

TRUST – KEY FACTOR IN STABILITY AND DEVELOPMENT OF NETWORK ENTERPRISES

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Abstract: Network enterprises are more and more present on the market today. They are recognized for their remarkable economic and social outcomes. Trust is the basis for building network of enterprises. A great investment of time and money is being done in order to stabilize a network and consolidate the trust between its partners. On the other hand, trust is an uncertain concept. This paper aims to show the high importance of trust for various types of networks (collaborative, innovation, learning and knowledge transfer, virtual) and even for clusters. The notion of trust is also analysed in strong connection with distrust and opportunism.

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Key words: trust, network enterprises, opportunism, distrust

1. INTRODUCTION

Network enterprises represent a new form of organization of enterprises nowadays and they appear as a result of a more and more turbulent environment. Since it is constantly changing, networks of enterprises appears, aiming at putting in common resources, intelligence and various skills. Network enterprises are a beneficial tool, especially for small and medium size enterprises, helping them to better cope with globalization and improve their competitiveness. In the management literature, always networks have been described as a composite organization form, between hierarchical organizational structure and market structures. Very often, when networks are well-done and the final results are very good, a symbiosis is reached, ideally (Schneider et al, 2006). Moreover, "gathering together the essential competencies makes networks seem like an organization best of everything" (Smith and Holms, 1997).

The particular feature of the networks is that they allow to competitors to pass to an honest cooperation in order to increase their competitiveness. We have to admit this is an opportunistic behavior, since firms are staying together in a network with one strong, clear economic objective. This may be either the favorable position on the market when launching a new product, or a possibility to turn to profit a certain innovation. In this context, opportunism has a positive connotation related to a network. There also is a negative connotation of opportunism, which will be described later on in this paper.

Networks are volunteer organizations created with the purpose to encourage their members to cooperate, to communicate and to make information exchange. These members can be very eterogenous companies, that can decide themselves the topics in which they cooperate and those in which they do not cooperate. Thus if conflicts appear, they may be easily solved, since the distinction between common and specific aspects is obvious. Within a network, instead of hierarchy and domination, trust is the basic premise.

The keystone for the foundation of one network of enterprises is the trust. This leads to the mutual sharing of valuable information by the network' partners. The network is the a frame in which enterprises keep their independence and only cooperate to manage common resources, competencies, technologies, ideas looking for reaching their common interest. All these cannot be done without trust. Together with trust, interdependence and reciprocity are the basic premises for an ideal network (Anttiroiko, 2006). In all situations, during the network life, trust has a beneficial effect for the network partners.

Without trust, business relations become fragile and vulnerable. Within a network, where trust is the binding element, partners are very eager to communicate, open to share ideas and receive support in their joint actions. A trust relationship within a network supposes a joint effort of all partners, and when one of them notices a small disfunction, he/she must identify the factors that led to this specific situation. If partners want relationship to be kept, they insist to clarify the disturbing issue. If not, they tend to leave things as they are and soon the network will be erased.

There are various mechanisms to establish trust between partners within a network, but most of them are based on a previous experience of working with those partners. It's important to notice that "face to face meetings are irreplaceable to build trust and to regain it" (Ghilic-Micu and Stoica, 2003).

Trust has a double position within a network. On the one hand, it is the base for its establishment, but, on the other hand, it is the good result of the collaboration inside the network.

2. TRUST – CONCEPT, DEFINITION AND TYPES

In a network, the motivation is the common interest and the strong will. Trust is helping network partners to reduce the complexity of the environment and to consider that only cooperation can support them to faster reach their goals. Trust is that governance model that is totally opposite to authority. If "authority means monitoring by the use of rules and procedures", trust, on the other hand, "means monitoring by social norms and personal relationships" (Hakansson and Snehota, 1995). For a network, trust is a compulsory condition not only when it is founded, but during its existence too.

