Reorienting and Recalibrating Inter-organizational Relationships: Strategies for Achieving Optimal Trust

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Abstract

Drawing upon longitudinal, dyadic, comparative case-based research, we analyze the pursuit of optimal trust, i.e. trust that is neither excessive nor insufficient, by introducing the concepts of *reorientation* and *recalibration*. First, we show that large deviations from optimal trust are best addressed by reorientation which deals with both too much as well as too little trust. Reorientation processes include substantial efforts to change parties' attributions of the intentions underlying past behavior, to reestablish social equilibrium among the parties, and to make structural changes via adjustments to goals and incentives. Reorientation is necessary when imbalance occurs in the powerful and opposed forces associated with excessive trust (faith, favoritism, contentment, loyalty) vs insufficient trust (skepticism, impartiality, exigency, opportunism). Second, we demonstrate that there is an effective path to maintaining optimal trust via practices we call recalibration, wherein small deviations are addressed before damage to trust occurs. Recalibration maintains inter-organizational trust near its optimum through processes that proactively balance the opposed forces. Large deviations from optimal trust in either direction can unleash destabilizing dynamics, requiring significant reorientation efforts to offset. Recalibration processes are then essential for preserving the effects of successful reorientation.

Keywords

Inter-organizational relationships, optimal trust, trust processes, trust repair

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Introduction

Trust in buyer–supplier relationships has been shown to increase adjustment and flexibility (Crocker & Masten, 1991; Grandori, 1997), reduce monitoring costs (Gerlach, 1992; Walker & Poppo, 1991), establish superior information sharing routines (Clark & Fujimoto, 1991), and reduce overall transaction costs (Asanuma, 1989; Dore, 1983; Granovetter, 1985; Nishiguchi, 1994). These studies characterize trust in a manner consistent with the prevailing definition in the organizational literature, namely as a psychological willingness to accept vulnerability based on one party's positive expectations of the other party's intentions and behavior (e.g., Rousseau, Sitkin, Burt, & Camerer, 1998).

Yet those positive expectations may have unintended negative consequences. Gargiulo and Ertug (2006) identify three problems with too much trust: diminished information gathering and processing due to the perception that not much vigilance is needed, leading to blind faith; high levels of satisfaction and commitment to the relationship, leading to complacency; and excessive communication and interaction leading to superfluous, burdensome obligations between the parties. In these ways, trust can increase the risk of exploitation (Das & Teng, 2001; Granovetter, 1985; Uzzi, 1997), and can systematically undermine its own foundations (Thorgren & Wincent, 2011). Given this double-edged nature of trust within inter-organizational relationships, managers face an ongoing challenge of finding the right balance between too little and too much trust.

We address this challenge through the concept of optimal trust, introduced by Wicks, Berman and Jones (1999) and drawing on ideas dating back to Aristotle. We adopt a process-based view of trust, seeing what is optimal as emergent from the flow of interactions within inter-organizational relationships. Trust is not a static state, resource or medium within which interactions take place, but rather "an ongoing process that must be initiated, maintained, sometimes restored and continuously authenticated" (Flores & Solomon, 1998, p. 206). As relationships develop, the parties decide, repeatedly, whether or not to trust each other—based on updated information and experience—and managers take action accordingly (Wicks et al., 1999).[1]

We follow Mayer, Davis and Schoorman (1995, p. 724) in focusing on the "behavioral manifestation" of the willingness to be vulnerable, or what they call "trusting action." As Mayer et al. (1995) argue, there is a difference between a pre-involvement willingness to trust and actually trusting an inter-organizational partner during ongoing interactions; only the latter involves taking on actual risk. The decision to take "trusting action" is made against a dynamic background of interactions, practices, and commitments made and fulfilled in ongoing relations.

So while parties' levels of trust may be fixed at a certain point in time, "trusting action" occurs within a relational dynamic. This treatment of trust-building as a longitudinal process is particularly appropriate whenever the dynamics of trust damage, maintenance, and repair are the research focus. Based on this framing, our research question is:

How can firms maintain optimal levels of trust in their inter-organizational relationships, given that trust levels do not remain static, and indeed may engender forces within the relationship that drive the parties to suboptimal (either excessive or insufficient) levels of trust?

This question is important because supply chains have become a central element in how the global economy is organized, increasing the economic, social, and political impact of attaining optimal levels of trust in inter-organizational relationships. Furthermore, the pursuit of optimal trust facilitates the creativity and experimentation necessary for innovation, which formal contracts alone are unable to anticipate or properly incentivize. In addressing this question, we describe practices that allow firms to deal with the negative consequences of broken or excessive trust in an inter-organizational relationship by never reaching the point of needing to repair it. We show how an organization can continually identify and quickly address potential threats from too little or too much trust in its business relationships, thus staying close to optimal trust. Conversely, if larger deviations towards more extreme levels of too little or too much trust occur, a qualitatively different adjustment becomes necessary.

We draw on longitudinal, dyadic, comparative case-based data, working inductively to make two main contributions to research on optimal trust. First, we show that large deviations from optimal trust are best addressed by reorientation which, in contrast to the typical emphasis on repair, deals with problems of both insufficient trust and excessive trust. Second, we demonstrate an effective path to achieving and maintaining optimal trust via the practices of recalibration, wherein small deviations are addressed before damage to trust occurs. Both of these "trusting actions" therefore have the paradoxical quality of reducing trust when this is required for trust to remain or become optimal. Relationships with optimal trust are in dynamic equilibrium, i.e., a system that achieves stability even as its elements are constantly changing. This equilibrium is grounded in practices that facilitate learning and performance improvement while also giving early warning of problems needing attention (Helper, MacDuffie, & Sabel, 2000). An analogy is control limits in statistical process control (SPC). Ongoing processes of problem-solving for recalibration persist until the control limits are exceeded, at which point reorientation processes are needed if optimal trust is to be regained.[2]

We structure our paper as follows. First, we briefly provide background on inter-organizational trust. Second, we describe our comparative case study research design. Third, we compare two cases: Nissan in Japan, following establishment of the Renault–Nissan alliance (2000–2012); and Honda in North America, early in its development of a supply base (1992–1994) and then in 2011. Fourth, in the discussion, we elaborate on the differentiation of reorientation and recalibration and connect our inductive findings with the literature on inter-organizational trust and trust repair. We close by discussing limitations of our study and offering propositions and additional questions to encourage future research.

Background

Trust exists at the inter-organizational level when one organization's members hold positive expectations towards another organization and its members (Schoorman, Mayer, & Davis, 2007; Zaheer, McEvily, & Perrone, 1998), drawing on expectational assets such as shared identity, roles, and rules (Kramer & Lewicki, 2010). Even though trust as a process and relational dynamic may not be the focus point for managers, it is continually affected by, and emerges from, the everyday routines of exchange and discussion, and a steady flow of small commitments made and fulfilled. Both positive and negative aspects of trust can exist simultaneously within virtually any relationship (Flores & Solomon, 1998; Gargiulo & Benassi, 2000), but trust can also change rapidly from the extreme of too much trust to the extreme of too little trust. Trust-building activities can have positively reinforcing effects on the level and persistence of trust (Dirks, Lewicki, & Zaheer, 2009; Kramer & Lewicki, 2010; Pfeffer, 1994), but a negative spiral likewise can lead to low-trust traps (Elangovan & Shapiro, 1998; Ghoshal & Moran, 1996).

To suggest that trust can be optimal is to identify a need for balance between too much and too little trust, as shown in Table 1 and Figure 1 (a–c). Factors that lead to (and are consequences of) excessive trust from an organizational point of view are blind faith in a partner's goodwill and competence, inattention to the offerings of potential new partners, unquestioned contentment with the behavior and performance of existing partners, and unchallenged loyalty to partners simply based on respective roles. Factors that lead to (and are consequences of) insufficient trust are incessant skepticism of a partner's goodwill and competence, detachment and indifference to a partner's wellbeing, relentless exigency without ever giving a partner the benefit of the doubt, and gratuitous opportunism that abandons a partner despite a history of good performance.

Table 1. Antecedents and consequences of insufficient or excessive trust.

Insufficient trust	Excessive trust
▪ Excessive investments to protect against incompetence or opportunism ▪ Underestimation of partner capabilities and positive intentions ▪ Cutting off access to partner tacit knowledge ▪ Diminishing partner loyalty and willingness to invest ▪ Self-perpetuating assumptions that the other party is opportunistic	▪ Blind spots/blind faith ▪ Complacency ▪ Cognitive lock-in, favoritism ▪ Excessive, burdensome obligations ▪ Vulnerability to incompetence or opportunism ▪ Unrealistically positive expectation ▪ Escalating commitment to losing course of action ▪ Narrow moral/normative code ▪ Self-perpetuating assumptions that the other party is trustworthy

Since the level of trust between organizations is continuously changing, a stable state of optimal trust is an unreachable goal. That is, the pursuit of optimal trust is akin to the goal of zero defects in quality improvement, i.e., an unending quest that both stimulates attention and avoids complacency (Monden, 1983; Ohno, 1988). Optimal trust can be viewed as located at the top of an inverted U, where distance from the top, in the direction of either too little or too much, indicates a deviation from "optimal."

