Understanding the Roles of Trust at Different Stages in Strategic Alliances: A Theoretical Review

Jaeyoung Kang

Abstract
Strategic management literature has emphasized the importance of developing trust among alliance partners. Understanding the roles of trust is essential because it is considered to have a substantial impact on the collaboration among alliance partners, and as a result, on the achievement of alliance objectives. Despite the interests in the roles of trust, our understanding of this issue is fragmented. Adopting multiple theories and the process model of strategic alliances, this paper aims to provide a more integrative understanding of the roles of trust in strategic alliances. This paper holds that the adoption of one theory has limitations in promoting a comprehensive understanding of this issue and reviews diverse theories to investigate the roles of trust at different stages in strategic alliances. Transaction cost economics, real option, organizational learning, and social network theories are juxtaposed and compared. First, this paper reviews major assumptions and theoretical logics of these theories and examines the rationales for strategic alliances each theory proposes. Next, I examine the implications that each theory provides for the understanding of the roles of trust. Drawing on the process model of strategic alliances, this review highlights how the trust among alliance partners influences the strategic alliances at a formation stage, an operation stage, and an outcome stage of strategic alliances.

INTRODUCTION
Firms have adopted strategic alliances to achieve strategic objectives including lowering costs, increasing market share, accessing external resources, gaining tacit knowledge, and enhancing innovation capabilities (Grant & Baden-Fuller, 2004; Hess & Rothaermel, 2011; Inkpen, 2002; Kale & Singh, 2007; Kogut, 1988). Although strategic alliances have proliferated for the last three decades, many firms failed to attain objectives of strategic alliances (Kale, Dyer, & Singh, 2002; Koza & Lewin, 2000; Park & Ungson, 1997; Yan & Zeng, 1999). Scholars have argued that the management of inter-organizational relationships involved with strategic alliances is one of the critical factors which can influence the success or failure of strategic alliances (Dyer & Singh, 1998; Heimeriks & Duysters, 2007). Management of strategic alliances poses unique challenges because firms depend on different types of governance modes to control the collaboration with their partners (Williamson, 1991). Conflicts can happen when each firm tries to maximize their own gain. The conflicts, when they are not properly addressed, can damage the relationship between firms and lead to failure of the strategic alliances (Gulati, Lawrence, & Puranam, 2005; Ireland, Hitt, & Vaidyanath, 2002). Literature in strategic alliances proposed equity ownership, contractual provisions, and relational governance as primary mechanisms to address governance issues related to the conflicts among alliance partners (Kale & Singh, 2009). Trust is suggested as one of the relational governance mechanisms which has attained great attention in strategic alliances (Connelly, Miller, Devers, 2012; Das & Teng, 1998; Faems, Janssens, Madhok, & Van Looy, 2008; Gulati, 1995; Kale, Singh, & Perlmutter, 2000; Lavie, Haunschild, Khanna, 2012; Malhotra & Lumineau, 2011; Poppo, & Zenger, 2002; Robson, Katsikeas, & Bello, 2008). Mayer, Davis, and Schoorman (1995) provided an integrative model on organizational trust and suggested their definition of trust. According to them, trust is a person’s willingness to be vulnerable to the actions of a trustee (Mayer et al., 1995). In other words, trust is about the willingness to take risks under the situation where something important can be lost. They also contended that ability, benevolence, and integrity are the three characteristics of trustees that inspire trust (Mayer et al., 1995). In

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strategic alliances, firms that have skills and competences to achieve shared goals (ability), are believed to do good to their partners (benevolence), and will adhere to a set of principles acceptable by their partners (integrity) can be considered trustworthy. Despite the strong interest in the roles of trust in strategic alliances, our understanding of this issue is fragmented. The goal of this paper is to improve our understanding with a systematic review on this issue. First, this paper examines the roles of trust through diverse theoretical perspectives. This paper employs not only transaction cost economy that has been a dominant theoretical framework adopted in strategic alliances, but also real option, organizational learning, and social network theory. This paper explains the main theoretical logic, rationales for formation of strategic alliances, and the insights into the roles of trust in strategic alliances which each theory provides. Second, this paper seeks to provide a more integrative understanding of the roles of trust by adopting the process model of strategic alliances. Drawing on the process model of alliance suggested by Das and Teng (2002), this paper examines the roles of trust at (1) a formation stage, (2) an operation stage, and (3) an outcome stage. The formation stage includes activities related to the development of alliance strategy, partner selection, negotiations of deals, and alliance set-up. In the operation stage, firms start to work together and implement the agreements. The major issue in the outcome stage is the evaluation of the performance of the alliance (Das & Teng, 2002). This paper aims to shed some light on how we can use multiple theories to suggest useful insights into the management of strategic alliances. Table 1 provides a summary of these topics.

