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Reinhard Bachmann

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Reinhard Bachmann
Faculty of Economics, University of Groningen, The Netherlands

Abstract

This paper analyzes trust and power as means of co-ordinating trans-organizational relationships. It is argued that, depending on the institutional environment, there are two distinct patterns of controlling relationships, where trust and power are interrelated in quite different ways. First, both mechanisms are generated at the inter-personal level and either trust *or* power dominates the relationship. Second, power occurs at the level of the structural framework of relationships and is highly conducive to developing trust between individual organizations. Thus, specific forms of trust and power are identified and the institutional environment is viewed as playing a crucial role in shaping the quality of trans-organizational relations. The theoretical background of the paper mainly draws on conceptual ideas of Systems Theory, Structuration Theory and New Institutionalism.

Descriptors: trust, power, reduction of risk, co-ordination of interaction, institutional environment

Introduction

Today, a majority of practitioners and academic observers seem to agree that specific forms of long-term oriented co-operation between — in formal terms — independent firms imply important advantages which would neither occur simply on the basis of purely opportunistic behaviour and short-term orientations nor would they arise from structures of central control and organizational integration. In the organizational and management literature of the past 15 years or so, many successful inter-firm relationships are described as being based on a *hybrid* form of co-operation where business partners are 'neither friends nor strangers' (Lorenz 1988) and where the structure and quality of relations are constituted somewhere 'between market and hierarchy' (Williamson 1985). 'Strategic alliances' (Jarillo 1988; Child and Faulkner 1998) and 'organizational networks' (Miles and Snow 1986; Sydow et al. 1995; Ebers 1997) are increasingly seen as a very promising form of trans-organizational relationships. The various reasons given for this view are built on the argument that this approach provides a balance between competition and co-operation and can avoid the primacy of one of these principles over the other (Dei Ottati

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1994). It can, on the one hand, be conducive to reducing costs through specialization and competition. On the other hand, long-term oriented relationships allow for mutual flexibility, the joint use of technical and economic know-how as well as a collective bearing of risks associated with technological innovation (Loasby 1994). The possible problems connected to *hybrid* relations, such as the increased vulnerability of individual organizations or possible mutual blockages between them, particularly when fast decisions are needed, obviously rate low compared to the possible advantages, and are often altogether ignored in the literature.

Undoubtedly, the trend towards the establishment of close- and long-term oriented external relationships is strong and has also been confirmed by many contributions which in recent years discussed the characteristics of the system of inter-firm relations in Japan. Primarily drawing on the automobile and the electronics industry, the patterns of 'obligational contracting' (Sako 1992) were viewed as the seed-bed of economic success and it was found that management in Europe and in North America were keen either to imitate Japanese business practices or to develop similar concepts on their own (e.g. Ackroyd et al. 1988; Oliver and Wilkinson 1988; Morris and Imrie 1992). Furthermore, the literature on so-called 'industrial districts' (e.g. Keeble and Weever 1986; Sengenberger et al. 1990) has explained the economic success of geographical regions such as Baden-Württemberg and the Emilia Romagna by the long-term orientations which prevail in the relations between the predominantly small and medium-sized enterprises (SMEs) of these regions. Despite the fact that some of the prime examples referred to in this context lost part of their economic dynamism in the early 1990s, the thrust of the argument of several strands of organizational and socio-economic literature is unmistakable. Largely irrespective of the sector under review, there is a world-wide trend towards stable and tightly woven trans-organizational relations, both in vertical and horizontal co-operations. At the same time, short-term oriented opportunism, as one extreme, and complete organizational integration and central control, as the other, seem to have forfeited much of the attractiveness which they had in previous times. Obviously, the chances associated with *hybrid* forms of co-operation today are generally deemed much greater than the risk of buying-in the possibly detrimental side-affects of such relations.

Against the background of this observation, the issue of trust has moved centre-stage in many contributions to the analysis of trans-organizational economic activities. Under current macro-economic developments, trust is seen as becoming the central mechanism to allow for an efficient solution of the problem of co-ordinating expectations and interactions between economic actors. While hierarchical relations are mainly controlled by bureaucratic procedures and top-down mechanisms of co-ordinating interactions, market relationships between anonymous buyers and sellers are based on the idea that economic actors simply use their individual resources and market power to follow their idiosyncratic interests, irrespective of what damage they might impose upon others. In both cases, trust may play *some* role as a useful lubricant in avoiding extreme tensions, but only *hybrid* forms of co-ordinating interactions are seen as being based on trust as the *central* mode of controlling them. In other words, this — and only this — form of co-ordinating and controlling the structure and dynamics of relationships is constitutively dependent on the existence of a considerable amount of trust among economic actors. Thus, it is not by accident that, with the trend towards *hybrid* forms of co-operation, trust has been recognized as an extremely important mechanism in business relationships, although this does not mean that its potential as well as its risks are particularly well understood.

In recent years an impressive number of articles has been published which analyze specific empirical cases and suggest various classifications of trust such as 'contractual trust' vs. 'competence trust' vs. 'goodwill trust' (Sako 1992) or 'calculus-based trust' vs. 'knowledge-based trust' vs. 'identification-based trust' (Lewicki and Bunker 1995) (for an instructive overview of currently available classifications: see Möllering 1998). However, it is doubtful whether these classification schemes lead very far in coming to grips with the phenomenon itself. They can probably only be taken as a confirmation that trust has been recognized by many scholars as one of the most central issues when the structure and quality of relationships within and — particularly — between organizations are under consideration. Fruitful conceptual approaches to develop a deeper theoretical understanding of the phenomenon of trust are still very rare (for exceptions see Lane and Bachmann 1996 connecting to ideas developed by Niklas Luhmann within the theoretical paradigm of Systems Theory, and Sydow 1998 who draws heavily on Anthony Giddens' Structuration Theory) and much theoretical input is still needed to understand fully how trust works as a governance mechanism and what function it can fulfil in co-ordinating expectations and interactions within trans-organizational relationships.