Based on our inductive case analysis, we develop two concepts for analyzing the pursuit of optimal trust. Reorientation is a process through which parties undertake a substantial, often reactive effort to address a large deviation from optimal trust. Reorientation processes include significant efforts to change the attributions vis-a-vis past behavior, to reestablish social equilibrium among the parties, and to make structural changes via adjustments to goals and incentives. These significant trusting actions provide both a practical and a symbolic communication of intention to move away from past behaviors (Dirks et al., 2009). Like repair, reorientation is episodic, but it is more comprehensive than repair because it addresses problems of too much as well as too little trust. Addressing problems of too much trust requires some processes that are similar to trust repair, and some that are different. Furthermore, reorientation conveys "reframing," and "seeing anew," both of which characterize the eye-opening experience of discovering and making sense of problems in a relationship that affect trust. Reorienting allows for steering the relationship in a new direction, rather than simply aiming at returning a relationship to its condition in halcyon days.

In contrast, recalibration is a process consisting of smaller actions taken proactively to keep trust near its optimum. These actions include going beyond contractual terms to help the

other party so as to maintain positive attribution, and carrying out ongoing benchmarking to maintain a social equilibrium in which parties do not take each other's performance for granted. Because recalibration is undertaken proactively at a time when deviations from optimal trust are small, major structural changes are not needed to maintain optimal trust.

These concepts differ in timing and magnitude. Reorientation, like trust repair, is a major activity that occurs after a serious problem with trust has been identified. Recalibration, in contrast, is initiated before any major problems with trust appear, and has the paradoxical quality of working to offset the blind spots of too much trust (essentially reducing trust) in order to keep relationships near the top of the inverted U. Recalibration is primarily a skillful avoidance, through many small trusting actions embedded in an ongoing relationship, of the need for reorientation. Both reorientation and recalibration can address excessive as well as insufficient trust. Furthermore, both can validate or reinforce trust, shifting towards positive expectations or reinforcing them, and creating or renewing the willingness to be vulnerable. Table 2 summarizes the main characteristics of reorientation and recalibration.

Table 2. Key features of reorientation and recalibration.

Reorientation	**Recalibration**
Substantial effort to address problems of insufficient as well as excessive trust	*Process consisting of smaller actions to keep trust near its optimum*
▪ Episodic ▪ Reactive (after major problem) ▪ Changing attributions vis-à-vis past behavior ▪ Reestablishing social equilibrium among parties ▪ Making structural changes via adjustments to goals and incentives ▪ Discovering and making sense of problems in a relationship that affect trust ▪ Communicating intention to move away from past behaviors ▪ Steering relationship in new direction	▪ Ongoing ▪ Proactive (before problems occur) ▪ Going beyond contractual terms to help the other party to maintain positive attribution ▪ Carrying out ongoing benchmarking to maintain a social equilibrium in which parties do not take each other's performance for granted ▪ Avoidance of need for reorientation

Methods

Research into damage to trust has only sparingly looked at inter-organizational relationships (Bachmann & Inkpen, 2011; Gillespie & Dietz, 2009); accordingly many have called for longitudinal research on the antecedents, processes, and consequences of inter-organizational trust, including failures of trust and the repair of trust (Lorenzoni & Lipparini, 1999; van de Ven & Huber, 1990; Woolthuis, Hillebrand, & Nooteboom, 2005; Zaheer et al., 1998).

According to Kramer and Lewicki, "we will learn little about *real* trust repair (and the effectiveness of various strategies and tactics) until we can more accurately calibrate trust violation dynamics over time" (Kramer & Lewicki, 2010, p. 268, emphasis in original). To avoid an inaccurate understanding of trust processes it is furthermore necessary to understand both parties' perceptions of the relationship (Poppo, Zhou, & Zenger, 2008). Therefore, our research design is explicitly dyadic and processual, collecting longitudinal data focused on the interactions between two large firms, Nissan and Honda, and their respective suppliers.

How, and whether, damage can be avoided and optimal trust can be achieved in inter-organizational ties strongly depends on the context in which these ties are embedded (Bachmann, 2001; Flores & Solomon, 1998; Wicks et al., 1999; Zaheer & Kamal, 2011). We therefore examine interorganizational relationships that primarily occur within a high-trust context: the relationship between Japanese automakers and their suppliers. Such a context is ideal for highlighting the negative aspects of too much as well as too little trust. We trace the chronology of managerial actions that are either building or detracting from trust, consistent with what George and Bennett (2005) call "process tracing." The global automotive industry has long been a source of research on interorganizational relationships (Cusumano & Takeishi, 1991; Dyer & Chu, 2000; Sako & Helper, 1998). The complexity of the auto supply chain creates the potential for large returns to the adjustment and flexibility that trust has been found to promote (Dyer, 1996).

We use a comparative case study design to explore the dynamics of optimal trust in two cases: Nissan, in the period (2000–2012) immediately following establishment of the Nissan–Renault alliance, when the Nissan *keiretsu* was dismantled; and Honda, both relatively early (1992–1994) in its efforts to build up a USA supply base to support its American manufacturing plants and more recently in 2011. A comparative case study approach is particularly suited to gaining deep understanding (Eisenhardt, 1989; Van Maanen, 1979; Yin, 2003) and to developing grounded theory (Glaser & Strauss, 1967). For Nissan, we probe its efforts to manage the consequences for trust with suppliers of its dramatic restructuring; for Honda, we investigate how it learned to develop and adapt its trust-based relationships with both small and large American suppliers. We rely on iterative thematic content analysis (Miles & Huberman, 1994), identifying a theme from one case, reexamining the other case to refine it, and then repeating the process.

Following Dirks et al. (2009), we focus on four stages demarcated by a central triggering event for each case: the 1999 Nissan Revival Plan (NRP) and Honda's selection of its first American suppliers. The four stages are demarcated by these triggering events: (1) period

before the triggering event (what kind of trust processes are used at that time?); (2) triggering event (how did the event move the inter-organizational relationships in relation to optimal trust, and why?); (3) response (what actions were taken by the focal firm in response to the move towards or away from optimal trust?); and (4) post-response (how are trust processes affected by reorientation and/or recalibration efforts?). Consistent with our process view of "trusting," we regard each stage as containing the seeds of the stage that follows. Triggering events are not necessarily a shock from outside the system. Instead the trigger could be the outcome of internal forces that lead endogenously to dysfunction.

Case studies are often criticized for their lack of generalizability. Any choice of cases carries risks as well as opportunities (Campbell, 2010) in terms of whether to control for a possible explanatory factor or whether to use variation in explanatory factors for analytic leverage. We deal with these challenges in multiple ways. First, in both cases, we collected data via the same methodology: qualitative and archival data, collected during repeated on-site interviews, conducted at both the focal automaker and at suppliers that are similar with respect to the types of components supplied. Second, both cases involve the same historical roots, namely, relationships between Japanese automakers and their suppliers established during the post-war rebuilding of Japan's economy, and both have a high-trust orientation.[3] Third, we take advantage of variation in terms of both life-cycle stage and location of the inter-organizational relationships. The Nissan case involved long-standing relationships (as much as 50–60 years) with Japanese domestic suppliers, and a competitiveness crisis for Nissan in which the liabilities of too much trust in supplier relationships are quickly followed by a pendulum swing to the liabilities of too little trust. In contrast, the Honda case involved new relationships (as few as 1–2 years) with American suppliers. This variation is crucial to our examination of different approaches to pursuing optimal trust in both high-trust (Japan) and low-trust (USA) contexts.

Considering cases of too much trust as well as those of too little trust contributed greatly to our ability to differentiate reorientation and recalibration. Finally, while comparing two automakers in crisis or two automakers building a new supply base in a foreign country would have yielded more direct comparability of contextual conditions, our design provides the opportunity to identify different trusting actions during different phases of an inter-organizational relationship. In summary, our focus on Japanese automakers allows us to hold constant many broad technological and historical factors that could affect trust, allowing us to focus on more micro factors such as maturation and management practices.

The Nissan case was carried out by the first author over a period of twelve years. She conducted face-to-face interviews in Japan and France with key actors between 2000 and 2012.

The suppliers interviewed (seven first-tier and two second-tier Nissan suppliers) were selected to ensure a diverse set of strong and weak *keiretsu* affiliations, different relationship durations, and primary product and production process. All interviews (except those with CEO Carlos Ghosn, one non-Japanese Nissan employee, and French managers in the joint Renault–Nissan purchasing organization) were conducted in Japanese.

The second and third authors studied Honda's efforts to establish a supplier base in the USA, involving visits to Honda and seven of its suppliers in 1992 and 1994. We provided Honda with the criteria for supplier selection and Honda prepared a list of 15 firms, from which we chose seven suppliers to interview. In 2011 we interviewed an eighth supplier from the list provided by Honda that we did not interview during the 1990s. Our choice was based on differentiation in characteristics such as primary product and production process, nationality of ownership, location, size, age, duration of relationship with Honda, and percentage of total sales to Honda. Once the suppliers were identified, we spent 1 to 2 days visiting their production site(s) and conducting interviews. In addition, we had eight days of interviews at Honda, before, during, and after the supplier visits, and again in 2011.

The sample we draw on here consists of 18 interviews with 14 Nissan representatives, eight days of interviews with 14 Honda representatives, 27 interviews with 29 Nissan supplier representatives, and eleven days of site visits and interviews with 70 Honda supplier representatives. All interviews took place face-to-face, and extensive notes were taken during each interview. For Nissan, almost all interviews were taped and transcribed verbatim. Only two Nissan interviewees indicated they preferred not to be recorded. Key characteristics of the two focal firms and details of our methods are provided in Table 3 and 4.

