



COMMENTARY

Inter-organizational trust and the dynamics of distrust

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Abstract

Early research on inter-organizational trust drew on theories about social ties among individuals, for example, duration of ties and amount of interaction, yet these proved inadequate to explain the diverse arrangements arising in international business. Dyer and Chu's award-winning *JIBS* paper demonstrated that trust was best predicted by organizational processes that developed positive expectations of predictability, reliability, and competence, not only within national boundaries but also in cross-national relationships. This review of recent trust research building on Dyer and Chu draws attention to six themes: (1) new conceptualizations that explore identity, roles, and rules as foundations of presumptive trust at the organizational level; (2) dynamics of trust and distrust over time, how violations of trust are interpreted, and what affects ease of repair; (3) pendulum swings in inter-organizational relationships, arising from plural governance and alternation between modes, but also resulting in the continuous coexistence of positive and negative states; (4) the impact of *intra*-organizational conflict and *inter*-organizational coalitions on the establishment and maintenance of trust; (5) the relative impact of nation-level vs organization-level differences in culture as influences on trust; and (6) whether intermediate modes of exchange in between transactional and relational modes are unstable, transitional hybrids or embody complementarities that yield both value and stability.

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Dyer and Chu's *JIBS* article on the determinants of trust in supplier-automaker relationships (2000) built on an emerging interest in the concept of trust viewed through an international comparative lens and broke new ground in both empirical investigation and context-grounded research. Their decision to investigate three theoretical perspectives with primary data (both survey- and interview-based) collected from three different national/institutional contexts reflects the ambitious goals they set for their collaboration and sets a standard that subsequent research has found tough to match. Furthermore, the insights they achieve, both from the cross-national comparison of the US, Japan, and Korea and the investigation of US suppliers to Japanese "transplant" factories in the US, anticipate subsequent research on globalization and have continuing relevance for current developments in this global industry.

In this commentary, I will briefly discuss the state of international trust research immediately prior to their project; the contributions of their article; aspects of their article that I believe warrant

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further attention; and my view of the most important new issues for the research agenda in this domain. Dyer and Chu's article deserves recognition as a foundational piece of research and will hopefully inspire future scholars to set similar ambitions in extending the inquiry into this ever-more central topic for international business.

TRUST IN INTERNATIONAL CONTEXT

The surge of interest in trust in the 1990s was spurred by geo-political events and organizational developments that shined a spotlight on collaboration within both new and long-standing relationships. International comparative social science helped set the research agenda, from Putnam's studies of trust and social capital in Italy and the US (Putnam, 1995; Putnam, Leonardi, & Nanetti, 1992) to Fukuyama's investigation of trust (1995) as a nation-based capability that could underpin global comparative economic advantage. The rise of network forms of organization combined with steady movement away from vertical integration in large corporations increased attention to the structure and governance of inter-organizational relationships, while the "varieties of capitalism" debates that followed the perceived end of the Cold War highlighted the advantages of different national models that featured inter-firm collaboration as much as competition. Globalization trends provided opportunities to study the diffusion of nation-based models of organizing to new settings, and the rise of "industry studies" as a multi-disciplinary approach grounded in deep knowledge of industry context provided new legitimacy for field-based research involving multinational firms and multiple countries.

Dyer and Chu began their work amid an upsurge of attention to trust in organizational theory, strategy, and international business. One indicator is the number of special issues of leading journals – seven by my (possibly incomplete) count – devoted to the topic of trust between 1995 and 2004, plus two widely cited handbooks (Bachmann & Zaheer, 2006; Kramer, 2006). This period was marked by increasing attention to trust as a concept that "is not a behavior (e.g., cooperation) or a choice (e.g., taking a risk) but an underlying psychological condition that can cause or result from such actions" (Sitkin, Rousseau, Burt, & Camerer, 1998: 397).

Yet, it was still rare to find careful empirical attention to trust across different country/institutional contexts. Research by Mari Sako (1992) and Susan

Helper (1991) – plus their collaborative research (Helper & Sako, 1995; Sako & Helper, 1998) – is one exception. Both primarily contrasted the Japanese approach to supplier relations with the Anglo approach (UK and/or US), with Helper building from Hirschman's "exit/voice/loyalty" framework (1970) and Sako differentiating three types of trust: contractual, competence, and goodwill. Like Dyer and Chu, they collected both survey and interview data within the automotive context. Unlike Dyer and Chu, they emphasized dyadic comparisons that were arguably at the extremes of the inter-organizational trust dimension without the reference point of a third country (Korea). Finally, they wrote for economists rather than the international business community and emphasized the consequences of collaborative modes of supplier relations for firm performance, industry structure, and "dual economy" theories rather than the determinants of trust. The flowering of research by these two pairs of collaborators and other international scholars (e.g., Nishiguchi, 1994; Smitka, 1991) indicates a time rich in opportunities to explore the complexities of inter-organizational trust in international context.¹