Trust shows its influence even when network partners decide what kind of actions they undertake. If they trust each other, network partners choose to take high risk decision, but if the level of trust is lower, their actions will be ordinary. The confidence of partners reduces the danger of risky decisions. Other values that may be "blamed" for risky decisions are loyalty and commitment. Very often, trust is tightly connected with these values, even confused with them, but there are clear differencies. Loyalty means the feeling of strong support for someone or something¹. Other specialists call loyalty as a "key benefit of trust" (Van Alstyne, 1997). Commitment means the attitude of someone who works very hard to do or support something².

Apparently, the attempt to define trust is a simple one, and has an immediate answer. For instance, as Wagner said: "to trust somebody means to let the own behavior be guided by the assumption that the other will behave in a favourable way, knowing that he doesn't have to" (Wagner, 2010). Another definition of this concept is: "trust is the fundamental

¹ Available at <http://www.learnersdictionary.com/search/loyalty>, accessed on September 29th, 2012

² Available at <http://www.learnersdictionary.com/search/commitment>, accessed on September 29th, 2012.

concept based on which any kind of association form or work in team exists and runs” (Ghilic-Micu and Stoica, 2003).

But when analyse it deeper, we notice that trust means connection between two persons at least, an old experience of working together, or, on the contrary, the lack of it and the strong will to reach joint economic objectives, at the same time.

In the management literature, there are various types of trust described by the specialists. Wagner (2010) presents the following types of trust: calculative, norm-based, generalized and institution-based, whose description is done below.

The decision to cooperate with partner companies and to rely on them is easy to be taken when a contractor knows those partners for long time and worked with them. But when is to decide to cooperate with unknown partners, generally someone has a little hope that everything will go well. Together they will identify joint goals and convenient ways to reach them. This is why the decision to found a network with new partners supposes a reasoning after which people decid to cooperate with a company or not. Always, reasoning means a sort of calculation, this is why this type of trust is named calculative trust. When a contractor, for instance, decides to trust a new partner, he assumes the risk of having made a mistake and waits for a confirmation. If he was wrong, he loses that business. But “the gain in case the trust is verified is big” (Coleman,1990). Subsequently if he makes a good business with that partner, this means the trust between these two partners started being created. Trust building is, therefore, a time and money consuming process, but indispensable to the networking process.

In an opposite situation, people just trust others without any previous calculation. This is the case when people derive from the same kind of culture, they share the same social norms, rules and values. Most of the times, this kind of approach is valid, this kind of trust being called norm-based. However there are situations when betrayal interferences. When this happens, cultural norms have been broken by the one who betrayed.

In other situations, especially those happening on the daily basis in our life, people just trust others because it is much more convenient and simple to do so. Trust is a positive method to simplify things, people generalize various circumstances and take decisions based on this. Naturally this does not prevent treachery.

There are cases when we trust institutions to be addressed to if our trust is betrayed. This type of institution refers at justice institutions or independent organizations.

These four kinds of trust appear when taking decisions in everyday life, including business decisions. In case of networks, once trust is created, it is integrated in the organizational culture of that network. However, trust must be cultivated permanently, every action of the network partners must take it into consideration and prove it.

The advantages of the trust are numerous. First, trust helps to reduce the complexity of certain economic phenomenon. When trusting a collaborator, we take for granted what he states, without making more research on that topic. Secondly, trust favors the collaboration between people, they communicate much easier when they know to belong to the same network. Thirdly, the open communication creates the possibility to prevent or to manage work conflicts in a much more convenient manner, without additional concerns and sorrows.

3. TRUST - PARTICULAR SITUATIONS WITHIN NETWORKS

During the life of a network, there are two situations or moments when trust is actually crucial: when it is established and during its stabilization.