**TRANSACTION COST ECONOMICS**

**Logic of the Theory**

Transaction cost economics (TCE) was proposed as a theory of the firm which explains how firms can make a choice between markets and hierarchies (Coase, 1937). The main idea of TCE is that the “buy” or “make” choice is determined by transaction cost efficiency (Coase, 1937). TCE argues that firms exist due to market failure which generates transaction cost among economic actors (Coase, 1937). TCE posits that generally, the market is an effective structure for economic asset transaction because of economies of scale, specialization, and high-power incentives. However, the market transaction becomes less effective, as the cost associated with negotiating, writing contingency contacts, monitoring, and enforcing the agreements increases (Williamson, 1975).

TCE theory is based on two main behavioral assumptions. The first assumption is bounded rationality (Cyert & March, 1963; March & Simon, 1958). Although economic actors make efforts to be rational in their decision making, their rationality is bounded due to the complexity of environments and their inability to process and compute the utility of all the alternatives available (Cyert & March, 1963; March & Simon, 1958). The second behavioral assumption is opportunism. This assumption suggests that economic actors are seeking their own interest with guile (Williamson, 1975). Under conditions where complete contacts cannot be made in advance, economic actors with opportunism may take advantage of their partner’s vulnerability to capture more benefits from the transaction (Leiblein, 2003; Williamson, 1975).

<table>
<thead>
<tr>
<th>Major assumptions</th>
<th>TCE</th>
<th>Real option</th>
<th>Organizational Learning</th>
<th>Social Network</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bounded rationality</td>
<td>• Bounded rationality</td>
<td>• Uncertainty resolution over time</td>
<td>• Organizations have a potential to learn, unlearn, or relearn.</td>
<td>• Behaviors are socially influenced by connected actors.</td>
</tr>
<tr>
<td>Opportunism</td>
<td>• Opportunism</td>
<td>• Irreversible investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main theoretical logics</td>
<td>• Economizing transaction cost through the choice of an efficient organizational governance</td>
<td>• Maintaining flexibility has value.</td>
<td>• Value creation by developing better routines, practices, and capabilities through learning</td>
<td>• Gaining information and control benefits through relational embeddedness and structural</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Rationales for the formation of strategic alliances</th>
<th>Conditions for strategic alliances</th>
<th>Trust in strategic alliances</th>
<th>Effects of trust at different stages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reducing transaction cost</td>
<td>• Intermediate levels of asset specificity</td>
<td>• Reducing transaction cost</td>
<td>• Formation stage</td>
</tr>
<tr>
<td>• Maintaining a chance to capitalize on future opportunities with limited investment until uncertainty resolves</td>
<td>• Future profit opportunities with high levels of uncertainty about environments and alliance partners</td>
<td>• Trust development as a result of a small-scale collaboration</td>
<td>• Reduced emphasis on complex contracts</td>
</tr>
<tr>
<td>• Enhancing a firm’s capabilities through acquiring external knowledge</td>
<td>• Necessity for in-depth learning</td>
<td>• Mutual trust facilitating knowledge sharing</td>
<td>• Operation stage</td>
</tr>
<tr>
<td>• Information acquisition through social networks</td>
<td>• High value tacit knowledge</td>
<td>• Knowledge-based trust developed through the aggregation of trust-related information</td>
<td>• Sharing of tacit knowledge during collaborations</td>
</tr>
<tr>
<td>• Finding appropriate alliance partners.</td>
<td>• More alliance formation with superior network positions</td>
<td>• Deterrence-based trust based on the fear of costly sanctions</td>
<td>• Formation stage</td>
</tr>
<tr>
<td>• Necessity for in-depth learning</td>
<td>• Knowledge-based trust developed through the aggregation of trust-related information</td>
<td>• Finding the right partners</td>
<td>• Operation stage</td>
</tr>
<tr>
<td>• More alliance formation with superior network positions</td>
<td>• Deterrence-based trust based on the fear of costly sanctions</td>
<td>• Reducing alliance partner’s opportunistic behavior</td>
<td>• Operation stage</td>
</tr>
</tbody>
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TCE theorists suggested asset specificity, uncertainty, and frequency as transaction attributes that influence transaction cost (Williamson, 1985). Asset specificity is the origin of transaction cost. Asset specificity is defined as “the degree to which an asset can be redeployed to alternative uses by an alternative user without losing its productive value” (Williamson, 1996: 59). Firm-specific investment resulting in a small number of bargaining makes the firm vulnerable to its partner’s opportunism (Williamson, 1988). TCE argues that uncertainty regarding market, technology, and exchange partner’s behavior is another factor which increases transaction cost (Williamson, 1998). The uncertainty increases ex ante transaction costs because firms need to consider a lot of contingencies in the phase of negotiating and writing contracts (Williamson, 1998). Under uncertain situations, firms need to develop a monitoring system to prevent opportunistic behavior of an exchange partner (Demsetz, 1988). In addition, the occurrence of unpredictable events ex post increases transaction cost because partners need to renegotiate to deal with unanticipated situations (Kogut, 1988).