Large parts of the existing literature on trust building on wider political and philosophical aspirations are inspired by a *harmonic vision* and the deep desire to see benevolence and altruism prevail in social relationships between economic actors. From their perspective, the growing importance of trust indicates that, after all, business relationships can transcend the Hobbesian state of *homo homini lupus.* It is even argued that capitalism might be seriously undermined by the increasing relevance of 'socially-oriented trust' (Lyons and Mehta 1997) and the capitalist system might even collapse one day, due to an overdose of trust (Adler 1998). In contrast, critical analysts oriented towards a Marxist research perspective developed within the context of the Labour Process Debate of the 1970s (Braverman 1974) emphatically reject this view and argue that trust is simply a particularly sophisticated tool to exert power on weaker business partners (Knights and Willmott 1990; Bieber and Sauer 1991; Rainnie 1993; Sauer and Döhl 1994). Thus, it is argued, trust will help to sub-ordinate the business behaviour of individuals under the imperatives of capitalism, rather than questioning them. Close and stable relations between independent buyer and supplier firms, for instance, are seen as allowing the stronger part — usually the bigger buyer firm — to minimize uncertainty within their environment and to systematically shift risk to the weaker side — usually the smaller supplier firm. The stronger the position of the firm, the argument goes, the easier it is for their management to 'trust' business partners.

Both of these approaches mark the extreme ends of the mainstream of the current theoretical debate on trust, but none of them digs deeply enough into the complex social processes determining the logic of inter-firm relationships. Doing so would mean analyzing tensions and contradictions within and between the concepts of trust and power, rather than competing for the most simple explanation of the socio-economic world. The increased attractiveness of *hybrid* forms of co-operation, where trust plays a central role in the co-ordination of interactions, is neither fully explained by pointing to the pragmatic advantages such as pooling risks and resources etc., nor is it simply based on an ideology. It also appears to reflect a severe and deep-seated paradox to which firms are struggling to adapt their current strategies. Fierce competition, on the one hand, destroys trust which only seemed to be affordable 'in the old days' while, on the other hand, trust-based relations with closely collaborating suppliers, customers and business partners seem to become more and more the most important resource for survival in the shark tank of contemporary capitalist competition.

Conventional economic theory, as is recognized widely today, is equally unlikely to provide a significant input in a theoretically informed and, at the same time, practically usable understanding of these issues. The argument which, for instance, is offered by Transaction Cost Economics (Williamson 1985), namely that the decision as to whether trust is invested in a relationship depends on 'asset specificity' and is driven by the idea of reducing the costly effects of opportunistic behaviour, seems too simple to explain recent economic developments and strategies. Even less capable of comprehending the complexity of trans-organizational relationships in terms of trust and power are other approaches within current economic theory. Game Theory (Axelrod 1990), for example, is based on the counter-factual assumption that actors' behaviour is exclusively driven by calculation. This is not only an extremely simplified view of the socio-economic world but — no matter whether this is meant to be a heuristic device or an empirically testable hypothesis — from the beginning, it places itself much too far beyond the terrain of realistic empirical research perspectives.

This article will avoid such simplifications and will develop a conceptual argument which — in its main thrust — aims at overcoming the deficits of conventional economic theory. It suggests a more realistic understanding of economic behaviour and a much wider analytical focus. In doing so, it will dig into basic *sociological theory* which will be necessary to gain a deeper understanding of trust and power as a *social control mechanism* in business relationships. To analyze the preconditions and consequences of economic decisions and interactions — it will be assumed — a variety of different social factors which easily can come into conflict with each other, rather than a single abstract principle, are relevant in constituting the qualitative aspects of trans-organizational relationships.

On the basis of this insight, the second section of this article will be concerned with a conceptual analysis of trust drawing on Systems Theory (Luhmann) as well as on several other strands of basic sociological theory (Structuration Theory, New Institutionalism and — with much more critical reservation — Rational Choice). In this context, power as a similar mechanism to co-ordinate and to control trans-organizational relations, will also be looked at and compared to trust with regard to the social functions both mechanisms can fulfil. With reference to the country-specific conditions of the social governance of inter-firm relationships, Germany and Britain will then be discussed (third section) as quite distinct examples of different modes of producing co-operation and controlling the dynamics of economic interactions. In this section, it will be demonstrated how the quality of trans-organizational relationships emerges in a dialectic process which involves the constitution of specific forms of trust and power. The concluding part of this article (fourth section) will check whether the proposed combination of sociological theory and comparative empirical studies in the institutional structure of business systems can be deemed an innovative and fruitful approach to reveal the social processes which constitute the quality of trans-organizational relations, as well as the functions that trust and power fulfil within this process.

Theoretical Considerations

Trust as a Means for Coping with Uncertainty

Luhmann's analysis of the origin and social function of trust starts with a mind experiment. Imagine a world in a — so to speak — *state of nature* which, in social terms, is completely unstructured and thus must appear ultimately complex to the individuals who inhabit it. This world cannot be described as a social system which is differentiated from its environment as it has no specific features or any form of internal organization. Within this world every conceivable action or reaction can be expected from any other actor, and thus it seems unlikely that two (or more) actors will actually manage to establish any kind of interactive process. On the basis of these conditions, social actors are confronted with a severe problem which they have little chance of solving. As the future behaviour of other actors with whom they might want to interact is completely contingent, an unlimited number of possible (re-)actions would need to be taken into account which would simply exceed their psychological capacities. In this situation, no selection of likely (vs. unlikely) possibilities can be made, as the whole world appears uncertain and — in this sense — too complex for social actors to allow for any co-ordination of expectations and interactions (Luhmann 1979).

Of course, the *real* social world has little in common with this imagined world. Within the real world social actors obviously do cope with the problem of co-ordinating their interactions. From this observation Luhmann concludes that within the real social world there must be mechanisms at work which reduce uncertainty and complexity, and thus allow for expectations about other social actors' future behaviour. Using a Kantian expression one could say that the existence of such mechanisms is 'the precondition of the possibility' of the co-ordination of social interactions. In more evolutionary terms one could argue that at the origin of the social world lies the constitution of successful generalised forms of social practices induced by individuals' repeated decisions to co-operate with each other rather than remaining in isolation. In any case, such mechanisms are essential in regard to the constitution of differentiated social systems. Without these co-ordination mechanisms, the social world would simply not exist.

Further, to follow Luhmann, trust seems to be a prime example of these basic co-ordination mechanisms. Trust reduces uncertainty in that it allows for *specific* (rather than arbitrary) assumptions about other social actors' future behaviour. Someone who considers to trust another actor finds it conceivable to offer a — for himself more or less costly or inconvenient — favour to someone as a '*Vorleistung*' (Luhmann 1989: 23), which means that he simply makes the assumption that the trustee will not opportunistically take advantage of his not being willing and/or able to insist on any guarantees or concrete, immediate and/or enforceable promises in exchange. On the basis of this assumption — which would by no means seem reasonable if there were any good alternatives! — the actors get into the position for starting to interact with each other. It is worth noting that in such a situation it is not only the trustor who can make specific assumptions about the trustee's behaviour. The trustee can also single out a small number of (re-)actions that he assumes the trustor will find preferable to all other possibilities of behaviour. Thus systems of social interactions can emerge, because the reduction of diffuse complexity allows for establishing longer chains of co-ordinated social actions and reactions. The willingness to make one-sided commitments alone may not be sufficient to generate differentiated social systems, but it is a necessary precondition of many forms of social interaction. If there were no trust in the world, in the sense of '*Vorleistung*', then actors would often find it impossible to even consider engaging in social activities with other actors.

