

# In a global economy, trust is a critical commodity

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In the global economy, corporate collaboration is becoming a necessity, making trust critical to the success of joint business ventures. A University of Missouri study examined the effects of trust at three distinct organizational levels and found that business executives should strive to build and maintain trust to improve performance. Building that trust may include consideration of staffing, special compensation and adjusted management processes.

“Firms form collaborative entities to generate value and achieve objectives that would be difficult, if not impossible, to achieve independently,” said Lisa Scheer, the Emma S. Hibbs Distinguished Professor at MU’s Robert J. Trulaske, Sr. College of Business.

“Collaborations often fail to reach those goals and the culprit may be poor relations and the lack of trust in joint ventures.”

Researchers studied 114 international joint business ventures (JBVs) and found that trust was a key component at three levels: 1.) between the two collaborating firms; 2.) in each firm’s reliance on its own representatives; and, 3.) among the individuals assigned to a collaborative entity, which is a group with representatives from both firms formed to facilitate the joint venture.

Trust occurring at the collaborating firm level is called inter-organizational trust. This can be trust between two CEOs or it can be institutionalized trust among people at different firms who have worked together for a long time. For example, the ongoing supply chain

cooperation between the manufacturing firm Proctor & Gamble and the retail giant Wal-Mart reportedly was initiated because top management in the two firms trusted each other to cooperate and refine the collaboration over time.

According to Scheer, two firms can collaborate and yet remain more distinct. In many cases, management assigns specific people in each firm to form a collaborative group, or entity. The entity may be formed for different reasons, such as to develop new products, strengthen supply chains, reduce operational costs, reach new markets, devise industry standards or serve specific customers. At this trust level, the parent organization must trust the people in this group.

On another level, the people in the collaborative entity must trust each other and be able to share critical information to achieve their objective. Trust must be established because sharing and coordination creates vulnerabilities that a partner might exploit.

“Any collaborative entity will have unique problems. But collaborative entities also share similar challenges arising from the mixed loyalties and conflicting objectives the individual collaborators face,” Scheer said. “If the collaborators continually place their respective parent firm's goals first, the collaboration is likely to fail. Actions that benefit only the entity, however, may undermine the parent firm's short-term interests.”

Source: University of Missouri-Columbia

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