The Benefits of Governing with a Trust-Centric Strategy

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The industrial market is characterized by increased competition and demand for value-laden products. In order to remain competitive, firms must look outside their boundaries to develop additional capabilities. While collaboration with others can be a source of competitive advantage, these relationships are difficult to execute. We explore how trust can enhance the execution of collaborative relationships by first reviewing the existing literature to define what trust is and what benefits can accrue to companies that use trust as a governing mechanism. We then discuss how firms can create a higher level of inter-organizational trust and provide directions for future research.

INTRODUCTION

For a large part of the 20th century, organizational success was contingent upon a company's size and its ability to manage the resources under its roof. The larger the company, the more it was able to leverage its human and physical assets to improve its competitive position. However, increased competition, demand for value-laden products, and pressure to reduce costs has forced management to rethink how their firms compete in today's global marketplace. One solution is to employ the services of a larger number of suppliers and vendors that can help reduce costs and/or generate innovative products and technologies.

The adoption of this business model normally expands the number of external relationships ranging from simple exchanges involving the purchases of low-value products or services to complex exchanges involving the development of new products or technologies. Complex exchanges normally occur in collaborative networks such as strategic alliances or extended enterprises. According to Deloitte & Touche the growth of strategic alliances has exploded over the last 20 years. In 1990, three to five percent of business exchanges involved alliances, by 2000 the figure rose to 20 percent and is expected to double by 2010 (Lukeman, 2003). A more recent study by IBM (2006) found that while 71 percent of CEOs see advantages in collaborating with a larger-number of external partners, only 51 percent said that their organizations were collaborating beyond a moderate level. This finding suggests that organizations lack the skills and expertise needed to collaborate with a large number of their external partners.

While collaboration is an easy concept to embrace, it is far more difficult to implement. Davis and Spekman (2004) suggest that collaboration - in terms of strategic alliances or extended enterprises – requires a high level of *connectivity* via the information technologies in place; a strong sense of *community* through common goals; and effective social *collaboration* between the stakeholders and their employees. The importance of the third requirement was underscored by Owen, Goldwasser, Choate and Blitz (2008) who found that only 51 percent of corporations are able to collaborate due to the lack of trust between organizations. The lack of collaboration stemming from a high degree of distrust among stakeholders has, in part, contributed to the fact that 60 percent of strategic alliances fail (Elmuti and Kathawala, 2001).

In this paper, we attempt to raise the level of understanding about inter-organizational trust and contribute to the literature in two ways. First, we explore the potential benefits of governing with a Trust-Centric strategy. As such, we define trust and review the benefits of trust. Then we discuss the implications of using trust as a form of governance and develop a list of conditions that must be present for a trust-centric strategy to be successful.

