# Managing Trust in Strategic Alliances

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# Managing Trust in Strategic Alliances

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*City University of New York*

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# FOREWORD TO THE SERIES

Relationships have been important to commercial activity and economic transactions for thousands of years. Yet, the development of a competitive global landscape has substantially enhanced the importance of partnerships between economic entities. These partnerships, referred to as strategic alliances, provide access to resources and capabilities that allow firms to gain economies of scope and to increase their productivity and innovation. The economies, productivity, and innovations are necessary to at least maintain competitive parity, and especially to achieve a competitive advantage in the often highly competitive global markets. Strategic alliances have also become a prominent means of entering new markets, especially foreign markets. Therefore, alliances and the networks of firms of which they are a part, have become essential to conducting business for all types of firms: large, small, established and new.

Because of their growing importance, research on strategic alliances has increased markedly in the last two decades. Yet, there is a need for an authoritative compendium of strategic alliance research and knowledge. This book series on *Research in Strategic Alliances* fills this critically important gap in the field. It provides a thorough examination of significant topics that provide complete and up-to-date knowledge on strategic alliances. This book series can serve as a catalyst for the more effective management of strategic alliances, and will guide future research on them. I commend it to you.

**—Michael A. Hitt**
*Distinguished Professor and Joe B. Foster Chair in Business Leadership at Texas A&M University, and Past President of the Academy of Management and the Strategic Management Society.*

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# ABOUT THE SERIES

The globalization of markets has led to an increased interdependence among business firms, resulting in an explosion in the number of strategic alliances. Strategic alliances, briefly, are cooperative arrangements aimed at achieving the strategic objectives of two or more partner firms. These interfirm arrangements can range from joint R&D to equity-based joint ventures. However, the scholarship relating to strategic alliances remains largely dispersed in the literatures of traditional academic disciplines such as strategic management, marketing, economics, and sociology.

This book series on strategic alliances covers the essential progress made thus far in the literature and elaborate upon fruitful streams of scholarship. More importantly, the book series focuses on providing a robust and comprehensive forum for new scholarship in the field of strategic alliances. In particular, the books in the series cover new views of interdisciplinary theoretical frameworks and models (dealing with resources, risk, trust, control, cooperation, learning, opportunism, governance, developmental stages, performance, etc.), significant practical problems of alliance organization and management (such as alliance capability, interpartner conflict, internal tensions, use of information technology), and emerging areas of inquiry. The series also includes comprehensive empirical studies of selected segments of business, economic, industrial, government, and non-profit activities with wide prevalence of strategic alliances. Through the ongoing release of focused topical titles, this book series seeks to disseminate theoretical insights and practical management information that will enable interested professionals to gain a rigorous and comprehensive understanding of the field of strategic alliances.

**—T. K. Das**
City University of New York
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CHAPTER 1

# THE ROLE OF TRUST IN VALUE CREATION AND VALUE APPROPRIATION IN STRATEGIC ALLIANCES

**Maryem Cherni**
**Valerie Leroux**

## ABSTRACT

The main objective of this chapter is to examine the role of trust in creating value and appropriating it in strategic alliances. We use an integrated theoretical framework in which we mobilize literature on value creation, value appropriation, and trust, which are very often studied separately. Then we analyze it in light of a longitudinal case study of a strategic alliance between two companies in the agrifood sector. The results show that trust has a beneficial effect on value creation. More particularly, it reduces the boundaries between partner firms and helps create a positive relational climate that encourages partners to foster value creation. Nevertheless, the role of trust in value appropriation is complicated. Our results show that trust could be harmful for value appropriation in two kinds of conditions. When trust is deteriorated, partners focus on appropriating private benefits and have a short term perspective.

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Surprisingly, a high degree of trust could encourage partners to adopt an opportunistic behavior in capturing value inappropriately. Trust is a complex, relational, and invisible phenomenon. Value creation and appropriation may be mirrors where partners can realize whether trust is in its positive or negative side. In this complex situation, we suggest a co-evolutionary matrix that presents different scenarios according to the evolution of the alliance and the level of trust. This matrix could be a tool to help managers deal with trust in strategic alliances. Finally, lessons learned from the 10 years of experience of the strategic alliance case study, implications for both researchers and practitioners, and some research avenues are presented.

This chapter investigates the impact of trust evolution on value creation and value appropriation between partners over time. First of all, we adopt a resource-based approach (Das & Teng, 2000b) and consider strategic alliances as *ad hoc* arrangements in which partners bring resources and competencies to reach common objectives and create benefits. Within this framework, the notion of value in strategic alliances is closely related to the capacity of partners to join heterogeneous resources and competencies (Peteraf, 1993). Strategic alliances are not only interpreted as an access to resources, but also as "a productive resource for value creation" (Madhok & Tallman, 1998). We therefore consider that alliances are vectors for value creation but also for value appropriation.

In the strategic alliances literature, increasing attention is being paid on how firms create greater amounts of value (Das & Teng, 2000b; Dyer & Singh, 1998; Gulati, 1998; Kogut, 1988) and how this value is distributed among alliance partners (Adegbesan & Higgins, 2011; Dyer, Singh, & Kale, 2008; Jap, 2001; Lavie, 2007; Wagner & Lindemann, 2008). Nevertheless, we notice that there are two gaps in the literature. The first one is that value creation and value appropriation in strategic alliances are usually addressed separately. Most scholars tend to focus on the value creation side. The second gap is related to the lack of interest in trust issues in the value creation and appropriation literature. Few authors have focused their attention on value appropriation as a source of conflict in interfirm relationships (Jap, 2001). Moreover, scholars have neglected the other side of the equation. Very little attention has been paid to the impact of alliance conditions and the quality of the relationship between partners on value creation or value appropriation over time. It is clear, however, that the capacity of partners to create value and the manner they appropriate it depend on the collaboration atmosphere, mainly trust, which evolves over time within various stages of alliance development (Das & Kumar, 2007).

Concerning trust, it continues to play an important role and it is still receiving sufficient attention in the strategic alliances literature. This comes from the fact that many scholars have already revealed the positive effect

of trust on alliance performance (Dyer & Chu, 2003). Trust allows partners to reduce potential conflicts (Zaheer, McEvily, & Perrone, 1998), facilitates knowledge acquisition (Jiang, Bao, Xie, & Gao, 2016), and reduces the need to monitor partners' behavior (Jiang et al., 2016).