Our respondents at both focal firms as well as their suppliers included managers, shop floor workers, supervisors, union officials, production engineers, and corporate staff. In each phase of our fieldwork we asked respondents about their day-to-day operational ties, and the problems and opportunities for improvement that had emerged over the course of their relationship. We also asked about levels of trust, and key events in their time of doing business. In both cases, our fieldwork included multiple plant visits that afforded us the opportunity to observe events and relationships not entirely under the control of the interviewee. In addition, the first author served as a production employee in a plant in the Nissan supply chain during August 2002.

Table 3. Main interviews Nissan and Honda case.

Company	Number of informants	Informants' roles	Years interviews took place	Total interview hours
Nissan case				
Nissan	14	CEO Member of the board RNPO Manager Senior manager Nissan Labor Union representative	2001 2002 2005 2008 2012	26
Tier 1A	6	Executive Vice President (ex-Nissan employee) Senior manager	2001 2002 2008	17
Tier 1B	1	Manufacturing staff (ex-Nissan employee)	2001 2002	6
Tier 1C	4	Senior manager	2008 2012	4
Tier 1D	1	Senior manager	2008 2012	6
Tier 1E	1	Senior manager	2008	1
Tier 1F	2	Senior manager	2008	5
Tier 1G	2	Senior manager	2008 2012	6
Tier 2A	11	Founder President Senior manager Production line manager Manufacturing staff	2001 2002 2006 2008 2012	30
Tier 2B	1	President	2008 2012	13
Honda case				
Honda	14	Senior manager Purchasing staff	1992 1994 2011	120
Capitol Plastics	6	Manager Material services staff	1992	10
Donnelly Corporation	17	Executive Product line manager Plant manager Manufacturing staff	1992	30
Greenville Technologies Inc. (GTI)	6	Manager Engineering staff Manufacturing staff	1992	10
Progressive Stamping	6	Executive Manager Manufacturing staff	1994	12
Tower Automotive	9	Manager Manufacturing staff	1994	16
Sumitomo Electric Wiring Systems (SEWS)	12	Manager Sales staff Manufacturing staff	1994	20
Alcoa Fujikura	7	Executive Manufacturing staff	1994	10
Additional supplier from list of 15 provided by Honda	7	Executive Sales staff Manufacturing staff	2011	10

Table 4. Basic information on Nissan and Honda at beginning and end of case.

	Nissan Japan	Nissan Japan	Honda USA	Honda USA
	2000	**2012**	**1992**	**2011**
Operating income	US$881million	US$2673 million	n/a	n/a
Production volume	1,314,000	1,060,000	458,248	1,219,000
Number of cars sold	733,000	647,000	768,845	1,422,000
Number of employees	30,747	24,200	12,911	25,312

Data

Nissan case

Period before the triggering event: Trust at Nissan before the Nissan Revival Plan. From its founding in 1933 until the 1990s, Nissan invested heavily in building long-term relationships underscored by equity stakes with a select group of *keiretsu* suppliers (Cusumano, 1985). Close ties were supported by the structure of Nissan's purchasing department. Instead of being responsible for a given commodity (e.g., suspension), purchasing agents were put in charge of specific supplier firms (e.g., Yorozu). Once included in Nissan's *keiretsu*, Nissan would continue to buy from a supplier. During Japan's postwar growth, this approach led to ever-increasing numbers of suppliers. The personal nature of ties was underscored by the strong reliance on informal meetings. Personal gifts from supplying firms to "their" Nissan purchaser were common practice. This high level of embeddedness created challenges for monitoring supplier performance based on substantive data (Sugiyama, 2002).

High levels of trust had many benefits for Nissan. For example, suppliers would start preparations for a new contract before they were formally awarded it. Last-minute requests for production schedule and delivery changes, overtime, and even engineering changes, were accepted on the whole by suppliers without requesting additional compensation from Nissan. Nissan suppliers in this way supported Nissan's fast growth and financial success during the 1950s to 1980s. However, over time, these close relationships became a source of competitive disadvantage for Nissan, contributing to its financial losses in nine of the ten years in the 1990s. Piece prices were above world levels, and supplier service did not offset these. By the end of the 1990s, production at most of its seven domestic factories had slipped to around 50 percent of capacity, but the number of suppliers had not shrunk in accordance.

Nissan committed to suppliers because they were part of its *keiretsu*; it simply had faith in their ability and willingness to deliver their best performance to Nissan. Similarly, suppliers had faith in Nissan's guidance. Nissan became lax in its information gathering, and its trust of suppliers became "blind." Yorozu, a Nissan suspension supplier since 1949, reflected on being

in the Nissan *keiretsu* in the following way: "In the days when the company was under the wing of Nissan, we were somewhat lax in cost and quality management" (*Nihon Keizai Shimbun*, 2003). Nissan did not have mechanisms in place to correct this excessive trust and dependence. During the 1990s, Nissan's management started to realize it had too many suppliers and that its ties were uncompetitive, but a real overhaul did not take place. According to one Nissan board member:

> It was difficult for a Nissan person to take responsibility for extensive [supply chain] changes. This person would have been part of the cause of the problem. It wouldn't be fair if you make others suffer by attacking something that you helped to build. That's why we needed an outsider to take responsibility.

Overall, our Nissan interviewees described the pre-1999 system as lacking in tension to encourage suppliers to continuously improve performance. Suppliers suggested that Nissan had not fulfilled its task of understanding consumer demand, and had made suppliers produce uncompetitive cars.

Triggering events: Nissan Revival Plan (NRP) and Nissan 180[4] *(N180)*. By the end of the 1990s the number of Nissan suppliers and the extensive obligations towards them had grown to a level where a radical departure from the past was deemed necessary. To signal that a clean break would be made, Renault–Nissan's CEO Carlos Ghosn announced a dramatic restructuring of the supply base as part of the NRP. Shares in all but four of almost 1400 affiliated companies were to be sold, and the number of suppliers Nissan dealt with was to be reduced from 1145 to 600. All remaining suppliers were required to reduce costs by 20 percent within three years without assistance from Nissan. These radical changes earned Ghosn the nickname "*keiretsu* killer" (Nezu, 2000), which was often used by our supplier interviewees.[5]

Nissan carried out two main structural changes during the NRP: first, a reorganization of the purchasing department to put purchasers in charge of components instead of supplier firms; and second, a complete ban on gifts and informal meetings after work. Surprisingly, these changes initially did not damage trust from a supplier perspective. The expectation of suppliers throughout the NRP period (2000–2002) was that, similar to *keiretsu* times, both prosperity and hardship would be shared. In 2002 Nissan proclaimed that it had escaped debt while meeting all NRP goals a year ahead of schedule. Ghosn nevertheless immediately announced the next plan (N180), which demanded equally stringent cost reductions from suppliers. At that moment,

a gulf in understanding over what was appropriate and ethical behavior materialized between Nissan and its key suppliers.

For Nissan, the initial results of the 1999 changes were highly positive. According to Nissan, purchasing costs had been reduced by approximately 20 percent in two years. Our interviewees felt that this reduction was due almost entirely to reduced supplier profit margins, rather than through joint efforts to take costs out. For the first time since the NRP they openly announced they were suffering financially. In the media it was reported that: "many [Nissan suppliers] have seen their earnings deteriorate severely on the back of requests for significant cuts in parts prices by Nissan" (*Nihon Keizai Shimbun*, 2002). Many of Nissan's previous *keiretsu* firms formed international alliances on the advice—or, according to several interviewees, order—of Nissan. Suppliers frequently saw this extensive involvement as intrusive and exclusively focused on Nissan's global manufacturing needs.[6]

The suppliers' view was that their contribution to Nissan's revival was disproportionately large, and, more importantly, went unrecognized and unrewarded by Nissan. While Nissan top management felt it was still correcting course after its perceived "abuse" at the hands of suppliers, our interviewees indicated they felt betrayed because Nissan "did not keep its promises" to share prosperity, even though the very premise of the NRP was that Nissan was explicitly no longer making such promises. In the subsequent period, Nissan faced huge hurdles to overcome the gap in perceptions that was rapidly destroying what trust with suppliers had carried over into the NRP years.

Response to damage to trust after N180. From N180 onwards all suppliers we interviewed stressed they were actively seeking more independence from Nissan, and were not willing to invest in their relation with Nissan anymore. This drop in supplier commitment, combined with Nissan's sharp decrease in technical assistance since 1999, meant that "Nissan can no longer take it for granted that it will be able to obtain state-of-the-art technologies and products from [its suppliers]" (*Nihon Keizai Shimbun*, 2001). While the "killing" of the *keiretsu* was initially viewed by Nissan as a major success factor in its turnaround, a shift in perspective became apparent in 2004 when Ghosn publicly announced the return to some of its previous *keiretsu* practices (Mikawa & Okudaira, 2005), such as a long-term orientation, equity holding, and technical assistance to suppliers. To repair the damage to trust, the Renault and Nissan Purchasing Organization (RNPO), founded in 2001, defined clear purchasing rules in its 2006 Renault Nissan Purchasing Way (RNPW). To be able to bid for Nissan projects, suppliers first must become part of an RNPO component panel. Panels are completely open to all to apply.