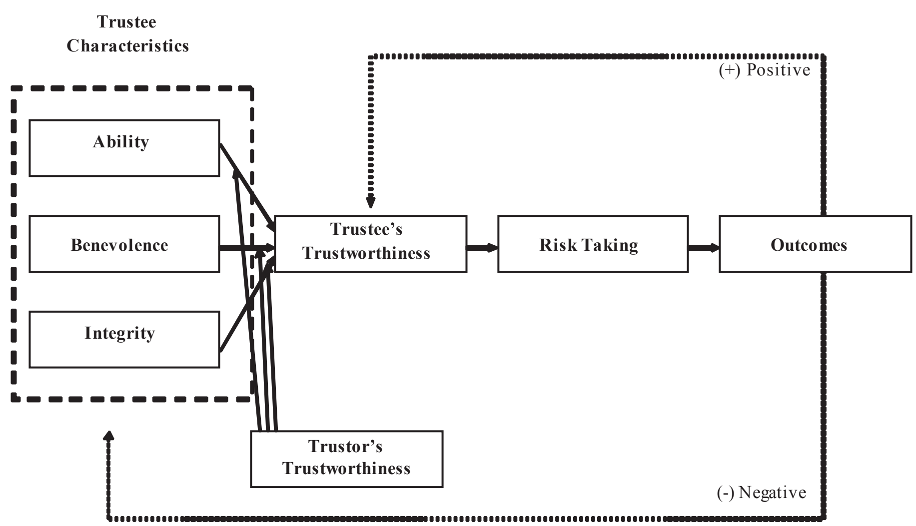
DEFINING TRUST

While academics (Grenier and Metes, 1995; Kirkman, Benson, Gibson, Tesluk, and McPherson, 2002; Owen et al., 2008) agree that trust-building is critical to a firm's long-term success, the level of trust in certain industries is far from adequate. A study by McKinsey found that the U.S. auto industry could nearly double its total profits if it were able to work more collaboratively with its suppliers. Unfortunately, the U.S. auto industry has historically kept most of the profits, treated suppliers poorly and acted opportunistically whenever possible (Doig, Ritter, Speckhals and Woodson, 2001). Companies tend to act this way because management distrusts the other party with whom they do business (The Economist, 2002). To protect themselves, managers tend to govern with a Command and Control strategy that requires: tight employee/supplier compliance; strict rules; formal controls; rigid hierarchy; and limited participation in the decision processes. While a Command and Control strategy works well with simple exchanges, it fails to generate the level of collaboration and trust required with complex exchanges (Ernst and Branford, 2005). This paper argues that complex exchanges require a Trust-Centric strategy that incorporates a mix of controls. The first set of controls deal with behavioral (trust) issues that occur with teams and organizations. The second set of controls includes performance indicators (costs, revenues, etc.) relative to agreed-upon outcomes. These indicators identify which stakeholders are meeting or failing to meet the agreed-upon targets (Shaw, 1997). A Trust-Centric strategy is especially important when the output of a partnership is less clear and the nature of the interaction is subject to uncertainty.

In order to employ a Trust-Centric strategy, stakeholders need to understand what trust is and how it is formed. Sako (1992) defines trust as a state of mind where there exists an expectation held by one trading partner about another that the other behaves or responds in a predictable and mutually acceptable manner. Dyer and Chu (2000) argue that trust is one party's confidence that the other party, in the exchange relationship, will not exploit its vulnerabilities. Ward and Smith (2003) believe that trust is the ability of parties in a relationship to deal with issues that otherwise would damage it, while Powell (1990) and Davis and Spekman (2004) view trust as the glue that keeps business partners together. For the purpose of this paper, trust is viewed as the willingness of one party to place themselves at risk by believing that a second party will perform their work in an agreed-upon fashion and will not take advantage of the situation for personal gain.

To explain how trust is formed, we modified Mayer, Davis and Schoorman's (1995) Model of Trust (see Figure 1) which includes both a trusting party (trustor) and a party to be trusted (trustee). The model starts by defining several characteristics of a trustor: for example, a leader's ability to be viewed as trustworthy, builds trustworthy management groups, and implements trust-generating mechanisms. The next component involves determining the characteristics of the trustee. Mayer et al. (1995) believe that the trustworthiness stems from a trustee's ability, benevolence, and integrity. Ability refers to the skills and competencies that allows a trustee to be recognized as an expert or good at what they do i.e., design, engineering, manufacturing, etc. Benevolence is the extent to which a trustee will do what is good for both parties and not take advantage of the situation. Integrity is the perception that the trustee will adhere to a set of principles which the trustor finds acceptable. When these characteristics exist, the trustee is deemed to be trustworthy and the trustor is willing to take the risk of entering into a contract. The importance is that the more a trustee is perceived as trustworthy, the more risk a trustor is willing to take in the relationship.