But what is trust? Trust is defined as one's willingness to rely on others (Rousseau, Sitkin, Burt, & Camerer, 1998). It refers to the "personal belief that individuals engaged in exchanges will make sincere efforts to uphold their commitment and will not take advantage of the given opportunity" (Sundaramurthy, 2008, p. 89). That is why Rousseau et al. (1998) consider trust not as a behavior but as a psychological state that results in behavior.

If the existence of trust is broadly identified as a key factor of success in the alliance relationship, recent scholars have suggested to take into account "more subtle interaction effects" (Krishnan, Martin, & Noorderhaven, 2006, p. 908), apart from the positive relationship between trust and alliance performance. In line with this recent thought and based on the idea of Rousseau et al. (1998), who consider trust not as a behavior but a psychological state that results in behavior, the main objective in this chapter is to explain the variation in value creation and value appropriation behavior among partners when trust increases or decreases over time.

More particularly, in order to address the two research gaps mentioned above, this chapter addresses how trust evolution influences partners' behavior when they create value and when they appropriate it. Does positive trust evolution help firms generate greater benefits from the alliance? What could the impact of trust be in appropriating value equally?

We first assert that addressing issues related to value creation and value appropriation with the concept of trust is essential to gain deeper understanding regarding strategic alliances and their performance. Secondly, to illustrate this assertion, we use a longitudinal case study involving two firms in the agrifood sector. We believe that this longitudinal case study methodology is better adapted to our objective because, on the one hand it allows us to consider the fact that value creation, value appropriation, and trust respectively evolve during the lifetime of the strategic alliance. On the other hand, this approach is important given the fact that those three factors are implicit and invisible outside the companies' boundaries (Ritala & Tidström, 2014).

In the following sections, we first develop the literature review on value, value creation, and value appropriation in the context of strategic alliances. Secondly, we discuss the important role of trust through existing literature. We then explain our case study research methodology and present the partners and the 10-year lifecycle of the strategic alliance. We then develop the results and discuss them. Finally, theoretical and managerial implications stemming from the case study analysis are addressed.

## VALUE CREATION AND VALUE APPROPRIATION IN STRATEGIC ALLIANCES

The aim of this section is to define "value," its origins, and applications in different fields before its application to strategic alliances.

### Definitions

The term "value" is relatively old in academic literature. It has a polysemous and very fragmented meaning. The concept of value is first applied to the company level before its extension to interorganizational collaborations (Dyer & Singh, 1998).

At the company level, value can be defined from the end-customer perspective as the willingness to pay (Brandenburger & Stuart, 1996). In this sense, it is closely related to the ability of firms to enjoy a sustainable competitive advantage, particularly by joining heterogeneous resources and competencies (Peteraf, 1993).

In strategic alliances, the common idea that emerges from the literature is that value is the result of the cooperation between partners. Consequently, the principle driver for partners to collaborate is the possibility of creating greater value, called also "pie" (Jap, 2001; Yan & Wagner, 2017), or "rent" (Madhok & Tallman, 1998). Nevertheless, the term "value" which is most commonly used in the literature is still ambiguous, probably because of the difficulty for partners to outline the fruits of their collaboration and to understand their nature, size, and ingredients (Jap, 2001). Madhok and Tallman (1998) recognize that the notion of value in strategic alliances is complex since it is related to the intraorganizational and interorganizational relationships system of the partners. For these authors, value is defined as the rent that the partners could obtain through their collaboration, but would not be able to gain in other ways. According to them, each alliance has a potential value and a real value. While the former refers to the theoretical result of the combination of the partners resources and competencies, the latter refers to the real rent achieved through cooperation. We therefore address the achieved value. That is to say, in spite of its ambiguity, value is now considered as the keystone of management of interfirm collaborations. Even more, the potential of a firm to create value is considered as an important selection criterion to establish strategic alliances (Emden, Calantone, & Droge, 2006). In other words, a firm needs to assess the potential of value creation and appropriation of a project before involving external partners.

The literature distinguishes three levels of value: "ricardian rent," "quasi-rent," (Peteraf, 1993) and interorganizational quasi-rent—called also relational quasi-rent or collaboration specific quasi-rent (Dyer & Singh, 1998; Madhok & Tallman, 1998; see Table 1.1).

**TABLE 1.1 Value Related Terminology and Examples**

| | Categories of value | Authors | Description | Examples |
|---|---|---|---|---|
| Organizational value | Ricardian rent | Peteraf, 1993 | Arises from the valuable resources and competencies of the firm | Profit maximization to satisfy stakeholders; Total shareholder return; Market value added |
| | Quasi-rent | Teece, Pisano & Shuen, 1997; Peteraf, 1993; Barney, 1991 | Arises from complex and tacit resources/competencies of the firm | New product or process development; Managerial innovation |
| Interorganizational quasi-rent (relational quasi-rent) | Economic value | Porter & Kramer, 2011 | Tangible value | Profit, gain efficiency, market expansion; Cash Flow Return On Investment |
| | Strategic value | | The creation of new business opportunities | e-business developement |
| | Knowledge value | Dagnino & Padula, 2007 | The growth of the interfirm knowledge stock | Collaboration know how and experience |
| | Socio-environmental value | Volschenk et al., 2016 | Ecological value and benefits that accrue to society. A public value. | Environmental improvements (carbon dioxide emissions, road maintenance reduction costs, . . .) |

The "Ricardian rent" (Ricardo, 1973) can be explained as follows. To explain the difference between labor and capital, Ricardo considers the rent as the amount paid to the landowner which depends on the scarcity and the fertility of the land. In other words, from Ricardo's point of view, some types of land may bring more rent than others because they are more fertile and scarce. The concept of ricardian rent was then used by the resource based theory (Barney, 1991), and defined as the benefits which arise from the unique and valuable resources a firm possesses.

The quasi-rent concept is an extension of Ricardo's approach. According to Marshall (1961) who also considered the temporality of the good or the resource, Lewin and Phelan (2002) defined the quasi-rent as "that part of the value of the machine that is due to its temporarily restricted supply" (p. 225). Thus, from a resource-based view, the quasi-rent arises from complex and tacit resources difficult to imitate by other firms (Barney, 1991).

