in- or decrease of trust and control was required.

3. External Validity

External validity concerns how far the results of a study can be generalized. My field research includes case studies in a specific industry (the Information Technology sector) in the Netherlands. In terms of external validity it would mean that the results from my research are generalizable for IORs in the Information Technology sector in the Netherlands. In subchapter 5.1, I will discuss the limited external validity further.

4. Reliability

The last criterion is reliability which refers to the degree to which the case studies produce stable and consistent results. In order to ensure a sufficient level of reliability, I incorporated a number of steps in my research. For example, well before the actual interview was conducted I provided all interviewees with the necessary background information so that they could get acquainted with the subject material as well as the questionnaire (see Appendix A). Also, after conducting the interviews, I made it clear that I would provide them with a draft report of the questions and provided answers, giving them the opportunity to edit and/or remove any information they deemed incorrect or confidential.

3.1 Introduction

Before I provide you with a description of these partnerships, please let me start by providing you with some background information about the companies LA, GA and LB.

LA was initially founded in America as a computer technology company. Although the company initially grew organically, it continued its growth with the help of acquisitions of other IT companies in America and abroad. Today LA develops markets and sells hardware as well as software and provides various services around this to customers on a global scale. With a global employee count of well over a 100.000 it had grown into one of the leading IT companies in the world.

LA's activities are strengthened by a vast network of partnerships around the world. These partnerships assist LA in a wide range of activities such as development or sales activities. Globally LA has thousands of partnership and two examples in the Netherlands are the partnerships with GA and BL. GA and BL are both companies that specialize in services focused on software asset management best practices and ensuring license compliance.

3.2 Inter Organizational Relationships

I conducted research into the IOR between LA and GA and the IOR between LA and BL. By researching the internet and conducting multiple open interviews with several managers and employees closely connected to the IOR, I was able to learn the following regarding both partnerships. I will start by describing, per phase, the relationship between LA and GA and continue afterwards with the relationships between LA and BL.

3.2.1 The LA and GA Partnership

3.2.1.1 Contact/Contract Phase

Before LA in the Netherlands and GA started discussing a possible IOR, there was already a relationship in place between GA and LA in the Southern European countries. This IOR consisted of a program in which GA engaged in specific license compliance services on behalf of LA focused on a specific customer segment of the market. The program was deemed successfully by LA and GA established a reputation as an effective License Compliance organization facilitating License Compliance services for software vendors.

GA wanted to expand its services to other countries on behalf of LA and at a certain point of time the management of LA in the Netherlands recognized that a certain customer segment was not being serviced sufficiently due to a number of factors. This triggered LA to search for organizations partners who could form a partnership with LA and provide these customers in the Netherlands with various license compliance services.

Initially multiple partners were selected by LA to discuss the IOR. Although GA already had a very good reputation, LA wanted to form partnerships with more partners to service the Netherlands market (at one point in time, the program actually consisted of 6 partners). LA wanted to review the performance of all partners to be able to choose the partners that performed the best. The primary goal of the IOR was to engage customers of LA in the Netherlands to provide them with license compliance services. These services range from advisory services with respect to licensing to review services in which the license entitlements and usage of the customer are compared in a detailed and analytical manner resulting in a compliance statement. Following the review service, the partner also has the possibility to assist the end-user with resolving a possible compliance issue commercially.

The negotiations between LA and GA started with GA being invited to the Dutch HQ of LA. During this meeting GA was given the opportunity to present itself to various LA managers with the goal of

getting approval from LA sales management to start the program in the Netherlands. Following this meeting there were several negotiations around the number of engagements, the profile of the targeted customer, the process of how customers would be selected and approached to undergo a license compliance service and of course compensation. Although there were some initial disagreements on the number of engagements and the profile of the targeted customers GA eventually agreed fully to the terms and conditions specified by LA. Since GA was already a partner of LA, there was already a LA Partner Network contract in place. In addition to this, and specifically focused on the IOR, LA and GA also drafted a business plan and a letter of intent in which the terms and conditions focused on the specific services of the IOR. During these negotiations several forms of control were discussed such as meetings/conference calls in which the progress and key performance indicators would be discussed and reviewed (action and outcome controls), checks on the reporting quality of GA (outcome control) and a review of the surveys that were completed by customers that GA provided services to (outcome control).

From the start, both sides showed a lot of trust in the goodwill and technical competences of the other company. This is exemplified by the fact that LA was convinced GA would do a good job due to the good reputation they had garnered in Southern Europe. The work itself is highly technical and GA had already proven its technical competences in Spain, Portugal and Italy. This was also reflected in the fact that LA immediately considered GA as one of the partners they could work with in the Netherlands. From GA's perspective they had a lot of goodwill and contractual trust in the fact that LA would fulfill its end of the agreement. Even before the start of the program GA already invested in hiring and training staff in the Netherlands. With respect to contractual trust, it was clear that LA committed to the standard terms and conditions that they were bound to as LA fulfilled all of the tasks that were agreed upon (providing GA with end-users, introducing GA to contacts, providing training material etc.)