FIGURE 1
MODEL OF TRUST (ADAPTED FROM MAYER ET AL. 1995)



Outcomes also play a major role in trust-building as they either enhance or detract from a trustee's trustworthiness. For example, a satisfied manufacturer will extend a sales agreement with a supplier and/or ask them to bid on a larger project. However, if trust falters, the trustor will more than likely select a new partner. No matter what the outcome, trust does not come cheaply due to the time and energy required to build or replace it by having to select a new business partner.

While this section underscores the fundamental elements of trust-building, the question we are left to ponder is what can be gained from governing with a Trust-Centric strategy versus a Command and Control strategy? The next section will discuss the benefits derived from governing with trust.

BENEFITS OF TRUST

This discussion will center around a collection of empirical and case studies on trust. Each case was selected because it involves an exchange between businesses or between a business and external stakeholders.

Empirical Studies on Trust

Table 1 presents seven empirical studies that examine the strategic value of trust. Hanson, Morrow and Batista (2002) reviewed the management of trust among 71 farmer-owned grain-marketing co-ops and 708 farmer-owned cotton marketing co-ops headquartered in southeastern United States. Morrow and Batista (2002) found that the relationship with management was most impacted by trust. This finding was attributed to the fact that cognitive trust (which is more objective in nature) was operative with management whereas affective trust (which is subjective in nature) was operative with members. As a result, Hanson, Morrow and Batista (2002) concluded that managers need to understand the benefits of cognitive trust and work to maintain an active level of trust with the co-ops to improve performance.

Two studies examined the role of trust in the automotive sector. Sako (2006) surveyed 1,415 first-tier automotive suppliers from Japan, U.S. and Europe to determine whether inter-organizational trust enhances business performance. Respondents were asked to evaluate how much trust they had in their customers. Five elements were tested: 1) contractual trust – where everything is spelled-out in a contract; 2) competitive trust – where the advice given by one customer is not always right; 3) goodwill trust – where customers help in ways not required in the contract; 4) fairness – we can depend on the customer; and 5) customer opportunism – given the opportunity, the customer will take advantage of the situation. Sako (2006) concluded that governing with goodwill trust paid more dividends than governing with contracts alone because trust delivered a higher degree of learning, continuous improvement and cost reductions.

Dyer and Chu (2000) surveyed 30 purchasing managers from General Motors, Ford, Chrysler, Toyota, Nissan, Hyundai, Daewoo and Kia as well as sales and engineering vice-presidents from 70 suppliers. The goal was to examine whether trusting relationships could be created across national borders. The data showed that Japanese automakers developed significantly higher levels of trust with U.S. suppliers than U.S. automakers. Japanese automakers achieved this state by: establishing stable buyer/routines that represent credible commitments toward long-term interactions; creating an institutional environment that embraces trust; and expending the resources and time for trust-building. Dyer and Chu (2000) concluded that trust can lower operating costs given a holistic strategy is in place.

Aulakh, Kotabe and Sahay (1996) studied the role of trust among cross-border marketing relationships. Specifically, they examined the relevancy of trust in the maintenance of inter-organizational partnerships. A survey of 257 Fortune 500 Presidents/CEOs found that trust helps explain market performance when conditions exist for opportunism with the partner firm. The results showed that when a focal partner invests in a relationship, it reduces the possibility of opportunistic behavior by the other party. Aulakh et al. (1996) concluded that establishing bilateralism through symbiotic commitment between partners, maintaining flexibility, and allowing for open information exchange raised the level of trust that in turn improved partner performance.

