When trust becomes the fourth "C" of cooperation

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Technological development along with the fall of most political barriers has made the world a smaller place. Firms, even those that focus their operations in the domestic market, face increasing competition. These phenomena have introduced an important shift in the way internationalisation must be regarded. In fact, in a growing number of cases internationalisation is not confined to "go overseas". Rather, it is a matter of being competitive in webs of relationships where the particular position assumed by one firm is likely to affect not only its own performance but also the evolution of other players.

The objective of this paper is to shed light on internationalisation processes supported by collaborative organisational arrangements. The first part is a case study of an alliance involving firms that created a network aimed at developing a new brand. The second shows how firms can reinforce their competitiveness by joining resources and efforts to gain an important head start in the global marketplace. Authors develop a new model of inter-organisational cooperation. On the basis of an analysis of the actors, resources and activities, the cornerstones of the model are the four Cs of cooperation: **C**ommon interests, **C**onjoint resources, **C**oordination of activities and **C**onfidence.

Keywords Strategy, Alliance, Cooperation, Network, Internationalisation.

Introduction

Firms are not independent entities acting on their own in the market. To develop their activity they have to interact with other firms and organisations such as governmental departments, associations or regulatory commissions. This process of interaction may give rise to lasting and stable relationships through which firms adjust products, production and routines. Such relations are often built over a long period since their development requires time and resources, and may involve commitments for the future. Firms' behaviour can thus be described as a cumulative process where relationships are created and developed to guarantee firms' control over the resources they need, the selling of their output, and the pursuit of their objectives. This system of interdependent organisations engaged in the production, distribution and utilisation of goods and services, forms a network where the particular

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position assumed by one firm affects not only its performance but also the evolution of other actors.

Assuming a network perspective, the paper focuses on inter-organisational cooperative arrangements created to support the internationalisation process of small and medium sized firms. It is divided into four main sections. The first presents a model of inter-organisational cooperation whose key elements are the four Cs of cooperation: common interests, conjoint resources, coordination of activities and confidence (trust). The section which follows explains the methodology. The third section addresses the Vitrocristal case, an alliance created by firms aimed at developing a new product line with its own brand and distribution channels. The last section encompasses the main contributions of the study as well as a number of managerial implications.

A model of inter-organisational cooperation

This section elaborates on how firms can reinforce their competitiveness by joining resources and efforts to gain an important head start in the global marketplace. In this context, a new model of inter-organisational cooperation is suggested.

The conceptual background

The theoretical background is mainly based on the work conducted by the researchers of the IMP (International Marketing and Purchasing) Group. The seminal studies were carried out at the University of Uppsala and Stockholm School of Economics in the early 80s (cf. Håkansson 1982; Johansson and Mattsson 1985). The work was further developed by other research centres both in Europe and the United States (cf. Axelsson and Easton 1992; Naudé and Turnbull 1998; Möller and Halinen 1999; Smith-Ring and Van de Ven 1999; Ford 2002; Ritter et al. 2002; Håkansson et al. 2004).

This stream of research, adopting a network approach, attempts to describe and understand industrial systems in terms of three basic variables: actors, activities and resources (Håkansson and Johansson 1992). Actors are individuals, firms, groups of individuals, groups of firms, or even parts of firms. They are goal oriented and perform activities by using, consuming and creating resources. These may have an unlimited number of dimensions, which allow for their utilisation in a number of different ways. Nevertheless, for the sake of simplicity, it is usual to subdivide them in four main categories: physical resources (e.g. materials, equipment or buildings), financial resources, human resources, and intangible resources such as knowledge and brand image. When actors combine, develop, exchange or create resources they perform activities.

Within the three basic variables (actors, activities and resources), connections established among their elements tend to give rise to structures that can be conceived as networks. Actors, for instance, can be bound together not only by formal arrangements but also by product and process adjustments, logistical coordination and personal ties. In the same way, activities are related to each other in accordance with, for example, technological patterns or power-dependence relationships between actors. This means that the three networks are connected with each other forming an overall network of relations.

As Araújo, Dubois and Gadde (2003) stress, this perspective contrasts with the conventional view about organisational boundaries that adopts a hierarchical (proprietary or contractual) perspective. As a consequence, the conventional view does not capture all the resources and activities that may actually affect the performance of firms. For example, the conventional view may consider as "external" to a firm, resources that are actually under its influence and control. This is the case of most intangible resources (e.g. knowledge, reputation and skills) which, playing often a key role in firms' effectiveness, are frequently created through relationships with other organisations.

