Applying a trust lens to the study of international strategic alliance negotiations

Michael Jeive

School of Business,
FHNW University of Applied Sciences & Arts Northwestern,
Switzerland
Email: michael.jeive@fhnw.ch

Abstract: This paper considers the value of applying a trust lens to the study of international strategic alliance negotiations. This paper considers that, in the context of international strategic alliances, negotiation is not limited to the process of reaching an initial agreement, but also includes the implementation and joint value creation phases. In a context where neither party has the power to enforce values on the other, the process of negotiating values and managing expectations brings the structures of the working relationship into sharp focus illuminating the ongoing process whereby agreed or accepted behavioural values emerge and begin to underpin the collaborative endeavour. Following a brief cultural diversion to show how the trust lens can illuminate the development of alliance culture, the paper provides an overview of key recent literature on the conception of trust and trust development before returning to a discussion of trust and negotiation and especially of the strategic alliances.

Keywords: strategic alliances; negotiation; trust; interpersonal trust; system trust; process trust; trust development; values.

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1 Introduction

The trust literature and especially the literature relating to the development of trust and distrust offers a methodology to investigate the collaboration processes at the interpersonal, system and process levels. At the interpersonal level it illuminates person to person interactions, highlighting the development of the collaborative attempt. The trust lens can also be applied at the system or institutional level to focus on the broader context of stakeholder management and influence the process or the longer-term development of the joint enterprise over time. Thirdly, the trust lens can also help us understand the attitudes of the practitioners to the process itself and their engagement with it. A focus on the development of process trust and its breach and repair within collaborative activities (Clases et al., 2008) focuses on the behaviours and encounters bringing a process orientation and highlighting the implicit and explicit value systems which support or hinder the development of trust in the particular collaboration.

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The importance of trust in negotiations is often stated, but rarely examined. In the literature on integrative or win-win negotiations (see e.g. Saner 2007), the attempt to generate an integrative outcome relies on the willingness to share information and to work collaboratively to develop mutually beneficial opportunities for joint gain. For this to take place, the negotiating parties need to develop a degree of trust in the either their counterparts, in the negotiation process or in the negotiation structure.

Fischer and Ury (1991, p.179) state "if there is mutual trust and confidence in one another's reliability, negotiations are likely to be smoother and more successful for both parties". Lewicki and Polin (2013, p.29) argue "trust is a critical element throughout a negotiation, as both the lubricant that enhances and facilitates the negotiation process, and the binding element that often holds deals together". These are just two of the very many references to start throughout negotiation literature.

However, as Kong et al. (2014) argue "research on trust in negotiations has focused on rather elementary issues and relationships and has not sufficiently considered some more complex – and also fundamental – roles that trust may play in negotiations... Not only do negotiations provide a promising arena for future trust research, but research in this arena may also yield new insights for existing areas".

Deutsch (1949, 1958) recognised that trust plays a critical role in negotiations, Kelly (1966) introduced the "Dilemma of Trust and Honesty" into the negotiation literature, and Fisher and Ury (1983/1991) demonstrate necessity of trust in creating the willingness to share information which is a prerequisite to win-win outcomes. However, more recent literature has tended to focus on highly focused micro-level analysis (for example Campagna et al., 2016; rely on simulations and experiments to examine national level variations in trust; Gunia et al., 2011; or carry out meta-analyses e.g. Kong et al., 2014).

While literature designed for negotiation practitioners tends to emphasise trust without analysing it; academic literature has often either avoided the question, relegated trust to a micro-level interpersonal factor, or elided trust and culture. Trust is assumed, attributed, used as evidence, but rarely investigated. At the same time, trust authors focus on a wide range of topics but only rarely negotiation, although one specific exception to this tendency is the issue 1 of *Journal of Trust Research* (see http://www.tandfonline.com/toc/rjtr20/7/1?nav=tocList).

This paper proposes an approach to negotiation analysis which applies a multi-lens trust perspective to better understand the dynamics of the changing negotiation situation. By understanding the mechanisms of trust and distrust development, trust breach and trust repair, I argue that we gain a deeper insight into the specific negotiation at the interpersonal, system, and process levels.

2 A cultural diversion

The recent analysis of international negotiations appears dominated by a conception of culture which focuses on the national level (Søderberg and Holden, 2002; Shenkar et al., 2008), and applies cultural distance models widely and often inappropriately. "Culture" is often broadly cited as a success factor or as contributing to failure, but often it is the application of national culture dimensions (e.g. Hofstede, 1980). The development of such national level models may be traced via the ground-breaking work of Boas (1940), Kluckhohn (1951), Kluckhohn and Strodbeck (1961) as well as Edward Hall's *The Silent Language* (1959) and *The Hidden Dimension* (1966) etc.