DYER AND CHU'S CONTRIBUTIONS

Dyer and Chu's theoretical contribution lies primarily in their comparison of hypotheses on relationship trust and process-based trust. (I share with Sitkin et al. (1998) the view that hostage-based hypotheses, their third perspective, don't really qualify as being about "trust.") This comparison gets to the heart of important dilemmas in studying organizational-level trust, as highlighted in Zaheer, McEvily, and Perrone's work (1998). Organizations can't actually "trust" each other; trust is between and among individuals. However, trust as a condition underlying cooperation and risk-taking clearly does exist between and among organizations over time. Inter-organizational relationships frequently bring new individuals into contact with each other; those individual relationships don't start afresh but rather on a foundation of past fulfillment of expectations upon which new experiences are built, all channeled through institutionalized processes. Yet many hypotheses about organizational-level trust still derive from theorizing about social ties among individuals, for example, duration of ties and amount of interaction.

The process-based hypothesis that organizational choices about practices and processes could substitute for individual social ties was significant in

predicting the possibility of relatively quick paths to trust in new relationships, as well as pervasive sources of distrust in long-standing relationships. Dyer and Chu's finding that process-based measures are a better predictor of trust than relationship-based measures is particularly striking when applied to their subsample of US suppliers working with Japanese transplants in the US.

The fact that Japanese firms developed much higher trust with US suppliers, despite much shorter relationships and less face-to-face interaction (it is fascinating that the US suppliers report *less* trust when having *more* interaction with US automakers), speaks powerfully to the relative importance of institutional context and organizational practices. Institutional context may very well matter for the evolution of practices; it is not a coincidence that the higher trust level is found in Japan, where societal levels of trust are higher (although see a qualification on this below). But Dyer and Chu's findings show that practices which both display and build trust are what have the more proximate and lasting impact on inter-organizational relations. This result anticipates much subsequent work on the dynamics of globalization, in which new relationships are being formed all the time, where institutional contextual differences pose challenges for trust, and where performance differences between high-trust and low-trust supplier relationships are potentially very large.

Dyer and Chu took pains to develop a broad conceptualization of trust that was not confined to the affective sphere. In contrast, research that fails to consider how trust may correlate with many other "positive" measures of an economic relationship, such as experiencing many periods of profitable economic performance or learning to coordinate more efficiently through repeated transactions, may over-attribute superior performance outcomes to trust. An advantage of their process-based conceptualization of trust is that it doesn't assume that trust is automatically good but rather captures the interactive mechanisms that provide the buyer with many opportunities to assess whether their supplier partner is trustworthy, in a demonstration of "learning by monitoring" (Helper, MacDuffie, & Sabel, 2000; Sabel, 1994).

The methodological strength of Dyer and Chu deserves recognition, both for the high standard set and as a window into the difficulties of this type of research. The two authors had deep individual knowledge of two contexts (US and Korea) based on their personal experiences, and shared

research-based knowledge of the third (Japan), along with language capabilities for all three countries. They often filled out the survey during interviews with company officials during field visits, doing qualitative checks on their quantitative data while also exploring issues not directly measured in the survey. Their high response rate owes much to their dedication to collecting these data on-site. Doing multi-method research in three languages and three countries is no small feat; being able to provide interview quotes that directly illuminate survey findings is a further bonus for the reader. The durable impact of Dyer and Chu, reflected in the *JIBS* Award, is in no small measure due to these methodological strengths.

Dyer and Chu's article is highly cited across a wide variety of fields, especially international business and strategy literature, but also in journals of agribusiness, computer science, decision/risk analysis, marketing, operations, political science, and supply chain management. It is included in Kramer's (2006) Oxford reader on organizational trust, a prime source for foundational articles in this domain. Specifically in international business, their approach to trust has been influential on such topics as:

1. International joint ventures (IJV), including construct development for IJV trust at person, group, and firm levels of analysis (Currall & Inkpen, 2002).
2. Export competitiveness, emphasizing the mediating effect of trust and the enhancing impact of relational norms (Zhang, Cavusgil, & Roath, 2003).
3. Overcoming local distributor opportunism, with a finding that trust-building is more effective than knowledge-sharing or contracts (Wu, Sinkovics, Cavusgil, & Roath, 2007).
4. Replication/extension by testing their model of trust in supplier relations in Turkey, adding new variables relevant to the developing country context (Wasti & Wasti, 2008).

In contrast, relatively few researchers have picked up explicitly on their construct of process-based trust, and little research in the international context has focused specifically on the dynamics of business relationships that alternate between trust and distrust. I look more closely at both these issues in the section on future research below.