The model

In general, inter-organisational cooperation is built over time through a process of interaction that tends to encompass both social exchange and learning (Håkansson and Henders 1992). Social exchange has two major features. Firstly, it allows for a gradual build up of a level of trust and mutuality that is likely to improve the conditions for handling complex transactions between the parties. Secondly, social exchange tends to mobilise parties towards (or against, if desired) a specific action such as a technological development.

On the other hand, learning brings the parties closer, reduces the possibility of conflict and increases the prospects of cooperation. For instance, the joint activity of two firms may give rise to common knowledge, patterns of product or process adaptations, and operational coordination allowing for mutual adjustments and increased efficiency. In some cases, learning may also allow firms to increase their ability to innovate or to differentiate and specialise in certain products and/or markets. In sum, since cooperative exchange relationships are supported by a minimum level of social exchange and mutual learning, its outcome may be an increased adaptation and commitment between the parties, as well as an improved ability to innovate or differentiate.

In most cases the process of creation and development of cooperative relationships do not require a high degree of formalisation. Despite the non-existence of any contract, such informal cooperative relationships tend to assume a stable and lasting nature since they are likely to rely on trust rather than on written (and frequently unwelcome or misunderstood) contracts. According to Brito (1999), the distinction between formal and informal cooperation is important for several reasons. Firstly, formal cooperation tends to be more visible than informal cooperation. Secondly, trust is likely to play a much more central role in informal cooperative activities than in formal cooperation. In fact, often, detailed contracts can be destructive and sign mistrust. But this does not mean that contracts are not relevant. This goes in line with the idea that trust and contracts can be regarded as complementary as Nooteboom (2002) stresses.

Finally, cooperation may involve several people with different functions and responsibilities within their organisations, but usually the key people supporting informal cooperative relationships are those directly involved in the exchange process. Indeed, although top management in some cases might have an important role in fostering informal cooperation, it is more often concerned with the establishment of formal collaborative agreements.

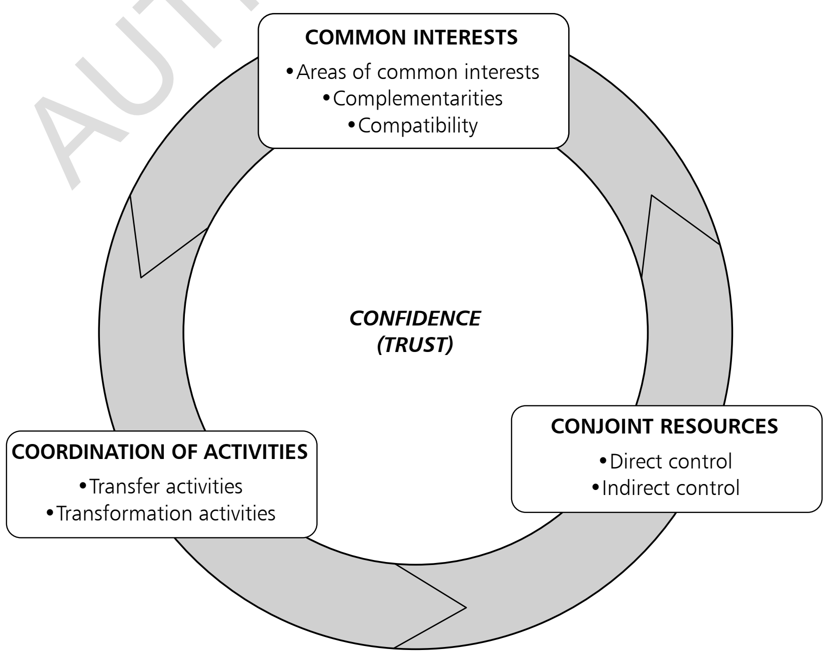
In contrast to formal collaborative arrangements, informal cooperation is in general more random, unplanned and reliant on individual actions. It may involve the transfer of people and information, as well as the sharing of social norms.