Although the use of intercultural dimensions may add value and help to sensitise some practitioners to general tendencies within societies, there is a parallel tendency for users to abuse the models by failing to recognise the impact of relative power and agency, by ignoring culture as construct, by eliding small and large cultures (Holliday, 1999, p.2011) and by assuming national culture primacy in analysis; and by falling into the so-called ecological fallacy (Robinson, 1950; Hofstede et al., 1993).

While the models may have some relevance and application when analysing encounters at a national level, very few business encounters are actually national in nature, being rather encounters between individuals or small groups each of whom have developed complex specific cultural practices and behaviours. Even in situations such as diplomatic and trade negotiations, where the negotiation is apparently carried out between nations, it is actually the individual and small groups who, metaphorically or literally, sit at the table. Nations do not negotiate, people do.

The "Hofstedian grip" (Søderberg and Holden, 2002; Sachmann and Phillips, 2004) when combined with the essentialist and orientalising impact of work by authors such as Thomas Friedman (1999) and Samuel Huntingdon (1996) might lead to a dangerously simplistic approach towards complex international and intercultural phenomena. This combination can nurture analyses which appear as archetypes of "orientalising" (Said, 1978) "modern west and the backward rest" (Fougère and Moulettes, 2007) "othering" (Devlin, 2011b, 2015) essentialism. When allied to negative priming affects, stereotyping and halo effects (Kahneman, 2011) the misuse of national cultural distance models can and sadly does lead to fallacious results and misdirected real world practitioner performance. Although the use of intercultural dimensions may add value and help to sensitise some practitioners to general tendencies within societies, there is a parallel tendency for users to abuse the models by failing to recognise the impact of relative power and agency; by ignoring culture as construct, by eliding small and large cultures (Holliday, 1999, 2011) and assuming national culture primacy in analysis; and by falling into the so-called ecological fallacy (Robinson, 1950; Hofstede et al., 1993).

A more useful and less divisive analysis of culture would need to consider the degree to which culture is negotiated in context (see for example Bjerregard et al., 2009). A negotiated culture perspective would recognise that culture is created through social interaction and that this interaction can lead to greater convergence and understanding or to conflict. It would focus on the interactions themselves and not only on reported values. It would recognise that social interactions are negotiated within contexts where power relations and the ability to reciprocate and respond are determined by the degree of agency of the participants. It would also recognise the existence of coexisting contradicting meanings at different levels within the individual, the organisation and the society which may be more or less explicit once again depending on the power relations and degree of agency of the participants in the culture creation process. The production of culture is in itself a socially situated sense-making process which cannot be understood without a fundamental analysis of the context within which it is taking place.

Bjerregaard et al. (2009) identify three central dimensions of culture in communication in anthropological literature:

- The interrelation between culture and the local context of social, professional or organisational relationships in which communication is conducted.
- The specific motivations and interests of actors informing the act of invoking cultural identities or categories in communication.
- Actors' strategies of communication.

They argue for a focus on agency, process, interests and motives and analysing intercultural communication through the nexus of culture, actors and the context of communication

As the communication process continues, a concurrent process of small culture (Holliday, 2009) formation is taking place whereby the potential complexity of the situation (Holliday, 2011, p.43) is represented by moveable alliances, shifting realities and specifically, by the forming and re-forming of boundaries between and around the protagonists.

Table 1 Two paradigms (Holliday, 2009, p.241)

	Small cultures	*Large cultures*
Character	*Non-essentialist, non-culturist* relating to cohesive behaviour in activities within any social grouping	*Essentialist, culturist* 'culture' as essential features of ethnic national or international group
Relations	no necessary subordination to or containment within large cultures, therefore no onion-skin	small sub(cultures) are contained within and subordinate to large cultures through onion-skin relationship
Research orientation	*Interpretive, process* interpreting emergent behaviour within any social grouping heuristic model to aid the process of researching the cohesive process of any social grouping	*Prescriptive, normative* beginning with the idea that specific ethnic, national and international groups have different 'cultures' and then searching for the details (e.g. what is polite in Japanese culture)

The analogy, when applied to integrative or interest-based (Ury and Fisher, 1981), collaborative interactions (Thomas and Killman, 1974) implies a movement from an oppositional "I" vs. "the other" to a recognition of the commonalities between "I" and "the other" or even of the benefits of "we". This process should mitigate against the more virulent examples of the sociological form of "othering" (Dervin, 2015) and, as the process takes place at the micro-level, can also reduce the potential for the macro-level othering of orientalisation (Said, 1978).