Prequalification is entirely based on an evaluation of current performance and perceived capacity for future performance, rather than any past relationships. Once the panel is in place, subsequent dynamics are no longer market-based and involve some give-and-take, including changes to contracts with the same supplier on different RNPO panels. Nissan clearly did not aim to reintroduce the pre-1999 high levels of trust based on personal ties, and in RNPW defined trust as "to work fairly, impartially and professionally." The overarching goal continued to be Nissan's profitability through component cost reductions. As one Nissan purchaser described the post-NRP approach:

> The ability to deliver high quality products at a low price now really has become the responsibility of suppliers. Nissan is not willing to just pour money into the suppliers anymore…. QCD [Quality, Cost, Delivery] is the basis of the sourcing decision. When a supplier can manage quality as an entry ticket, can design and develop, and deliver products and management … cost will make the decision. The trend is very much discrete: "Do you want this, you are in straightforward competition, best price, you get it, otherwise you won't."

Several of our Japanese interviewees at both Nissan and its suppliers viewed these as "dry, Western rules" that reflect the "Renault-ization" (*Runō-ka* in Japanese) of Nissan.[7] With nostalgia they often mentioned the decline of the "Japanese way."

Post-response trust at Nissan. Our interviewees at Nissan were confident that establishing clear purchasing processes through RNPO was sufficient to establish a new basis for trust with suppliers. As a structural change, the panel system with only a limited number of suppliers per panel could help in achieving a balance between too much and too little trust. But we observed Nissan struggling to find the right approach, and mostly choosing to reward all suppliers (old and new) on the basis of current performance to avoid the pre-1999 blind spots, complacency, and overembeddedness. Nissan did not devote any special attention to rewarding, even if only through recognition, those long-time suppliers who made substantial investments of time and effort to help Nissan survive its crisis. In order to regain access to suppliers' tacit knowledge of its products and production processes, our analysis suggests that Nissan may need to deal explicitly with repairing past damage in order to restore social equilibrium and shift supplier attributions of Nissan's behavior back to positive in the ways identified by Dirks et al. (2009). Instead of moving towards optimal trust, Nissan found that its initial problems associated with too much trust were followed by problems of too little trust.

Honda Case

Period before triggering event: Honda's entry into the USA. Honda's start in the USA, manufacturing first motorcycles (1978) and then cars (1982), was not auspicious. Most suppliers did not have a clear sense of what kind of company Honda was; furthermore, their expectations were conditioned by their long experiences with the adversarial purchasing behavior of American automakers (Helper, 1991). Suppliers worried about ulterior motives in Honda's insistence on learning every detail about a supplier's production process and, especially, their costs. Honda from its side had experienced the liabilities of being overly committed to suppliers in Japan during recessions there, increasing its awareness of the potential dark side of trust.

Initially Honda chose smaller suppliers located in small towns, "the kind of place that will have a parade down Main Street when Honda shows up," a plant manager told us. Such suppliers were grateful to have the business and were very responsive to Honda's wishes. This approach was similar to Honda's experience in Japan.[8] Initially, Honda did not view these suppliers' lack of skill as a problem; loyalty and willingness to learn were seen as more important. Within a decade of opening its first US auto assembly plant in 1982, Honda had established stable, trusting relations with small local suppliers, while appearing to avoid the traps of complacency, blindness, and excess obligation. It did so by implementing its Honda Way philosophy and a supplier development initiative known as BP (the acronym has many referents, e.g., "best practices," "best process," "best profits," "best partner"). Honda sought to select suppliers that could be self-reliant and responsive to Honda's current and future needs by showing willingness to make investments in new technologies and new capabilities, without explicit contractual commitments from Honda. Yet these suppliers in several cases could not improve fast enough to keep up with Honda's explosive growth in the USA, given its desire to localize its supply base, and demands for continuous improvement. Furthermore, the suppliers had far greater dependence than Honda's desired 20 percent of sales to Honda;[9] too little motivation to learn to operate independently; and limits as to how much future investment they could make. To avoid constraints on growth and performance problems, Honda needed to look beyond these small suppliers while dealing with the risks to optimal trust that the cultivation of new suppliers might pose to existing relationships.

Triggering event: Honda's transition to larger suppliers. Recognizing that its initial strategy of working with mostly small suppliers entailed the risk of overembeddedness, Honda took action relatively quickly, both to develop new relationships with larger American suppliers and to

change their degree of dependence on the smaller suppliers. Compared with the small American suppliers, the larger American suppliers potentially had much stronger capabilities to offer Honda. They were however reluctant to invest without a contract from Honda for future work, something that Honda would not provide in advance of learning whether or not the supplier could be a worthy and responsive partner. Honda took a step-by-step approach with the larger suppliers, despite their greater sophistication, just as it did with the smaller suppliers. Honda started with a relatively small order, requiring only a small investment by the supplier, and gradually moved toward larger projects. This procedure allowed both parties to overcome suspicion and to build trust gradually. As the manager of one large supplier explained:

> With BP, at first there was a lot of nervous tension. We didn't want to give away the store. Eventually we realized that Honda's wish to know everything is not because they are trying to steal our good ideas or because they want to be snoopy. They want a partnership and want to be able to help you find the best ways to do things.

Responses to threats to trust. Overall, we found that Honda was able to maintain near-optimal trust with suppliers, small and large, via practices that provided ongoing recalibration in response to new challenges, allowing the firm to avoid problems of both too little and too much trust. Our analysis suggests that they accomplished this in four ways: (1) promoting monitoring while learning; (2) not worrying about knowledge spillovers; (3) maintaining competition; and (4) promoting reciprocity through proactive use of gifts.

First, Honda maintained a high level of information-gathering and problem-solving activity throughout its monitoring while learning activities (Sabel, 1994) with all suppliers. Often this was very hands-on, with Honda personnel working alongside supplier employees in the supplier plants. This involvement aimed at balancing the need to monitor the suppliers' existing performance while encouraging them to learn new skills that might disrupt short-term performance, but would enhance supplier capabilities in the long run. At some suppliers, tensions over monitoring that seemed intrusive threatened learning from BP activities. While sensitive to supplier apprehensions, Honda did not view these aspects of BP as a tradeoff. Instead, it emphasized that the more capable suppliers became, the more they could contribute to discussions in which both sides benefit, a process described by one supplier as "earning the right to disagree."

Second, Honda managers took a "rising tide lifts all boats" view of the risk of knowledge spillovers to its rivals. Honda managers believed that eliminating spillovers might run the risk

of suppliers gaining only some of the benefits that accrue to systemic implementation, and would reduce their self-reliance.[10] This willingness to invest in supplier capabilities even to the extent of benefiting competitors impressed suppliers as a future-oriented commitment, warranting reciprocity of effort and investment.

Third, Honda maintained competition by having two sources for most components. With ongoing benchmarking at both suppliers, Honda could compare their performance and send signals by adjusting the allocation of business to each one. For example, Honda allocated business to Matsuyama, its Japanese supplier of rear-view mirrors, rather than to its US mirror supplier Donnelly, at a point when Donnelly had not yet made a profit on its large investment in a dedicated Honda plant. Honda openly discussed its decision with Donnelly and listened to their concerns, but did not change its position. It did subsequently offer Donnelly the opportunity to grow its Honda business by investing in a new paint line. Honda hereby preserved trust while avoiding the negative consequences of giving a blind eye to supplier performance, or feeling obligated to give business to a supplier based solely on prior history.

Fourth, Honda prompted reciprocity from suppliers through proactive use of unilateral and generous investments of time and resources, in order to facilitate its goals of changing suppliers' approach to the relationship through trust.[11] These trusting actions were important in demonstrating Honda's loyalty, according to suppliers. For example, Honda encouraged Donnelly to take on the production of painted door mirrors for the Accord model, even though Donnelly had never done painting before. Myriad quality problems occurred in the first year and Honda considered going to a different supplier. Donnelly protested and Honda changed its position, offering Donnelly the opportunity to produce door mirrors for the Civic model as well, if it would invest in a state-of-the-art paint line. Honda in its turn invested heavily in assisting Donnelly. In our interviews, Donnelly employees referred to Honda's BP staff members in their white overalls as "snowflakes, covering the whole place." This created tension during the start-up phase from a combination of suspicion ("they're here to find problems and get rid of people"), hurt pride ("who are they to tell us what to do?"), and resentment at ever-increasing targets ("good is never good enough"). But quality and cost performance improved substantially and, in the second year, the plant won productivity awards from Honda and attracted new business from Ford and Toyota, all for a product Donnelly had not made five years earlier.

Post-response trust at Honda: Building positive expectations for optimal trust. Honda's actions were often well-designed to increase positive expectations on the part of suppliers, i.e., investing in expectational assets to build a case for positive attributions of its behavior.

Suppliers felt part of Honda's *kaizen* (continuous improvement) team, joining in the broad mission of rebuilding American manufacturing and resolving to overcome the low-trust, zero-sum culture and transactional short-term contracts that had come to characterize US supplier relations. Honda worked to create an inter-organizational culture that would be stronger than national culture differences, based on a shared commitment to improvement. To boost supplier motivation, Honda was willing to incur substantial short-term costs. In addition Honda set highly demanding goals for itself and its suppliers, driven by a culture that frequently evoked the founder's ambitions and "racing spirit." Because Honda so visibly applied this sense of exigency to itself as well as to its suppliers, it helped to legitimize Honda's demands for supplier improvement. According to one supplier: "We think they like it when their backs are against the wall."