CRITIQUE OF DYER AND CHU: ISSUES NOT ADDRESSED

No article can do everything, and Dyer and Chu weren't able to address all issues relevant to their inquiry. In their *JIBS* article, trust is the dependent variable, but it can also be a cause of performance or a moderator of the effects of other variables; they investigate the latter in Dyer and Chu (2003). Their data come entirely from suppliers, with an assumption of symmetry, that is, that automakers' views of the relationship with suppliers will be the same as those measured from the supplier perspective only. While this assumption might hold in relatively stable periods for supplier relations, I would argue that it becomes untenable in periods of greater volatility, in ways important to dynamics of trust and distrust.

Although the article focuses on the comparison of Japan, Korea, and the United States, there are no country-specific hypotheses, even though the empirical work covers analyses of both the pooled data and country-specific subsets. In international business research, it would seem best to provide country-specific as well as general hypotheses when the data allow both types of hypotheses to be tested. As noted below, country-specific research on trust of insiders vs outsiders highlights low trust in outsiders in Japan. This finding adds nuance to (although it does not contradict) Dyer and Chu's findings of high trust in Japan within "inside" supplier relationships, that is, in *keiretsu* network structures.

Dyer and Chu might have anticipated this issue through fuller treatment of Fukuyama's work (1995), which considers trust at three levels: familial (between family members), societal (between institutions), and between strangers (which supports inter-firm cooperation where prior personal ties do not exist). Attention to "trust between strangers," which is high in the US and low in Japan, would have highlighted a different pattern of national-level trust than the one emphasized by Dyer and Chu.

In the *JIBS* article, Korea is treated as an interesting amalgam of Confucian Asian values (proximity to Japanese culture) and Americanized business values (proximity to US culture), but is not as fully explored as Japan and US, which serve as anchors at opposite ends of the trust dimension, as in much empirical work at the time. The Korean context deserves fuller attention in its own right. As recent events demonstrate, Korean automakers have proven to be formidable competitors for the

Japanese firms that dominated the industry in the 1990s and beyond.

Dyer and Chu provide no way to measure the costs of achieving and maintaining trust in relation to benefits that are largely assumed from the literature on relational coordination. Furthermore, there is no way to assess the costs of the *distrust* found in the US and Korean context. Keeping costs and benefits of both trust and distrust in mind is essential to addressing the dynamics of supplier relationships, that is, the cycles of trust, rupture of trust, subsequent distrust, and efforts at repair that any given supplier relationship may experience, as elaborated below.

EMERGENT ISSUES FOR TRUST IN SUPPLIER RELATIONS: THE RESEARCH AGENDA AHEAD

Dyer and Chu's article will endure as foundational work on trust in supplier relations and a reference point for the early 1990s time period in which their research was conducted. New developments in global supply chains and subsequent theorizing and empirical investigation point toward a future research agenda building on that foundation. I will highlight six themes that warrant closer attention: (1) further conceptualizations of trust; (2) the dynamics of trust and distrust over time and whether (and how) lapses or breaks in trust can be repaired; (3) how pendulum swings in supplier relations affect expectations and reactions to trust-building and trust-damaging actions; (4) the impact of intra-organizational conflicts and inter-organizational coalitions on the establishment and maintenance of inter-organizational trust; (5) the impact of national vs organizational culture on trust in inter-organizational, cross-cultural relationships; and (6) whether intermediate modes of supplier relations (e.g., in between transactional and relational) are unstable, transitional hybrids or embody complementarities that yield both value and stability. For each theme, I will highlight the relevance for international business research.

Further Conceptualizations of Trust

Kramer and Lewicki (2010) reach beyond conceptualizations of trust that emphasize competence/expertise and benevolence/goodwill dimensions, reviewing recent literature on "presumptive trust," that is, positive social expectations that increase individual willingness to trust members of an organization. Presumptive trust within and across organizations is, of necessity, impersonal, linked to a generalized representation or prototype of the key

characteristics of an organizational member. The expectations created are thus both diffuse (linked to the collective rather than individuals) and bounded (applying only to organizational members).

Presumptive trust, according to Kramer and Lewicki, can be based on identity, roles, rules, or leadership actions. Identification with others who share a common category membership, that is, homophily, increases the positive social expectations that underpin trust. Similarly, knowledge about an organizational role can boost expectations that the role occupant is both competent at executing role-based obligations and responsibilities and motivated to do so. Organizational rules provide yet another basis for trust. Knowledge of an organization's system of rules and practices for developing expertise, motivation, and ethical awareness can lead to attributions of high skill, commitment, and honesty to each organizational member belonging to (and socialized in) that system. Leaders can have a big effect on presumptive trust, by helping to define an organization's identity, shape its culture, establish roles, articulate norms, and build a system of practices that embodies rules.