The interorganizational quasi-rent requires the combination of resources and competencies of many partners (Wassmer & Dussauge, 2011), which allow them to collectively generate more value than the sum of value created by each partner (Dyer & Singh, 1998; Madhok & Tallman, 1998). Elsewhere, in line with this view, the strategic alliance literature distinguishes between common and private benefits (Janssen, De Man, & Quak, 2013). Volschenk, Ungerer, and Smit (2016) use the term "common benefit" to describe the total value created by the collaboration, which also refers to the component of the value appropriated by the partners. It arises from "the collective application of the learning that both firms go through as a consequence of being part of the alliance" (Khanna, Gulati, & Nohria, 1998, p. 194). However, private benefits refer to the value that a partner can appropriate unilaterally through the collaborative relationship while benefiting from the access to the other parties' resources and knowledge (Park, Srivastava, & Gnyawali, 2014).

In the next segment, we focus on value definitions, value creation in strategic alliances, and mechanisms of their creation.

## Value Creation in Strategic Alliances

In general, as developed above, value creation refers to the firm's activities that could increase the willingness to pay from the end-customer's perspective (Brandenburger & Stuart, 1996; Ritala & Tidstrom, 2014). In the context of strategic alliances, the value would be the result of the cooperation between partners. We know that the value created should not be limited to the financial gain generated by the collaboration—it may be strategic, substantive, or institutional (Aliouat & Taghzouti, 2007), as well as socio-environmental (Volschenk et al., 2016).

From the point of view of Aliouat and Taghzouti (2007), strategic value is linked to the creation of new business opportunities, whereas substantial value is reflected in the ability of partners to integrate new skills and is related to their absorptive capacity (Cohen & Levinthal, 2000). Other authors call it knowledge value (Dagnino & Padula, 2007; Volschenk et al., 2016), defined as "the growth in the interfirm knowledge stock" (Volschenk et al., 2016, p. 110) created in the collaborative relationship. This knowledge value could be transferred to economic value if it is applied appropriately (Dagnino & Padula, 2007, p. 42). The institutional value is the gain in legitimacy that the alliance provides for one or both partners.

Other authors suggest that value in strategic alliances can also be socio-environmental (Hatting, 2009; Rolston, 1986; Volschenk et al., 2016). This type of value refers to the environmental and ecological benefits created by the collaborative relationship. In this sense, it is a society-oriented value, and is not captured by the firms involved in the strategic alliance.

There exist mechanisms that contribute to value creation, called "value establishment norms" (Kaufman, 1987). For this author, the complementary resources and competencies provided by the partners but also solidarity, long-term orientation, information sharing, flexibility, integrity, and role planning are mechanisms that create value. Organizational commitment has also been shown to reduce opportunism and conflict in strategic alliances and, thus, helps firms to build a beneficial relationship for both partners (Wu & Cavusgil, 2006). Using information from 182 senior executives responsible for strategic alliances in U.S. firms, Wu and Cavusgil (2006) found that organizational commitment can serve as a key mediator and helps them transform their idiosyncratic resources into higher rents for the alliance and for themselves.

## Value Appropriation in Strategic Alliances

In this section, it is important to note that different concepts are used to describe the value appropriation process. Value capture (Ritala & Tidström, 2014), value sharing (Jap, 2001), and "pie splitting" (Adegbesan & Higgins, 2011; Dyer et al., 2008) are also frequently employed in the literature.

Value appropriation generally refers to the mechanisms used to capture or share the value created by partners (Ritala & Tidström, 2014), defined previously as the willingness to pay from the end-customer perspective. In the strategic alliance context, it is defined as "the division of wealth generated by the alliance between the two partners, or pie splitting" (Hughes-Morgan & Yao, 2016, p. 186). Put differently, it is the sharing of the interorganizational common benefits arising from the combination of the resources and competencies of the partners. Nevertheless, it is also important to take

into account the ability of the partners to generate private benefits. The appropriation of common value and/or private value could be linked to the trust and the quality of the relationship between partners.

The question of appropriation of the interorganizational quasi-rent is crucial because the ultimate goal of partners, by establishing strategic alliances, is not only to create value but also to appropriate it (Oxley & Silverman, 2008). Value appropriation is also important to be addressed in strategic alliance research because it could be a source of conflict between partners and a determinant of the failure of collaborative projects. Many reasons could affect the value appropriation process. Opportunistic behavior (Williamson, 1973) could be harmful to the value appropriation atmosphere and lead, therefore, to the failure of the alliance (Das, 2006). According to Jacobides, Knudsen, & Augier (2006), the problem that could arise in interorganizational new product development is that not every partner is guaranteed to appropriate a fair share from the joint effort, even if greater value is created. It is possible that gains obtained by one partner of the alliance are transferred into losses in value for the other partner. In this situation, the alliance is called a zero-sum game (Porrini, 2006). On the contrary, the alliance could be a positive-sum game when it allows parties to appropriate the same or parallel value (Ritala & Tidsrom, 2014). In either case, the process of value appropriation and the size of the share depend on a certain number of factors, including the quality of the relationship between the partners.

Research on alliances, and in strategic management in general, increasingly focuses on the drivers of value appropriation and mechanisms that allow the sharing of the interorganizational quasi-rent called "claiming value norms" (Kaufman, 1987). Overall, control, conflict resolution, and the use of power appear as sharing mechanisms of the value created. From the resource-based view, the most mentioned determinants of value sharing are the superior complementarity of resources (Adegbesan, 2009), that is the relative dependence of the firm to the resources of the partner (Pfeffer & Salancik, 1978). The relative bargaining ability and the superior complementarity are other drivers for value appropriation (Adegbesan & Higgins, 2011). Similarly, Bae and Insead (2004) suggested the concept of "substitutability" which means that if one partner depends more on the resources of the other partner, the dependent partner has less bargaining power (Khanna et al., 1998). This implies that the partner who is in a position of power is able to capture more value than the other (Dyer et al., 2008).

It should also be noted that most scholars explain value appropriation with reference to the resource dependence perspective. According to them, the partner who brings more valuable resources to the alliance will be able to appropriate a greater share of the rent (Pfeffer & Salancik, 1978). Recent scholars find that this perspective is insufficient to explain why some

partners have more ability to generate and to appropriate greater value than others. In this vein, Dyer et al. (2008) add that a partner could have a private agenda that is not specifically related to the common objectives of the alliance. Only the common benefits are considered in the distribution, the private benefits are not the subject of negotiations to spill them. For these authors, three perspectives can explain the ability of some firms to achieve private goals and, consequently, to have a greater percentage of the value. First, the related resource perspective which refers to the ability of some partners to combine the resources/knowledge acquired from the alliance to their intrinsic resources. Second, the resource development perspective which refers to the ability to use the resources/knowledge acquired from the alliance to develop them in the future. And third, the structural holes perspective (Burt, 2002) which refers to the ability to combine the resources/knowledge acquired from the alliance with the resources acquired from other relationships in the firm's network.