**Rationale for Strategic Alliances**

Williamson (1991), with the proliferation of strategic alliances, adds hybrids as another generic form of governance in addition to markets and hierarchies. Williamson (1991) argued that hybrid governance including strategic alliances are formed when transaction cost generated by an exchange of an asset is
Roles of Trust in Strategic Alliances

Initially, TCE theorists assumed that economic actors are seeking self-interest with guile (Williamson, 1985). With the behavioral assumption, TCE suggests a governance mechanism to minimize transaction cost caused by a partner’s potential opportunistic behavior (Williamson, 1985). It has been argued that TCE does not consider the fact that the degree of opportunistic behavior vary across firms (Noorderhaven, 1995). Although a firm makes an asset specific investment tailored to a partner, if the partner does not show opportunistic behavior, the asset can be exchanged through the market governance (Noorderhaven, 1995). Relaxing this opportunistic behavior assumption can help us gain some insights into the roles of trust in the formation stage of strategic alliances (Noorderhaven, 1995).

TCE emphasizes the roles of contact as a safeguarding mechanism to reduce the risks of asset-specific investment which can be caused by the asset exchange partner’s opportunistic behavior (Williamson, 1985). Williamson (1991) posit that neoclassical contract can explain the formation of strategic alliances. Unlike classical contract which is used in market transactions, neoclassical contract specifies the required actions by the partners and a means to resolve the unforeseen disputes among partners (Williamson, 1991). More comprehensive contracts which are specific in detail can reduce a partner’s intention to behave opportunistically and minimize future disputes on how to manage the alliances (Deeds & Hill, 1998; Mellewigt, Madhok, & Weibel, 2007).

The effects of trust on development and application of contacts has been examined. Some scholars argued that trust-based governance can replace contract-based governance (Dyer & Singh, 1998; Parkhe, 1993; Uzzi, 1997). When a high-level of goodwill trust that is defined as an intention to do behave in a trustworthy manner exists between them, partners do not depend on the contract because trust can decrease the concern of their partner’s opportunistic behavior (Das & Teng, 2001; Parkhe, 1998). Working with trustworthy partners reduces the need for developing complex and costly contracts because the partners are willing to act in a way that considers both parties’ interests when unexpected situations unfold (Dyer & Singh, 1998). As a result, the reduced emphasis on complex contracts can reduce the transaction cost (Adler, 2001: Gulati, 1995).