Under this conceptualization, Dyer and Chu's process-based trust would be subsumed under a combination of role- and rule-based trust. In finding that a high level of personal interactions does not increase trust, their analysis suggests that role- and rule-based forms of trust are more powerful than identity-based trust. To reference the example in their retrospective (this issue), a US supplier salesperson may feel more comfortable with a General Motors purchaser at an identity level, but he or she has greater positive expectations of the Toyota purchaser based on role- and rule-based trust developed from learning about, and experiencing, the Toyota approach to purchasing. Thus, a natural extension of Dyer and Chu's focus on process-based trust is to explore these different sources of presumptive trust and the consequences for building and repairing damage to trust.

Other recent efforts to extend conceptualizations of trust can be found in Adler, Heckscher, and Cummings' paper (2010) delineating the forms of trust that best support "contextual ambidexterity," that is, an organizational context in which individuals are capable of switching between modes of exploration and exploitation depending on the contextual requirement. The authors highlight collaborative trust, linked to "the observed (or reputed) competence and engagement of individuals and the deliberative capacity of the community"

(p. 32) and differentiate it from trust that is traditional (based on conformance to the existing social order); charismatic (based on emotional bond with a leader); and contractual (based on systems and institutions that reinforce expectations of reliability and predictability). Given that multinational enterprises (MNEs) are often faced with the challenge of ambidexterity (Gibson & Birkinshaw, 2004), research on the conditions supporting collaborative trust within and between MNEs is indicated.

Another approach goes beyond a dichotomous conceptualization of contracts and trust as complements or substitutes, using mathematical modeling to identify the conditions under which governance mechanisms can "crowd out" or reinforce trust (Puranam & Vanneste, 2009). Many of these conditions (e.g., whether or not formal contracts are common practice and whether or not exchange is highly ambiguous given incomplete contracts) will vary by national context and by the characteristics of the partners in international collaborators, as noted by Zaheer and Zaheer (2006). Thus a more differentiated look at the contextually dependent relationship between governance modes and trust is warranted in international business research.

Dynamics of Trust and Distrust

In any given relationship, levels of trust may rise and fall in anticipated oscillation that doesn't seriously threaten its survival, or trust may be broken and relationships damaged in ways that are resistant to repair. Considerable attention is now being given to these issues. Robinson, Dirks, and Ozelik (2004) examine cycles of trust, the consequences of breaches of trust, and the implications for repair, contrasting two perspectives: "Hell Hath No Fury" and "Love Is Blind." The former depends on a contrast effect, with high trust in a relationship causing a perceived betrayal to have a larger impact. Alternatively, the latter depends on cognitive consistency; where prior trust exists, a lapse may be viewed charitably, as out of the other party's control, whereas where mistrust is the prior state, a breach may be seen as intentional.

The emphasis on cognitive consistency suggests the power of the initial framing of expectations in a relationship, as illustrated by the different ways the words "mistrust" and "distrust" are used. While there is no agreement to be found by consulting various dictionaries, patterns of usage suggest that "mistrust" refers to a situation in which expectations are negative based on past experience, while "distrust" refers to the prudent withholding of trust

in situations where it is not yet proven. From the point of view of governance theory, this aligns with Verbeke and Greidanus's recent distinction (2009) between "bounded rationality" and "bounded reliability." Bounded rationality is an assumption closely tied to expectations of opportunism and hence points to the need to write contracts that limit risk from intentional malfeasance – a "low trust" dynamic that may actually stimulate the behavior it is meant to defend against, befitting the term "mistrust". Bounded reliability, in Verbeke and Greidanus's conceptualization, sees unmet obligations to others as having positive rather than negative sources, in the sense that shifts in priorities and over-commitment can lead to unintentional failures to meet expectations – meaning that parties on both sides of an exchange will be well-served by a general attitude of "distrust" that motivates careful monitoring as relationships develop and evolve.

In the inter-organizational context, the extent to which calculative trust is central to the exchange relationship can affect which of these perspectives will dominate (Darley, 2004). If a breach occurs in a relationship marked by calculative trust, this event fits within the range of possibilities that the parties have anticipated, and they will both adjust behaviors accordingly. But where trust is noncalculative and more rooted in social identity, a breach of trust is more likely to be felt as a betrayal. This suggests that trust may be repaired more quickly where it has a calculative basis than when it is noncalculative and based on identity, although the constant anticipation of potential defection under calculative trust may limit what benefits are achieved.

A crucial realization with respect to repairing relationships is well summarized in a recent review article by Dirks, Lewicki, and Zaheer (2009: 74), who state that "as a relationship becomes multiplex or multifaceted, it can simultaneously involve trust and distrust ... A complex relationship can at the same time be positive in some facets and negative in others." To admit to the possibility of "the continuous coexistence of positive and negative states (i.e., ambivalence)" is to envision a very different dynamic from that in which trust is first damaged (and lost) and then repaired (or never gained back). There is much to be gained from developing this perspective. Business relationships in international context are almost by definition multiplex and multifaceted, and hence are rarely well-served by conceptualizations that dichotomize

states and view dynamics only as alternation in modes. Dyer and Chu address this complexity in their attention to how foreign direct investment (in their case by Japanese manufacturers) creates new situations in which host country customers and transplant suppliers engage in mutual learning and adaptation, although they don't explore the ambivalence that no doubt occurs along the way.