Both people and information exchanged between competitors provide an important source for cooperative relationships. In fact, when people move from one firm to another, this may give rise to the transmission of information (e.g. technological, commercial or financial) as well as to the creation of personal links. Such ties become, in most cases, the basis for stable and lasting relations between organisations. Spill over risks depend on several factors:

- The degree to which the knowledge involved is tacit or explicit (tacit knowledge flows easily than documented knowledge)
- If it is embodied in individuals or structure or culture. People or teams may be poached too; their knowledge may spill over when they are stationed at other firms, when they do joint research or when they meet at conferences. If it is embodied in structure and culture it can still be expropriated by take-over. However, in this case, it will depend on how quickly and effectively culture can be integrated in the acquiring firm

However, it is not just through people transfer that information is exchanged. Inter-competitor communication is also likely to play an active role in diffusing knowledge. This may be concerned not only with major radical innovation but also with incremental innovation both in products, services and processes.

Figure 1 The 4 Cs model of cooperation



The cornerstones of this model of cooperation are the four Cs (Figure 1): **C**ommon interests, **C**onjoint resources, **C**oordination of activities and **C**onfidence (trust).

Common interests

Firstly, it is fundamental that the parties assess the existence of common interests. This is a *sine qua non* condition for the development of cooperation. Then it is necessary to see if there are complementarities, or better yet, areas that may benefit from synergies, where working together allows greater profits to be gained then if acting alone. Finally, it is important to see if compatibility exists in the development of activities carried out by the different parties. Although the former conditions have been fulfilled, sometimes the networking is missing, as the parties are not able to work in tune together. This may be caused by, for example, a culture shock between them. It is important to diagnose these aspects before advancing to more sophisticated forms of cooperation.

Conjoint resources

The second condition for business cooperation is to share resources. Actors involved in alliances perform activities by using, consuming and creating heterogeneous bundles of resources that can be controlled either directly or indirectly. The difference between these two types of control is that while the former is based on ownership, the latter is achieved through relationships. The importance of indirect control stems from the fact that when an actor establishes exchange relationships with other actors, links of dependence are created and, consequently, their resources come, at least partly, under the control of the focal actor.

Coordination of activities

The existence of an alliance requires coordination of the activities performed by the different partners. There are two basic kinds of activities: transformation and transfer activities. The former comprises those that, being directly controlled by one actor, change or improve resources in some way. Transfer activities are those which link transformation activities and transfer the direct control over a resource from one actor to another.

Confidence (trust)

Finally, trust is essential to the establishment and development of cooperative relationships. It demands mutual understanding, time and common experience. Some rules may be suggested:

- Avoid being the first to behave opportunistically.
- Respond reciprocally to cooperation – or lack of it.
- Do not be too ambitious when setting goals, especially if they may harm the partners or are impossible to be reached by them.
- Maintain solidarity with partners, even in difficult and uncertain situations.

In the case of Vitrocristal, its international role through the establishment of a sales subsidiary in the US market would not have become a reality if strong investments in relationships had not been made. The cooperation actions were managed in line with the existing resources and following the ongoing processes. It was found that the scarcity of its own resources did not prevent internationalisation, as it had access to them indirectly. This fact highlights the importance of the processes that, in practice, are no more than intangible competitive factors. Also seen was a tendency to identify the activities that truly added value, where priority was given to these in terms of allocation of resources.

Methodology

On the basis of this conceptual framework, the research project analysed a number of cases, one of which was Vitrocristal that is presented in the following section. The methodology relied on a qualitative analysis inasmuch as the investigation aimed at being simultaneously explanatory and exploratory (Yin 2008). It was explanatory since the research questions were formulated in terms of "why" and "how" rather than "who", "what" or "where". Case studies are more appropriate to research questions formulated in terms of "why" and "how" because such questions raise issues linked with relational forms which need to be understood over time, rather than mere frequency or incidence since it intended to understand the causes that produce the effects. On the other hand, it was exploratory since it intended to develop new substantive constructs on the basis of an in-depth understanding of the case.

The Vitrocristal case

This section analyses the Vitrocristal case in terms of the initial context, the collaborative strategy adopted and its respective outcomes.

The context

The Portuguese glass industry, which includes products of crystal and glass produced through semi-automatic and automatic processes, faced a number of important challenges by the early 90s. These had to do with a number of threats that weakened its competitive position in international markets:

- Strong external competition, especially from Eastern Europe.
- Highly unionised labour force.
- Dependence from a small number of customers with high bargaining power.