By focusing on real behaviours, actual interactions and bottom-up culture development rather than an essentialised and deterministic culture model, the analyst can reduce the negative impacts of the national culture paradigm (see e.g. Jeive, 2016, 2011). Analysing negotiation through the trust lens invites us to focus our analysis in a given setting, to consider the nature and definition of boundaries, the relative permeability of those borders, on the bases of power and agency within a defined context. Furthermore, by investigating emergent behaviours and attitudes between the players in a given interaction, we not only uncover the trust trajectory, but also obtain insight into the development of the small culture.

3 Understanding trust

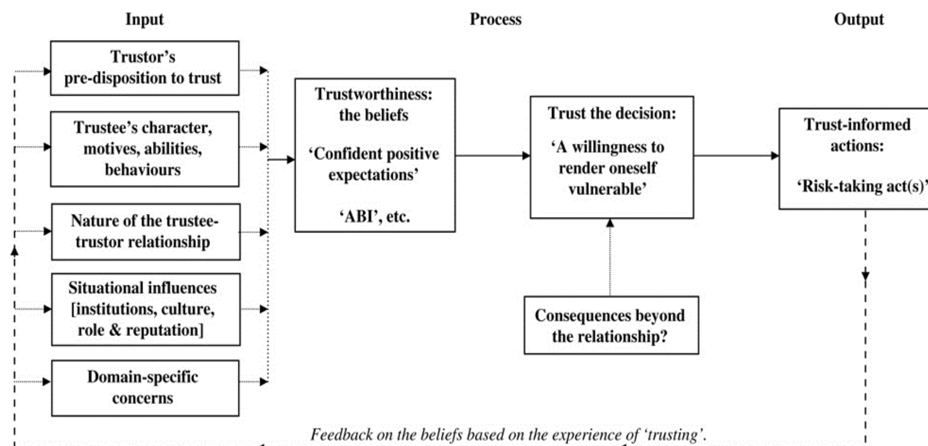
While trust is often attributed, often cited as causal and often discussed, it is all too rarely analysed. This section will provide a brief overview of the relevant theory and before applying to negotiations and specifically strategic alliance negotiations.

Trust can be conceptualised on the interpersonal level (e.g. Mayer et al., 1995; Lewicki and Bunker, 1996; Hung, 2004), on the system level (e.g. Luhmann, 1979; Giddens, 1990), and the institutional level (e.g. Child and Möllering, 2003; Bachmann and Inkpen, 2011) amongst others.

In general, authors writing about trust begin with interpersonal trust and the starting point is often with Mayer et al's. (1995) model of trustworthiness. The authors begin the discussion by stating that "working together often involves interdependence" early on introduce the idea that trust may be a mechanism "for minimising the risk inherent in working relationships". The authors propose a definition of trust as "the willingness of the party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party." At the heart of Mayer et al.'s paper is a conceptualisation of trustworthiness as ability, benevolence, and integrity (ABI). Rousseau et al. (1998) in 'Not So Different After All: A Cross-Discipline View of Trust' develop the definition "Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another".

In both cases, psychological states based on the willingness to be vulnerable or the intention to accept vulnerability are central to the definition of trust. However, is this trust itself or a precursor to trust? For example, Dietz (2011), drawing on Li (2007) argues that this initial psychological state is in itself not enough to make trust happen. Li calls this initial psychological state "trust-as-attitude" and argues that for trust to be realised there must also be a further stage which he calls "trust-as-choice" i.e. the move from the simple willingness to trust to the conscious decision to trust.

Figure 1 A depiction of the trust process (Dietz, 2011)



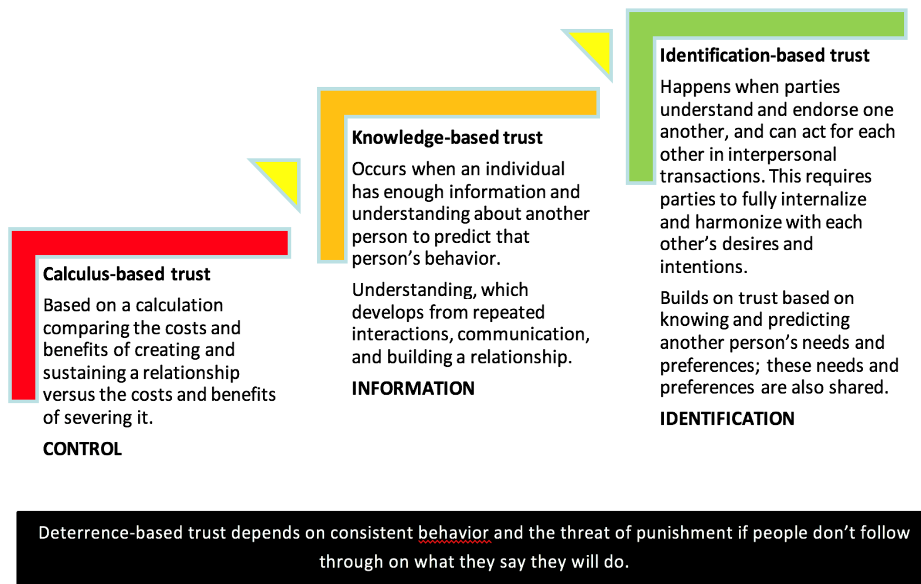
Dietz (2001) demonstrates this argument in Figure 1. We can see that an individual's decision to trust will be influenced by certain inputs such as their own willingness or predisposition, the perception of the trustee's character, the nature of the relationship and