Emphasizing the contract-based governance can inhibit the development of trust between partners (Bernheim & Whinston, 1998). Because contracting makes partner firms depend on the contact rather than each other’s trustworthiness, the partner relationship can be more vulnerable when weaknesses in the contract are found (Malhotra & Murnighan, 2002). Malhotra and Lumineau (2011) showed that the number of provisions in a contract has a negative impact on the goodwill trust in the partner and on the willingness to continue collaboration with the partner. On the other hand, Poppo and Zenger (2002) argued that more complex contracts that specify expected cooperative behaviors and punishments can facilitate the expectation for partners to behave cooperatively because the gains from opportunistic behavior is reduced. The trust development also, in reverse, enables partners to reflect the lessons from previous experiences in future contracts which make the contract more complex (Poppo & Zenger, 2002).

Faems and colleagues (2008) proposed that it is not the formalization of the contract but the nature of the contract that influences trust development between partners. The contract that specifies how to deal with unexpected problems in strategic alliances can facilitate the collaboration and joint sense-making to define the problems and solve the problems (Faems et al., 2008). This collaboration triggers goodwill trust between partners. When partners have goodwill trust, they are more likely to apply the contract flexibly by adjusting the existing milestones and deadlines (Faems et al., 2008). Although Faems and colleagues (2008) argued that the development of trust does not reduce the importance of contract, the
A more nuanced approach that distinguishes types of contracts and types of trust improves our understanding of the effect the contract structure has on trust. Malhotra and Lumineau (2011) found that the number of control-oriented provisions in a contract which aims to minimize the risk of opportunistic behavior by their partners reduces the degree of goodwill trust which results in reduction of willingness to continue the collaboration. However, the number of control-oriented provisions increases competence-based trust, which does not necessarily lead to continuous collaboration (Malhotra & Lumineau, 2011). They also found that inclusion of coordination mechanisms in a contract which seeks to reduce misunderstandings in collaborative works increases competence-based trust which facilitates continued collaboration (Malhotra & Lumineau, 2011).

In summary, the development of trust can reduce the necessity to develop complex and costly contracts at the formation of strategic alliances. The trust will facilitate shared identity, joint sense making, communication, and information sharing at the operating stage (Faems et al., 2008). The trust also makes the application of a contract flexible with better understandings of each other when unforeseen events happen (Uzzi, 1997). This will reduce the cost related to conflict dispute such as renegotiation, litigation, and arbitration. In addition, a well-designed contract that clarifies coordination mechanism can also increase competence-based trust and make the collaboration smoother (Malhotra & Lumineau, 2011).

REAL OPTION
Logic of the Theory
Since Myers (1977) proposed the real option concept, the real option theory has provided an insightful framework to evaluate investment opportunities in an uncertain environment. When managers recognize potential opportunities, they have to make a decision on whether they make an investment to capture the opportunities or not. Under high uncertainty, firms try to find a means to avoid the risk of losing substantial investment and maintain the ability to utilize the potential opportunities (Kogut, 1991). The real option concept is of use because some limited investment can allow firms to have the right but not the obligation to take a specific action in the future (Bowman & Hurry, 1993). Real options enable firms to respond to future events in a contingent way (Adner & Levinthal, 2004; Kogut & Kulatilaka, 2001). Real options consist of option creation and option exercise activities (Tong, Reuer, & Peng, 2008). Option creation refers to limited initial investment. Option exercise is a follow-on investment that is usually larger than the initial investment. When new information on the opportunities resolves uncertainty about the opportunities, decision makers make reassessment on the various alternatives and select the best alternative without incurring substantial cost (Merton, 1998). The real option theory describes the way in which limited investment creates economic value by maintaining flexibility (Bowman & Hurry, 1993).

Uncertainty regarding new opportunities can be resolved both exogenously and endogenously (Bowman & Hurry, 1993). While exogenous uncertainty resolves by itself and is rarely influenced by the actions of a firm, some uncertainty can be resolved endogenously (Dixit & Pindyck, 1994). For example, limited investment on a foreign market results in resolving uncertainty about the market (Reuer & Tong, 2005). Effort to understanding the foreign market through Initial limited investment allows firms to gather more information about the market and help them to decide on whether to exercise the real option or not (Reuer & Tong, 2005).