Another variable affecting the dynamics of trust is the extent to which relationships are reinforced by formal contracts as well as extra-contractual understandings. Murnighan, Malhotra, and Weber (2004) find that contracts help but also hurt trust; they increase expectations of reliability and competence but they also increase the likelihood that behaviors interpretable as evidence of trustworthiness will instead be attributed to the existence of the contract. In contrast, the plural governance literature, frequently applied to the particular mix of hierarchy and transactional contracts found in franchising, offers insights into the mutually reinforcing dynamics of mixed-governance-mode arrangements (Bradach, 1997; Bradach & Eccles, 1989; Heide, 2003). For example, based on experimental data Lazzarini, Miller, and Zenger (2008) find a positive relationship between contracts and general trust, defined as an openness to transacting with new exchange partners (as opposed to preferring to continue transacting with known exchange partners). Combining contracts with the development of general trust (similar to presumptive trust) is urged to maximize learning opportunities and minimize the risks of overembeddedness (Uzzi, 1997).

This plural governance approach is often useful in examining how relationships in international business evolve over time. Tsui-Auch and Möllering (2010) identify how "wary managers," keenly aware of vulnerabilities when developing business relationships in a transition economy such as China, maintain a level of control that is essential to allow trust to develop. Trust and control, far from being substitutes, coexist and interact in this situation, often following a gradual process of small steps that validate trustworthiness and allow calculative trust to be supplemented and even replaced, slowly, by noncalculative trust.

Pendulum Swings in Supplier Relationships

The idea that trust is highly fragile must confront the reality that, at the inter-organizational level, many factors actively undermine the possibility of consistent relationships over time. Downturns in

the business cycle create tremendous pressure to cut costs and may cause even trustworthy customers to abandon long-time suppliers in search of new low-cost sources. Dependence on supplier expertise forces even the most transactional buyer to seek more stable partnership arrangements in order to guarantee access to needed technical knowledge. Far from living in the “exit” or “voice” dichotomous world of low/high trust, most firms experience some alternation between these modes; in this sense, the vast majority of firms can be said to have direct experience of both trust-building and trust-damaging relationships.

Does this leave all firms wary and guarded, willing but slow to trust in any given relationship? Do certain practices generate process-based trust, as Dyer and Chu's work suggests, more rapidly and reliably even against this background of knowing that disappointment of trust is as likely as its reinforcement? Rather than swinging between extremes of high trust and high distrust, organizations may buffer both their expectations and their reactions to minimize the impact of oscillation, yet this process is not well understood. Nickerson and Zenger (2002) describe the possibility that organizations can be “efficiently fickle,” modulating between two organizational modes in order to achieve an adaptive functionality that would not be achievable from maintaining one mode or the other. However, this view depends on the costs of organizational change being low; furthermore, with respect to trust, modulation faces the risks of damage to trust and the subsequent costs in time and resources of trust repair.

Recent research on Nissan's dramatic change in its supplier management following its late 1990s alliance with Renault finds that its switch from a relational to a transactional approach didn't immediately end the benefits built up over a long period of enduring, high-trust, socially embedded relationships (Stevens, Pil, & Holweg, 2010). It was only after Nissan emerged from financial crisis and returned to profitability, yet kept pressing suppliers for further price cuts, that suppliers shifted to more negative views of their major customer. More recently, Nissan has wanted to move towards an intermediate mode, involving some measure of renewed relationship building with certain suppliers but not at the cost of openness to bringing new suppliers into the network. Its challenge has been to rebuild trust not through repair of relationships with specific suppliers (and key boundary-spanning individuals)

but through investments in reputation for general trustworthiness plus process transparency and fairness. These lag effects on trust from modulation across modes of exchange are rarely isolated for study yet are likely to be pervasive amid volatile market or competitive conditions.

Others have also studied the temporal dimensions of developing trust. Gulati and Sytch (2008), using data from supplier relations in the US auto industry, find, like Dyer and Chu, no relationship between trust and duration of exchange history. In probing further for a non-linear relationship, they again find no relationship at the organizational level (although personalized trust between individual boundary-spanners does begin to rise after 2 years of ambivalence). Furthermore, they find that in very long term relationships, shared history plays an ever-diminishing role in trust formation. This research raises the question of whether there is a predictable life cycle of trust, or if there are forces promoting oscillation that regularly, but randomly, threaten trust. In the international context, any life cycle dynamics are likely to be contextually dependent, and many of the forces for oscillation will affect the parties to international collaborations differently, as addressed below.