3.2.1.2 Execution Phase

Following the previous negotiations, the IOR developed into a partnership in which GA started to provide its services to the selected customers in the Netherlands. From the start both parties confirmed that the contractual agreements were applied in a strict and concise manner. However, it became clear that there was a difference in the way GA operated in the Southern European countries with the way LA worked in the Netherlands. This was reflected in the fact that in Spain, Italy and Portugal GA was granted a lot more freedom and flexibility to operate while the Netherlands organization requested GA to work following strict processes. In addition to this, the level of quality of the services that GA was providing was unsatisfactory for LA. This triggered LA in the Netherlands to increase the action and outcome controls by scheduling more progress calls and even becoming involved in the hiring process of GA to ensure a specific standard of competences in their hiring processes. Another example of these increased controls, in this case a personnel-cultural control, was reflected by the request from LA to train all new GA consultants in the standard training programs that all LA consultants need to go through. From LA's perspective, these controls became the dominant factor in the execution phase to ensure that the KPI's would be met. The goodwill and competence trust, that seemed so strong in the contact/contract phase, clearly diminished at this point due to the fact that LA requested these additional controls and did not rely on the competence and goodwill trust they had in the beginning phase of the partnership.

When comparing the relationship on a management level (the way Directors from both companies worked together) and an operational level (meaning the way the consultants cooperated) one could see a small difference. At the level of the consultant, LA relied solely on the management control systems to ensure a satisfactory result. The various forms of trust had little to no effect at this point. At the management level of the partnership the cooperation also changed with the increased controls that I specified earlier, but perhaps not as extreme as at the consultant level. The managers at LA and GA increased their conference calls in which they discussed the progress and results of the partnership (action and outcome control) which eventually resulted into more competence and goodwill trust due to the fact that the outcome of the partnership eventually increased.

As noted above, LA's competence trust was lowered in the Execution Phase due to the fact that the level of quality of below the contractual agreements. The fact that LA increased the outcome and action controls also had a negative effect on the contractual and goodwill trust that GA has in LA. GA was used to working in a way that provided that with a certain level of flexibility, but GA did not agree to that. This culminated into one example during which LA requested GA to let one of their consultants go due to the fact that this consultant was not able to perform at the level of quality that LA requested.

Eventually, as the execution phase progressed, GA was able to raise the quality of the work which resulted into the fact that LA lowered certain forms of control (i.e. the amount of conference calls/meetings) were lowered. Throughout the Execution phase (or perhaps the entire partnership), the various forms of trust had little to no effect on the required level of personnel-cultural, action or outcome controls requested by LA. The dominant factor that influenced control was the level of quality of GA's services. When the quality was not meeting the required standards (beginning of Execution phase) it resulted into an increase of personnel-cultural, action or outcome controls imposed by LA. This followed by a decrease of competence trust. When the quality of GA's services increased to a satisfactory level, it followed by a decrease of action and outcome controls and an increase of competence trust. Based on these fluctuations, it seemed as if there was a negative correlation between various forms of control and trust. Whenever control increased trust decreased and vice versa.

3.2.1.3 Outcome Phase

After the first year of the partnership, both LA and GA evaluated the previous year and mutually agreed to establish a new business plan with new KPI's and slightly change the focus moving away from a certain customer sector. Both companies continued to uphold the contractual agreements with a slight lowering of control. The dominant factor in the satisfaction of LA remained the quality of the reporting services of GA towards the end-users. Trust also improved due to the fact that the KPI's were being met by GA. This resulted into an increase of goodwill and competence trust by LA which in turn ensured that GA was granted slightly more freedom to operate. Consequently this increased the contractual and goodwill trust and satisfaction from GA. Eventually the sales organization from LA even requested GA to expand its services to more markets in other countries as they recognized the added value of GA to the sales organization of LA.

Throughout the execution and outcome phase the goodwill and (mainly) competence trust from LA was dependant on the results achieved by GA. Trust evolved during these phases, but the MCS remained as LA recognized that the MCS were the way to achieve satisfactory results. From GA's

perspective, it eventually became clear that the controls that LA requested throughout the execution and outcome phase were critical to the success of the partnership and thus positively affected their compensation.

3.2.2 The LA and LB Partnership

3.2.2.1 Contact/Contract Phase

Like many of today's organizations, LA specifies its customer base into specific segments each with criteria that define the segment. Whereas GA is focused on the segment of smaller customers of LA in the Netherlands, LB was contacted to assist LA in providing its services to the larger customers of LA in the Netherlands.

As with the IOR between LA and GA, LA recognized the need to form a partnership with an organization who can assist LA with providing services to the so-called "Key-Customers" of LA. Since they would do business with the largest customers of LA, this partner was selected on that fact that they could be trusted (from a goodwill trust perspective) and needed to be highly skilled and knowledgeable with respect to LA and the services of LA. For LB the motivation to set up an IOR with LA was due to the fact that LB recognized a desire of end users to be able to conduct license compliance services without being depended on LA.

LB was founded by former LA managers and advises end-users in an impartial manner on licensing and license compliance. This meant that LB already had a network of (high-level) contacts within the LA organization and was highly skilled and experienced in the specific LA services. It also ensured that LB had the approval of the LA management to start the IOR and also provided LA with the required level of competence and goodwill trust. From a LB perspective the fact that they were going to work with former colleagues with whom they had a good relationship (goodwill trust) and were able to understand the complexity of the services was a key motivator.