Rationale for Strategic Alliances
With real option lens, strategic management literature has regarded strategic alliances as one type of real option (Kogut, 1991). Kogut (1991) argued that managers deal with uncertainty by forming strategic alliances. Among the diverse types of uncertainty, uncertainty about partners, technology, and market are the most common types of uncertainty in strategic alliances (Das & Teng, 1996; Kogut, 1991; Santoro & McGill, 2005). According to real option logic, uncertainty resolution is the main focus of strategic alliances because it is the prerequisite of the exercise of option (Folta & Miller, 2002). Although strategic alliances require up-front investment and relinquishment of some degree of administrative control, they provide firms a relatively inexpensive means of monitoring a new environment and establishing a market position, which can enable firms to capitalize on future opportunities (Kogut, 1991). Strategic alliances are
superior to full investment such as internal development or mergers and acquisitions (M&As) because internal development and M&As require substantial cost which in turn leads to a big loss when the future unfolds unfavorably to firms (Reuer & Tong, 2005). The real option theory can explain why alliance partners initiate pilot projects before they form a large-scale strategic alliance (Li, James, Madhaven, & Mahoney, 2007). A pilot project helps alliance partners to see whether each partner is capable and trustworthy before making a large-scale investment in the alliance. The pilot project was regarded as a real option. A firm can make a small-scale investment into the project. When uncertainty about the environment and its partner is resolved favorably, the firm can exercise the option by forming a large-scale alliance. Otherwise, the firm can abandon the option (Fawcett, Magnan, & McCarter, 2008).

Roles of Trust
The uncertainty resolution regarding alliance partners can be associated with the evaluation of the alliance performance at the outcome stage of alliances. While market uncertainty is exogenously resolved, endogenous uncertainty regarding the partner firm’s intentions and its capabilities can be managed by a firm (Smit & Moraitis, 2010). Uncertainty about the partner’s commitment and contribution to the strategic alliances has been pointed out as barriers to the formation of strategic alliances (Kale & Singh, 2009). When firms are not sure about their partner’s intention of alliance formation, they cannot show full commitment to the alliance, because the partner may seek its own interests rather than common interests (Parkhe, 1993). A small-scale collaboration at the initial investment provides useful information about the partner’s trustworthiness (van de Vrande, Vanhaverbeke, & Duysters, 2009). Information gained through collaboration can be the basis of subsequent evaluation of the partner. The information gathered regarding the partner’s trustworthiness influences the firm’s decision on whether it exercises the real option or not (McCarter, Mahoney, & Northcraft, 2011).

The resolution of uncertainty about the partner through strategic alliance has an effect on the development of two types of trust. Social information about partner’s reliability, motivation, and commitment can be acquired through strategic alliances (Li et al., 2007). Perception developed through the social information can facilitate or hamper the development of goodwill trust about the partner (McCarter et al., 2011). Uncertainty regarding the partner’s capabilities and values can be reduced by strategic alliances. Diverse types of strategic alliances including a prototype or a pilot project are often used to accurately assess the value of a partner firm which can be a potential target firm to acquire (Smit & Moraitis, 2010; Tong & Li, 2011). This collaboration through strategic alliances enables firms to have a better understanding of their partner’s capabilities, which can be the foundation of competence-based trust.

In summary, the real option theory suggests that alliance partners can develop trust between one another with a small-scale pilot project before they make a full investment for the large-scale alliances (McAdam, McAdam, Galbraith, & Miller, 2010). The small-scale investment can provide opportunities to explore trustworthiness of the partner (Reay, Golden-Biddle, & Germann, 2006). Trust to alliance partners can be formed through collaboration in the project (McAdam et al., 2010). Firms can acquire more information about the integrity, commitment, capabilities of its partner (Folta & Miller, 2002). When they believe that each partner can be trusted, the trust can be the foundation of future large-scale collaborations (McCarter et al., 2011).