We conducted further interviews with Honda managers and suppliers in 2011. These interviews indicated continued use by Honda of recalibration practices, with generally salutary results. One supplier, which credited Honda for its growth in size and technical capabilities, said Honda's monitoring while learning practices taught them how to add the value-added step of welding its stamped parts together. Honda's benchmarking also meant that prices were set low enough to be competitive, but high enough to enable the supplier to invest in robotic welding that made it attractive to new customers while benefiting Honda through improved quality and economies of scale.[12]

Discussion

We draw inductively on the Nissan and Honda case studies for this discussion, which is organized in four subsections: (1) applying the concepts of optimal trust, reorientation, and recalibration to our data; (2) comparing the two cases, drawing on attributional, social equilibrium, and structural perspectives from the trust literature; (3) identifying the opposing forces related to too much and too little trust and showing how the practices of reorientation and recalibration can balance those forces in the effort to reach or regain optimal trust; and (4) offering propositions to advance the agenda for research on optimal trust.

Optimal trust, reorientation, and recalibration

The trust repair literature focuses on ways to deal with breaches of trust by restoring the level of trust that preceded the failure. Our focus on optimal trust views trust repair as a subset of a larger set of trust-related phenomena, including situations of excessive as well as insufficient trust, and responses that lead to a transformation of a relationship as well as a return

to a pre-existing state. From our inductive case analysis, we conclude that two dimensions affect the choice of how to deal with the deviations from optimal trust: first, the amplitude of the deviation, and second, its direction, i.e., towards too much or too little trust. We look at inter-organizational relationships involving customers and suppliers, starting from the customer's point of view on what is optimal, but anticipating that large imbalances, where the supplier's view differs widely from the customer's view, are destabilizing.

Reorientation processes are generally triggered by a perception that trust levels are seriously suboptimal. This perception may result from dramatic events that are interpreted by one or both parties as a violation of trust, or from the realization that relational aspects that once were the basis for positive expectations are having negative consequences. In contrast, recalibration processes are perpetual and low-drama, embedded in ongoing interactions, and associated with organizational routines and associated with pragmatic problem-solving practices.

We offer the analogy of control limits under SPC because maintaining trust at optimal levels requires ongoing adjustments to keep within the control band around optimal trust, as shown in Figure 1(d). Within the control band, recalibration is sufficient; once the control limits are breached, reorientation may be necessary. While optimal trust clearly is not a fixed or quantifiable goal, what it shares with SPC thinking is a focus on intentional and explicit learning from mistakes and deviations, and the use of continuous improvement methods to keep enhancing processes (Linderman, Schroeder, Zaheer, & Choo, 2003; Ohno, 1988). It is a goal not always attained but still significant as the guiding force for inter-organizational processes that promote performance improvement.

Recalibrating involves staying within a control band around the top of the inverted U. Each small movement within the control band prompts adjustment processes that move back towards optimal trust in order to avoid a larger deviation. When these control limits are breached, reorientation is needed to move back towards optimal trust. These two approaches are temporal complements, not substitutes. Some threats to trust are too large to be handled by recalibration processes, i.e., they force trust levels beyond the control limits. Such threats may instead require more substantial response of reorientation. Conversely, a reorientation response, such as repair to deal with a crisis of too little trust, will depend on subsequent recalibration activities to sustain its effect.

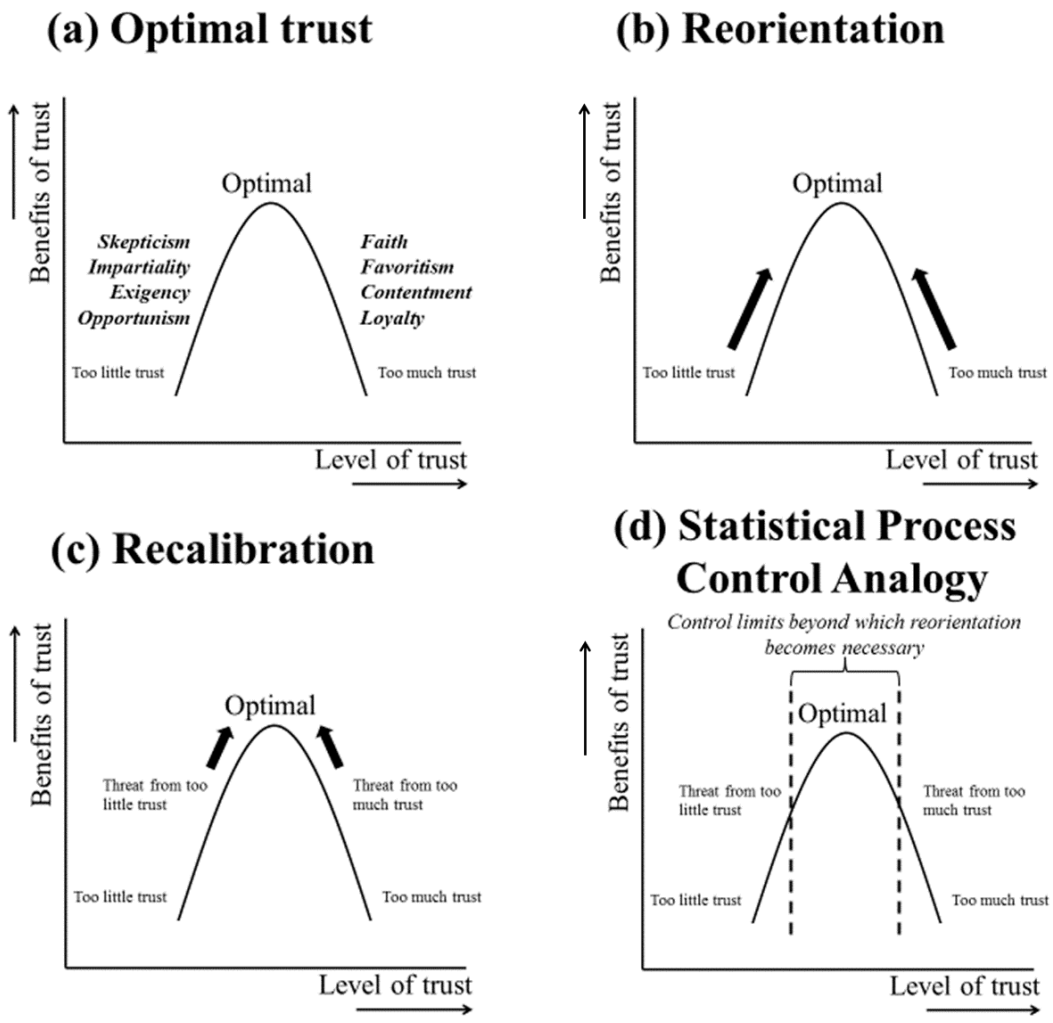

Figure 1. Different approaches for attaining optimal trust

Cross-case analysis: attributional, social equilibrium, and structural processes

Trust repair scholars emphasize the importance of understanding the interplay of attributional, social equilibrium, and structural processes (Dirks et al., 2009; Kramer & Lewicki, 2010). Attributional processes attempt to change the psychological perspective of the party that perceives another party to have committed a transgression. Social equilibrium processes address the relative standing of the parties, as well as the conventions and norms that govern their relationship. Structural processes tackle formal organizational systems and incentives. In our cross-case comparison, we map our concepts of reorientation and recalibration to these three perspectives (see Table 5).

Table 5. Processes for achieving optimal trust, organized by theoretical perspective.

	Reorientation at Nissan	**Recalibration at Honda**	**Notes**
Attributional *Apologies* *Accounts* *Substantive action* *Penance*	Nissan executive gives account of past dealings that attributes 'abuse' to suppliers. Dramatic substantive action of dismantling *keiretsu*. No apologies or penance; no public acknowledgement of any reason to provide these.	Honda gives account that praises small suppliers for collaborating and being responsive in early days. Honda gives gifts of technical assistance to overcome suspicions of information sharing, and provide basis for positive attributions.	**Nissan** assigns negative attributions to suppliers to deal with too much trust, and after pendulum swing to too little trust, makes few efforts to deal with negative attributions to its actions by suppliers. **Honda** aims to prevent any negative attributions from taking hold and focuses more fully on increasing positive attributions.
Social equilibrium *Apologies* *Penance* *Punishments*	Nissan presents its actions as correcting an imbalance from too-high supplier prices. It uses the market paradigm to characterize the new equilibrium. RNPO establishes new policies to symbolize the change in roles. Nissan expresses no regrets about severing past ties and no appreciation for supplier help during crisis.	Honda takes actions that convey criticism of supplier performance and communicates the reasons. At the same time it reinforces its commitment to suppliers by continuously investing in them. By referring consistently to Honda Way and BP principles, develops a reputation for being reliable, fair, trusting.	**Nissan's** pendulum swing from too much to too little trust misses the opportunity to establish a new equilibrium. Nissan makes no direct effort to deal with negative affect from suppliers. Long-term suppliers maintain negative attributions toward Nissan. **Honda** regularly adjusts the volume of orders for key suppliers, to signal either criticism or reward and support. Honda's approach consistently reinforces conventions and norms associated with trust.
Structural *Incentives* *Monitoring* *Contracts* *Interactional patterns*	RNPO establishes new contracts, new rules, and new ways of monitoring performance. Panel system is new format for process of allocating business, could support recalibration.	Honda carries out ongoing benchmarking, asking for copious data, and sharing future plans. Honda gives direct technical assistance to suppliers.	**Nissan** relies on benchmarking and economic rewards to incentivize suppliers to compete for future contracts. **Honda** maintains consistent incentives and process routines within a positive framing.