Apart from the type of customer, the IOR between LA and LB also differed from the IOR between LA and GA in the fact that this IOR would be much more focused on the quality of the engagement and much less on the quantity of engagements. During the negotiations, it was agreed that this partnership would be project-based meaning that although based parties agreed to form the partnership (based on the underlying standard LA Partner Agreement and a letter of intent) to conduct specific services to specific customers, the work would be specified in detail for each engagement in a Statement of Work. This Statement of Work would be drafted for each individual engagement/project and in this document all project milestones and key performance indicators would be drafted. Furthermore it was agreed upon that LB would work independently so that the end-user would understand and trust LB in its impartiality (in a mediator sort of way).

The issues that were discussed during this phase were compensation, confidentiality, terms and conditions of the project (such as the scope of the engagement and timeframe) and the fact that BL would become owner of the product knowledge they would garner during the partnership.

3.2.2.2 Execution Phase

From the start of the first project the contractual agreements were applied very strict. For LA it was crucial to maintain the customer relationship and for LB it was important to stay as impartial as possible towards LA and the customer.

As the execution phase progressed it became clear to LB that the level of material and product knowledge at LA was not satisfactory and, for some aspects of the engagement, needed to be developed. This surprised LB and had negative impact on the competence trust in LA, however it did not impact the controls (outcome, action or personnel-cultural) due to the fact that the controls were already very specific and also due to the goodwill trust LB had in LA. In addition to the goodwill trust that LB had in LA as an organization, there was also a high level of competence trust of LB in the Director of LA based on their previous working experience.

From LA's side the goodwill and competence trust from the contract/contact phase continued to play an important role. The following is an example that illustrates the goodwill and competence trust that LA had. An important aspect to this project was the analysis of data received from the end-user. The end-user was asked to gather all of the required information and provide LA the data so that LA can do the analysis and provide the end-user with the results. This would've been the standard process, but in this project the end-user did not want to share its information with LA (due to the sensitivity of the information). Instead the end-user drafted a Non Disclosure Agreement with LB, which specified that LB would not be allowed to share the data with anyone other than the end-user, and requested that LB would do the analysis and provide LA and the end-user with the conclusions and recommendations. Because LA had trust in the technical competences of LB and trust in the fact that LB would work in the best interest of the IOR, LA agreed to this request from the end-user.

One of the action controls that was agreed upon during the contact/contract phase, were meetings. Throughout the execution phase these meetings were held regularly between LA, LB and the end-user, but also meetings between LA and LB. During these meetings all aspects of the engagement would be discussed to ensure that everything was transparent and followed the guidelines of the engagements to accomplish the goal initially agreed. These controls never lowered during the project even though it did result into an increase of competence trust as it showed everyone that the project progressed successfully due to the efforts of all parties.

Outcome controls were reflected by the fact that LB's compensation was tied to the results of the engagement. This provided LB with a motivation to do the job as good as possible, but for LB it was also important to build its reputation at the end-users.

The relationship between LA and LB was maintained constantly by a Director from LA and the founder of LB. This subsequently meant that, unlike with the GA partnership, there was no difference on Management or Consultant level in the way the forms of trust and controls interacted with each other.

3.2.2.3 Outcome Phase

After roughly 4 months the engagement, for which the Statement of Work was drafted, reached a successful end. Both parties reviewed the development and progress of the project and considered it as a success. Unlike the partnership between LA and GA, this partnership is project-based so it becomes active whenever a new project arises. That was not the case immediately for BL in the Netherlands.

Due to the successful results of this engagement LB was able to build a foundation of competence and goodwill trust at the management of LA in the Netherlands. And since LA upheld its end of the contractual agreements, LA created contractual and goodwill trust at LB.

4. Discussion

The second chapter was meant to review the literature of this subject followed by two case studies in chapter 3 where I've tried to put the findings from the literature to the test in practice examples. In this chapter I intend to review and confront the findings from both chapters and provide (theoretical) implications. Hopefully this will enable me to fully answer the main question of this thesis and possibly add new dialogue to the debate.

First I will describe the way trust and control developed during the course of the relationships from the case studies after which I will provide some interesting theoretical implications.

From the start of the GA partnership, there seemed to be a lot of competence trust from LA towards GA because of the good results in the countries in Southern Europe. In turn this was reflected by a high level of contractual trust from GA in LA as GA invested quickly into the Dutch market by hiring consultants and setting up an office. Both companies were eager to get started. In the execution phase the various forms of control and trust started to develop. Since the quality of the provided services by GA was not meeting the expectations of LA, it resulted into a number of actions by LA such as progress calls (action control), becoming involved in the hiring process of GA to ensure a specific standard of competences in their hiring processes (personnel cultural control) and the request from LA to train all new GA consultants in the standard training programs that all LA consultants need to go through (personnel cultural control).

The contractual trust that LA had in GA, remained relatively unchanged throughout the relationship. This was due to the way the contractual agreements were drafted. This was set up in a way that GA would only benefit from the partnership as long as the partnership produced a positive outcome. This resulted into the fact that LA continuously had contractual trust in GA. In terms of controls that LA imposed on GA, the above paragraph already shows clearly that action and outcome controls were dominant. The personnel-cultural controls (such as being involved in the hiring process of GA, requesting all new GA consultants to undergo LA training and requesting GA to let one of their consultants go) were also increased in the beginning of the execution phase, but after that point I did not see any other fluctuations in personnel-cultural controls from LA.