Trust and Risk

Although trust is such a fundamental mechanism in all social reality, it also involves a problem which would be naive to ignore: Trust is a risky engagement (Luhmann 1979). It may be true that trust absorbs *uncertainty* and diffuses complexity, but, at the same time, it produces *risk,* as it is inevitable that a social actor who decides to trust another actor extrapolates on limited available information about the future behaviour of this actor (Luhmann 1979: 26). In other words, trust can be disappointed and, then, appear to be misplaced, for in business (as well as in other fields of life), one can be betrayed, and overly romantic assumptions can result in considerable losses. This is the risk that someone, when considering whether he should trust another actor or not, wants to *minimize*. If he could *exclude* it, trust would simply not be needed. Thus, risk seems to be an unavoidable feature of trust while, at the same time, trustors constantly try to find *good reasons* for believing that the risk they are prepared to accept is low. If they cannot find sufficient reasons for this assumption, they might well refrain from trusting, and would either avoid social interaction all together or seek an alternative basis for it. One could say that, drawing on a universal disposition and the limitedness of social actors' psychological capacity to deal with complexity, a trustor *initially* offers a '*Vorleistung*' as a way of reducing uncertainty, and then *subsequently* seeks reasons for why he could deem the risk involved in his decision to be acceptable. Only if these reasons are found is trust likely to become the dominant control mechanism within social relationships between individuals or organizations.

As Luhmann suggests, the existence of *legal norms* is one of the most effective remedies for confining the risk of trust and thus for providing those *good reasons* which a potential trustor seeks before actually deciding to invest trust in a relationship. Legal regulation and the possibility of sanctions — if it comes to the worst — reduces the risk of being betrayed. It is however important to note that, as Luhmann clearly sees, legal norms do not fulfil their social function by actually being mobilized. According to his theory, the basic social function of legal norms is to be seen in their potential to direct the expectations of social actors to certain routes of behaviour, long before sanctions are seriously considered by those who feel betrayed and might want to take recourse to legal action. Thus, legal norms and trust are more than compatible. In fact, legal regulation can foster the constitution of trust; but 'the structure of the trust relationship requires that such calculation should remain *latent* (...), purely a reassuring consideration' (Luhmann 1979: 36). With reference to relationships between individual or organizational *economic* actors it can be assumed then, that *commercial* law can play a vital role in situations in which an actor needs to decide whether he should invest trust in the relationship with his business partner, or whether he should refrain from doing so. While, in the *first step,* an economic actor might — for no reason other than his psychological disposition — be inclined to offer a '*Vorleistung*' to his customer, supplier or business partner, the existence and *latent* influence of the legal system may — in a *second step* — actually lead him to decide to engage in a trust-based relationship.

Interestingly, this is an insight which openly contradicts the traditional mainstream of socio-legal studies (Macaulay 1963; Beale and Dugdale 1975). In this body of literature, the influence of legal norms on the quality of business relationships is seen as marginal at best, and trust is described as a phenomenon which, if it emerges, does so irrespective of whether legal norms exist or not. Referring to the legal code by, for instance, detailed contracts is seen as more likely to be detrimental than conducive to the constitution of trust. Some newer contributions from the organizational literature continue to suggest this view (e.g. Sitkin and Roth 1993), largely ignoring the difference between practices of confirming standard legal norms by routinely repeating them in small letter appendices and fierce 'battles of contracts' (Sako 1992) where both contractors try to force their one-sided advantages upon the other. In the latter case — but only then! — trust and law would indeed be difficult to reconcile.

Further along the lines of Luhmann's argument, commercial law and practices of contracting can be understood as *one* important element within the wider institutional framework (Deakin et al. 1994; Lane and Bachmann 1996) in which trans-organizational business relationships are embedded. Besides legal regulation, there are other elements of the institutional arrangements of socio-economic systems which need to be taken into account when the process of trust building is under review. The role of trade associations, for example, which may or may not represent the collective interests of a whole industry, the structures of the specific financial system, the more or less coherent system of technical norming and standardization of products and production processes, and the economic policy of the relevant political administration also belong to the institutional environment which determines the quality of interactions between firms. One of the central functions of such an institutional framework, which differs between regions and nation states, is to be seen in their potential to generate *shared* economic, technical, cultural and social knowledge and to produce collectively accepted norms of business behaviour. Through this potential of institutions, rather than through their ability to mobilize sanctions, the risk that can never be ruled out completely when a social actor decides to trust his business partner can at least often be reduced to a level that he might find tolerable. Thus, the existence of a tightly knit framework of institutions can be seen as minimizing the risk of trust. The common experience of living within the same world of institutional structures orientates the expectations and (re-)actions of social actors towards specific patterns of behaviour. For this reason, it can be assumed to be less likely that a supplier, customer or horizontally co-operating business organization will behave in an unforeseen manner and that their individual representatives are inclined to cheat when the institutional framework in which their interactions are embedded is strong and coherent. Of course, exceptions are always possible.

Reconstructing the Link between Action and Institutions

Luhmann's theory of trust, on the one hand, fundamentally differs from conceptualizations which raise moral claims for *altruistic behaviour* (Sako 1992; Lyons and Mehta 1997). On the other hand, Luhmann rejects the notion that social actors base their decisions and behaviour necessarily and exclusively on *egoistical motives*. In doing so, his theory is clearly opposed to central assumptions of Rational Choice Theory, which suggests that trust can be sufficiently understood as a strategy of rational actors to maximize their individual interests. Coleman (1990), for instance, represents precisely this view and argues that social actors calculate the gains and losses which might result from their decision to trust or not to trust another social actor before they actually make their decision. This view, however, is connected to assumptions as unrealistic as those which can be found in the literature based on moral postulates and social romanticism. Moreover, Coleman's formalistic approach goes astray, because, by the very nature of trust, it is impossible to quantify either the propensity for defection or the extent of potential gains and losses. At the same time, however, it is only these situations in which trust might become relevant at all. If, in a given situation, the social actors involved are in a position to assess the consequences of their decisions in very exact and reliable terms, trust will no longer be needed.