Attributional perspective. The attributional perspective emphasizes the trusting actions that affect psychological processes of attribution of responsibility—either credit or blame—in relation to prior expectations being either fulfilled or damaged. Such actions as apologies, explanatory accounts, remedial responses, and paying penance can function to change the negative attributions of damaged trust back to the positive attributions generated by trusting actions.

Nissan's preferential treatment of existing suppliers before the triggering event of NRP had caused it to be uncritical of supplier performance and blind to alternatives. Suppliers were

also culpable in that their costs crept higher during the years with little competition. Hence a downside of long-term, high-trust commitment is that both parties can feel content with the level of performance that is attained, and do not strive to improve. In order to break this complacency, Ghosn constructed an account of past dealings that attributed "abuse" to suppliers. He followed this account with immediate remedial action, taking the dramatic step of severing equity ties with almost all existing suppliers, hence dismantling the Nissan *keiretsu*. Given the negative attribution of supplier abuse, Nissan offered no conciliatory statements about its own contribution to the situation of excessive trust and certainly no apologies or penance. Suppliers at this time were startled by Nissan's negative attributions, but largely accepted the ambitious cost-cutting goals. When Nissan did not recognize the role of suppliers in achieving its NRP goals ahead of schedule—which would have signaled a shift from negative to positive attributions of supplier motivation and trusting actions—supplier perceptions of Nissan shifted towards negative attributions. Thus, Nissan's NRP actions did not achieve lasting reorientation. Furthermore, because NRP actions were not designed to facilitate a smooth transition to recalibration, Nissan's post-NRP actions actively damaged trust.

In contrast, in Honda's early dealings with small US suppliers, it communicated highly positive attributions, praising the suppliers for being so responsive to its demands. To overcome suppliers' initially negative attributions due to suspicions of its high demands for information-sharing, Honda provided extensive technical assistance as a trusting action to boost positive attributions.

At Nissan, the successful achievement of NRP goals and the immediate push to achieve even further cost reductions from suppliers under N180 sparked a full pendulum swing from too much to too little trust, destroying the carryover of trust that played a crucial role in the early restructuring period. Faced with this shift from positive to negative attributions by suppliers, Nissan did not respond with apologies or accounts of the necessity of continued cost-cutting. Instead, through RNPO, it sought to establish a new basis for trust in professionalized norms of transparency and revised purchasing processes, choosing structural reforms that shot right past optimal trust towards too little trust.

In contrast, Honda deployed recalibration practices in response to small threats to trust in order to prevent negative attributions from taking hold and to boost suppliers' positive attributions. While having the benefit of being able to grow its purchasing volume, unlike Nissan during its crisis, Honda also had to be proactive to make sure suppliers did not draw negative conclusions from observing events such as the bankruptcy of some of its early, small suppliers.[13]

Social equilibrium perspective. The social equilibrium perspective on trust repair is concerned with providing the remedy for a social imbalance, e.g., by addressing past behavior that was damaging to trust. Apologies, penance, and even punishments can provide a sense of "settling accounts" to restore equilibrium and allow relationships to move forward.

The Nissan case shows that prolonged high trust does not necessarily provide equilibrium. In fact, excessive trust contains the seeds of its own destruction. In this regard, Nissan presented its actions of dismantling the *keiretsu* as the means to correcting the imbalance caused by too-high supplier prices. To establish a new equilibrium under RNPO, Nissan evoked a market paradigm and new selection criteria and purchasing procedures to shift away from the norms that had allowed excessive trust to develop. For suppliers dealing with Nissan for the first time, the new RNPO procedures were effective, but past Nissan suppliers were less receptive to these procedures because they did not restore a sense of social equilibrium by recognizing the sacrifices previously made. Long-term suppliers thus continued to maintain negative attributions toward Nissan. For Nissan, on the other hand, history mattered only to the extent that past relationships provided a current advantage, e.g., if tacit knowledge allowed suppliers to make a better offer than new suppliers. Nissan attributed suppliers' dislike of the new procedures to suppliers' desire to live in the past, rather than its own lack of recognition of their efforts.

In contrast, Honda communicated criticism to its suppliers within the context of building longterm, trust-based relationships. It took consistent actions to reinforce its commitment to a given supplier by referring often to the Honda Way and BP principles and policies, thereby developing a reputation for being reliable, fair, and trusting. The implicit stability of the relationship provided social equilibrium, while the constructive criticism provided the necessary dynamic balancing that helped to avoid the complacency of too much trust.

One striking difference between reorientation and recalibration is the reactive nature of the former. When a condition of too much or too little trust has already taken hold, due either to major, highly salient events or to a slow accumulation of "small cuts," the challenge of reorientation is to restore a social equilibrium that has been destabilized. In the Nissan case, the structural changes made through RNPO were not adequate to deal with incumbent suppliers' negative attributions of Nissan. In contrast, one advantage of recalibration as practiced by Honda is that, once established, the practices operate as part of the ongoing interactions in the customer–supplier relationships. Small movements in the vicinity of optimal trust do not have to be strategized, planned, or initiated; they are just part of the ongoing flow of the relationship.

Recalibration practices can even absorb threats to trust without calling attention to doing so. Without an "event," there is hardly the need for "response."

This low-drama aspect of recalibration is an important aspect of why it can be effective in avoiding the need for wrenching reorientation, and particularly the cycle of damaging and restoring social equilibrium that is an important focus of the trust repair literature. When operating in this partially-mindful, partially-routine way, recalibration continually reinforces positive attributions vis-a-vis the customer's intention to help the supplier improve, even if the customer's demands associated with the improvement activities are high, difficult to achieve, and feel intrusive. Significantly, with recalibration, social equilibrium does not swing far enough to register as imbalance. Pragmatic problem-solving activities may lead to small changes in existing structural arrangements yet without signaling that the rules had to be changed because of big and unsolvable problems. Rather than problems being seen as negative or unfortunate, they can be framed positively, as opportunities for learning and improvement, helping to justify the investment in joint problem-solving processes (MacDuffie, 1997).

Structural perspective. The structural perspective is concerned with formal organizational systems and incentives. It considers the forward-looking changes that govern future interactions between parties that repair damage to trust. Structural changes include new or revised incentives, monitoring processes, contractual conditions, and communication channels.

Nissan showed a strong preference for structural changes as the means of shaping its new approach to supplier relations. Under the new guidelines developed at RNPO, it established new contracts, new rules, and new ways of monitoring performance. Benchmarking comparisons and economic rewards of gaining additional business are the incentives for suppliers to compete for future contracts. The panel system provided a new format and process for allocating business to suppliers. Its first stage is based on objective criteria and is open to all, generating a small panel of selected suppliers; specific purchasing allocations are made to members of that panel. The second stage, in contrast, is only for these selected suppliers. It offers possibilities for recalibration actions since RNPO can look across multiple contracts and adjust the overall purchasing volume to provide that supplier with economies of scale and fuller utilization of supplier production capacity and capabilities. Nevertheless, Nissan's actions at the second stage seem focused on meeting its own quantitative purchasing goals, with little evidence of the mindful intent to strengthen future relations that characterizes recalibration.

Honda provided a consistent set of incentives and process routines from the start. The incentives included Honda's willingness to make a long-term commitment to a given supplier,

i.e., increases in both volume of orders and scope of purchasing over time and the provision of technical assistance. The process routines with which Honda engaged suppliers include ongoing benchmarking, asking for copious internal data, and sharing its future product and production plans. Honda's technical assistance risks creating high supplier dependence, but also boosts capabilities by training supplier employees.

Nissan's structural actions are contract-based while Honda's actions are relationship-based. Nissan strives to make its revised purchasing policies transparent to new as well as existing suppliers and to apply them uniformly, while Honda evolves relationship-specific arrangements with its suppliers. Nissan's actions are episodic, reflecting a multi-stage decision-making process; Honda's actions are ongoing, reflecting the back-and-forth of high information exchange and frequent interaction.

Summary. The Honda case shows that recalibration requires continuous managerial attention. Depending on the history of the inter-organizational relationship, this may or may not be preceded by a reorientation process. The Nissan case shows that reorientation may not even be on the minds of managers until it is needed, urgently, when the reality of negative consequences from too much or too little trust has become apparent. Crafting an appropriate and effective response at that point is not only reactive, but often requires attention to all three processes identified in the trust repair literature, i.e., replacing negative with positive attributions, restoring balance in the social equilibrium, and developing structural changes that not only prevent future problems but are a symbol of resolve to avoid such problems.

These three perspectives from the trust repair literature are particularly helpful for understanding the "repair" aspect of reorientation. They also help to identify the differences between problems of too little and too much trust and the distinctive approaches they require. These perspectives also indicate what organizational actions are not needed during recalibration as well as the managerial practices that *are* necessary. When recalibration processes are effective, there is no need to change attributions to positive since they never become negative; there is no need to restore social equilibrium since disequilibrium does not occur; and no structural changes are required if a consistent set of practices that support the achievement of mutual goals and the sharing of mutual gains is in place.