ORGANIZATIONAL LEARNING
Logic of the Theory
Organizational learning theory assumes that organizations have a potential to learn, unlearn, or relearn from their past experiences (Miles, 1982). Learning is often defined, among diverse definitions, as the development of insights and knowledge regarding the association between the past actions and the effectiveness of them (Fiol & Lyles, 1985). Organizational learning theorists try to extend this concept to the organizational level. Although members in an organization change, organizations develop and maintain certain knowledge, norms, and values. Organizational learning literature has tried to identify the process through which organizations develop, maintain, and change knowledge. The basic model is that organizations collect experience, infer from the experience, and institutionalize the inference in repositories of organizational knowledge (Schulz, 2001). First, organizational learning involves process
through which organizational knowledge changes (Schulz, 2001). Through the inference of the association between causes and effects, organizations can develop viable strategies to address their tasks (Daft & Weick, 1984; Donaldson & Lorsch, 1983). This knowledge is reflected in organizational memories. Next, organizational routine has been emphasized as a major repository of organizational knowledge (Eisenhardt & Santos, 2000). Routines are defined as recurrent sequences of actions of organization members and are conceptualized as magnification of organizational memories (Cyert & March, 1963). Creation and update of organizational routines have been conceptualized as organizational learning (Levitt & March, 1988). With these conceptual foundations, organizational learning can be defined as an adaptive process created by previous experiences, focused on developing and modifying routines, and supported by organizational memory (Nonaka & Takeuchi, 1995).

**Rationale for Strategic Alliances**

Of recent, more attentions have been paid to learning from others’ experience. Learning through collaboration with other organizations is one of the most important motives for creating strategic alliances (Dong & Glaiste, 2006; Dussauge, Garrette, & Mitchell, 2000; Hamel, 1991). Through strategic alliances, organizations intend to acquire new technology, learn management practice, or create new knowledge and capabilities to enhance their performance (Lyles & Gudergan, 2005).

Lane & Lubatkin (1998) proposed three methods of learning from external sources: passive, active, and interaction. Through passive learning, organizations acquire articulable knowledge about technology and management practice from journals, seminars or consultants. Active learning includes bench-mark and competitor analysis which aim to imitate and learn about external organizations. Because these types of learning occur without interaction with external organizations, only observable potions of other organizations’ experiences can be acquired (Huber, 1991). These types of learning have limitations in increasing organization performance, because the knowledge acquired through these types of learning are easily available or not exclusive to one organization (Spender, 1996). On the other hand, interactive learning including strategic alliances provides unique capabilities available only to the participating organizations. Strategic alliances enable partner firms to observe how each partner performs their tasks and provides opportunities to learn more tacit knowledge embedded in organizational routines of their partners (Simonin, 1999). The complex and tacit knowledge can be acquired through face-to-face interaction (Lane & Lubatkin, 1998). Brown and Duguid (1991) argued that meaningful knowledge is embedded in daily work and is hard to codify, and that learning is socially constructed from working practices. Informal communication and joint work which strategic alliances provide can facilitate in-depth learning (Brown & Duguid, 1991).

**Roles of Trust**

The roles of trust are critical in knowledge sharing among alliance partners at the operation stage of strategic alliances (Inkpen, 2002). While knowledge sharing can help firms to acquire external knowledge, it also makes firms vulnerable to the opportunistic behavior of their partners (Khanna, Gulati, & Nohria, 1998). Firms have concerns about the loss of their knowledge without gaining knowledge from their partners (Simonin, 1999). The effort to protect their own knowledge makes firms less cooperative in sharing their key knowledge. This can hamper the relationship among partners and reduce the trust between them (Norman, 2002). As a result, the collaboration cannot achieve the objective of learning (Nielsen & Nielsen, 2009).