Interestingly, there are also ideas which Coleman and Luhmann have in common. Both, for instance, assume that *institutions* generally play an important role in the problem of assessing the risk which is implied when a social actor decides to invest trust. Similar to Luhmann, Coleman recognizes 'social structures in which it is in the potential trustee's interest to be trustworthy' (1990: 111). However, this is not to overlook the fact that institutions, from a Rational Choice point of view, are only seen as *parameters* within social actors' rational calculations (Deakin and Wilkinson 1998). In contrast, Luhmann, who rejects the concept of solipsistic and solely calculation-oriented actors, suggests that institutions are to be understood as reducing risk by providing patterns of social behaviour which in a *non*-deterministic manner orient social actors' expectations and decisions. In Luhmann's view, the first and very basic problem with which social actors need to cope is not how to identify profitable opportunities for trust investments, but how to reduce uncertainty. Given that social actors in a *first step* reach a state of being willing to consider trust as a means to coordinate their interactions, the institutional framework of the business system in which their relationships are embedded provides — according to Luhmann's theory — the basis for the *second step* to trust, as it largely decides how much risk social actors will have to accept if they actually invest trust in a specific exchange relationship. It is only at the latter point that Rational Choice Theory enters the debate, with the argument that elements and characteristics of the institutional framework will be subject to rational consideration by calculating individuals. This assumption, however, seems highly unrealistic as is shown, not only by Luhmann, but also by much of other sociological theory and empirical evidence. Institutions — as already pointed out with reference to the legal system — tend to do their job in a *latent* manner, which makes them more effective and helps to avoid a permanent overcharge of social actors' abilities to always ground their decisions, as well as to engage in social conflict. There are exceptions to this rule, of course, but not enough of them to carry a whole theory of social interaction.

In a number of respects, Luhmann's theory comes closer to New Institutionalism (Powell and DiMaggio 1991; Scott 1995) than to concepts based on Rational Choice. Both theoretical approaches, Luhmann's Systems

Theory and New Institutionalism, agree on the argument that background beliefs and *tacit knowledge* are much more important in determining social actors' behaviour than explicit calculation over potential gains and losses associated with specific decisions. On the basis of *phenomenological premises*, Neo-Institutionalists — who share these assumptions with Luhmann — explain the functioning of social institutions by the more subtle processes which control the patterns of social interactions. The fact that the institutional influences on individuals' and organizations' interactions are often withdrawn from their consciousness is actually viewed not only as accidental, but as the central precondition of institutions being able properly to fulfil their function of stabilizing social actors' mutual expectations and patterns of interaction. This is not to say, however, that the given socio-economic order is unalterable under conditions of concerted social action (Thelen and Steinmo 1992).

Giddens' Structuration Theory (Giddens 1976, 1984) also connects quite closely to this view on the *micro–macro link* within social systems. Giddens agrees with Systems Theory and New Institutionalism that institutions are to be seen as relatively enduring patterns of social practices which shape social actors' behaviour. In this process, expectations and interactions between actors are *channelled* in a relatively loose — though not arbitrary! — manner. Since social actors themselves are assumed to produce and to reproduce the institutional order in which they live, they are in principle also free to change its structures. However, according to Giddens, they cannot avoid permanently orienting their behaviour towards the *existing* institutional arrangements, unless they accept that their actions are meaningless to others. As a consequence of these referencing processes, the institutional arrangements of a given social system tend to be confirmed *under normal circumstances* rather than challenged, which explains why institutions are *relatively* stable over time. A New Institutionalist (Zucker 1986; Powell 1996) as well as a Structurationist understanding of trust between individuals and organizations (Giddens 1990; Sydow 1998) thus focuses on reconstructing the role of institutions in a way that has little in common with what Rational Choice suggests. Although Coleman acknowledges that institutions are important in whether social actors find reasons to trust or not to trust each other, his explanation of this fact is based on a simple *input–output model* of individual cognition. Luhmann, Zucker and Giddens, in contrast, base their reconstruction of institutionally-based trust production on genuine *sociological theory* which provides a much wider framework of analysis.

Against the background of the latter issues, one can understand how institutional arrangements such as, for instance, the specific type of commercial law and the specific role of trade associations, which might be powerful or weak in a given business system, shape the quality of trans-organizational patterns of interaction. Stable institutions reduce the risk of being betrayed, in that they constitute a 'world in common' (Harold Garfinkel) with shared norms and solid standards of behaviour. Seen from a Neo-Institutionalist as well as from a Structurationist point of view, this process appears to be very similar to what Systems Theory suggests. In all three of these perspectives, trust is constitutively based on a *fuzzy logic* of shared beliefs, rather than on calculation. Structuration Theory and New Institutionalism are highly compatible with Luhmann's theory in placing the problem of how to cope with uncertainty at the starting point of their argument. Thus, trust is viewed as a mechanism which — in a very basic sense — allows for social interaction, and it is not seen as a (potential) result of rational calculation. In that trust reduces uncertainty, at the same time, it unavoidably produces risk with regard to the potential trustor's specific decision problem, and it is an intrinsic feature of trust that this risk is inaccessible in precise terms, due to the limited knowledge available to the potential trustor. For this reason, it does not make much sense to describe social actors' decisions to trust or not to trust as a 'bet' on the basis of precise information, as Coleman suggests (1990). It may well be that social actors *occasionally* consider the risk of trust in a calculating manner, which then presupposes precise — though not necessarily complete — knowledge (Bachmann 1998: 301–303). However, this is an exceptional step out of everyday-practice and routine, which can destroy the ground on which a trustor walks. In most cases, potential trustors need, and get, *good reasons* instead of precise data for their decisions. In this context, it is important to see that bearing the risk of trust in a specific issue is only a *subsequent* problem, which would not arise if social actors had not already developed a disposition to make a '*Vorleistung*' in a *first impetus* which — in a *circular* process — confirms itself in a *second impetus* in the light of institutional arrangements likely to reduce the risk of trust. Rational Choice is blind to the *first impetus* to trust and has no understanding of the circularity of trust production and the self-hightening process that can be found in a fertile institutional environment.

System Trust and Personal Trust

Luhmann (1979) as well as Giddens (1990) are primarily interested in what they call *system trust*. They contrast it with trust which is likely to develop when individual actors frequently have face-to-face contact and become familiar with each others' personal preferences and interests without substantially taking recourse to institutional arrangements — i.e. *personal trust*. Here again, they closely connect with Zucker (1986), who suggests that highly differentiated socio-economic systems presuppose that *system trust* or — what she calls *institutional-based trust* — is produced in sufficient quantity and in a reliable manner. Luhmann's core idea of law as a means to reduce risk most directly refers to the concept of *system trust* or, if Zucker's expression is preferred, *institutional-based trust*. Thus it seems worth inspecting this concept a bit closer and analyzing the associated issues.