Side by side with these threats, the majority of firms had a low productivity and were very much product oriented, paying little attention to marketing issues. This meant a reduced control over distribution channels, absence of strong brands, poor design, and difficulties in developing an integrated communication strategy. The majority of companies operating in this industry were located in Marinha Grande. Situated 70 kilometres north of Lisbon, this region was an industrial district that accounted for 80% of the Portuguese crystal production. Moreover, 30% of the active labour force of the district was employed in the glass industry.

The answer

Since most companies were facing strong problems of competitiveness, a number of entrepreneurs along with representative bodies and governmental departments decided to conduct an in-depth analysis of the industry value chain. As a result, two measures were identified as crucial for the recovery: the creation of the Marinha Grande Glass Region and the mobilisation of resources and efforts in order to increase the technical and commercial capabilities of the firms. This gave rise to the creation in 1994 of Vitrocristal, a network made up of 14 companies. Each company had a share of 4.5% of the initial equity, as well as AIC – Associação Industrial de Cristalaria (the trade association) and CTCV – Centro Tecnológico da Cerâmica e do Vidro (the technological centre for glass and ceramics). IAPMEI, the governmental institute that supports small and medium sized firms, had a share of 28%.

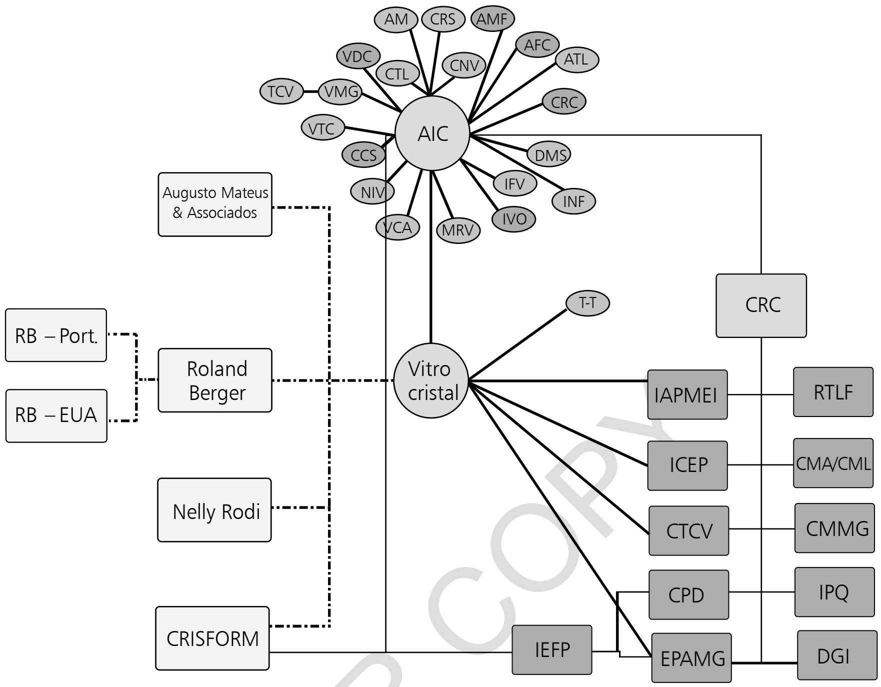
While the Glass Region aimed at articulating industrial and regional policies, and promoting a differentiated image of the Portuguese crystal products in international markets, Vitrocristal was expected to act as a node linking the companies, the public policies, the trade association, the support infrastructures and the society. Its mission was to improve the overall competitiveness of the industry on the basis of a collaborative model. Considering the strategic positioning desired for the cluster, a consultant company was hired: Roland Berger and Partners. The choice was made taking into account that Roland Berger had a significant expertise in the glass and crystal industry throughout the world, as well as close links with the most important markets.

By that time, this was considered the first step to get rid of the crisis. However, two years later many things were in a standstill. The members of Vitrocristal became then aware that other actions were needed to face the global context where these companies were operating. Thus, some interventions in terms of brand, design, commercial conditions and new markets were searched for. It was recognised that a more close contact with the customers as well as a higher level of product differentiation were critical success factors. The idea was to build up an alliance in a gradual and progressive way, basing each step in the results of the previous ones.

The implementation of this cluster demanded other measures such as the creation of a training centre named Crisform. On the other hand, CRC – Comissão Regional de Cristalaria, a regional entity, was expected to promote the region and its products. It was entitled of the involvement of all the driving forces of the region in order to capture a wide range of motivations that used the image of the district for managerial purposes. CRC was also responsible for checking if the production of crystal companies was according to the standards established.