TABLE 1
EMPIRICAL STUDIES ON TRUST

Author	**Industry**	**Purpose**	**Finding**
Aulakh, Kotabe and Sahay (1996)	U.S. Fortune 500	Examine how trust influences the performance of cross-border marketing partnerships.	Trust improves collaboration which in turn improves performance.
Zaheer, McEvily and Perrone (1998)	Electronic Equipment	Examine the impact of trust on business performance.	Interpersonal and inter-organizational trust are inner-linked.
Dyer and Chu (2000)	Automotive	Examine the determinants of collaboration – especially trust.	High levels of trust reduce operating costs.
Hansen, Morrow and Batista (2002)	Agriculture	Examine the management of trust among co-ops.	Trust strongly influences working relationships.
Johnson, McCutcheon, Stuart and Kerwood (2003)	Manufacturing/ service sectors	Examine how cooperative behavior leads to higher performance.	Being viewed as trustworthy leads to buyer satisfaction.
Gounaris (2005)	Industrial service sector	Examine the role of trust and commitment among B2B markets.	Trust and commitment influence partnership success.
Sako (2006)	Automotive Industry	Examine whether inter-organizational trust enhances business performance.	Trust is conducive to good supplier performance.

Gounaris (2005) investigated the role of trust and commitment among corporate clients of professional services providers. A survey was mailed to 280 companies in different industries from various regions across Greece resulting in 127 usable questionnaires. The data suggests that the degree of trust between the service provider and the customer was influenced by the quality of service provided and the bonding strategy employed. For example, providing superior service and effectively bonding with a customer led the buyer to trust the service provider, which in turn led to a longer-term relationship. Gounaris (2005) concluded that trust and commitment were intertwined in the service industry.

Johnston, McCutcheon, Stuart and Kerwood (2004) examined the linkage between a supplier's level of cooperative behavior with the buyer's perception of the relationship's performance. Surveys were administered to 164 dyads of buyers and sellers across numerous industries in Canada. The results showed that increased levels of trust led to better perceptions and satisfaction among buyers. Johnston et al. (2004) concluded that trust alters perceptions about how well partners are collaborating.

Zaheer, McEvily and Perrone (1998) investigated the role of trust in interfirm exchanges and its effect on performance. One hundred and seven buyer-seller relationships in the electrical equipment manufacturing industry were investigated. Two relevant observations were made. First, interpersonal and inter-organizational trust and interpersonal trust were linked. That is, the more a purchasing agent trusts a supplier's representative, the more the purchasing organization trusts the supplier organization. Second, inter-organizational trust and performance was intertwined. Therefore, Zaheer et al. (1998) concluded that inter-organizational trust can influence the effectiveness of business partnerships.

These studies suggest that trust can influence a person's, team's or organization's perception and/or actual behavior which in turn can impact the outcome of a relationship. The positive impacts of trust include cost reduction, customer retention, and increased buyer satisfaction. Because most business decisions are ruled by return on investment, we also need to address the economic benefits of trust. The next section will review several case studies related to the economics of trust.

Case Studies on Trust

Table 2 lists seven case studies that discuss the economic benefits of trust. Lewis (1999) describes the results of a partnership between Canon and Hewlett-Packard in the late 1970's to develop a reliable low-cost printer. After a few prototypes, the firms introduced their first desktop printer in 1984. While the original forecast was to sell a few hundred units per month, actual sales rose to more than 40,000 units per month. Since then, Canon and Hewlett-Packard moved on to develop a number of new products with no formal contracts in place – just a high level of trust among hundreds of dispersed employees. This case shows that trust not only generates innovation and increased sales, but also reduces transaction costs by eliminating the need to administer complex contracts.

Dyer (2000) explored the impact of trust between partners by studying 453 supplier-automaker relationships representing Chrysler, Ford, GM, Nissan and Toyota. He found that trusted automakers (Toyota and Chrysler) spent only 21 percent of their face-to-face interaction time negotiating contracts and prices and assigning blame for problems, whereas less trust worthy automakers (Ford and General Motors) spent 47 percent of its time on the same matters. Trust equates to approximately a 50 percent savings in managing external partners. As far as procurement costs, the least-trusted automaker – GM – incurred procurement costs that were more than twice those of Chrysler and Ford, and almost six times higher than Toyota. Suppliers to Toyota and Nissan were also three times more willing to share information than suppliers to GM and Ford. This study demonstrates that trust not only reduces cost, but also facilitates information sharing and innovation which is especially important in developing next-generation automobiles.