The development of trust is especially important for the sharing of tacit knowledge which is difficult to articulate and verbalize (Cooper & Sawaf, 1996). Tacit knowledge can be acquired through experience (Nonaka, 1994). Nonaka (1994) argued that learning requires an individual’s commitment and involvement in a specific situation where the knowledge is embedded. Partners in alliances can gain tacit knowledge through intimate collaborations with each other. Because the tacit knowledge is often regarded as a source of competitive advantage (Grant, 1996), firms are unwilling to share tacit knowledge with firms they cannot trust (Dhanaraj, Lyles, Steensma, & Tihanyi, 2004). Another type of learning acquired through strategic alliances is about the alliance partner (Inkpen, 2002). When a firm collaborates with its partner, the firm can learn about the partner’s trustworthiness as well as their knowledge and capabilities. Through negotiation and cooperation, alliances provide opportunities to observe its partner
directly. This learning can influence the development of trust with the alliance partner and evolution of future alliances (Saxton, 1997)
In summary, the organizational learning theory underscores the importance of trust in strategic alliances. When the main objective of strategic alliances is to enhance a firm’s capabilities through acquiring external knowledge, trust is a pre-requisite for the achievement of this goal. Without trust, tacit knowledge, which is often the source of competitive advantage, will not be shared (Cooper & Sawaf, 1996).

SOCIAL NETWORK THEORY
Logic of the Theory
The social network theory has focused on the effect of social relations in which individuals are embedded on their behaviors (Nohria, 1992). Granovetter (1985) argued that the behavior of individuals or firms do not take place independently but are influenced by other actors to which they are related. With the social network perspective, an individual’s behavior can be explained not only by individual attributes but also by the social relations of the individual (Wellman, 1988).
The social network theory argues that a firm with superior network positions can obtain information and control advantages over others (Burt, 1992). Information advantage stems from the ability to access more information from outside of the firm’s boundaries earlier than others. The information benefit of a network can be gained through two mechanisms (Granovetter, 1992). The first mechanism is the relational embeddedness. Cohesive groups will share more information due to their willingness to invest more time and effort to share information with others in a network (Reagans & McEvily, 2003). The second mechanism is the structural position in a network. This perspective goes beyond the directly connected firms and examines a firm’s position in the whole network (Ahuja, 2000). It is argued that a specific structural position in a network provides a firm with a superior ability to access more information (Freeman, 1978). For example, when a firm occupies a central position in a network, more information will flow through the firm who takes the central position (Powell, Koput, & Smith-Doerr, 1996).
The control benefit is another advantage which the social network offers (Burt, 1992). A specific structural position in a network gives a firm the ability to take advantage of its position by connecting other firms that are not otherwise connected (Burt, 1992). The brokerage position is one of the structural positions that provides control benefits (Baum, Calabrese, & Silverman, 2000; Burt, 1992). A firm with the brokerage role can create benefits by exploiting opportunities for arbitration, which can result in establishing favorable contracts to the brokering firm (Burt, 1992).

Rationale for Strategic Alliances
Strategic management researchers have proposed that strategic alliances are formed because of exogenous factors such as cost minimization, reduction of uncertainty, resource sharing, and learning from others (Williamson, 1991; Grant & Baden-Fuller, 2004; Hess & Rothaermel, 2011; Inkpen, 2002; Kogut, 1988). Gulati (1999) argued that although these exogenous factors provide enough rationales for the formation of strategic alliances, these factors may provide few implications for how alliance partners are selected. Gulati (1999) proposed that the social network perspective can enhance our understanding of this question. A firm faces difficulties in choosing the right partner due to the lack of information about the competencies, needs, and reliability of potential partners (Van de Ven, 1976; Stinchcombe, 1990). Imperfect information about potential partners increases the partner searching cost and vulnerability to opportunistic behavior of partners (Gulati, 1995; Gulati & Singh, 1999). Gulati (1999) maintained that alliance networks emerge by exogenous factors which make firms seek alliance with others and by endogenous network embeddedness, which helps them to select an appropriate partner. The flow of information through social networks influences the formation of strategic alliances. Burt (1992) argued that a firm’s tendency of alliance formation and choice of partners are influenced by the amount of the information available through its social network. A firm with limited access to the information about potential partners is less likely to find appropriate alliance partners to collaborate with (Gulati, 1998).