A classical example which is often referred to in the context of *system trust* is the trust economic actors place on the universal usability of money which can be seen as a precondition for the existence of large and efficiently working economic systems. Money as a medium to symbolize the transfer of material resources works, to a large extent, independently of whoever uses it, for whatever purpose and in whichever particular circumstances the payments are made (Simmel 1978). To this extent, one can say that the existence of a stable monetary *system* — which might include common practices of money lending and a central reserve bank acting as a 'third party guarantor' (Coleman 1990: 182) — produces the amount of trust needed to enable modern socio-economic systems to function efficiently. Like other elements and sub-systems of the institutional framework in which business relations are embedded, the abstract rules of the monetary system provide a means to control actors' expectations collectively, and thus facilitate co-ordinated interaction between them. In such a manner, trust — i.e. *system trust* — can be produced, without this process being dependent on individual sympathy and/or long-standing personal experiences that actors might, or might not have with each other.

Undoubtedly, *personal trust* once fulfilled a pre-eminent role in business relationships. Today however, Zucker (1986) argues, *personal trust* — or what she calls *process-based trust* — is by no means sufficient to produce the quantity of trust that is needed in highly differentiated socio-economic systems. With reference to the American economy of the 19th and early 20th century, she explains the limits of a mode of trust production which is constitutively based on personal contacts and familiarity. The problem with this form of trust is that it takes tremendous amounts of time and effort to establish it and thus cannot be deemed a very efficient way of co-ordinating economic transactions within complex socio-economic systems. According to Zucker (1986), face-to-face contacts may still be extremely important in many situations, but they cannot serve any longer as the main, or even less so, the only mode of trust production. In other words, today, trust based on individual actors' integrity can only fulfil a supplementary function, compared with trust produced by institutional arrangements. It appears that this argument could be confronted with the assumption that although *system trust* might be seen as the result of an *advanced form* of trust production, *personal trust* or *process-based trust* would still be essential as the *starting point* for a relationship. Notwithstanding that much of the more superficial organizational literature on trust, which is not much bothered about cultural differences that may be influential here, indeed generally argues along these lines, it is not too difficult to see that — as is illustrated, for example, by the monetary system — *system trust* is not only most central to the functioning of *modern* socio-economic systems, but is also — if not particularly — in the starting phase of inter-firm relationships under these conditions. Luhmann's analysis of the role of the legal system in relation to *system trust* is based on exactly the same premise, and with reference to Giddens and Zucker this assumption can be exemplified even more clearly.

According to Giddens' (1990) theory of trust, the functioning of abstract systems, such as the monetary system, the legal system or the air traffic control and safety system, which Giddens himself suggests as an instructive example of *system trust* (Giddens 1990: 85f) presupposes that social actors, whether they are friendly smiling stewardesses on airliners or lawyers in black gowns, play a different role compared to the constitution of *personal trust*. They appear at the 'access points' of the systems which they represent and by 'face–work commitments' assure potential users or clients that these systems can be deemed trustworthy. In this way, face-to-face contacts *help* to absorb risk. These contacts thus seem to be quite important to the constitution of trust, but as such, they are by no means sufficient to produce *system trust*. Giddens leaves no doubt that stable and anonymously working institutional arrangements, standards of expertise, rules and procedures which are represented by these individuals, are the central source of *system trust*. Transferring these considerations to the world of trans-organizational business relations contributes to the insight that a *commonly acknowledged* system of legal regulation, financial arrangements, and interests organized by trade associations etc. makes it much more likely that economic actors will behave more trustworthily than would be the case if there were nothing to rely on but face-to face experiences with individuals more or less representing the interests of their organization of co-operating firms.

The Dialectics of Trust and Power

Trust generally may be seen as an efficient means of co-ordinating trans-organizational relations, but it also has severe disadvantages which at least could lead to the question of whether there are alternative mechanisms to substitute for it. The risk associated with the decision to invest trust in a relationship may, in certain circumstances, be seen as intolerably high, and social actors might not be able to find enough *good reasons* to base a relationship on the assumption that a potential trustee will behave trustworthily. If this is the case, trust is unlikely to develop between social actors. However, this is not the only problem that can occur with trust. Even if trust has been established successfully in a relationship, it always remains a fragile mechanism. Irrespective of how likely it is, it is an intrinsic feature of trust that it *can* turn out to be misplaced, and the risk of a sudden breakdown of trust can never be excluded. When this happens, considerable consequences, not only in emotional terms, are to be expected. Business organizations, for instance, who realise that their main suppliers, customers or horizontally co-operating partners are beginning to cheat on them might overnight find themselves in a situation which challenges their very existence.

Fortunately, trust is not the only way to reduce complexity and uncertainty. Another mechanism to co-ordinate expectations and to control the dynamics of a social relationship is power. In many respects, but not all, power is equally efficient, and at the same time it is more robust and the risks of misplacement or unforeseen breakdowns do not usually result in situations as dramatic as when trust is involved. Both mechanisms, trust and power, largely seem to operate on the basis of the same principle. Power works in that it 'influence(s) the selection of actions in the face of other possibilities' (Luhmann 1979: 112). In this regard, there is no difference in how trust does its job. Both mechanisms allow social actors to link their mutual expectations with each other and to co-ordinate (re-)actions between them. However, there is also a slight difference between trust and power as regards the mode of selection of expectations. While in the case of trust, the actor who considers to invest trust in his assumptions selects the possibility that the potential trustee will behave the way he prefers, the powerful actor selects a possibility of behaviour which he suggests to the subordinate actor as an undesirable behaviour that should be avoided. In other words, the powerful actor does not simply make the assumption that the subordinate actor will comply with what he wants him to do. He prefers to construct an undesirable hypothetical possibility regarding the subordinate actor's future behaviour and connects it with a threat of sanctions. In that sense, one can say that trust works on the basis of *positive* assumptions about *alter ego's* willingness and ability to co-operate, while power is constitutively based on the selection of a *negative* hypothetical possibility regarding *alter ego's* (re-)actions, and this is presented to the subordinate actor by the powerful actor as being in neither of their interests.