It was clear that the quality of service provided by GA to the end-user was at all times the dominant factor in deciding the required amount of control and trust. LA reviewed GA, and its relationship with GA, based on that outcome. Whenever the quality was deemed unsatisfactory by LA, the competence trust in GA was lowered and the action and outcome controls increased (this was especially clear in the beginning of the Execution phase of the relationship) as shown in the following chart:

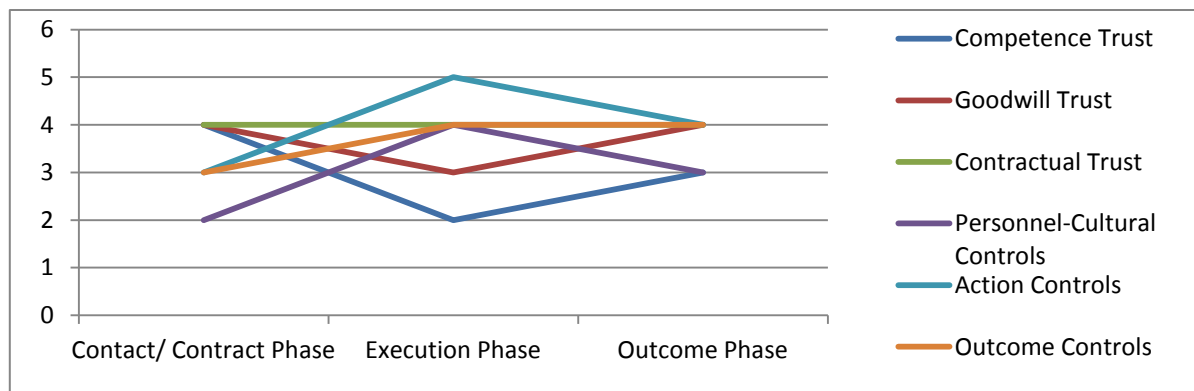


Figure 2. LA Trust and Controls towards GA during the evolution of the relationship

From GA's perspective this picture is slightly different. For instance when looking at the various forms of control from GA towards LA. Due to GA's dependence on LA, which was much greater than the dependence of LA on GA, it was clear that there were little to no controls imposed on LA. A big factor in this dependence inequality was due to the fact that LA could operate with more partners if they choose to do so (and even did in the beginning of the program in the Netherlands). Another factor that was important in this was the difference in size of both companies with LA being a multinational company with well over 100.000 employees worldwide and GA with only a fraction of that. This should indicate that this program was much more important to GA's business as to LA's business.

Figure 2 shows the way trust and control developed from GA towards LA:

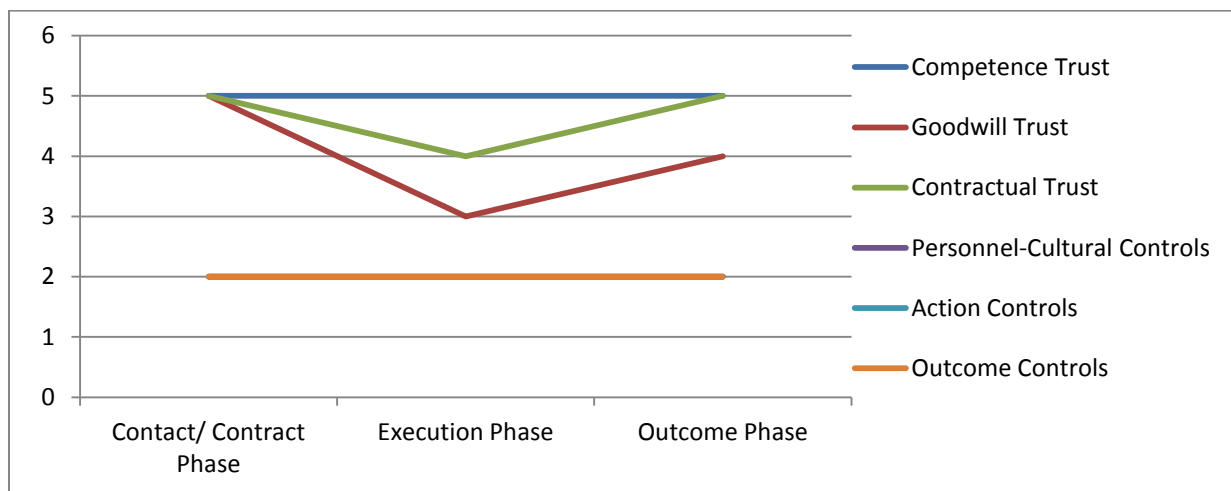


Figure 2. GA Trust and Controls towards LA during the evolution of the relationship

As can be seen above, there were no noticeable fluctuations in terms of controls from GA towards LA. The controls did increase and/or decrease whenever LA requested it, but these fluctuations did not happen on GA's request.

When comparing Figure 1 and 2, it is clear that there is a big difference in the way action, outcome and personnel-cultural controls evolved from GA's and LA's perspective. The reason for this seems to be the fact that GA was more dependent on LA than LA was on GA.