TABLE 2
CASE STUDIES ON TRUST

Author	**Case**	**Description**	**Finding**
Lewis (1999)	Cannon and Hewlett-Packard	Examine how competitors collaborate.	Sales for jointly developed desktop printer surpassed original monthly forecast from hundreds to 40,000 per month.
Dyer (2000)	Automotive Industry: Chrysler, Ford; GM; Nissan; and Toyota	Examine the economic benefits of trust.	High levels of trust between Toyota and its suppliers resulted in: 50% lower procurement costs; 3-to-1 level of knowledge sharing; and 50% less time negotiating contracts.
Ratnasingam (2003)	Cisco and Compaq	Examine trust in inter-organizational exchanges.	High levels of trust reduced rework rates by 65% resulting in annual savings of about $800 million.
Golin (2004)	Consumers	Examine levels of trust in U.S. society.	The loss of trust has a negative impact on brand preference (39%) and purchases (53%).
IBM (2007)	Eli Lilly, Airbus	Examine the impact of collaborative partnerships based on trust.	Based on Eli Lilly's "Sourcing Innovation" program, launched several new products generating millions of dollars in new sales: Byetta ($430); Cialis ($971); Actos ($448). Airbus consortium reduced the lead time on wing production by 36% saving €18 million.
Pirson and Malhorta (2008)	Coca-Cola	Examine the impact of trust on firm performance.	Proactive response to problems in Belgium/France resulted in increased sales, whereas a negative response in India resulted in an annual decline in sales of 15%.
Edelman (2010)	Business & Finance	Examine the impact of trust on business and government.	The drop in trust of some 39% in U.S. banks resulted in lost customers and a large number of bank takeovers between 2007-2010.

Ratnasingam (2003) investigated the role of trust in inter-organizational relationships involving Cisco and Compaq. Twenty Cisco employees and 300 Compaq employees were interviewed. The results showed that a high level of trust lowered operating costs 65 percent which turned into an annual savings of up to $800 million dollars. This reduction in operating costs was accomplished because employees in both organizations were receptive to conducting exchanges over the Internet via e-commerce.

Examining the role of trust between a company and its customers, Golin (2004) found that trust impacts brand preference and loyalty as 39 percent of American say they would definitely or probably start doing business with a trustworthy company. Conversely, if trust is lost 53 percent of Americans would definitely or probably stop doing business with a company. Another benefit of trust is that 83 percent of Americans would listen to the company's side of the story before passing judgment on a critical issue concerning the company. This finding is very relevant considering the recent challenges that BP faced with the oil spill in the Gulf and Toyota faced with its high number of automobile recalls. If there was a low level of trust, Americans would likely have stopped buying their products. In the aftermath of the events, both companies worked diligently to restore any lost trust.

In 2006, IBM (2007) surveyed CEOs to determine why their extended networks failed nearly 50 percent of the time. They found a direct linkage between failure and the lack of collaboration and trust between parties. Eli Lilly and Airbus were presented as examples of what can occur when collaboration and trust are present. In the case of Eli Lilly, management realized that the only way the company was going to succeed was by developing an innovation pipeline with external partners. Based on their "Sourcing Innovation" program, Eli Lilly launched several new products generating millions of dollars in new sales: Byetta ($430 million); Cialis ($971 million); Actos ($448 million). Likewise, Airbus which is a consortium of European airplane manufacturers realized that the only way it could compete with American competitors was to tap into the capabilities of a larger number of firms including engine manufacturers, suppliers, and others to meet the aggressive timeline for the airplane. This collaborative effort also included 20 airlines, 50 airports, Airworthiness Authorities, Rolls-Royce, and The Engine Alliance (a joint venture between General Electric and Pratt& Whitney) for development of the A380's engines. By reducing wing lead times by some 36%, the consortium was able to achieve €18 million in cost improvements.