factors specific to the given situation. Assuming that this assessment is generally positive, we can see a willingness to accept the other as trustworthy. From here, the trustor needs to make a further step to make a conscious decision to trust and in the process to make oneself vulnerable to potentially disappointed expectations before the final output step "trust-informed actions".

4 Trust development

Lewicki and Bunker (1995) developed a model of trust development (and decline) where the initial level of trust is calculus-based, basically a cost benefit approach in which the trustee analyses the cost of sustaining a relationship without severing it. This level of trust requires little or no previous knowledge or experience of the trustor and may even be considered as being akin to a rational economic judgement of the costs and benefits of behaving trustingly (or accepting risk) in a given situation (c.f. for example Williamson, 1993; Möllering, 2014 for a discussion). As a relationship between the trustee and the trustor develops, the learning effect of knowledge and experience allows the trustee to better predict the likely behaviour of the other based on the history of the repeated interactions. At this stage, we enter into a knowledge-based trust relationship. We should not discount the fact trust and distrust can occur simultaneously and repeated engagement between the parties could result in the rise or fall both trust and distrust (Lewicki et al., 2006).

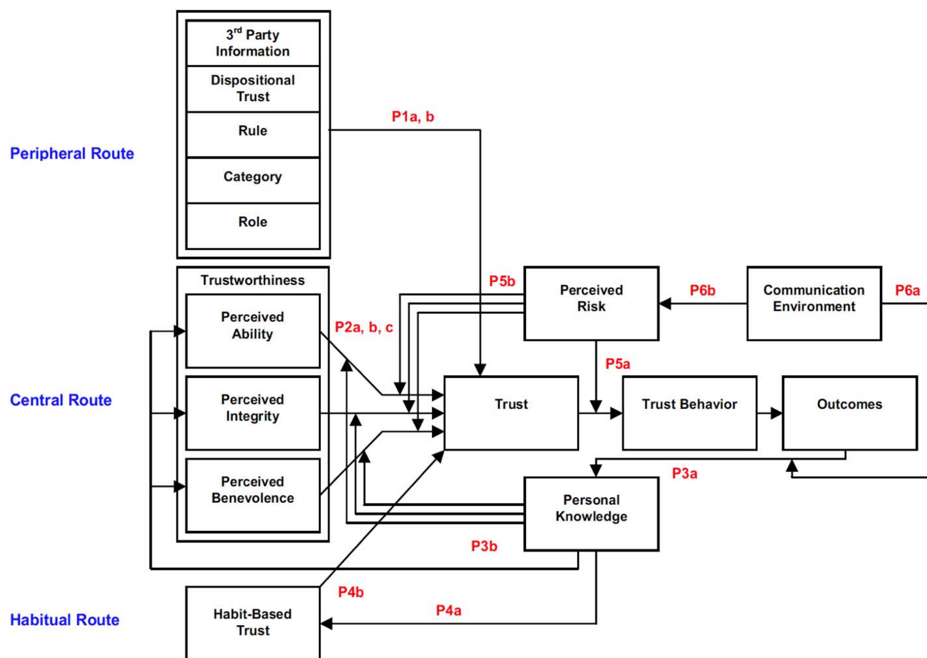
Figure 2 Trust in relationships: a model of trust development and decline (adapted from Lewicki and Bunker, 1995)



Hung et al. (2004), drawing on Meyerson et al. (1996), further develop this model in their research concept to include additional potential antecedents to trust including third party information, dispositional trust etc. "… there are two distinct routes to attitude formation