In the LB partnership the fluctuations that I described above in the GA partnership, were not as significant due to the fact that the relationship was based on a single engagement but also due to the highly detailed contractual agreements that both parties had to work with. The fact that LB had to

focus its services on a single end-user, which was deemed an extremely important customer of LA, ensured that LA was highly motivated to perform and keep the customer satisfied. While LB wanted to establish itself as an objective and capable licensing expert (and of course receive financial compensation) and LA wanted to keep this customer satisfied, it seemed as if both parties were equally invested in getting a good result. In addition to that, the fact that the engagement was specified too high detail in the contractual agreements meant that for virtually any scenario a plan of action would be in place which in turn resulted into the fact that increases of controls were not seen. Based on the research, I did not see any significant fluctuations in the various forms of trust and control from LA's side. This can be seen in the following Figure:

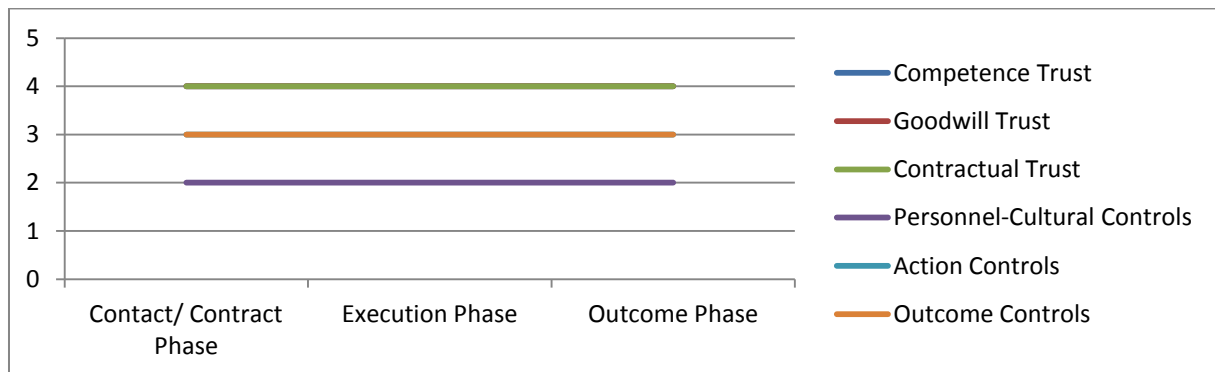


Figure 3. LA Trust and Controls towards LB during the evolution of the partnership

From LB's perspective the only fluctuation that was discussed was the lowering of the competence trust in LA as an organization, when it was discovered that the level of material and product knowledge at LA was not satisfactory and, for some aspects of the engagement, needed to be developed. After developing the necessary material and product knowledge, the level of competence trust increased to its previous level. This development did not seem to have an impact on the other forms of trust or controls which most likely were due to the detailed agreements and competence trust that LB had in the Director of LA. This can be seen in the following figure:

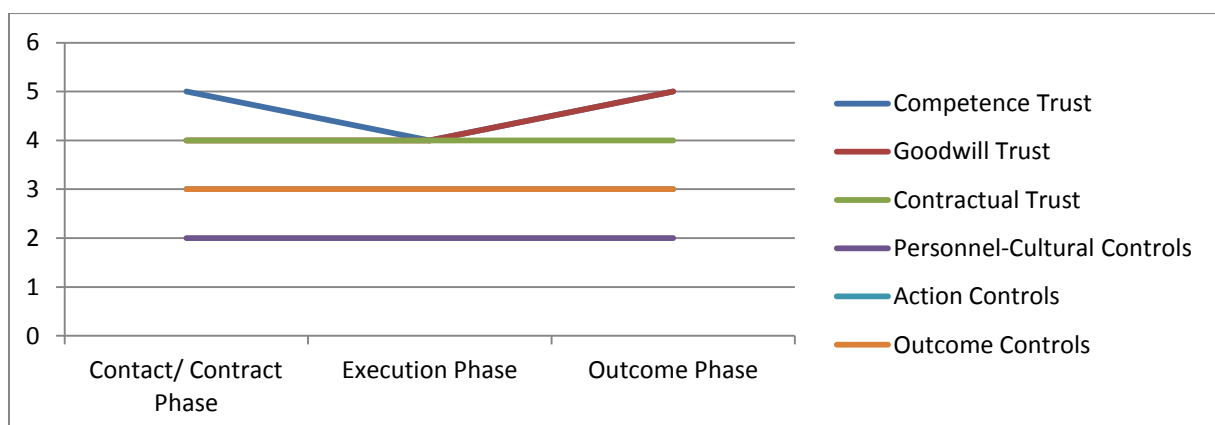


Figure 4. LB Trust and Controls towards LA during the evolution of the partnership

Having looked at both partnerships individually, it is clear that the development of the various forms of trust and controls are not identical. There are of course a number of similarities as well as differences between both partnerships. It seems as if there are a number of factors that influence the way the partnership develops and, more specifically, the way trust and control interact. The

following should provide you with an overview of these factors based on my research (please take note that the order in which the factors are shown are not indicative of its importance):

1. Performance

The performance of the relationship seemed to be the main catalyst in any trust and control fluctuations in the GA partnership. Whenever the results were unsatisfactory, it was followed by a change in control and a change in trust. For example, in the beginning of the execution phase of the GA Partnership it was clear that LA was not satisfied with the performance of GA's services. This resulted into an increase of outcome, action and personal cultural controls and a subsequent decrease of competence trust. Eventually, after the performance increased improved, it was followed by a decrease of control and increase of trust.