Balancing the opposing forces related to too much and too little trust

Optimal trust is a dynamic equilibrium that requires balancing opposing forces. In Figure 1(a), we identify a set of forces on either side of the inverted U: faith vs skepticism; favoritism vs

impartiality; contentment vs exigency; loyalty vs opportunism. We observed these forces in our case studies; they provide the background against which to interpret Tables 1 and 6; the latter includes a description of practices that balance these forces and how they are manifested in the Nissan and Honda cases.

The forces related to too much trust imply continuity (faith and contentment) and low need for managerial attention (loyalty and favoritism) vis-a-vis a partner. Excessive trust is thus likely to emerge from a state of organizational inertia within which incremental change towards complacency and blind spots regarding a supplier's performance are unlikely to receive much notice. In contrast, the forces associated with too little trust imply that managers are actively focused on the prospects of a supplier's performance decline (skepticism) or, conversely, for taking advantage of the supplier's situation (opportunism). Furthermore, with too little trust, managers consciously seek new suppliers, both pragmatically, to meet exigencies, and through heuristics presenting alternatives, such as impartial procedures for receiving bids from all interested competitors to the current supplier.

The reorientation and recalibration practices in Table 6 can be applied to both excessive and insufficient trust, but each practice may accomplish something different depending on the direction and magnitude of the deviation from optimal trust. To deal with excessive trust, practices should disturb organizational inertia and sharpen attention to changes over time that have caused performance decline. Conversely, to deal with too little trust, practices need to slow down managerial impulses to switch to different suppliers or to take advantage of a current supplier's situation, while also reassuring current partners that there will be opportunity to receive assistance during difficult periods and to restore performance to agreed-upon levels.

The opposing forces provide clues as to why the magnitude of deviation or movement away from optimal trust affects the choice of reorientation and recalibration practices. Excessive trust that reaches the point where organizational inertia preserves complacency and blind spots even in the face of a performance-related crisis is beyond what can be handled by recalibration practices. Insufficient trust resulting from policies that systematically react to any problems with incumbent suppliers by moving swiftly to choose alternative suppliers is also severe enough to require reorientation rather than recalibration. Assessing the magnitude of the opposing forces, in both directions, can help to forecast which managerial choices are likely to be most effective in gaining or restoring optimal trust. We develop these ideas further in the propositions offered below.

Table 6. Opposing forces in relation to reorientation and recalibration practices for optimal trust.

Forces of too much trust	**Forces of too little trust**	**Reorientation practices**	**Recalibration practices**
Faith Favoritism Contentment Loyalty	Skepticism Impartiality Exigency Opportunism	▪ 'Settling accounts' to restore equilibrium by apologies, explanatory accounts, remedial responses, denial, penance, or even punishment ▪ Attribution of responsibility (either credit or blame) ▪ Commitments to the stability of the relationship ▪ Conciliatory statements ▪ Revised patterns of interaction ▪ Revised communication channels ▪ Revised contractual conditions ▪ Revised monitoring ▪ Revised, shared goals ▪ Revised incentives ▪ Developing structural changes that prevent future problems and are also a symbol of resolve to avoid such problems	▪ Benchmarking to document performance ▪ Monitoring while learing ▪ Finite commitment: first look for solution within relation, then outside relation ▪ Goal-setting for improvement ▪ Challenging but realistic expectations ▪ Recognition of contribution ▪ Consistent criticism ▪ No initial assumption of opportunism ▪ No initial assumption of loyalty ▪ Flexibility: allow new entry, allow gradual exit ▪ Dialogue: about gains and disputes, no (big) unilateral decisions

Propositions

Based on the inductive comparative case analysis, we offer five propositions to advance the agenda for research on optimal trust. Our first proposition expresses the idea of "amplitude" to demonstrate that movement away from optimal trust can be in either direction.

Proposition 1: The greater the amplitude in deviations from optimal trust, the greater the probability that recalibration will be insufficient to restore optimal trust and, therefore, the greater the probability that reorientation will be required.

While the same practices of recalibration can be applied regardless of whether eviations are towards too much or too little trust, reorientation is affected by the direction of deviation from optimal trust. Damage from too little trust can be addressed by taking steps to change negative attributions back to positive attributions. But damage from too much trust cannot be

addressed in a symmetric fashion; reorientation will not be effective at dealing with excessive trust if it attempts to substitute negative attributions for previously positive attributions. Such a substitution is likely to create difficulties for establishing a new optimal equilibrium, as negative attributions can lead quickly from excessive to insufficient trust. What is required instead could be described as a shift from positive attributions to *contingent* attributions. Whereas the positive attributions of too much trust may cause the parties to overlook or suppress information about the performance problem, a contingent attribution asserts that "we can maintain trust in this relationship if and only if we can make progress in working together to overcome this performance issue" or "we may need to end this relationship despite its long-standing nature unless we can improve performance along these dimensions."

Proposition 2: Achieving (regaining) optimal trust through reorientation requires restoring positive attributions when the deviation from optimal trust is towards too little trust, but requires contingent attributions when the deviation is towards too much trust.

The asymmetry in how reorientation deals with excessive vs insufficient trust is due to the likelihood that both parties are mutually culpable in the negative consequences from too much trust. In the short term, asymmetry in too much trust could exist, with one party blind to the fact that the other party is exploiting the situation. But for too much trust to persist over long periods of time, both parties will in all probability have displayed some degree of blind faith, complacency, and cognitive lock-in. The pre-1999 *keiretsu* relations between Nissan and its suppliers are an example of this two-sidedness.

In contrast, insufficient trust is more likely to occur based on the actions of one party that spur negative attributions in the other party vis-a-vis the first party's trustworthiness. While both parties may bear responsibility in situations of too little trust, a frequent manifestation of insufficient trust is the effort of one party to affix blame on the other party, as happened when Nissan announced a second round of cost cuts under N180. Overcoming the "blame game" is one of the primary challenges of reorientation; apologies, causal accounts, and penance are often required before social equilibrium can be restored, something Nissan as yet has not done. These retrospective remedies are less effective with excessive trust, which requires future-oriented actions to restore social equilibrium, a path that Nissan did not choose when it embarked on its restructuring in 1999. After acknowledging joint responsibility for past problems, the tasks of "seeing clearly" and reframing the relationship are best pursued together, i.e., working collaboratively to diagnose the shared assumptions and communication barriers

that close down inquiry and cause blind spots, and to collect up-to-date and accurate performance data from both external and internal sources.

Proposition 3: Both parties are more culpable in long-persisting conditions of excessive trust than in situations of insufficient trust. Restoring social equilibrium when trust is insufficient requires past-oriented actions such as apologies, penance, or punishment to overcome dynamics of blame and denial between the parties. But when trust is excessive, social equilibrium is more effectively achieved (regained) through future-oriented actions such as mutual recognition of accountability, joint probing of blind spots, and collaborative collection of performance data.

Structural remedies that revise contracts, monitoring systems, or interaction patterns can be helpful to reorientation in situations of excessive as well as insufficient trust. Such remedies are valuable in being both backward-looking and forward-looking. They can fix a past problem while also signaling an intention to change from the old ways. But the most effective remedies will have a third attribute of helping the parties make a transition to routines of recalibration, e.g., monitoring systems that are also designed to encourage learning, contracts that provide flexibility, interaction patterns that encourage frequent, open communication and constructive criticism.

Ultimately, the effects of a successful reorientation will last only if reorientation practices feed into recalibration processes. In Nissan's structural reforms through RNPO, for example, the first stage changed the rules for who can apply to be a supplier to emphasize open access to all and that all contracts will be awarded after competitive assessment. While such a structural change may be essential for reorientation, it does not necessarily set the stage for recalibration. In contrast, the second stage of RNPO's panel process provides opportunities for recalibration by allowing flexible adjustments to contractual terms in order to increase mutual gains. In short, there may be differential consequences of various structural remedies based on how they affect the temporal relationship between reorientation and recalibration.

Proposition 4: Structural remedies to violations of trust, crafted to respond to either insufficient or excessive trust, can provide reorientation and help to regain optimal trust. But only when a transition to routines of recalibration takes place will the trust-restoring impact of reorientation be sustainable.

Recalibration is the appropriate response when the amplitude of deviation from optimal trust is relatively small. It differs from reorientation in that the same recalibration practices are effective regardless of whether those deviations are towards too little or too much trust. While each specific recalibration action may be a small response to the immediate threat to trust, recalibration is only effective if it is grounded—like the Honda Way and BP initiative—in a consistent approach, with clearly-stated values, and organizational capabilities and processes that insure effective communication between the parties when problems occur.

Proposition 5: Although each recalibration is a small-scale reaction to a deviation from optimal trust, to be effective the recalibration process must provide ongoing meta-routines (i.e., routines for reforming routines) that are grounded in a consistent and reinforcing organizational culture, integrated into broader organizational capabilities, and aligned with strategy.

Conclusions

Drawing upon analysis of our longitudinal and dyadic case studies, we develop two concepts for analyzing the pursuit of optimal trust. We find that large deviations from optimal trust are best addressed by reorientation, a concept that is more comprehensive than repair in two ways: first, it describes processes of recovery from both too little trust and too much trust; and second, it encompasses the possibility of a transformed relationship rather than a simple restoration of a relationship to the halcyon days of its pre-breach state. Reorientation processes include significant efforts to change the attributions vis-a-vis past behavior, to reestablish social equilibrium among the parties, and to make structural changes via adjustments to goals and incentives. These significant trusting actions provide both a practical and a symbolic communication of intention to move away from the past (Dirks et al., 2009).