Pirson and Malhotra (2008) reviewed two cases involving Coca-Cola. The first dealt with how Coca-Cola responded to the report that consumers were experiencing intestinal problems after consuming their products in five European countries. Management quickly apologized and assumed for responsibility for two quality-control issues. This led consumers to believe that Coca-Cola was acting in their best interest and thus they could trust that Coke would resolve the issue. The response by Coca-Cola resulted in sales returning to the same level as before the crisis hit, and increased sales three years later. Conversely, Coca-Cola did just the opposite in New Delhi when the company was accused of selling products that contained pesticides. Management failed to act quickly and assume responsibility. This led to a decline in sales between 30 to 40 percent in two weeks and an annual sales decline of some 15 percent. These results align with the work done by Golin (2004) which is that if consumers do not trust a company, they are not going to purchase their products.

Edelman (2010), a leading public relations firm, conducted its annual global study of trust. While trust has improved in many business sectors, it has fallen some 39 percent in the U.S. banking industry between 2007 and 2010. This resulted in consumers not only changing their banking habits, but also suggesting trust would only return if the companies fired non-performing managers, repaid bailout money, and reduced the pay gap between senior executives and rank and file workers. The failure of banks to regain consumer trust has resulted in lost customers and banks being taken over by other institutions whose performance was not marred by a downturn in trust.

These case studies underscore a number of economic benefits when governing with a Trust-centric strategy. For example, high levels of trust can: 1) reduce the need for safeguards found in complex exchanges which in turn can translate into simpler structures involving less coordination and compliance costs; 2) produce a number of top-line benefits such as improving sales performance, new product development as well as the implementation of new technologies, and 3) provide a company more time to present their side of the story during a crisis situation which would delay a loss in brand equity and sales. These findings show that governing with a Trust-Centric strategy can decidedly improve business performance.

DISCUSSION

While collaboration is the latest buzzword in corporate boardrooms, the ability of businesses to collaborate with a larger number of external partners has not occurred. This has resulted in companies not achieving their targeted goals or worse yet losing millions of dollars in sunk costs associated with failed strategic alliances. This paper argues that the best way to improve collaboration with complex exchanges is to utilize a Trust-Centric strategy. The next section will discuss the implications of adopting a Trust-Centric strategy.

Managerial Implications

To make the switch from governing with a Command and Control strategy to a Trust-Centric strategy five conditions need to be met (see Table 3). The first condition involves the leadership of the various stakeholders as they are the primary designers and drivers of the transformation that overcome distrust and sustain appropriate levels of trust. As the "architects of trust," leaders need to articulate the benefits of trust and determine a starting point to launch their trust program (Ciancutti and Steding, 2001). Leaders must also build a team of senior executives who are not only viewed as trustworthy but also work to create a culture of trust by developing a common vision, building familiarity among all employees, encouraging a culture of risk-taking, and establishing visible symbols of trust and collaboration (Shaw, 1997).

The second condition requires that the leadership assess the current level of trust both inside and outside their enterprise. Assessments can be informal or formal. Informal assessments can include focus groups of employees, customers and/or suppliers whereas formal assessments normally include the use of a structured questionnaire. Once a baseline is determined, the leadership needs to select a Trust Model to guide their subsequent actions.

Therefore, the third condition is to select a Trust Model – such as presented in Figure 1 – to guide the transformation process. The model should be used to sensitize managers and employees as to what trust is and how it is created and maintained. It is important that this step not be viewed as another management exercise. Rather, as a major shift in working with a larger number of external partnerships to achieve mutual goals.

TABLE 3
CONDITIONS FOR GREATERR INTER-ORGANIZATIONAL TRUST

Condition 1	Leadership must create a culture of trust.
Condition 2	Assess the current level of trust within and outside of the organization.
Condition 3	Select a model of trust to guide the transformation process.
Condition 4	Implement relationship plan realizing there is not a one-size-fits-all solution.
Condition 5	Manage and control the trust model such that trust becomes embedded within the organization.