In the LB relationship, it seemed as if this was not a factor since the performance was deemed stable and satisfactory throughout the partnership.

2. Dependence

An important factor in the relationship is how dependent both parties are on the partnership. Looking at the case studies, it seemed as if LA had more "control" over GA when compared to the LB partnership. This resulted into the fact that any fluctuations in the various forms of control happened at the request of LA, not on GA's request. I believe the fact that GA was more dependent on the business with LA (than vice versa) lead to the inequality of dependence. LA always had the choice to start up partnership with other companies which GA was not able to do. This inequality resulted into several side effects. As described above, this inequality provided LA with the ability to impose controls more freely than GA since LA was not as dependent on the relationship with GA. The moments that outcome, action and personal-cultural controls were increased by GA subsequently resulted into a decrease of contractual trust by GA and a decrease of competence trust by LA.

In the LB partnership, it seemed as if the importance to achieve a good result was equally important. LB wanted to establish itself as an objective and capable licensing expert (and of course receive financial compensation) and while LA wanted to keep this important end-user satisfied.

3. Network

In both partnerships there was already a relationship in place before the IOR actually started. In the case of the GA partnership, this was due to the fact that GA and LA already had a similar IOR in the southern countries of Europe. For LB this connection was due to the fact that the founder of LB was in fact a former employee of LA. This seemed to be critical to LA as they needed to have a lot of trust in the partner before even considering starting up such a relationship. In the Contact/Contract phase of both partnerships there seemed to be a lot of contractual and competence trust from LA towards GA and LB. This would indicate that LA needed to have a large amount of trust in the partner in order to let the partner provide services to its end-users.

4. Level of detail in contractual agreements

The way both partnerships are set up (and the differences in that aspect) play an important factor in understanding the way trust and control developed during the evolution of the relationships. It is

true in both partnerships that LA is the bigger company in the partnership. However the fact that LB was not as dependent on the business with LA when compared to GA's dependence on LA, proved to be an important factor in the difference in the way the various controls developed. Another important difference between both partnerships is the level of detail in the contractual agreements. Since so many aspects of the engagement was discussed contractually in the LB partnership it meant that LA did not feel it was necessary to impose more controls as long as LB upheld its end of the agreement (which it did). In the GA partnership this was different since the contracts were not as detailed and thus did not specify GA on how to act in a certain situation. The result of that was an increase of action, outcome and personal-cultural controls of LA.

The above factors played an important role in the way the various forms of trust and control developed in the relationships. Where network played a crucial role in finding a suitable partner in the contact/contract phase, it is the dependence that determines which partners has more control over the other (as can be seen in the GA partnership). Furthermore the performance and level of detail in the contractual agreements decide when an in or decrease of trust and control is required. For example in the LB partnership, the companies seemed to be equally dependent of a good result, the contractual agreements were very detailed and the performance of the relationship seemed satisfactory for both parties. These facts resulted into far fewer fluctuations in trust and control when compared to the GA partnership as can be seen above.

If we now look back at the case studies to determine if MCS and trust complement each other, it seems clear that in the GA partnership this is not the case. The fluctuations in the various forms of trust and control each time seemed to be affected by the performance of the partnership. Meaning whenever the results deteriorated, it was followed by a decrease of competence trust and an increase of outcome, action and (in the execution phase) personnel-cultural controls by LA. This subsequently resulted into a decrease of contractual trust of GA. Even though those controls eventually ensured that the performance improved (and thus also decrease the controls and increase the trust), it seems clear that trust and control did not work complementary. In the LB partnership this picture is different. MCS and trust did complement each other throughout the relationship. Aside from a relatively small decrease of competence trust in the execution phase (which did not result into any fluctuations in other forms of trust or control), we did not see any noticeable fluctuations. Tomkins (2001) states that trust complements MCS in the contact/contract phase and when trust diminishes in later stages of the relationship it seems to have a similar effect on MCS. He defines trust as the belief of one party that the other party will not act against his or her interests (goodwill trust) whereas control is defined as information about plans, processes and results coupled with appropriate sanctions for inappropriate behavior. He states that in the beginning of the relationship control can lead to trust and in an inverse U-shaped example of a relationship, control is needed to create and support continuing trust. As trust becomes established at the higher levels in later stages of the relationship, it is likely that less information will be needed to sustain that relationship. Poppo and Zenger (2002) seemed to strengthen Tomkins' findings by stating that, based on their research, MCS and trust actually complement each other at various stages of the relationship. The GA partnership that I researched certainly did not show this development. In the GA partnership I did see an increase of all three forms of control and a subsequent decrease of competence trust which eventually resulted into a decrease of outcome and action control and an increase of competence trust. These fluctuations did seem to be connected to each other, but it didn't confirm Tomkins' finding. These developments seemed to be closely tied to the performance of the relationship.