Similarly, Hughes-Morgan and Yao (2016) have examined value appropriation in strategic alliances by using a sample of public firms in the pharmaceutical industry. Following the research of Lavie (2007) on alliance portfolios, they mainly focused on how the structural properties of the alliance network and the positional difference between partners in the network affect value appropriation between partners. The authors found that the firm's position within a social network affects its capabilities which in turn influences its ability to appropriate rents from an alliance. More particularly, they show that firms which have a central position in a network of alliances will be more able to appropriate a larger share of the value created than the partner. They also demonstrate that a firm in a network with more structural holes (Burt, 2002) is more likely to receive diverse information, generating higher weighted returns than the partner. In general, and according to these authors, in the case of dyadic strategic alliances, the value appropriation ability of the firms depends on the connections each one has with other firms in the overall social network.

## THE ROLE OF TRUST

Trust and its various functions has been widely explored. Some scholars consider it as a part of a larger concept of "relational capital" (Kale, Singh, & Perlmutter, 2000) which also involves commitment, communication, respect, and friendship between the parties. Others consider it as an integral concept. In all cases, trust has always been identified as a key component of the success of strategic alliances (Dyer & Singh, 1998; Hamel, Doz, & Prahalad, 1989; Perry, Sengupta, & Krapfel, 2004). Contrariwise, the lack of trust has been identified as a reason of failure (Hakanson, 1993).

In this section, we would like to shed light on the effect that trust could have on the creation and appropriation of value. To do this, we adopt a dynamic and a multi-faceted perspective of trust, which is reviewed below.

## Trust as a Dynamic and Multi-Faceted Concept

Trust is a multi-faceted concept (McAllister, 1995; Sundaramurthy, 2008). Using the socio-psychological literature on trust, McAllister (1995) pointed out that the distinction between cognition and affect also exists in interfirm collaborations. The author distinguished between cognition-based trust and affect-based trust as foundations for interpersonal cooperation among managers within organisations. According to this author, cognition-based trust is the belief that one person has about another person on his competencies, responsibilities, reliability, and dependability. These are “good reasons” considered by the trustor as “evidence of worthiness” and serve as foundation for trust. The success of past interactions, culture similarity, and social similarity in fundamental characteristics such as ethnic background are the antecedents of trusting working relationships between individuals. The second form of trust is affect-based and is built on the emotional bonds between people. This form of trust means that the person is careful of the welfare of the partner, feels that relationships have an intrinsic virtue, and also believes that these feelings are reciprocated. Mutual knowledge of each other and the sharing of information make communication easier between partners and allows them to avoid misunderstanding. All of these elements are essential conditions to build and maintain affect-based trust.

In this paragraph we take into consideration the evolution of trust over time. Alliances are a multistage, evolutionary, and unstable process (Das & Teng, 2000a). Trust therefore varies according to the stage of the alliance development process (Das & Teng, 2002). Scholars (Ariño & De La Torre, 1998; Mayer & Argyres, 2004) suggest that strategic alliances are based at the beginning on formal relationships such as reflected in contracts and the use of governance mechanisms such as market control or hierarchical governance. Over time, the multiple interactions make the parties know each other better and formal relationships are replaced by informal relationships, mainly based on trust. As Rousseau et al. (1998) note, “Repeated interactions . . . strengthen the willingness of trusting parties to rely upon each other” (p. 399). Consequently, in strategic alliances, trust is dynamic (Gulati & Sytch, 2008) as it derives from a set of multiple interactions which evolve over time (Dyer & Singh, 1998; Rousseau et al., 1998). Trust is a feeling that can be created, maintained, nourished, strengthened, or deteriorated through the interactions between partners (Ariño, Abramov, Skorobogatykh, & Vià, 1997). It is useful in reducing partner opportunistic

behavior (Zaheer et al., 1998). Therefore, studying the dynamics of the relationship induces us to study the evolution of trust between the parties in a social and a temporal perspective.

Other scholars combine the two approaches—multifaceted and evolutionary—and highlight different forms of trust over time. Most of them (Child, 1998; Kanter, 1994; Lorange & Roos, 1992), highlighted three alliance phases and consequently three kinds of trust. During the formation stage of the alliance, trust is calculative. In this phase, future partners try to find out as much as they can about each other (Child, 1998) and then compare this information to their selection criteria in order to assess the prospective partner, check the existence of problems of adverse selection or moral hazard (agence theory), and verify the degree of strategic fit between the two future partners (Geringer, 1991). In this phase, the reputation of the future partner is a very important condition to trust it (Ahuja, 2000) because the focal firm could not have all the information needed about it (especially its competencies and resources). During the implementation phase, partners have more information about the capacity of each other, which allows the emergence of a knowledge-based trust between them. Then, as the collaboration evolves, interactions make "bonding" easier (Child, 1998, p. 252) between partners. These bonds are then the basis for the emergence of affect-based trust between partners, which is viewed as a critical condition for the success of the collaboration.

## Trust in Value Creation and Appropriation

It was argued in the literature that the quality of the relationship is important to study because it has an impact on how value is created and appropriated. The emergence of trust offers the right conditions for value creation (Dyer & Singh, 1998; Kale et al., 2000) and also for the process of value appropriation (Kang, 2013). According to Kang (2013), partners who trust each other avoid opportunistic behavior and tend to share the value equally. Trust is a sign of the continuity of a relationship. This means that partners pay more attention to common future benefits, engaging in value creation in a long term perspective.

In channel relationships context, Wagner and Lindemann (2008) found that when the relationship is good, the supplier share is large and sharing is equal. It was also observed that relationship quality also allows greater flexibility of coordination, provides better adaptability and ultimately superior financial performance and the satisfaction of all partners (Ring & Van de Ven, 1994). Based on a study of 300 managers, scientists, and engineers, Jap (2001) argued that value appropriation can have a positive or a negative effect on the relationship between partners. For the author, this

effect is linked to the type of sharing principles and the characteristics of the resources and of the firm. It was also shown that the value creation positively affects value appropriation, on a project level (Wagner, Eggert, & Lindemann, 2010). However, scholars did not pay attention to the effect of the relationship quality on the creation of value and on its appropriation. Based on the literature review above, we consider that trust allows partners to achieve greater amount of value and allows them to divide it appropriately. Otherwise, in the absence of trust, opportunistic behavior prevails. Each partner then tries to have a larger share of the pie and focuses more on its own benefits, without worrying about the future of the collaboration.