In 1998 the cluster was made up of different actors as shown in Figure 2 (overleaf). Formal members were the firms (they became more than 20), a number of collective and representative bodies such as AIC, CTCV, and

Figure 2 The Vitrocristal network



institutional departments such as IAPMEI. In addition, there were very close relationships with other partners such as Roland Berger, Nelly Rodi (a fashion company) and Augusto Mateus & Associados, an important Portuguese consultancy company.

A crucial element of this strategy was the creation of a collective brand: MGlass. Each company could use this brand in its products in the condition that the standards in terms of quality and design were achieved. Furthermore, there were regular inspections to the products and processes to check if the conditions were being fulfilled. In this way, under MGlass was offered a wide and differentiated product line, something that was impossible to achieve if the firms were operating on their own.

After an analysis of the attractiveness of the major international markets, Vitrocristal defined a number of targets for MGlass products. Spain, France, Germany and Sweden were considered markets with high potential. For some of these countries Vitrocristal decided to use exports as an entry mode inasmuch as this was already being done by some of its members. However, a major emphasis was placed in the United States. The objective was to get 1% of market share in five years' time. Given the dimension of the market this was considered a very ambitious goal calling for a significant investment in marketing. Nelly Rodi helped in the definition of market tendencies. Meanwhile, market knowledge from Roland Berger and ICEP (Investments, Trade and Tourism of Portugal) were also brought into the network. A showroom was then opened in the 5th Avenue in Manhattan, New York.

The creation of an affiliate in the US market was considered the best strategic option since Vitrocristal aimed at establishing close relationships with local customers. The affiliate operated as a sales subsidiary, allowing for a better control over the distribution channels and a better way to profit from the investments made in the new brand. Concerning the marketing strategy, Vitrocristal's managers always considered that it was necessary to take into account the specific needs of this market. Consequently, it was decided to use local advertisement companies that took care of brand name communication. Public relations were also used, as it was regarded very important to succeed in a market of highly designed glass and crystal products.

The outcome

Vitrocristal efforts resulted, first of all, in the creation of an aware brand name (MGlass) associated with prestige, quality and good design. MGlass products are sold in important international retail shops. From 2001 to 2003 six million euros were invested in the American market. These efforts resulted in the achievement of the expected sales and market share. Companies are now benefiting from the integrated strategy, namely in terms of brand image. Parallel results are considered very satisfactory too for other companies acting in other sectors, such as tableware.

Vitrocristal is considered a good example of cooperation among small and medium sized European companies. It got several awards that increased the Marinha Grande district recognition:

- National Award of Design Management – Sena da Silva Trophy, obtained from the Portuguese Design Centre.
- Top 100 design projects – *Metropolitan Home Magazine*.
- Top 5 case studies of the use of design in change management – European Commission.
- Top 5 European cases of design management – European Design Management Award.
- Afonso Lopes Vieira Award.

The Portuguese government is still supporting these efforts. Public funds have been assigned since Vitrocristal creation, which validate the recognition and the potential of the project. Actors know that this support will decrease in future, but the project has to be evaluated in the long term. Despite all the controversy around this project from its beginning, regarding the companies not involved in the Glass Region and the definition of the standards to be able to use the MGlass brand name, Vitrocristal has managed to keep its course and consolidate the brand image, as well as its mission: restructuring, fostering and consolidating of glass sector in the Marinha Grande region.

Conclusion

This model of cooperation sheds a new light on strategic management. Traditionally, a good strategic positioning was conceived as "being in the right place and acting in the right way". From a network perspective, the "right place" is the net because it is there that the power tends to be greater. And "being competitive" is replaced by "having power" which means having the ability to relate to the right organisations at the right time, and to have access to their resources and processes (or even control them). The challenge is to identify the industries where cooperation is possible, through the analysis of structures resulting from the application of a model of this type, where hierarchical, functional and competitive relations exist simultaneously, throughout the value chain. Thus this model aggregates aspects that refer to market governance through companies and through hierarchies, adding new dimensions.

In short, the model developed in this article represents a step further in strategic management inasmuch as firms are not only concerned with markets and products. They are not even confined to the competence issue. Rather, a success key factor is to know who can bring new capabilities into the network in order to foster the overall competitiveness. In other words, the big challenge firms are facing is:

$$\text{Know What} \rightarrow \text{Know How} \rightarrow \text{Know Who}$$

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