Whenever the results decreased, it was followed by an increase of certain controls and decrease of contractual and competence trust. Eventually these controls resulted into better results which in turn lead to increased trust and decreased control. The statement made by Tomkins regarding the fact that control can lead to trust in the beginning of the relationship also was not confirmed by the conducted case studies. In the GA relationship the contradiction to this statement was quite clear with LA increasing outcome, action and personal cultural controls which lead to decrease of competence trust. The statement made by Tomkins (2001) and Poppo and Zenger (2002), seemed to be confirmed in the LB partnership. MCS and trust did complement each other throughout the relationship. Aside from a relatively small decrease of competence trust in the execution phase (which did not result into any fluctuations in other forms of trust or control), we did not see any noticeable fluctuations.

Vélez, Sánchez and Álvarez-Dardat (2008) conclude that the introduction of new MCSs does not necessarily damage trust and their case study provides evidence that in an open-ended and evolving relationship, MCS actually complements and builds trust. Although it did not see many new control techniques introduced in the outcome phase of the researched relationships, it seemed very clear that the increase of control in the contact/ contract and execution phase clearly had a damaging effect on the trust. In the GA partnership for example, when the results were unsatisfactory for LA it resulted into a decrease of competence trust followed by an increase of controls imposed by LA on GA. This in turn led to a decrease of trust of GA. However after the increased controls were producing results it convinced GA that the controls were necessary and eventually ensured that the contractual trust they had in LA increased again. From LA's perspective, the improving results lead to an increase of competence trust and a decrease of personal cultural, action and outcome controls. On this note I would say that the findings of my case studies would agree with Tomkins' statement.

Dekker (2004) states that when control increases beyond the level that is initially required it will damage trust. It is a pity that Dekker does not go into the evolution of the relationship however he does state that trust is very important (next to controls) in an IOR. Looking at my own research I would have to agree with the requirement of trust to achieve a successful relationship. In both case studies it seemed as if LA had to have a certain level of competence trust in the partner they wanted to work with. With respect to the damaging effect of increased controls beyond the level that is initially required, it seems as if this was also confirmed based on the GA partnership. In particular in the execution phase of this relationship, we saw controls being increased further than what GA would've required which subsequently had a (initial) negative impact on the trust GA had in LA. Eventually these controls ensured better results which in turn resulted into increased trust by GA (contractual) and LA (competence).

5. Conclusions

The main goal of this paper was to research the way MCS and trust affect one another during the evolutionary phases of an IOR in the IT market in the Netherlands. By differentiating the various forms of trust (competence, goodwill and contractual trust) and MCS (outcome, action and personal cultural controls), I've tried to add depth to this thesis.

Based on the two conducted case studies, we've seen a number of similarities and differences between both Inter Organizational Relationships. Where one relationship was based on providing services to many end-user customers (GA), the other was specifically meant to focus on one end-user of LA (LB).

Looking at the way the various forms of MCS and trust developed and interacted with each other during these IORs, it seemed as if the competence trust was an important factor in the contact/contract phase of the relationship due to the complexity of the required work. The level of trust, however, didn't seem to affect control as the level of MCS was dependent on the complexity and performance of the relationship. In the execution phase of the relationship (mainly in the GA partnership) it was clear that an increase of control had an initial negative impact on the level of trust. This was followed by an increase of trust (as soon as the results improved) which subsequently resulted in a decrease of control. It was clear that in the GA partnership trust and control did not act as supplements rather as substitutes. Whenever trust was up, control was down and vice versa. In the LB partnership, however, trust and control did seem to supplement each other.

The factors that determined the above differences are performance, dependence, network and the level of detail in the contractual agreements. Where network plays an important role in finding a suitable partner in the contact/contract phase, it is the dependence that determines which partner has more control over the other. The performance and level of detail in the contractual agreements decide when an increase or decrease of trust and control is required. Since the contractual agreements were much more detailed in the LB partnership in combination with the fact that both companies were more equally dependent on the relationship and the performance overall seemed satisfactory it resulted in far fewer fluctuations in trust and control when compared to the GA partnership.

5.1 Limitations and implications for further research

Although I feel that this thesis does meet the sufficient level of construct validity (by triangulating the interview data as well as providing the reader with a clear view of the design of the research) as well as internal validity (by specifying the variables that determine the results), I should also note that in terms of the external validity the findings can only be generalized for the IORs in the IT sector in the Netherlands. With respect to the reliability of the results, I've incorporated a number of research steps such as providing the interviewees with the necessary background information (as well as questionnaire which has been attached as Appendix A) well before the actual interviews were conducted so that they could get acquainted with the subject material. Also, after conducting the interviews, I made it clear that I would provide them with a draft report of the questions and provided answers, giving them the opportunity to edit and/or remove any information they deemed incorrect or confidential.

Despite these steps there are a few limitations to my research. First of all, I was not able to review the contractual agreements with both IORs. The information described in this thesis is derived from

the information provided during the interviews that were conducted. So, as a suggestion, I would recommend reviewing all contracts as it could provide valuable insights into the partnership. Also, to increase the reliability of the research, it would be best to conduct more case studies to closely examine if the results are stable and consistent. If they are not the volume of case studies would provide data that might provide explanations what causes the differences.

In addition to the suggestions above, I should also note that the researched partnerships slightly differed from one another. The partnership between LA and GA is one that continues with multiple end-user engagements where as the LA and LB partnership is one that is project-based, meaning one project at any given time. Another difference is the fact that in the LB partnership, the cooperation stayed between a Director of LA and a Director of LB whereas with the GA partnership, we could see cooperation on a management level and a consultant level. These differences might also have an impact on the developments of trust and control.