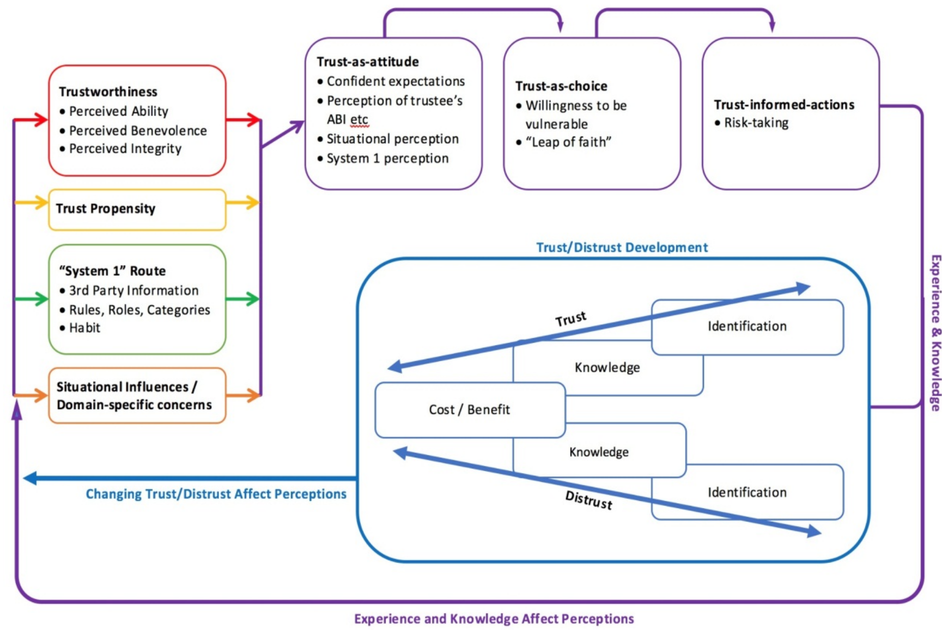
(central and peripheral); under the central route, attitude formation results from an individual's deliberate, cognitively active, consideration of available information evaluating the true merits of a particular attitudinal position, while under the peripheral route, attitude forms as a result of a less cognitively involved assessment of simple positive or negative cues in the context (e.g., the attractiveness or reputation of the person providing information)." The peripheral and habitual routes enrich the conceptualisation by including "System 1" (see Kahneman, 2011 for a reflection on multiple previous papers discussing this concept) routes to trust which appear especially relevant when considering system trust.

Figure 3 An integrative model of trust formation (Hung et al., 2004)



The concept of 'system trust' (Giddens, 1990; Luhmann, 1979) considers trust as an "…'organising principle' (McEvily et al., 2003) or a 'social mechanism to coordinate expectations and interaction' (Bachmann, 2001) in relationships between individual and/or collective (i.e., organisational) actors" (Bachmann, 2011). In contrast to interpersonal trust, system trust (or in Bachmann's terminology institutional trust) is considered as the "decision that embedded social actors make in the light of specific institutional arrangements". Rather than "trust-as-attitude" > "trust-as-choice" > trusting actions (Li, 2007; Dietz, 2011) being driven by the individual attitudes, propensities and perception of trustworthiness of one individual towards another, it is the individual's attitude to a given system or institutional structure.

Figure 4 Trust process and trust development based on Dietz (2011), Li (2007), Möllering (2006), Lewicki and Bunker (1995), Lewicki et al. (1998)



Take for example the common experience of taking a plane. How many passengers consider the interpersonal trust they have in the particular pilot? Rather, passengers place their trust in the airline's systems, safety procedures, recruitment practices, reputation etc. We can see that that certain contexts, systems or processes are more likely to engender trust, or more specifically, more likely to persuade the trustor to make an active decision to rely on the other (person or system) under conditions of risk. The trustor makes a 'leap of faith' (Möllering, 2006) making a more or less conscious decision to rely on the trustee to ensure she or he will not suffer negative outcomes (Sitkin and Pablo, 1992; Currall and Inkpen, 2006; Li, 2007).

Following Luhmann (1979), we can see that the possible need to analyse the potential risk in detail is replaced by trust, a mechanism to reduce uncertainty. Trust is therefore risky inasmuch as trust may be misplaced or disappointed, but also "a simplifying social mechanism, i.e., a 'leap of faith', which allows him or her to align his or her expectations and interactions with those of the trustee" (Bachmann, 2011).