Consequently, we find that some questions remain unanswered: "How do value creation and value appropriation evolve?"; "What could the impact of trust be on this evolution?"; "How must one deal with value creation and appropriation in the case of greater trust?"; and "How must one deal with value creation and appropriation when trust is deteriorated between partners?"

In the following section, we shall develop the case study that enables us to answer these questions and explain the methodology adopted. The names of the companies have been changed in order to secure anonymity of the people interviewed.

## A LONGITUDINAL CASE STUDY

### Methodology

In order to provide empirical insights into our question about the relationship between trust evolution and value creation and appropriation, we conducted a qualitative study. As pointed out by Bryman and Bell (2007) and Saunders, Lewis, and Thornhill (2009), this methodology is suited to our research question since it is complex and relatively unexplored. More particularly, we use a case study analysis (Eisenhardt, 1989; Yin, 2009), defined as "an intensive study for a single unit for the purpose of understanding a larger class of (similar) units" (Gerring, 2004), because this methodology "offers insights that might not be achieved with other approaches" (Rowley, 2002). Thus, we focus on a single strategic collaboration between a cereal producer called PROD (a pseudonym) and a distribution channel called NEGO (a pseudonym).

As all the issues of trust, value creation, and value appropriation evolve over time, our research design takes the form of an intensive study of a single longitudinal case involving seven employees from the PROD company and three from the NEGO company. The case describes the evolution of the relationship between the two partners and focuses on the value creation and value appropriation elements of the alliance.

Many authors have underlined the importance of longitudinal qualitative research (Pettigrew, 1990) in the context of strategic alliances (Ariño & de la Torre, 1998; Dekker, 2004). In their research about coopetition—strategic alliances between competitors—Ritala and Hurmelinna-Laukkanen (2009) highlighted the need for in-depth case-study research. This methodology could thus be considered appropriate in our study because it allows us to deeply understand the relationship between complex phenomena of trust evolution on the one hand, and value creation, as a collective-level process, and value appropriation, as an individual-level process (Ritala & Tidstrom, 2014), on the other hand. The time dimension is captured in our work through the collection of year-by-year data. As pointed out by Pettigrew (1990), "issues of time are critical and pervasive" (p. 271) because it is a reference to see how value creation and value appropriation evolve and how to explain this within trust evolution.

Moreover, the in-depth case study is especially beneficial for our study because it allows us to collect the point of view of different people involved in the alliance relationships within the two companies. To gather information about the PROD–NEGO alliance, we used multiple sources of information: documentation, written reports, interviews, and *in situ* observation. In order to increase comprehensiveness we collected information from both secondary data and interviews. The use of these multiple sources of information increases the construct validity (Yin, 2009) of the case studies. We used detailed documental data such as contracts, mailings, written reports, and meeting records. Semi-structured interviews were conducted on site, enabling us to better grasp the partners' perceptions of the alliance. The interviews focused on internal ties, the quality of the relationship, trust evolution, main events, objectives, and value creation and appropriation. All interviews were carried out between 1998 and 2000. A total of ten interviews were conducted. The interviewees were selected according to their daily involvement in the strategic alliance project. The interviews involved, for PROD, the chief executive and the operating manager; and for NEGO, the commercial manager and the area manager (Table 1.2). The interviews lasted between one and a half to two hours. All interviews were tape recorded and then transcribed.

**TABLE 1.2 Number of Interviews Within the Two Companies**

| | PROD | | NEGO | | |
|---|---|---|---|---|---|
| **Person interviewed** | **Chief executive** | **Project Manager** | **Chief executive** | **Commercial Project manager** | **Total** |
| Number of interviews | 4 | 3 | 2 | 1 | 10 |

Between the interviews, we still kept in touch with the interviewees for further information, data exchange, and so forth. These real-time intermediate data, including informal discussions with participants, were very informative. They allowed both to observe micro-developments and contributed to a better understanding of each partner and the respective contexts in which the alliance developed.

## Data Collection and Analysis

During the course of the empirical study, the recording of the data was systematic. An appropriate system was needed to code and record the data, to document progress in understanding the phenomenon, and prepare the final assessment. Following the prescriptions of Huberman and Miles (1991), different folders were established:

- The research book that chronologically follows the investigations carried out: Its purpose is to keep track of all the investigations, to record the impressions on the interviews, the presence on the sites and the details observed.
- The folder for the collaborative relationship to allow intra site analysis: It includes all interviews conducted, internal documents concerning the partnership, and other non-partnership documents.
- The folder by company that includes the elements specific to its characterization: organization chart, description of activities, markets, all elements that allow to contextualize the relationship.
- The dictionary of themes (topics) that is built in an on-going way, following *in situ* presence and interviews.

The production of meaning was achieved by combining narrative techniques and the results obtained using the various tools proposed by Huberman and Miles (1991). Narrative strategies involve constructing detailed histories from the data and are frequently used in studies of change or evolution processes (Langley, 1999, p. 695). The description reveals a world that is supposed to exist, to be immutably there. The narrative, on the contrary, reveals a world that is constructed in the very course of a succession of actions that influence each other and are transformed into a progressive sequence. By evolving from superficial observations to underlying structures, the description gradually gives way to explanation.

We also used chronological diagrams, a problem/effect matrix and a site dynamics matrix in order to capture changes in value creation, in its appropriation by partners, in forms and degrees of trust and to identify key driving elements.

To select the facts, we retained the following methodological rule. Only the information verifying the following conditions can appear: At least two different sources must converge and they can not have been contradicted by another source. Nevertheless, we retained the divergent interpretations of a given situation of each of the participants and presented them as such.

## Partner and Alliance Description

PROD is a small and medium-sized entreprise (SME) producing cereals and was initially based in the North of France. Considering global environmental changes (prices, competition), the company decided in the 1990s to produce fruits and vegetables in south of France, where the climate is favorable for this kind of business. In 2002, the company produced carrots, green beans, leeks, corn, and sweet corn, had 2000 hectares and 230 employees. Their success was partly due to the alliance with NEGO.

NEGO is a well-known large commercial intermediary in France. Because of the economic and climate potential of the southern region and considering the promising activities with PROD, NEGO decided to install a key growth pole in the southwest of France.