Another aspect that has not received a lot of attention, but might be worth researching is the type of business these relationships are in. In my thesis I researched two partnerships in the business of IT. Comparing my findings with the available literature, it meant that I had to compare the developments in my case studies to relationships between companies in completely different industries. An example can be found in Dekker's (2004) case study between companies in the public transportation sector. By researching partnerships in the same business or even country for that matter, it would increase the external validity of the findings.

Furthermore, where I tried to incorporate the evolution of the relationship, I found out that only a few academics have done this which provided me with a small sample to compare with. For future research purposes it might prove worthwhile to review the available literature first and then seek additional elements which have received sufficient attention so that a good comparison can be made.

6. Literature

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Appendix A. Questionnaire

This questionnaire is part of the master thesis researching the interaction of Management Control Systems ("MCS") such as performance measurement tools, contracts etc. and trust in an Inter Organizational Relationship ("IOR") during the development of the relationship. The questions have been structured in the following way: initially some general questions will be asked (chapter 1 and 2) following with questions that focus on the Contact/Contract phase (chapter 3), Execution phase (chapter 4) ending with the Outcome phase (chapter 5). The interviews will be conducted with a recording device and notepad. When finished and processed the LA/GA/LB employee will be offered a first view into the notes and possibility for adjustments and/or corrections. Please take note that the Questionnaire will be adjusted per interview to focus on the specific company. Furthermore all names will be removed from the thesis.

1. General

- 1.1 What is your name?
- 1.2 What is your function?
- 1.3 Can you give a short description of the company and department you work for?

2. Alliance

- 2.1 Can you describe your role in the organization and how you are connected/involved with the IOR between LA/GA/LB
- 2.2 What were the motivations to set up the IOR?

3. Contact/Contract phase

- 3.1 Why did you choose LA/GA/LB to start the IOR?
- 3.2 Did you also consider other parties?
- 3.3 Please describe the services for the IOR between LA/GA/LB?
- 3.4 How did the negotiations take place? (Persons involved, number of meetings, location, time)
- 3.5 Which issues were negotiated?
- 3.6 What type of contract is used?
- 3.7 What is the content/time period of the contracts?
- 3.8 How can the contracts be characterized? (Detailed/ complete, various scenarios/ framework to be filled in)
- 3.9 How did the technical competences of LA/GA/LB play a role in the trust in the relationship?
- 3.10 How did you mitigate the risk that LA/GA/LB would leave the partnership?
- 3.10 How did trust in general play a role in the relationship? Can you give examples?
- 3.11 Can you give examples of contractual/ competence/ goodwill trust?
- 3.12 Which types of MCS were discussed?
- 3.13 Can you give examples of outcome/action/personnel-cultural controls?
- 3.14 Did you focus on the results of the relationship? If so, how did that focus affect the relationship?
- 3.15 How important is the satisfaction of both parties? If so, how did this affect the relationship?
- 3.16 Which issues raised differences of opinion?
- 3.17 How were these differences of opinions solved?
- 3.18 Were the expectations/goals realized during this phase?

4. Execution phase

- 4.1 How strict were the contractual agreements applied?
- 4.2 As the relationship progressed, did you feel it was necessary to maintain the level of control initially agreed?
- 4.3 How did the technical competences of LA/GA/LB play a role in the trust in the relationship?
- 4.4 How did you mitigate the risk that LA/GA/LB would leave the partnership?
- 4.5 How did trust in general play a role in the relationship? Can you give examples?
- 4.6 Can you give examples of contractual/ competence/ goodwill trust?
- 4.7 How did the MCS affect the relationship in general and trust in specific?
- 4.8 Did you focus on the results of the relationship? If so, how did that focus affect the relationship?
- 4.9 How important is the satisfaction of both parties? If so, how did this affect the relationship?
- 4.10 How did the execution of the MCS affect trust? Can you give examples?
- 4.11 Can you give examples of outcome/action/personnel-cultural controls?
- 4.12 How did trust affect MCS?
- 4.13 About what issues were differences of opinion?
- 4.14 How were these differences of opinions solved?

4.15 Were the expectations/goals realized during this phase?

5. Outcome phase

5.1 How strict were the contractual agreements applied?

5.2 As the relationship progressed, did you feel it was necessary to maintain the level of control initially agreed?

5.3 How did the technical competences of LA/GA/LB play a role in the trust in the relationship?

5.4 How did you mitigate the risk that LA/GA/LB would leave the partnership?

5.5 How did trust in general play a role in the relationship? Can you give examples?

5.6 Can you give examples of contractual/ competence/ goodwill trust?

5.7 How did the MCS affect the relationship in general and trust in specific?

5.8 Did you focus on the results of the relationship? If so, how did that focus affect the relationship?

5.9 How important is the satisfaction of both parties? If so, how did this affect the relationship?

5.10 How did the execution of the MCS affect trust? Can you give examples?

5.11 Can you give examples of outcome/action/personnel-cultural controls?

5.12 How did trust affect MCS?

5.13 About what issues were differences of opinion?

5.14 How were these differences of opinions solved?

5.15 Were the expectations/goals realized during this phase?