Intra-Organizational Conflicts and Inter-Organizational Coalitions

Firms rarely maintain one consistent approach to all suppliers, for strategic reasons as well as due to internal functional conflicts. Commodity parts may be acquired in market-based transactions with low repeatability, while components with high asset specificity are more likely to be acquired (or co-developed) through interdependent relational coordination between supplier and customer. Meanwhile, functional conflicts often exist within the customer firm, as an overlay on these contingent choices; for example, purchasing is rewarded for achieving price reduction targets while engineering is rewarded for meeting product performance specifications and development-stage milestones (Herrigel & Zeitlin, 2010; Whitford, 2005).

Such conflicts are not new, but they now occur in a context in which suppliers have a much larger role in product development in many industries as a result of the outsourcing of design tasks. Optimizing supplier performance on design tasks requires a great deal of interaction and information exchange among customer and supplier engineers, but the customer's purchasing function often prefers to limit this exchange in order to maintain the

information asymmetries that give it negotiating leverage (MacDuffie & Helper, 2007).

Intra-organizational conflict is, in turn, complemented (and complicated) by inter-firm coalitions, as boundaries between customers and suppliers blur. With knowledge more widely distributed among organizations in the value chain, the actors attempt to combine that knowledge in order to innovate, while also mobilizing coalitions in order to protect and advance subunit interests (Whitford & Zirpoli, 2009). As inter-firm expertise is ever more important for innovation, inter-firm coalitions – and intra-firm conflict – can present barriers to collaboration. Thus it is no longer enough to speak of trust at the inter-organizational level without also exploring the extent to which trust (or distrust) characterizes intra-organizational relationships across functions and inter-organizational coalitions that align subunit interests across firm boundaries.

National vs Organizational Culture Influences on Trust

Much of the literature on inter-organizational trust, at least in the auto industry context, contrasts the “high-trust” Japanese and “low-trust” US approaches. These approaches follow such different logics and align so well with different theoretical perspectives that they seem paradigmatic. However, this contrast provides little guidance when an exchange crosses national cultural boundaries, as when a US supplier works with a Japanese customer. What does it mean to find, as Dyer and Chu do, that a US supplier prefers its Japanese customer’s trust-based approach? Is there a selection process that draws non-typical US suppliers into relationships with Japanese customers and leads to idiosyncratic norms of exchange that would not readily apply to other US suppliers? As Zaheer and Zaheer (2006) point out, we lack theorizing that would predict how symmetry or asymmetry in institutional and cultural support for trust will affect international collaborations.

As noted above, presumptive trust is often grounded in identity similarity. In any international business context, identities grounded in national culture may pull individuals toward a strong presumption to trust those with the same identity. Role- and rule-based trust may pull in a different direction, partly because they invoke functional or occupational identities that are orthogonal to national identities.

In this regard, Huff and Kelley’s (2003) study of organizational trust in individualist vs collective

societies raises important doubts about the validity of characterizing US society as “low trust” and Japan as “high trust.” They find significant variation in these societies based on whether individuals are describing trust within the context of “in-groups” or “out-groups.” In Japan, individuals do report higher trust of others who are viewed as “in-group” than individuals in the US do. But with respect to out-groups, individuals in the US report higher trust than individuals in Japan. Thus one interpretation of the frequent finding of high trust created by Japanese automakers with their (Japanese and non-Japanese) suppliers is that they make these suppliers part of an “in-group,” and hence include them within the zone of trust extended to all in-group members. This suggests that, in addition to the organizational processes identified by Dyer and Chu that reinforce role- and rule-based trust, the selection of a supplier to join the “in-group” may be significant in setting positive expectations and building presumptive trust.

While acknowledging the power of national culture differences, I would also suggest that our knowledge of these differences can overly dominate our expectations of cross-cultural relationships. In the international business context, critiques of an over-dominant emphasis on national culture often propose attention to cultural communities that span national boundaries (see the debate between Leung, Bhagat, Buchan, Erez, & Gibson (2005, 2010) and Gould and Grein (2009)). In contrast, I am proposing the application of an organizational rather than a national culture lens. The greatest leadership challenge in MNEs may be to develop an organizational culture that can bridge national differences, while also developing supportive roles and rules aligned with this culture, as well as strategy and goals. A firm’s effort to extend the influence of its organizational identity and culture to all in-group suppliers may be more important for understanding subsequent dynamics of trust and distrust than national culture differences. This perspective is relevant to efforts by the Nissan-Renault alliance to build a generalized reputation for trustworthiness that can support collaborative relationships with suppliers from Japan, France, and other countries.