In many fields of social conduct, the identification of an undesired possibility of how social actors might behave in the future can reduce complexity sufficiently. Thus, power — similar to trust — can be seen as another mechanism for co-ordinating social interactions efficiently and for allowing relatively stable relationships to develop between co-operating social actors. It often suggests itself as a serious alternative to trust, but it should not be overlooked that the usability of power depends greatly on whether or not the threat of sanctions which is implied is realistic and has a good chance for being acknowledged by the subordinate actor. The more the latter starts to doubt that the threat of sanctions would ultimately be used against him, the weaker is the position of the powerful actor. Thus, there are no reasons to assume that power, unlike trust, cannot break down, if it is massively challenged. However, the damage is usually not quite as severe and a relationship may be continued more easily in this event, as power does not carry the same emotional weight that trust does. At the same time, power is anything but a simple trial-and-error game. Like trust, power has its risks as well as its safeguards but although it may not exclude risk entirely, it can reduce it considerably. As argued above, in the case of trust, the social actor who considers investing in it has *good reasons* to assume that the risk associated with the decision to actually trust another actor is relatively low. In the same sense, one could say that a social actor who considers using power can usually refer to 'authoritative' and 'allocative' resources (Giddens 1984) which can be deemed likely to find recognition by the subordinate actor. Otherwise, it would seem silly, or at best naive, to rely on the mechanism of power, just as would be the case when a social actor offers *blind trust* to another social actor.

In contrast to trust, power does not enjoy a very high reputation in day-to-day praxis, nor is it much valued by mainstream political philosophy. In both perspectives, it is usually classified as an unacceptable means to control social communication (Foucault 1972; Habermas 1984; 1987). Luhmann, however, questions this view and suggests that power should be seen as a mechanism which has a high capacity for co-ordinating interactions and for controlling the dynamics of social relationships. Although it may not always carry the seal of legitimacy, Luhmann (1979) argues, it should not be overlooked as an important medium of communication which highly differentiated societies simply cannot afford to renounce. Whether power is used to *confirm* authority and hierarchy or whether it is used to *challenge* such structures is a subsequent empirical question which has little to do with the primary social function of power itself. Giddens (1984), remarkably, is one of the few 'critical' sociologists who not only agrees with Luhmann's analytical, rather than political, concept of power, but even uses this understanding of power as one of the central premises of his Theory of Structuration.

On closer inspection, most social relationships are based on a mixture of both trust and power. Since both of these mechanisms are limited in their capacity to control the structure and dynamics of relationships, a combination often seems to be the only way to ensure that the co-ordination of expectations and interactions is satisfactorily achieved. However, as trust and power can produce very different qualities of relationships and are not equal in terms of what harm or benefits they can produce for the social actors on both sides, it is important to know on which of these mechanisms a specific relationship is *predominantly* based. In that sense, one can speak of two *alternatives* between which social actors can choose, although this is certainly not an arbitrary choice. As with trust, social actors usually have *good reasons* when they consider the use of power. If it is true that the risk of trust can be reduced by strong and coherent institutional arrangements which make it easier for a potential trustor to actually decide for trust to be the dominant co-ordination mechanism within a relationship, the reverse conclusion seems to be unavoidable: If the institutional order of a business system is patchy or cannot be deemed very reliable, potential trustors are more inclined to use power (given that they have access to corresponding resources) as the primary co-ordination mechanism within their trans-organizational relations, because, in these circumstances, they will often find it easier to bear the risk of open conflict than the risk of misplaced trust. Power may generally be the second best choice, but it is a good choice if trust seems not affordable.

A more detailed analysis of how trust and power do their jobs reveals that both mechanisms of social control, on the one hand, can be seen as *alternative* means — which do not exclude each other but occur in combination in many cases — of fulfilling the same social function. On the other hand, however, it seems that the relationship between trust and power is more complicated and that what has been argued so far only applies when the focus of analysis is confined to the *micro* level of social interaction. As soon as the focus of analysis is widened and different forms of trust and power are taken into account — including those emanating from the institutional framework, in which social interactions between economic actors are embedded — power often appears as a *precondition* rather than an *alternative* to trust.

Only under conditions in which the institutional order of a socio-economic system is weak and patchy, where trust is mostly *personal trust* rather than *system trust*, and where power solely depends on individually attributed resources, might an individual social actor be seen as being confronted with a simple choice between basing a relationship more on trust or more on power. In this situation, however, as has been touched upon already, the risk of trust is likely to be intolerably high for a potential trustor who will then have *good reasons* to favour power instead of trust, provided that he has the necessary resources to draw upon. Where these are not available, he is more likely to meet other social actors who will exert power *on him* than he will have the chance to offer or be offered trust. Thus, in social systems which are based on a low level of institutional regulation, power is more often chosen as the dominant mechanism to co-ordinate expectations and to control social relationships between individuals and organizations. In circumstances of a strong and coherent institutional framework where trust is produced on an institutional basis, i.e. in the form of *system trust*, and the risk of betrayal can be deemed relatively low by someone considering either power or trust in a specific relationship, individual power resources will have a relatively low value and will often remain unused. Instead, *system trust* is likely to be the prevailing social co-ordination mechanism under these conditions. At the same time, however, one should see that power is not generally absent in this case. Rather, it appears as *system power* in the form of law, powerful trade associations, inflexible business practices, technical standardization, and rigid structures of hierarchy. It is precisely this de-personalized form of power — or '*Herrschaft*' to use Weberian terminology — which can 'mass-produce' trust and thus can be seen as the central *precondition* of, rather than an *alternative* to *system trust*.

Patterns of Social Control in Trans-Organizational Relations: Germany and Britain Compared

The Functioning of Trust and/or Power within Specific Structures of Governance

The literature which analyzes empirical features of national business systems widely agrees that the British socio-economic system is characterized by a relative lack of co-operative mechanisms to solve the problem of co-ordinating social actors' expectations and interactions. In contrast, the German system is often described as being built on governance mechanisms which balance individual interests with collective goals and allow for long-term perspectives in business relationships (Stewart et al. 1994; Lane 1995; Lane and Bachmann 1996; Bachmann and Lane 1997).

Although neither system is in itself homogenous as, for instance, sectoral differences can play an important role (Arrighetti et al. 1997), and despite the observation that in the face of globalization Germany today seems to be moving closer towards the Anglo-countries' business model (rather than the other way round), the British and the German business systems still differ significantly in their basic features. To this extent, the systems in these two countries can be deemed good examples to put the theoretical conceptualizations presented above to test and to examine empirically the conditions and consequences of different forms of trust within each framework of institutional order. In particular, in the following paragraphs of this section, it will be shown that the two mechanisms for co-ordinating expectations and interactions in business relations — trust and power — take on specific forms in Germany and Britain, and appear in specific relationships to each other within the given institutional context. Thus these mechanisms, it will be argued, constitute quite distinct patterns of social control in trans-organizational exchange relations and thus, to a very large extent, also determine the quality of relationships between interacting firms.