The fourth condition involves developing an implementation plan that starts with educating front-line managers and employees about the differences in external exchanges (Ernst and Branford, 2005). This requires grouping business relationships based on the complexity of the exchange coupled with identifying the level of collaboration/trust required. Cohen and Roussel (2005) propose that exchanges can be grouped in one of four ways:

- Transactional Collaborations. Transactional collaboration applies to situations in which low risk and low value purchases are made. Due to the low criticality of these product/services, the focus is on price and ways to minimize the effort required to acquire these goods or services. Because these exchanges can be one-time events, each party has little concern about the other party's well-being therefore the required level of trust and collaboration is low.

- <u>Cooperative Collaborations</u>. Cooperative collaboration has a higher level of information exchange than transaction collaboration as the products or services are more complex or critical to the buyer. As a result, the level of trust and collaboration is higher than "transactional" exchanges.

- <u>Coordinated Collaborations</u>. Coordinated collaboration requires that buyers and sellers work much closer due to the criticality of the products or services. As a result, partners have to trust that the other partner will not take advantage of the situation, thus keeping collaboration flowing.

- <u>Synchronized (Strategic) Collaborations</u>. In those instances when partners share physical and intellectual assets as well as people to tackle a complex problem, high levels of trust and collaboration are necessary. Also, because the end product can be less clear at the beginning, trust plays a major role as formal contracts cannot address all the details in the discovery process.

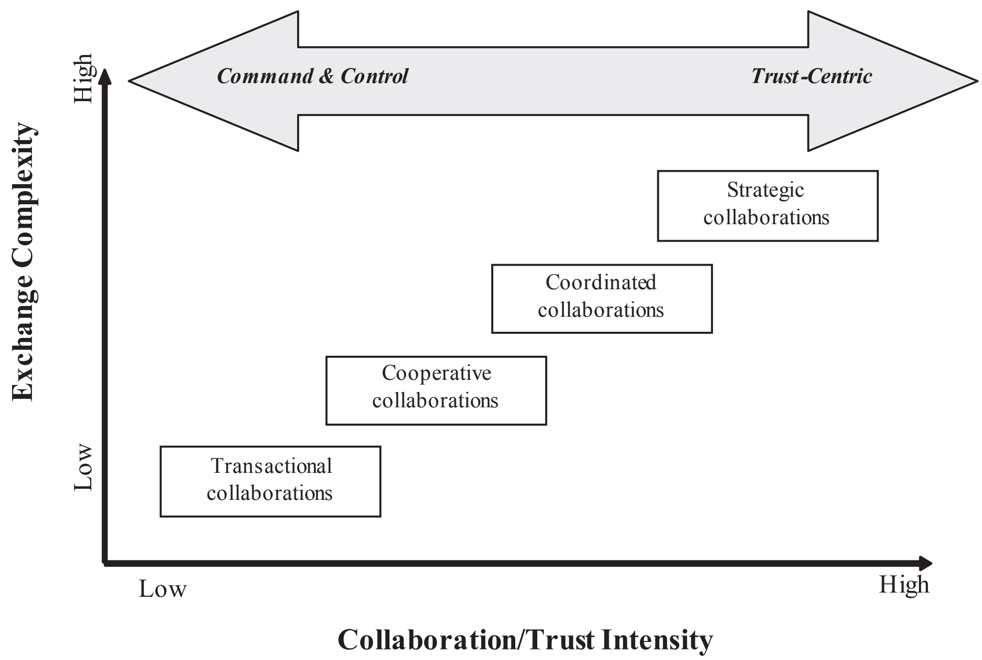
This categorization process is important as it allows managers and employees to see that all collaborations are not created equal. By highlighting the nuances of each type of exchange, managers and employees will begin to realize that different forms of governance are required to successfully manage the variety of external relationships (see Figure 2).