Like repair, reorientation is episodic. Addressing problems of too much trust, however, requires some processes that are similar to trust repair, and others that are different. To deal with excessive trust, practices should disturb organizational inertia and sharpen attention to changes over time that have caused performance decline. Conversely, to deal with too little trust, practices need to slow down managerial impulses to switch to different suppliers or to take advantage of a current supplier, while providing partners with assistance during difficult periods in order to restore performance to agreed-upon levels.

We provide evidence of an effective path to achieving optimal trust via the practices of recalibration, wherein small deviations are addressed before damage to trust occurs. These

actions include going beyond contractual terms to help the other party so as to maintain positive attribution, and carrying out ongoing benchmarking to maintain a social equilibrium in which parties do not take each other's performance for granted. Because recalibration is undertaken proactively at a time when deviations from optimal trust are small, major structural changes are not needed to maintain optimal trust.

These concepts differ in timing and magnitude. Reorientation is a major activity that occurs after a serious problem with trust has occurred. Recalibration, in contrast, is initiated before any major problems with trust appear, and has the paradoxical quality of sometimes working to offset the blind spots of too much trust (essentially reducing trust). That is, recalibration is primarily a skillful avoidance, through many small trusting actions embedded in an ongoing relationship, of the need for reorientation.

We find that optimal inter-organizational trust is the product of balance between powerful and opposed forces: faith vs skepticism, favoritism vs impartiality, contentment vs exigency, and loyalty vs opportunism. We show that the best way to deal with the negative consequences of broken or blind trust in an inter-organizational relationship is, essentially, never to reach the point of needing to repair it. Recalibration can maintain inter-organizational trust near its optimum, by creating routines that balance these powerful forces. In contrast, too large a deviation from optimal trust in either direction can unleash destabilizing dynamics, requiring significant reorientation efforts to offset. Recalibration processes are then essential for preserving the effects of successful reorientation.

We close with a few suggestions for future research. Optimal trust may be an unrealizable ideal but its pursuit is highly relevant to the crisis-challenged times in which we live. Growth in resources, such as Nissan experienced until the 1990s, may make it less vital to be continuously aware of the opposing forces of optimal trust, since the abundance of resources that can be distributed to claimants potentially compensates for the downsides of excessive trust (Hedberg, Nystrom, & Starbuck, 1976). Future research should pay more explicit attention to the impact of environmental factors on trust processes.

Another issue deserving further attention is the degree of dependence between trusting partners. We have focused on the actions of the automakers, often larger and more powerful than their suppliers. How does this imbalance affect the processes of recalibration and reorientation? Is a less powerful party ever able to initiate reorientation or recalibration to achieve optimal trust, or does the control of these processes always reside with the more powerful party? To answer this question it is essential to understand the perceptions of both parties, and thus collect dyadic data.

Successful transition from reorientation to recalibration is another fruitful area for future research. How should reorientation processes be designed in order to ensure that subsequent recalibration processes become routine? Closely related is the question: How can organizations identify the control limits beyond which recalibration is no longer sufficient and reorientation is necessary? Answering these questions will provide further insight into the temporal relation between reorientation and recalibration. Here we reiterate the call for longitudinal data on trusting as a process; it is only with such data that these questions can be answered.

Notes

1. Throughout, the term "optimal" refers to the perspective of the buying firm, which in this research is the automaker. This is equivalent to saying that optimal levels of trust will maximize long-run profits for the buyer, and to acknowledge that from the perspective of supplier profits, "optimal" could be slightly—though not substantially—different. We regard trust as a two-sided concept, in the sense that it is only established and maintained with reciprocity of contribution and respect for the interests of other parties. With regard to inter-organizational trust, differences in what is optimal for each party arise because trust is not entirely symmetric at all times. But major asymmetries would violate trust, creating boundary conditions that limit, over the long run, how varied the perceptions of "optimal" can be.

2. Nadler and Tushman (1989) use the term "reorientation" in the context of organizational change and characterize it as a process of "frame bending," drawing a contrast with "re-creation," which they characterize as "frame breaking." Their conceptualization differs from ours in several regards. We focus explicitly on processes that seek optimal trust in the context of inter-organizational ties, while Nadler and Tushman focus on intra-organizational change. They regard reorientation as a proactive process that stresses continuity of values from the past and stretches but does not break the existing organizational frame (where "frame" is a mix of cognitive perspective, organizational identity, and organizational culture). In contrast, we identified reorientation through our inductive data analysis as a reactive and episodic process. Depending on the magnitude of the deviation from optimal trust and the direction, towards either excessive or insufficient trust, reorientation in our conceptualization could be either incremental, i.e., "frame bending," or disruptive, i.e., "frame breaking," with respect to the norms and values inherent in the inter-organizational relationship.

3. Nissan, founded in 1933, developed strong and loyal supplier groups within *keiretsu* relationships in the postwar era (Cusumano, 1985; Nishiguchi, 1994). In contrast, Honda was founded as a motorcycle company in 1948 and only began making cars in the 1960s.

4. Nissan 180 stands for one million more units sold worldwide, 8 percent operating margin, and zero debt.

5. Ghosn consistently presented these actions as the correct response to the pre-1999 period. When we interviewed Ghosn in November 2001 he argued that suppliers had "abused" Nissan. His use of such extreme language is striking, particularly considering its dramatic impact in the Japanese context. We assume that Ghosn's choice of language was deliberate; he rendered a powerful negative judgment of past supplier actions, in emotion-laden terms, to justify Nissan's extreme response. In making Nissan appear the victim, he legitimized the counter-response of cutting all *keiretsu* ties as Nissan defending itself.

6. To document the extent of Nissan's effort to reengineer its supplier base, we mapped the sale of stock of 20 randomly selected Nissan suppliers, ranging from small to large firms, for 10 two-year periods between 1991 and 2010. In 1991 Nissan held an average of 34% in these 20 firms. Just before the NRP this had decreased to 29%. By 2003 Nissan held slightly under 15% in only three of these firms; all shares in the remaining 17 firms had been sold. In nine cases shares were sold to other, mostly large, Japanese Nissan suppliers. In some of these nine cases two medium-sized firms teamed up; each buying the shares that Nissan had held in the other. In four cases of the 20 we studied, shares were sold to an international automotive supplier that had previously established purchasing ties with Nissan. In two cases, shares were sold to

Japanese steel companies. In another two cases shares were sold to a longterm Renault supplier. Honda and a Toyota supplier also each bought shares in one of these 20 suppliers. The remaining supplier's shares were sold to a private investor (see also Aoki & Lennerfors, 2012, for information on changing *keiretsu* affiliations).

7. One reason that Nissan changed its course may have been the steel shortage in 2004. At this time Nissan was faced with the consequences of the complete overhaul of its old ways. The shortage hit Nissan hardest of all domestic carmakers, as it appeared "last on the list" of steel suppliers. Nissan was forced to stop production at domestic plants for seven days in total in 2004–2005. Steel had been one of the areas in which Nissan had drastically reshuffled purchasing ties. It had reduced purchasing from its *keiretsu* supplier NKK from approximately 25% to less than 10%, and cut ties with one of its five pre-NRP steel suppliers. The steel reshuffle was seen as "a very clear sign to the industrial world in Japan that the times of preferential treatment of group firms was no longer part of Ghosn's 'dry' approach" (Itoh, 2001).

8. When Soichiro Honda decided to manufacture cars in the 1960s, he had to develop a supply base from scratch, drawing on three sources (Mair, 1994): (1) suppliers of motorcycle parts, who were already familiar with Honda but had to learn to make automotive parts; (2) small suppliers making components for other products or industries but who could be persuaded to invest in new production capabilities for Honda on the promise of future business; and (3) larger companies that were already supplying other auto companies. Honda's US experience offered similar choices. When starting with motorcycles in 1978, Honda helped a small set of Japanese key component suppliers to move to the US too. While some of these suppliers could help with Honda's launch of cars in the US in 1982, most automotive components were shipped from Japan in the early days, until the local supply base could be developed.

9. We learned that Honda had developed this rule of thumb in Japan after suffering financial losses during business cycle downturns due to keeping small, entirely dependent suppliers afloat.

10. In more recent years, "we had to put a stop to that," one Honda manager said. BP activities cost Honda too much for it to ignore possible spillovers to competitors, many of whom were closing the productivity and quality gap in manufacturing. This shift is not unlike the shift made at Nissan as it moved from a growth and increasing capability phase to a greater emphasis on making profits. However, due to Honda's attention to recalibration, wrenching reorientation was not needed.

11. BP efforts at Capitol were estimated by Capitol's engineers to have cost Honda more than US$1m.

12. Our interview results are consistent with an annual survey of auto suppliers conducted in the USA since 2002 in which Honda has remained virtually tied with Toyota as the top-ranked automaker for relationship quality (Planning Perspectives, 2014).

13. A particularly salient case was the bankruptcy of Honda supplier Variety Stamping, which was the subject of a *Wall Street Journal* article (Milbank, 1990) implying that Honda wanted to drive US suppliers out of business and replace them with Japanese-owned firms.

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