The alliance started in 1992 and has lasted 10 years, offering the partners the opportunity to cover multiple products and to become major actors in their sectors.

## The PROD–NEGO Alliance Life Cycle

Negotiations between the two partners began at the end of the 1980s when PROD decided to produce vegetables in the southwest of France. Four important events depict the chronological evolution of the PROD–NEGO alliance:

***1992: The Formal Beginning of the Partnership***

In the late 1980s, PROD decided to diversify crop production in the Southwest of France. Having a problem with its main customers in 1991, PROD contacted NEGO, which was a well-known importer and wholesaler of fruits and vegetables in France looking to expand its commercial presence in the Southwest. First trade contacts were established and successful experience aroused the interest of both actors. In November 1991, the two companies informally agreed on the share of 50% of the production of PROD being commercialized by NEGO. Nevertheless, the first campaign in 1992 did not yield the expected results: Trading volumes were lower

because of technical difficulties of PROD concerning the packaging. In early 1992, NEGO decided to open a branch in this area.

Despite poor results in 1992, a trust-based relationship developed between the leaders of PROD and the manager of the sales branch of NEGO. The exchanges were frequent (the presence of NEGO on the PROD site also) which allowed them to work together on their common brand and on brands of their respective firms. The packaging teams also worked together and the firms decided to mutually organize quality monitoring. From frequent contacts between the two partners, other projects emerged, such as crop diversification.

Then PROD experienced significant difficulties with the carrots harvest; disagreements on prices between PROD and its intermediates also emerged. NEGO expressed interest in carrot production but did not want to deal with this intermediary. In December 1992, PROD stopped the relationship with the intermediary.

***1993–1994: Intensification of the Collaboration***

In 1993 PROD was forced to invest rapidly in equipments; NEGO provided it, contacting suppliers and 2 months after the breakup the "carrots" packing station was established. NEGO had the exclusive marketing of this production in a successfully and satisfactory bilateral compensation package. The relationship between the two structures was excellent and led to the pursuit of other projects. Discussions were under way in marketing; NEGO insisted that PROD should increase the production levels while its production was already saturated. Facing the promising development of the marketing of carrot production, PROD took the decision to invest in better equipments for the packaging station. NEGO supported PROD in this investment and a contract was signed. NEGO then worked with PROD on this type of product, without any further contract.

***1994–1999: A Weakening Relationship***

In October 1994, the head of NEGO changed to another position. A new manager was appointed but the leaders of PROD did not perceive the same quality of the relationship. Exchanges became more formal and distant. The producer then searched for a better understanding of the market. NEGO informed PROD that they still wanted to increase the output. The partners planned the production of leeks in 1996. To do this, another loan agreement was signed in May 1995.

In 1996, a new actor (named Dan here), selling vegetables for British retailers, arrived on the production site of PROD. PROD reconnected with this company some time later. After various exchanges, PROD decided to start trading with a new partner for the 1996 season. Its goal was to develop the marketing of its products for export. This relationship was encouraged

by NEGO, seeing a growth opportunity in European markets. The harvest, which was excellent both in quality and quantity, allowed the growth of sales for all the actors. At that time, the company benefited NEGO with high prices to increase its margin.

In 1997, a catastrophic climate plan led to a considerable fall in the prices of carrots but NEGO maintained its margins despite a negotiation that PROD tried to lead. The same year, the mad cow disease crisis happened. In its desire to innovate, PROD focused for 2 years, to make investments to ensure the traceability of its products and improve the performance of its hardware. NEGO, however, considered that these investments were not a priority. PROD had consequently the feeling of making efforts alone and no longer received real support from NEGO in its strategy.

In autumn 1997, a new actor joined the Southwest branch wholesaler for NEGO. It had the task to intensify partnership relations with NEGO. The relation was good between PROD and this new actor and the decision was made to invest in a new packaging line for the cultivation of leek and testing in Portugal for a continuous production. The difficulties were very important for this last challenge, especially in the field of logistics, and caused economic losses for PROD.

The year of 1998 also marked the development of the first "quality chains" by supermarkets. Seeking to develop direct relationships with suppliers, without intermediaries, PROD asked NEGO to develop the marketing of products to these new actors. NEGO undertook some steps but believed that it could be possible to sell the entire production of PROD directly to its customers and there was no need to canvass the plants. The relationship gradually degraded and many meetings were held on disagreements between the partners. The poor performance of the 1999 campaign accelerated the deterioration of the relationship. PROD questioned the benefits of maintaining the alliance with NEGO.

In November of 1999, PROD proposed three requirements to NEGO in order to continue the relationship: transparency on margins, shopping on site, direct billing to PROD supermarkets and hypermarkets (GMS). NEGO accepted the first two conditions, but excluded the third.

***May 2000: End of the Alliance***

In May 2000, PROD addressed a letter to NEGO to terminate the partnership. Over these 10 years of collaboration, many changes occurred in the collaborative relationship. The broad information about the evolution of resources, value created, and the main events in the collaboration between PROD and NEGO are outlined in the overview (Table 1.3) and were analyzed using the tools of Huberman and Miles (1991) as explained above.

**TABLE 1.3 Evolution of the VEG/NEGO Alliance Between 1992 and 2000**

| | Resources | Common goals | Specific goals | Value created | Shared value | Relational quality |
|---|---|---|---|---|---|---|
| **1992** | | | | | | |
| PROD | Several hundreds of hectares | Sale of 50% of carrots production of PROD by NEGO<br>Quality monitoring | Increase the volume of transactions<br>Increase his packing station | Technical difficulties hinder the creation of value: quantity product less than expected | Packaging of its products | A trustful relationship developed between the two partners<br>Frequent exchanges<br>Family spirit<br>"A climate and warm relationship" (NEGO sales manager) |
| NEGO | Customers portfolio | | Expand its customer portfolio | | Deployment of its shipping activity | |
| **1993–1994** | | | | | | |
| PROD | Production competencies | Increasing sales volumes<br>Marketing and quality reflection | Invest in carrots packaging equipment<br>Innovation | Co-financing of carrots packhouses<br>Increasing volume<br>Notoriety | Profit margin<br>Business expertise | Favorable relationship<br>Excellent relational dynamic<br>Same vision of the agriculture world development |
| NEGO | Market competencies<br>Regional branch | | Innovation | | Profit margin<br>Business expertise | |
| **1994–1995** | | | | | | |
| PROD | Rise of Area and machinery | Jointly sailing and development of product<br>Culture of leek | | Growing of volumes<br>Notoriety | Profit margin<br>Business expertise | Relationship weakened following the departure of NEGO branch Southwest head and a arrival of new manager Strictly professional relationship: less frequent and more formal exchanges<br>Respect for rules and standards previously established |
| NEGO | New marketing responsible | | | | Profit margin<br>Business expertise | |