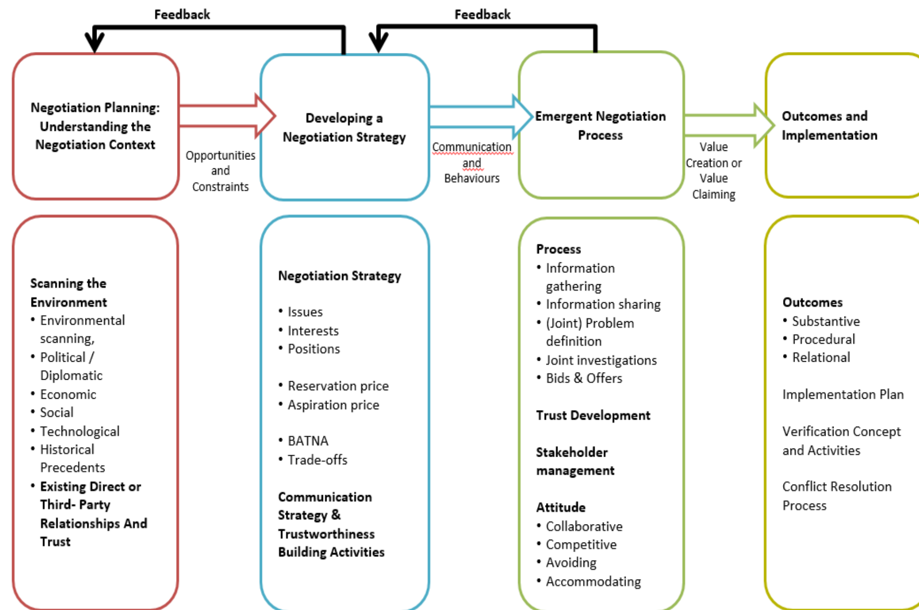
5 Trust and negotiation

In the literature on integrative or win-win negotiations (see e.g. Saner, 2007) the attempt to generate an integrative outcome relies on the willingness to share information and to work collaboratively to develop mutually beneficial opportunities for joint gain. For this to take place, the negotiating parties need to develop trust in the either their counterparts, in the negotiation process or in the negotiation structure.

As we have seen, trust can also be conceptualised on the interpersonal level (e.g. Mayer et al., 1995; Lewicki and Bunker, 1996; Hung, 2004), on the system level (e.g. Luhmann, 1979; Giddens, 1990), the institutional level (e.g. Child and Möllering, 2003; Bachmann and Inkpen, 2011) amongst others. A focus on the development of trust and its breach and repair within collaborative activities (Clases et al., 2008) focuses on the micro-level behaviours and encounters bringing a process orientation and highlighting the implicit and explicit value systems which support or hinder the development of trust in the particular collaboration.

The negotiation stage begins with an investigation into the attitudes, beliefs and histories of the protagonists prior to any given negotiation encounter, their underlying interests and needs in the upcoming negotiation and their expectations of the other protagonists as defined by their history and experience (Watkins, 2003; Lewicki, 2015). The analysis uncovers opportunities for action and behaviour (as well as value creation) and also constraints felt by the protagonists.

Figure 5 Trust in the negotiation process



Based on the initial analysis, negotiators can develop an initial strategy which considers the issues to be negotiated, the underlying needs and interests of the parties concerned, the reservation and aspiration prices as well as the alternatives and BATNA (Best Alternative to a Negotiated Agreement) and potential trade-offs. These items include both substantive, tangible needs and intangible or emotional needs of the various protagonists in the negotiation situation. The strategy should also include a communication strategy which takes into account the negotiator's present level of knowledge and the information she/he requires, the information they are ready to share initially and that which will only be shared in response to information sharing by their

negotiation counterparts. Vitally, the negotiation frame should be considered – how the negotiator can best present their arguments to speak to the interests and needs of their counterpart, thus promoting collaborative behaviours while remaining firmly aware of their own needs and interests. In complex negotiations, especially where additional external parties may have a strong influence on the outcome of the negotiation, this stage might also include a stakeholder engagement strategy or 3D strategy (Sebenius and Lax, 2004).

Once the formal negotiations begin, negotiation strategies are applied through interaction with the other parties in an emergent process and the responses, reactions and counter-offers are fed back into the strategy analysis and therefore the structure analysis to create an iterative re-editing and refining process whereby existing beliefs about the situation and the relationships between the protagonists are continually modified and re-formed. During the negotiation process, patterns of behaviour and communication emerge, drawing the protagonists together, or pushing them further apart, based on the protagonists' ongoing analyses of the value of the encounter, its potential to create benefits for the parties involved and the evaluation of the opportunity costs of continuing this process as opposed to ending it and applying the resources being used elsewhere. While in the early stages of the encounter a cost-benefit approach may be predominant (especially in cases where there is little or no previous shared history), the longer the negotiation encounter continues, the more likely it is that issues of trust, confidence in a positive outcome, perceived shared values (and potentially worries about sunken costs) will become increasingly important. As the communication process continues, a concurrent process of small culture (Holliday, 2009) formation is taking place involving the potential complexity of the situation (Holliday, 2011, p.43) represented by moveable alliances, shifting realities and specifically, by the forming and re-forming of boundaries between and around the protagonists.