Employing the framework produced by Burt, Petcavage and Pinkerton (2010), we propose that governing strategies can range from a rigid Command and Control approach to a Trust-Centric approach. The Command and Control or "Arm's Length" approach is based on the philosophy that because the market for low-value exchanges is competitive, the buyer can easily dissolve the relationship and quickly find another source. Therefore, the primary focus of the trustor is on price and there is little collaboration and need for trust. Under these circumstances, trustors tend to focus inward (what's best for the buyer) and marginal attention is given the trustee – except when a problem arises.

The Trust-Centric approach – which is at the other end of the spectrum - is based on the philosophy that trust among partners is essential for strategic collaborations (Hoyt and Huq, 2000). A Trust-Centric strategy as best suited for complex exchanges that take time to develop, require a high degree of integration and sharing of information. Under these circumstances, trustors are concerned about the success of both parties and are willing to invest the time and energy necessary for the relationship to succeed. In addition to changing managerial and employee behavior, it is also important to select the right performance indicators (costs, revenues, etc.) such that all the stakeholders understand their accountabilities. This act not only produces a significant amount of transparency but also reinforces the importance of trust-building across the enterprise. Based on this discussion, managers and employees should be better equipped to apply the right governing strategy to the right type of exchange.

The fifth condition entails managing the Trust Model that is in place. It is important to remember that trust is an evolutionary process which begins with self-trust (the trust that we have in ourselves), evolves into interpersonal trust (trust between employees), and subsequently inter-organizational trust (trust between enterprises). Therefore, it is important that leaders and managers be patient, handle objections to this transformation in a straight-forward manner, and integrate your Trust Model in everything you do from creating training programs, hiring and 360-degree review processes, to conducting performance reviews with outside partners (Ciancutti and Steding, 2001).

FIGURE 2
GOVERNING STRATEGIES



Future Research

While we review the results of existing studies that explore the role of trust in business relationship strategy, we believe there are many avenues for future research. First, future research should simultaneously explore the benefits and costs of trust. While many researchers have examined the benefits of trust, this should be paired with an examination of what it costs firms to manage relationships through trust. Doing this will show the true economic value of trust. Second, research should examine characteristics of the relationships to see if generalizations can be made that will help firms decide when Trust-Centric strategies should be used and when Command and Control strategies are more appropriate. While Trust-Centric relationships have the potential to provide benefits, they are not appropriate for every situation.

Finally, future studies should examine the types of industries and companies where trust can have the largest impact to guide participants in those industries to better understand the value of Trust-Centric governance.

SUMMARY

As the global marketplace evolves, CEOs continue to search for ways to build and maintain a competitive advantage by forging new collaborative relationships. While trans-organizational collaboration is a critical competency, it has not developed due to the lack of understanding pertaining to the pros and cons of various governing strategies. Heckscher and Adler (2006) underscore this point when they concluded that sustainable operations require “high levels of diffuse cooperation resting on a strong foundation of trust…yet the old corporate communities based on a culture of loyalty, which have been taken apart by three decades of economic turbulence, downsizing and restructuring."

One reason for the increase in distrust in business is that executives tend to think of trust as a soft asset that is difficult to manage and has little bottom-line value. However, as this paper has demonstrated, there are number of economic benefits to be had with employing a Trust-Centric approach to governing external relationships. The issue this paper has targeted is matching the right form of governance with the right type of business exchange.

While we have presented a strong case for governing with trust, more work is required to truly demonstrate the bottom-line impact of a Trust-Centric strategy when managing highly complex business exchanges. What the authors plan on doing is conducting a cost-benefit analysis of both trusting and distrusting relationships found in a strategic alliance or extended enterprise. The outcome of this causal evaluation will demonstrate the true economic advantages associated with employing a Trust-Centric governing strategy. We also hope this paper will stimulate more research on the criticality of selecting the right governance strategy in a distributed supply chain, extended manufacturing network or global marketing network.

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