*(continued)*

**TABLE 1.3 Evolution of the VEG/NEGO Alliance Between 1992 and 2000 (continued)**

| | Resources | Common goals | Specific goals | Value created | Shared value | Relational quality |
|---|---|---|---|---|---|---|
| **1996** | | | | | | |
| *External factors:* Foreign wholesaler | | | | | | |
| PROD | Rise of area and machinery<br>Production competences | Product development<br>Internationalization | Identify the selling price of its products | Growing of volumes<br>New 3-year contract | Profit margin<br>Prospect securing | Relational distance between the two partners |
| NEGO | Market competences | | International development | | Profit margin<br>Improving product quality | |
| **1997–1999** | | | | | | |
| *External factors:* 1997 and 1999 : bad weather | | | | | | |
| PROD | 2000 hectares<br>Business expertise<br>Certification ISO 9002 | Marketing of products to new customers<br>Ensure continuous production: investment in Portugal | Increasing equipment performance<br>Traceability of products<br>New leek packaging<br>Developping partnership with mass-market retailing | 1997: volumes < previsions<br>1998: logistics problems Low value | Low product quantity => Low profit | 1997: better relations with the new NEGO representative<br>1998: amplification of the relational degradation<br>Divergent strategies |
| NEGO | 1997: new responsible | | Increasing volume of transactions<br>Direct and exclusive relationship with customers | | Maintain of margins | |
| **2000** | | | | | | |
| End of the collaboration | | | | | | Termination of the collaboration |
| | | | | | | Feeling of treason among NEGO |

## RESULTS

The PROD–NEGO alliance reveals interesting results, for both practitioners and researchers. Some of our results confirm the literature, such as those concerning dynamic resources (dynamic capabilities) and the influence of trust on value creation. Results concerning the role of trust on value appropriation are counterintuitive, but rich and original.

In Figure 1.1, we present a synthetic schema about what we observed in the PROD–NEGO strategic alliance over the 10 years.

Above all, we chose to divide the important events in six points that are primary keys to explain the role of trust in this particular case. These events are ordered by chronological sequence. With these events we want to illustrate three important aspects: (a) the building of trust between partners as a dynamic process, (b) the impact of trust evolution on the behavior of partners in the value creation and value appropriation processes, and (c) the different factors that could affect the construction of trust.

### Trust Evolution in the PROD–NEGO Alliance

*Phase Ex-Ante: The Trust Construction Stage*

The case study confirms the importance of the decision to select a partner in order to form a strategic alliance and the importance of prior trust

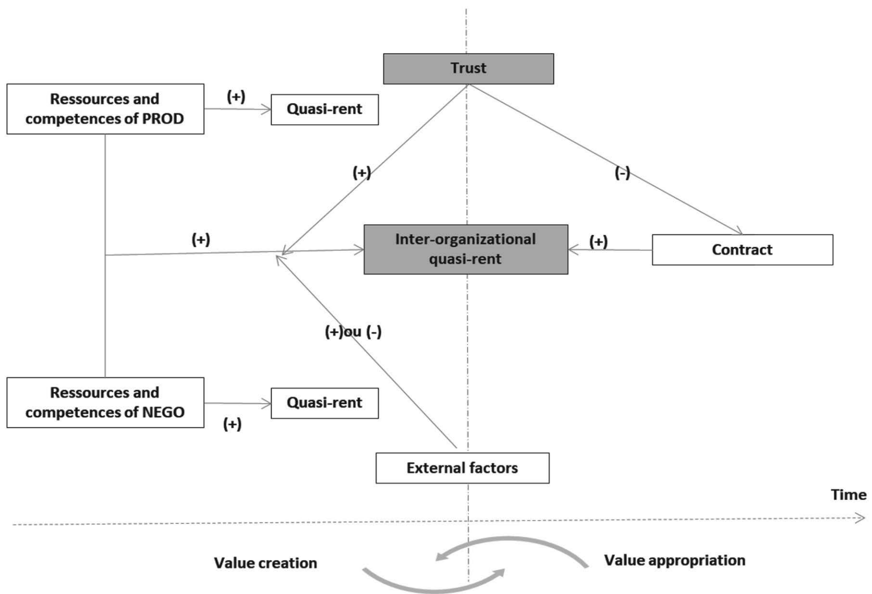


**Figure 1.1** Model of value creation and value appropriation in the PROD–NEGO alliance.

to reduce uncertainty. This result is coherent with findings about the importance of cognitive-based trust at the beginning stage of an interfirm collaboration (Child, 1998). It also corroborates findings on the role of prior relationships, familiarity, reputation of partners in the building of trust (Gulati & Sytch, 2008) and consequently in reducing uncertainty (Mitsuhashi, 2002). In addition to the favorable context and the motivation for PROD to establish the strategic alliance, the role of the intermediary (called Paul) and the reputation of the future partner were crucial in building trust, mainly cognition-based trust ("Paul reassured us about the competencies of this company" [PROD Manager]).

In this stage, PROD accepted to start the alliance without signing a written agreement ("...no written agreement between us. Words are what count above all...words, trust are characteristics of our fruits and vegetables business" [NEGO Chief Executive 1]).

The partners trusted each other. They accepted to combine their efforts, using their complementary resources and competences. PROD had a large production capacity (hundreds of hectares) and industrial materials. NEGO had good sales networking and a good reputation (the first seller of fruits and vegetables in France; "...we both had strong relationship which explained all our efforts, investments, our station constraints..." [PROD Manager]).

Although at the time the collaboration was formed PROD was a small firm, the balance of power between the partners was at equilibrium. The partners were determined to cooperate, and had the same perception about the future and the long term horizon. This, in turn, positively impinged on the trust building process ("...we have the same vision of the business development and the same willingness to move ahead" [NEGO Manager]).

***Stage of Harmonious Relationship***

In this stage, strong interpersonal relationships based on mutual trust are well established between the head of PROD and the manager of NEGO. For PROD, which is a family firm, trust is not only important inside the family, but also outside the family firm ("The future looked so bright for us, the market is there...and because Jacques was ambitious, he was moving ahead" [NEGO Chief Executive 1]).