In focusing on micro-level interactions and the development of greater understanding within and between the protagonists, trust would appear an excellent candidate. If we approach from the perspective of interpersonal culture and consider the classic ABI (Mayer et al., 1995) or the three-stage Lewicki and Bunker (1996) model, we would need to consider how the parties view one another and their mutual attitudes and how ongoing cost-benefit analyses and the general accumulation of knowledge change this initial assessment. If we approach from an institutional level (e.g. Lane and Bachmann, 1998; Bachmann 2001), we would need to consider the tension between power and trust or if we consider Child and Möllering (2003) and include organisational trust, active trust development and the institutional framework. Such frameworks may be further concretised in e.g. Bachmann and Inkpen (2011) to include legal frameworks, reputation, certification and norms structures and procedures.

The negotiation analogy invites us to focus our analysis of culture and trust formation or impact in a given setting, to consider the nature and definition of boundaries, the relative permeability of those borders, on the bases of power and agency within a defined context. The analogy, when applied to integrative or interest-based negotiation (Ury and Fisher, 1981) or collaborative negotiation (Thomas and Killman, 1974) implies a movement from an oppositional "I" vs. "the other" to a recognition of the commonalities between "I" and "the other" or even of the benefits of "we".

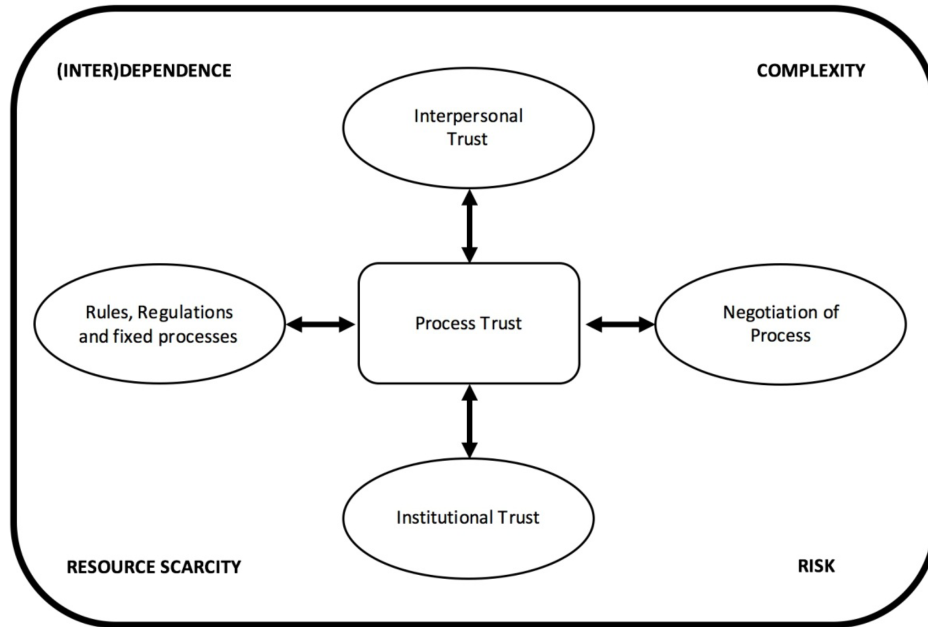
In considering the development of trust, we might consider a "process trust" concept. Clases et al. (2008) speculating on the concept of process trust argue that while system trust (Luhmann, 1989, 2001) is independent of the individual's ability to directly impact the development of the system itself, central to the conception of process trust is the ability of the individual to influence the process variables through for example the initiation, definition, implementation or evaluation of a given project. The individual is both bound within the structural constraints of the system structure (whether behavioural expectations, norms or rules) and, simultaneously, able to influence those same variables. Process trust develops through the cognitive and affective evaluation of concrete interactions or cooperation processes and can bridge the space between the interpersonal and the system.

In common with interpersonal trust which is commonly conceptualised as moving from a cost benefit to an identification stage via the accretion of knowledge and of being conceived as being two dimensional with trust and distrust being two independent but simultaneous variables (Lewicki and Bunker, 1996; Lewicki et al., 2006), process trust also builds on experience. The concept assumes that implicit scripts ("A script is a structured whole, a generalised representation of a sequence of activity that has occurred more than once" (Engeström, 1987) exist at both the system and individual level, but that the various scripts of the protagonists may not initially be aligned or compatible. As a result a degree of uncertainty pervades the initial encounter and requires negotiation of behaviours or the application of rules or norms to manage the uncertainty in the situation and clarify the system structure. At this stage in the encounter there is real uncertainty with regard to the ability to achieve an agreed way of proceeding. Scripts are deeply internalised routines of behaviour and expectations, they influence our cognition, they shape our expectations of others and of systems and their breach can result in irritation, uncertainty, conflict and the reduction of trust in a given system.