It is likely that both a national and an organizational lens will be needed to understand the complex interactions involving cross-national supplier relationships. US and European automakers have had notable success in China, to a great degree than Japanese automakers. Historical mistrust between

Japan and China at the national level may translate into identity-based attributions, on both sides, regarding the trustworthiness of Japanese automakers and Chinese suppliers. Furthermore, U.S. automakers may have shown a greater willingness to build relationships with Chinese suppliers as new exchange partners, whereas those same suppliers may have an “out-group” status vis-à-vis Japanese automakers. Yet the role- and rule-based purchasing processes of Japanese automakers would seem likely to have a positive impact on inter-organizational trust in China, as in other countries, despite these national-level tensions. (MacDuffie & Helper, 1997)

A promising approach is to look for evidence of universal antecedents of trust across countries and then to consider what national-level factors may moderate those relationships. For example, Schumann et al. (2010) find support for the common existence of customer trust based on perceived predictability and reliability across 11 countries, and then find that the link between predictability and trust is stronger in cultures characterized by high uncertainty avoidance.

Intermediate Modes of Supplier Relations: Unstable Hybrids or Stable Complementarities?

As noted above, supplier relationships increasingly occupy a space between the transactional (“exit”) and relational (“voice”) ideal types that anchored earlier theorizing and empirical research. Susan Helper and I used the term “collaboration without trust” to describe a new intermediate pattern that we saw in the US context (MacDuffie & Helper, 2007). The pattern arose, we argued, from the increasing interdependence of automakers and a new class of “mega-suppliers” – firms that are large, global, and possess both broad and deep product and technological knowledge, typically formed either from the deverticalization of automakers or via horizontal aggregations through mergers and acquisitions. This interdependence was strikingly high for product design activities, requiring high levels of interaction and collaboration among automaker and supplier engineers during component/subsystem development. However, this collaboration on design tasks was often undercut by the terms established by the automaker’s purchasing function, which bore the legacy of such low-trust actions as pressuring suppliers to provide up-front guarantees of future-year price reductions and asking that those cost savings be passed to the automaker in the first year; or taking a supplier’s

proposed design and sending it to competitors to get their bids for building it.

“Collaboration without trust” was a manifestation, therefore, of the intra-organizational functional conflicts and inter-organizational coalitions noted above. When contrasted with the “collaboration with trust” that we saw in similar relationships with Japanese automakers, we predicted that the internal tensions contained within “collaboration without trust” would make it a short-lived phenomenon, that is, an unstable hybrid that would revert to low-trust relations in which design collaboration would be impaired. Yet we also observed that this particular intermediate mode was persisting longer than we predicted. We wondered whether difficult economic conditions might keep suppliers working with “collaboration without trust” customers for a time, with defection the most likely outcome once other options were available.

In the context of international business, it is to be expected that firms and suppliers will be continually engaged in a range of collaborative and non-collaborative relationships. This set of multiplex relationships would be likely to shift over time, with any given relationship potentially moving through cycles of trust and distrust (as noted above) and the mix of relationships varying depending on the business cycle, automaker and supplier strategies, and recent experiences of the parties. Furthermore, rather than an unstable hybrid likely to dissolve at any time because of internal contradictions, there might be stabilizing complementarities in this mix of relationships.

Stepping outside of a dyadic view of the customer-supplier relationship is the necessary first step to observe these complementarities and understand how they might bring ecosystem-level stability. This approach is consistent with being “efficiently fickle,” to use Nickerson and Zenger’s term (2002) and with the ecosystem-oriented “make and buy” work of Parmigiani and Mitchell (2009). Makadok and Coff (2009) also offer a valuable perspective by generating, through mathematical modeling, a wide array of hybrid forms of governance that suit tasks requiring cooperation among agents that can’t be motivated directly through incentives, authority structures, or ownership, that is, precisely the multiplex relationships in which presumptive trust, often coupled with other mechanisms, is necessary for effective and efficient performance. They explore, in an extended example, how the diffusion of Toyota-style lean manufacturing in the US auto industry has led to the adoption of

hybrid supplier relationships due to a larger supplier role in component design – the same situation analyzed in the “collaboration with and without trust” example. Their model leads them to predict two hybrid forms in this situation: quasi-integration, for example, relational coordination with suppliers in close partnership, and autonomous profit centers, for example, internal supply divisions having to compete with outside suppliers to get component sourcing contracts. Presumptive trust is required for the former, while the latter is designed to limit the risks of an overly embedded in-group network.

LOOKING AHEAD: PREDICTING THE FUTURE OF AUTOMOTIVE SUPPLIER RELATIONS

As Dyer and Chu note in their retrospective, the world has changed a lot since they wrote their 2000 *JIBS* article. Hyundai occupies the fast-growing, ascendant status that was once exclusively the province of Toyota, Honda, and Nissan. Toyota struggles with a recall crisis in which problems with supplier quality is one underlying factor. And US automakers are receiving their best ratings in many years for trustworthiness from their suppliers. How does Dyer and Chu’s original article, plus the new research issues outlined above, help us understand these phenomena? And what research opportunities present themselves in this context?