When an entrepreneur is trying to set up a cooperation with other companies, the first step is to share its plan to potential collaborators. These may even become competitors and sometimes it's risky to disclose useful information to them. But if they really trust the initiator, first they are looking for information about him and his previous results in the specific field of activity. The calculative trust appears here. Then the initiator is supervised to see if his actions are in connection with the initial purpose. If the potential collaborators decide to join the network, it means they agreed with the initiative of the network. Sometimes it is possible that the initiator derives from a known institution. In this case, the decision to join the network is easily taken, since the potential collaborators show the institution based trust.

During the network stabilization, problems interfere when two categories of partners are inside it. It's about opportunistic partners and the robbers.

The opportunistic partners join the network either from the beginning of it, or even later. In both cases, these are passive players, they join the network only to take advantage of its reputation and to gain experience. If they join the network later, they avoid the risk of the first network projects, and in case projects are successful, they take their own profit from it. This is actually the negative connotation of the opportunistic behaviour. The size of the network may influence an opportunistic behaviour. If the network is small, the opportunistic partners is less probably to join the network, they can be rejected by the network. On the contrary, in bigger networks, it's easy for opportunists to join the network and take advantage from it.

The robbers are the partners that join the network only to take the best results with them. They bring their contribution and at a certain moment, when results are being obtained after the whole network endeavour, they take them for their own use, depriving their partners to do the same. It is the most unpleasant situation that can appear during the network life. After this kind of moments, the network may get dissolved or on the contrary, the network can go further even better, without robber partners, that have been eliminated.

In order to prevent such unpleasant situations, some methods need to be prepared and implemented, such as: sanctions to be applied, an arbitration board to be installed (Wagner, 2010).

Another situation in which trust is involved is related to the double position of the network partners. They have a position within their home organization and also another one within the professional network. Usually the rule is to justify the network decisions inside the home organization. Sometimes, conflicts may appear, between home organization and network. Most of the times, partners are more connected with the network, more involved in its actions, different from their team inside home organization. This is why the more people from an organization are involved in a network, the better results will be obtained by both network and home organization.

As trust is the key factor for the network working, in a similar logic, distrust becomes a brake in its run. Like opportunism, distrust has a double connotation, one positive and one negative. The negative connotation appears when doing a simple reasoning. If distrust appears, it means that network partners are very close to the end of their cooperation. This also means time, energy and money spent in a unappropriate way. However, distrust also plays a balance role in a network working, which represents the positive connotation of it. Always, network partners should keep a small amount of distrust in their behaviour within the network. It's good for them to distrust some solutions of the network, in order to look for ideas outside it. This way, it is possible that innovation to penetrate the network and open new paths for its evolution.

Trust is also created by the communication between partners. The easier they communicate, the higher the trust becomes. Naturally, trust is amplified when the collaboration within a network covers more fields of activity, and not only one. As stated earlier, trust is easier to be created when people are face to face. It's a general social rule: after looking at someone, we know if we can trust that person.

Trust is also better preserved when the network duration envisages a longer period of time, at least 3 years. A common past means experience of joint work of the network partners, lessons learned after failures and successes. Partners have already been familiar one with another, they know their strengths and weaknesses. When knowing each other, they manage their work better.

We consider that, when a network is being formed, the most important aspect is the selection of participants, which can be analysed from two points of view: the number of participants and their provenance. The ideal situation is when network partners derive from the similar cultures, meaning they share the same values and social norms. Under these circumstances, it's easier for them to trust each other. Trust may become an element of the organizational culture, to be learned and shared by all network members. The number of participants is important too. In the small networks, participants have the possibility to easier interact one with the other, to know each other better, so to trust more. The situation is opposite when participants are part of a big network, they trust each other less, since hardly they know each other.

5. CONCLUSIONS

Trust is a valuable asset for a network, in order for it to be successful. People must trust each other if they want to work together and get the best results in a network. The purpose of the network formation is to better manage a more turbulent environment. As specialists say: "The higher the uncertainty is, the more necessary is the trust" (Parkhe, 1998). It is true that trust formation is a difficult and risky process. This is why the activities and leverages to be used for its achievement are a topic for a further deep research.

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