The available comparative empirical studies generally confirm that in patchy and incoherent institutional environments with a relatively weak form of embeddedness of social interactions into these structures, trust is neither produced in large quantity, nor of very reliable quality. While, in both countries, trust is highly valued as an efficient means of coping with uncertainty, in the British socio-economic system, which is a prime example of extensive de-regulation (Lane 1995; Lane and Bachmann 1997), trust is a much more scarce resource than in the German business environment, which is still characterized by tight regulation and a strong institutional order. If/when trust occurs in the British system, it is likely to be *personal trust* constituted on the basis of individual experiences, rather than *system trust* produced by reference to the institutional framework. In both systems, inter-personal contacts between gatekeepers of business organizations are highly important in fostering the development of trust, but the difference seems to be that, in the British case, these contacts tend to result in trust in the integrity of the interacting individuals themselves, while in the German case, the personal level of communication between firms indeed tends to be only symbolic 'face work' at the 'access points' of organizations (Giddens 1990). In other words, German businessmen trust each other as representatives of their organizations which are embedded in highly regulated socio-economic systems, rather than as more or less sympathetic and potentially dangerously idiosyncratic individuals who merely by accident represent firm A instead of firm B, the latter being the case when *personal trust* is concerned. Thus, Giddens' concept of *system trust* and the process of re-embedding abstract systems and organizational structures into social praxis by individual social actors is particularly well illustrated by the social constitution of trans-organizational relationships within the German institutional framework, and only to a lesser extent does it apply to business relationships in Britain.

Empirical evidence also confirms that — as has been argued at the theoretical level (see pps. 347ff) — modern socio-economic systems are far too complex to be dominantly controlled by the trust that manifests itself in gentlemen's agreements and other forms of *personal trust*. As *system trust*, however, is not produced in sufficient quantity in the British system, due to the lack of collectively binding norms and standards of business behaviour, it is not surprising to see that, under these conditions, businessmen are more inclined to consider their individual resources of power to control the dynamics of their relationships instead of trust. Compared to the German socio-economic system, in the British system there is a significantly reduced chance of efficiently co-ordinating social actors' expectations and interactions in business relationships by means of trust. Comparative analyses of the British and the German systems also widely support the theoretical assumption which has been developed earlier in this article (see pps. 349ff), namely that the *genuine form of power* draws on *individual* resources rather than institutions but can, in functional terms, do a job similar to trust in situations where, as is characteristic of the British system, institutional arrangements are not strong enough to serve as a basis for producing trust in a fast and reliable manner. At least in today's world of business, *trust in its genuine form* is a systemic form of trust, i.e. *system trust*, since the constitution of trust, much more than the availability of power, relies on the existence of coherent and strong institutions. To a large extent, this explains the different qualities of trans-organizational exchange relationships between firms in Germany and in Britain. It would either presuppose too much time and effort or it would be too risky for British businessmen to base their relations extensively on trust. Provided that a social actor has resources of power available to draw on, making use of them often seems to be the better choice.

Clearly, this is not to say that British businessmen are only disadvantaged and that the 'mass-production' of *system trust* in Germany has no negative sides at all. In the light of empirical evidence, it could be argued that the absence of strong forms of *system trust* at least results in a greater awareness of the development of *personal trust* which allows for specific and very valuable forms of flexibility including an increased chance of building trust-based relationships across the boundaries of the domestic institutional system. German firms' limited ability of developing trust-based relationships in their foreign activities seems to be closely connected to the dominance of the institutional-based mode of trust production in this system, for if trust relies so heavily on the existence of highly generalized rules guaranteed by the institutional system, it is not surprising, that trust finds no ground when there is no shared world of institutional arrangements, which can be assumed to be the case in most international business relationships. Here, *personal trust* is often indispensable. This, to a large extent, explains why British firms generally tend to find it easier to deal with foreign business partners than their German counterparts do.

Differences between the Institutional Frameworks

The differences between both countries are deeply rooted in ancient traditions which concern the role of the state and the relationship between state and civil society (Lane 1995). While, for instance, in the German tradition, the authority and neutrality of commercial law is guaranteed by the state and is not meant to be questioned by an individual who only pursues his own interest, this hardly matches Anglo-Saxon views where law is seen as a means for protecting individual interests against collective pressures and political dictate. Thus, according to the tradition of English law, it is left much more up to personal discretion as to how the individual wishes to engage in business relationships and under what conditions. If it comes to legal disputes, British lawyers tend to react very cautiously when investigating private business and, at best, in forming a judgement, refer to the letters of the contract, even if these seem to have been imposed by the stronger individual or organization on the weaker side. German lawyers, in contrast, apply highly generalized legal rules. They draw on a very detailed legal code which implies sometimes *fuzzy,* but always strictly binding, guidelines of business behaviour such as, for example, the notion of 'good faith' (Arrighetti et al. 1997). These rules override whatever individuals may agree in their contracts and it is common practice of law that courts seek to resolve legal disputes by suggesting (re-)balancing individual interests according to these rules. Thus it can be concluded that, within the German system, legal regulation, as part of the overall institutional framework, is strong, and can efficiently reduce risk. In the sense of Luhmann's argument presented above (see pps. 342ff), it guides economic actors' expectations and is highly influential on their behaviour, long before disputes actually arise and cases are taken to court. In Britain, legal disputes are generally more likely, while it is less likely that a solution for these, acceptable for both sides, can be found. The German system of legal regulation helps to prevent opportunistic strategies of the stronger side. It tends to encourage re-negotiations between the contractors and thus facilitates *system trust* in trans-organizational relations. In the British system, almost the opposite holds true.

How elements of the institutional framework of the socio-economic system such as commercial law translate into everyday practice between social actors is well illustrated by the differences in using contracts in both countries. Within the British system, detailed written contractual arrangements are often the result of a fierce 'battle of contracts' (Sako 1992) in which each side tries to force its conditions upon the other. Thus, contracts in Britain — as has been argued, for example, by Beale and Dugdale (1975), see p.342 — can, indeed, frequently be seen as a sign of distrust, rather than as being conducive to the constitution of trust in trans-organizational relations. In Germany, in contrast, contracts and trust are not contradictory to each other at all, which strikingly shows the limitations of traditional socio-legal studies. Seeking the reason for this difference between both countries reveals that, within the German system, contracts are used in a way quite different to what can be observed in Britain. German businessmen have long and detailed contracts because they repeat many standard legal norms which are found in the legal code and would apply anyway. This practice simply has the function of *re-assuring* each other of the common legal principles within a *shared word* of institutional order, and thus can foster trust in a quite sub-conscious manner.