Although NEGO is not a family firm, which means that it does not have the same norms of interactions as PROD, the manager of NEGO was inclined to act in a way that would satisfy the trust of the partner and consider PROD as a friend ("I did not see him as a simple supplier, but as a producer friend. We worked together in a family spirit, which is totally different from our traditional suppliers. Over time, a warmer relationship has been built" [NEGO Chief Executive 1]).

In this period, results were satisfactory at a global level and the perspectives appeared to be very promising. The asymmetry of culture and size was hidden by the positive behavior of the partners. The external environment

was so favorable that they decided to establish new investments (carrots and potatoes) even though they encountered technical difficulties resulting in levels of production that were lower than expected. The affect-based trust was a key driver. Nevertheless, both parties decided, for the first time, to sign written contracts.

***Phase of Trust Destruction***

PROD manager found the collaboration hard to manage after the departure of the previous NEGO manager with whom he had very good interpersonal relationships ("...we found ourselves in a vacuum in which nobody was in front of us on the other side" [PROD Manager]).

The relationship was at a fragile stage as it was hard for the PROD firm to find someone as trustworthy as the previous NEGO manager. A problem of communication occurred then. The affect-based trust was clearly undermined ("as soon as a relationship is no longer good between two persons, the communication become bad, things don't go so well" [NEGO Manager]).

For the NEGO managers, the problem comes from the PROD family who don't care about the production anymore. NEGO focused more on production problems than on relational aspects. That's why they decided to hire someone to manage the collaboration with PROD ("the current was no longer flowing between us... they didn't care about the production and operational managers were out of communication... I was hired to intensify the relationships with PROD, and to be more attentive to them..." [NEGO Manager]).

The mistrust problem was compounded by a problem of transparency. PROD managers were not satisfied with the behavior of NEGO managers who behaved opportunistically by taking higher margins than promised. This problem became a source of concern for PROD who doubted the sincerity of the partner and decided to control his behavior. Cognitive-based trust seems to become all the more important.

Failure in the relationships affects not only the communication between the partners but also the strategic goals of the alliance. PROD replies by opportunistic behavior and decided to focus more on private benefits such as its business growth strategies but less on production.

***Phase of Adjustment***

To deal with this problem, and aware of the importance of interpersonal contacts for PROD, NEGO tried to recreate a positive relationship. In this context, Marc was hired to renew the relationships with PROD and to recreate a stable atmosphere. His arrival positively impacted the relationship: PROD was reassured again and the partners were more committed. Trust was re-established ("...good working relationships have been established,

knowing that I appreciated Marc and that was reciprocal" [New NEGO chief executive]).

Despite the tremendous efforts of Marc to re-establish a long term relationship, positive effects however lasted only for a short period ("That went quite well at the beginning. The contact with them was good. It worked very well the first years" [New NEGO Chief Executive]).

The relationship entered a phase of stress in which PROD formulated their dissatisfaction with the results of the partnership and tried to impose specific requirements: transparency on margins, a commercial service to develop within PROD, direct billing with hypermarkets and supermarkets. The decision was clear for PROD: NEGO should accept these requirements or dissolve the relationship. NEGO accepted the first two requests but not the third one ("I took these problems as a personal insult. I considered that I was invested a lot in this partnership. The fact that PROD questioned my work... is very hard to accept, it is certainly a bit frustrating, since I was the one who negotiated with these hypermarkets and supermarkets" [New NEGO chief executive]).

The relationships were conflictual between the parties, interpersonal relations clearly deteriorated, up to a stage of no return.

#### *Phase of Dissolution*

PROD decided to leave the relationship. The environment was worsened by the recruitment by PROD of Sylvain, who was a commercial employee at NEGO. The latter took this decision very badly.

The personal relationship and trust between PROD and NEGO were considered so person related that even after a start of dissolution, PROD was bonded by the person that used to conduct the cooperation. Even though PROD knew this move of hiring him (Sylvain) could affect the further relationship, PROD chose to take this action.

## Dynamic of Value Creation as a Result of Combination of Resources

Partners have intrinsic resources that generate ricardian rents to each of them as defined by Peteraf (1993). For the strategic alliance, they brought complementary resources. PROD had a large production capacity (hundreds of hectares) and industrial materials. NEGO had a good sales networking and a good reputation (the first seller of fruits and vegetables in France). This resource combination generated an interorganizational quasi-rent for both partners.

The case study shows that it is possible to analyze value creation at two levels. First, at the organizational level, each partner was able to capitalize

resources and competencies through the collaboration, such as cognitive, organizational or material resources, or a larger scope of competencies. Thanks to this partnership, PROD increased its production area by 50%, diversified its production, and was ISO certified—it became one of the first market players in fresh vegetables. NEGO started to operate at the international scale and provided its customers with quality fresh produce all year round. Figure 1.2 depicts the evolution of resources and skills developed and capitalized by the two partners. This dynamic aspect has been studied in the literature with regard to the dynamic capabilities approach (Teece, Pisano, & Shuen, 1997).

Second, at the interorganizational level, the two partners combine their resources and competences in production and marketing to gradually penetrate new markets and gain a strong place in the distribution. That is the interorganizational quasi-rent, which is nourished by collaboration over time.

According to this point of view, the creation of value—both in terms of Ricardian rent or quasi-interorganizational rent—is also dynamic. Moreover, we noted that the creation of value, whether ricardian or interorganizational, is largely unforeseeable ex ante but emergent as explained below (for example ISO 9002 for PROD or export experience for NEGO).

## Trust: A Tool for Orchestrating the Duality of Value Creation and Value Appropriation

It is worth remarking that in the case of the alliance between PROD and NEGO, the role of trust was very important in orchestrating value creation and value appropriation processes.

### *Trust as a Catalyst for Value Creation*

The PROD–NEGO case study highlights the role of trust as a catalyst that reinforces the capacity of combined resources to create value. When partners trust each other, they tend to join efforts in using their resources and competences effectively, and consequently creating value.

Trust and value creation evolve over time. The case study shows that these two aspects could strengthen mutually. The period during which there has been the greatest development of value creation is the period where the partners trusted each other and behaved in a manner that was beneficial to the joint effort, as the reflection about the brands and the packaging conducted in the period between 1992 and 1994 illustrates.

This demonstrates that through the daily performance of the partners, the results they achieve, through their respective and common interpretation of their environments, and the opportunities they detect, collaboration