From Distrust to Trust

One issue is understanding what behaviors, in this context, are successful in building trust where distrust has been dominant. We can infer that Hyundai’s ability to reach the top ranks of US consumer quality ratings has depended upon not only capability development within the firm but also high-quality components from suppliers. We know from Dyer and Chu that trust of Korean suppliers in Korean automakers was low in the 1990s. Furthermore, Hyundai up to that time had depended primarily on captive Korean suppliers, widely regarded as lacking the capabilities to compete successfully in a global context (see Guillén, 2001). Since then, Hyundai has broadened its supply base to include many top global mega-suppliers. It has also spun off its once vertically integrated parts operations to create mega-supplier Mobis, which competes to win contracts from non-Korean automakers plus works closely with Hyundai product designers.

Hyundai’s quality improvement has provided a powerful source of competitive strength, since its recent ability to combine low prices and high quality

appears to account for its market share gains in the US and elsewhere. What is not yet well understood is to the extent to which Hyundai’s success with quality improvement depends on building trust with its suppliers, how it has accomplished this, and whether this approach will persist.

Pendulum Swings

At the present time, US automakers, long criticized by their suppliers for behaviors that were damaging to trust, are being viewed more positively; the 2010 Working Relations Index, based on supplier surveys, shows large improvements for Ford and GM and a decrease for Toyota and Honda, resulting in the smallest gap in US supplier views of Japanese and US automakers in over a decade (Planning Perspectives, 2010). US automakers have, in the past, displayed more concern about maintaining bargaining leverage over suppliers through low bid global sourcing and threat of exit than with gaining access to supplier technological expertise. Thus as they recover from the industry crisis, they may be drawn back to their legacy mode, causing another swing of the pendulum. Even if striving for a portfolio of relationships, some transactive and some relational, they are likely to find that any actions resembling their past practices will be interpreted with considerable mistrust. This attributional bias could accelerate a return to the “collaboration without trust” mode that has characterized their behavior for much of the last decade.

Recovering from Betrayal of Trust

Toyota poses an interesting test case for theories of trust. The recall crisis has certainly damaged Toyota’s reputation, not only for quality but also for trustworthiness in its relationship with suppliers. The US supplier that made a part implicated in the recall protested that Toyota had approved the design, defending itself as if needing protection from its largest customer. One factor in Toyota’s quality problems is said to be the intense initiative (called CCC21, for Construction of Cost Competitiveness in the 21st Century) that squeezed out billions from the cost of components by working with suppliers. Some Toyota suppliers in Japan even complained to the press about how CCC21 weakened them.

This wasn’t the story heard after the 1997 fire at Toyota-keiretsu company Aisin Seiki’s factory destroyed the sole source of a crucial component, shutting down many Toyota assembly plants (Nishiguchi & Beaudet, 1998). After that crisis,

suppliers rallied around Toyota in a seemingly spontaneous mobilization to make up the shortfall in the missing component, even if it meant using general purpose machinery to tackle entirely new (to them) production processes.

Dyer and Chu would point to Toyota's strong processes as a basis for maintaining or restoring trust where it has been damaged by the crisis. Toyota's motivation to restore its reputation for both quality and trustworthiness is strong. The cognitive consistency bias would suggest that many suppliers will be willing to view Toyota's problem sympathetically. Yet, the extent to which bonds to Toyota are deeply embedded in a sense of social identity and a feeling of being an "in-group" member included in Toyota's organizational culture increases the risks of suppliers feeling betrayal as well. As it struggles to recover, Toyota will undoubtedly need to show suppliers that it is committed to their survival, to take extra-contractual actions in support of the relationship, and to reinforce signals of being a valued in-group member.

Certainly we would all have more confidence in knowing how to make sense of the current situation if Dyer and Chu were still working on this topic. Failing that, it falls upon those in the next generation of researchers to pick up the trail and follow the new research agenda in the hopes of doing a piece of research as conceptually strong and empirically powerful as their 2000 *JIBS* article.

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NOTE

¹It is worthwhile to reflect briefly on the institutional context that made this research possible. Dyer and Chu's research, as well as that of Helper and Sako, was funded by the International Motor Vehicle Program (IMVP), which was founded at MIT in 1985 with a mandate to investigate differences in competitive capabilities among automakers and suppliers globally. IMVP encouraged primary data collection on the entire automotive value chain, from manufacturing and product development to supplier relations and distribution, and spawned a great many international collaborations. In the early 1990s, IMVP became part of the Sloan Foundation's Industry Studies Program. This program recently became the basis for the Industry Studies Association, a new professional association whose mission is to advance cross-disciplinary research by scholars who "make the kind of personal investment of time that is necessary to learn about the market, firms, and institutions in the industry or industries they study" (www.industry-studies.org) – a description that fits Dyer and Chu's research perfectly.

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