Roles of Trust
Finding a reliable partner with adequate capabilities is crucial to success of strategic alliances. The social network theory provides useful insights into the roles of trust in finding the right partners at the
Diverse theories are suggested to advance our understanding of strategic alliances. Strategic alliance scholars maintain that two types of trust can influence the choice of strategic alliance partners. First, knowledge-based trust can be developed through the aggregation of trust-related information (Lewicki & Bunker, 1995; Shapiro, Sheppard, & Cheraskin, 1992). The alliance network of a firm’s prior or current alliance partners can be a source of the information about a potential partner’s capabilities and trustworthiness. The interactions with other firms through a social network provide not only knowledge about a potential partner’s skills and capabilities, but also the information about the potential partners’ trustworthiness (Coleman, 1990; Rowley, Behrens, & Krackhardt, 2000). Therefore, a firm with a better structural position or cohesive relationship with others is more likely to find a trustworthy partner that can provide strong capabilities and would not behave opportunistically.

Second, deterrence-based trust is developed through a social network. Deterrence-based trust is based on the fear of costly sanctions that can be imposed to a firm which shows opportunistic behavior (Ring & Van de Ven, 1992; Shapiro et al., 1992). The deterrence-based trust influences the cooperation activities at the operation stage of strategic alliances. Since firms need to work with other firms, developing and maintaining a reputation as a good alliance partner can be beneficial to the firms (Davis & Greve, 1997; Wellman & Berkowitz, 1988). As the relational cohesiveness of a network increases, alliance partners will face more pressure for conformity to expectations while working with others (Coleman, 1988). The social network can serve as a means to share information about other firms (Burt 1992). A firm’s reputation which is developed from past experiences can be delivered to other firms through the cohesive social network (Fombrun & Shanley, 1990). When a firm behaves opportunistically, the information is delivered to other potential partners within the network (Schweizer & Wijnberg, 1999). The damage on the reputation of a firm can result in loss of current and potential collaboration opportunities (Jensen & Roy, 2008). When each partner knows that its partner will have substantial loss from behaving opportunistically, a firm will have more confidence that its partner will show good behavior (Kollock 1994). Therefore, the deterrence-based trust can reduce the opportunistic behavior of a partner while they collaborate with each other (Shapiro et al., 1992; Burt & Knez, 1995).

CONCLUSIONS

Theories are developed to articulate how and why a phenomenon occurs, using concepts and relationships with the concepts (Gioia & Pitre, 1990). Diverse theories are suggested to advance our knowledge and provide new insights by connecting pre-existing concepts (Kilduff, 2006). Although each theory enhances our understanding by offering original insights, a single theory has limitation in explaining diverse aspects of a specific phenomenon (Hambrick, 2007). Scholars have adopted multiple theories to overcome this limitation. Roles of trust in strategic alliances can be examined from diverse perspectives. Transaction cost economics can explain how the trust to partners can reduce the transaction cost while developing and applying contracts (Faems et al., 2008; Malhotra & Lumineau, 2011). The real option theory suggests that firms can use a pilot project or small-scale alliances as a mechanism to develop mutual trust, and how the strategic alliances can be evolved at the outcome stage of strategic alliances as the uncertainty regarding its partners and environment are resolved (McCarter et al., 2011). The organizational learning theory emphasizes the roles of trust when partners share tacit knowledge through the direct observation and experiences with partners (Cooper & Sawaf, 1996). The social network theory enables our understanding of how we can find trustworthy partners. The structural position and network embeddedness can help firms to identify the right partners who are trustworthy and capable of achieving the objectives of strategic alliances (Rowley et al., 2000). However, each theory cannot address all the trust-related issues in strategic alliances. Transaction cost economics cannot explain how they can find trustworthy partners. Real option theory does not explicate how the trust among partners creates synergetic value and helps firms to achieve their objectives. The social network theory has limitations in identifying the motives of strategic alliances.

Mayer and Sparrowe (2013) suggested several approaches to integrate multiple theories to gain novel insights for future research and management practice. They explained how two relevant or seemingly disparate theoretical perspectives can be effectively integrated to shed light on research questions (Mayer
& Sparrowe, 2013). Adoption of a new theory can be also useful to address unresolved issues in strategic alliances. Micro-level theories such as organization justice or expectation violence theory can be used to explain how trust can be created among partners (Lou 2008; Weber & Mayer, 2011). Future research can adopt multiple theories which can improve our understanding of the roles of trust in strategic alliances.

REFERENCES