Process trust develops at the intersections of the interpersonal and institutional trust dynamic and that of the application of rules/norms vs. negotiation of process. The development of process trust requires a context within which cooperation or interaction is required (interdependence) and some expectation of benefit from the cooperation. It develops in situations where neither interpersonal nor system trust are sufficiently developed and between actors who have sufficient agency to allow them to influence the process and contribute to the writing of new agreed scripts.

In a context where neither party has the power to enforce values on the other, the process of negotiating values and managing expectations brings the structures of the working relationship into sharp focus illuminating the ongoing process whereby agreed or accepted behavioural values emerge and begin to underpin the collaborative endeavour. The initial case research has shown that there is a strong interrelationship between the various trust conceptions and that while trust is required for success in collaboration, it can be based on interpersonal, system, institutional or process forms, or more generally on a combination of various forms. In practice, we face a situation where degrees of trust and distrust at the interpersonal, system/institutional and process level combine to produce an overall level of trust which affects the perceptions of the protagonists and their willingness to proceed collaboratively with the joint endeavour.

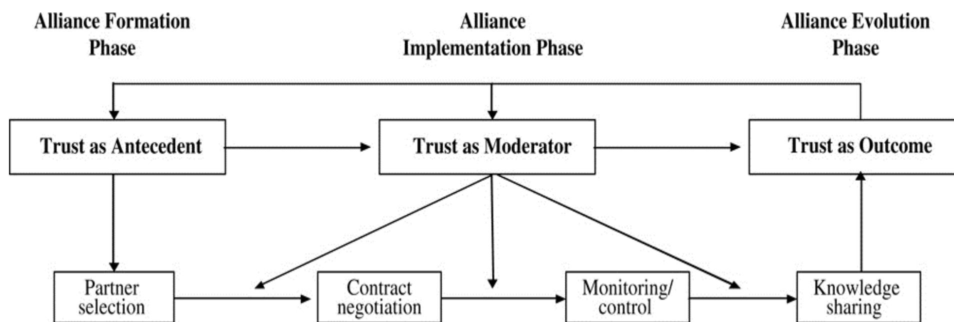
Figure 6 Process trust



6 Negotiating strategic alliances

Globerman and Nielsen (2007) reach similar conclusions "… alliance relationships that are founded primarily on the basis of calculative trust, for instance, may result in widely different governance contracts compared to alliances based on affective (interpersonal) trust. Similarly, in environments characterised by relatively low quality of institutional governance where institution-based trust is low or absent, alliance parties may opt for elaborate contractual stipulations and/or choose equity modes in order to safeguard against opportunism."

Figure 7 Trust in strategic alliances (Nielsen, 2011)



Their paper discusses a range of examples from practitioner and academic literature including Hamel et al. (1989) who argue that the actual coordination is not achieved through contractual mechanisms but, rather, is realised by the day-to-day interaction of the employees involved in the alliance activities; 'Top management puts together strategic alliances and sets the legal parameters for exchange. But what actually gets traded is determined by day-to-day interactions of engineers, marketers, and product developers' (1989, p.136). This points to a possible substitution effect (e.g., Poppo and Zenger, 2002) between the two types of governance, that is when firms invest (time and resources) in high degrees of contractual specificity they tend to rely less on trust, or vice versa. For instance, Carter and Miller (1989) show how in the absence of highly specified contracts, benevolence-based trust and competence-based trust between vendors and buyers limits the occurrence of quality problems in the materials delivered. Similarly, Ring and Rands (1989) document how NASA and 3M articulate their goals for a common project on microgravity experiments and subsequently work through the implementation of their collaboration via adaptive coordinating mechanisms based on competence-based trust. Hence, trust may affect the extent to which firms adopt formal mechanisms for coordination, monitoring, and control during alliance evolution."

In collaborations and alliances which depend on long-term relationships and information sharing to generate joint gains, increased levels of trust serve to facilitate knowledge exchange and increase the likelihood of positive results. Such collaborations, especially where the final outcomes of the joint activities can only be vaguely specified in terms of hopes or expectations at the outset demonstrate high levels of task uncertainty and require joint definition and joint problem-solving or mutual learning. Therefore contracts, while they exist, are insufficient and incomplete while "… trust, in its various forms serves as the glue that binds the firms together and allows smooth transfer of knowledge without unnecessary adherence to formal monitoring and control mechanisms" (Globerman and Nielsen, 2007).

7 Conclusion

The research indicates a new approach to studying the development of behavioural and system values within collaboration activities, reduces the tendency to seek essentialist national-level explanations for success and failure in strategic alliances and opens the way for further methodological development to allow for the analysis of larger and more complex phenomena through the development of a mixed-methods approach.

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