While different concepts of commercial law and legal practice are based on very old traditions, in the past 15 years or so de-regulation policy has further weakened the institutional framework of the British socio-economic system. A good example of these developments is the changed role of trade associations, which in the post-war decades had achieved at least some importance within the system. Today, British trade associations are small, and many of them compete with each other in the same sector. Almost none of them represents the majority of their industry and thus can neither speak for it, nor can they be seen as organized interest groups with which the political administration can discuss matters of state-initiated economic policy. They are privately owned consultants who sell their services to *customers* and, thus, can hardly be compared to their German counterparts. Within the German socio-economic system, powerful trade associations truly stand for their industry. These trade associations are self-organized by their *members* who take an active interest in the representation of collective strategies within their industry. In work groups, economic and technical knowledge is frequently exchanged between the member firms and this is highly conducive to generating and monitoring the rules and standards of business behaviour within the sector (and beyond). Thus, German trade associations can also function as transmitters of state policy and their advice on economic policy is much valued by the political administration (Bachmann and Lane 1997).

British trade associations cannot be understood as a relevant element within a strong institutional framework since they lack the capacity to provide general guidelines of behaviour. Consequently, they hardly contribute to reducing risk and producing *system trust* in trans-organizational relationships. The German socio-economic system, in contrast, illustrates particularly well what the role of trade associations can be regarding the constitution of trust. In Germany, trade associations, in which membership is almost compulsory for firms active in a given industry, are an efficient tool of self-organized monitoring of the behaviour of individual firms. The idiosyncratic and opportunistic behaviour of individual managers or organizations is largely prevented in that these trade associations execute a threat of social sanctions, which often is *latent,* but fully sufficient to *channel* economic actors' expectations and interactions into stable and predictable patterns. In that sense, in can be said that they are an important element of the institutional framework and through their *system power* they produce *system trust* at a high level.

The link between the constitution of trust and the quality of the institutional order — as has been analyzed in the theoretical section of this article — can be widely confirmed by comparative empirical studies. These also give no indication that the British business system is only based on institutions different from those which can be found in Germany. There is simply a lower level of institutional regulation in the British system, and the embeddedness of individual interaction into the collectively accepted institutional order is equally weak. Under these conditions, power-based relationships often seem to be the only way to effectively co-ordinate economic interactions between firms. This conclusion is also supported by the British understanding of what business, in general, is all about. Contrary to what many German businessmen would freely admit, the British concept of business leaves no doubt that making high *individual* profits is the ultimate goal of all business. Within this context, the co-ordination of expectations and interactions by drawing on individual resources of power — even if this implies aggressive behaviour — is not observed suspiciously, particularly when it is obvious that the inter-personal mode of trust production would be too slow and inefficient. The British example confirms that the use of power is not always an inappropriate means of controlling the dynamics of relationships. It is to be seen rather as an efficient co-ordinator of mutual expectations which allows for swift decisions and reactions. However, compared to trust, power is less capable of producing goodwill as well as a certain other type of flexibility which can — as has been argued in the introductory section of this article — save costs and foster the preparedness to engage in collective strategies.

Trust or/and Power as an Embedded Decision

Empirical research also confirms that economic actors frequently find themselves in situations in which they actually need to *decide* whether they want to base a specific relationship more on trust or more on power. In that sense, both mechanisms can be understood as *alternative options*. Further along the lines of the theoretical analysis given above (see pps. 345ff) it holds true that, in the vast majority of cases, these decisions are not based on rational calculation. Social actors in Britain and Germany usually have *good reasons* either to invest trust or to rely more on their resources of power — assuming that the latter are available to them. In the German business system, the risk that trust might be betrayed seems generally low, while in contrast, the risk a British businessman is prepared to run when he considers trusting an unknown supplier, customer or horizontally co-operating organization is relatively high. Within the context of a strong institutional system which provides a close monitoring of the conformity of social actors' behaviour, one can assume that, in most cases, it would not pay off to cheat. If the institutional environment is patchy and/or weak, the chances that social actors will consider such a behaviour are significantly greater.

In neither of the two systems is the risk of trust usually assessed in formal terms. It simply seems that the risk is considerably higher when businessmen have to interact within an environment which has few and weak institutional safeguards. If, as the German case shows, *good reasons* can be found, such as tight legal regulation of contractual relations or the existence of powerful trade associations, the likely decision to trust a potential business partner will be built on a *fuzzy,* but nevertheless *strong,* basis. Within the German governance system, a potential trustor could hardly quantify the chance that the trust he offers to another social actor will not be betrayed and what precisely it is that may make his business partner appear to be trustworthy. He simply tends to find the risk of trust tolerable when he perceives the co-operating organization's (re-)actions as being embedded in the institutional framework of a coherent business system constituted and guaranteed by the political administration, by latent threats of social and legal sanctions, as well as by hierarchical structures of self-control within the industry. In the British case, the same logic can be reconstructed with regard to the use of power. Within this business system, the risk of trust often seems intolerably high, and businessmen in many situations can find *good reasons* to consider their resources of power. Such a decision is, as in the case of trust, equally grounded in a *fuzzy* basis of knowledge but, again, is anything but arbitrary.

Also, empirical evidence confirms that the alternative between trust and power is usually not very clear-cut. The important questions concern the *proportions* of trust and power which together govern a trans-organizational relationship and what *forms* of trust and power become relevant to engage in specific relationships to each other. Thus, it corresponds to theoretical considerations presented above (see pps. 349ff), that although the level of trust is high in trans-organizational relationships in Germany, businessmen, at the same time, draw widely on *system power* in that they insist on practices such as detailed written contracts, regular checks of product quality or seniority rules as to who, for instance, is entitled to claim privileged treatment from trade associations, state-run agencies of economic development, banks, etc. Within this system, both trust and power are cushioned in generalized rules and routine practices which sometimes veils the fact that there are any decisions to be made at all. In Britain, in contrast, trust and power are more likely to be seen as contradictory to each other. Mixtures of both mechanisms — occurring in their personal forms, i.e. as *personal trust* and *personal power* — are nevertheless also the normal case in British trans-organizational relations.

Comparative empirical analyses strongly support the theoretical assumption that power embodied in rigid institutional structures constitutes the possibility that trust can be produced quickly and efficiently between socio-economic actors who are personally unknown to each other (see pps. 342ff). The German business system illustrates particularly well that power can appear as a *condition* of, rather than an *alternative* to trust, but it is most important to note that the form of power which is concerned here is not *personal power* but *system power* which is anonymous and is carried out through the structures of hierarchy and the authority of institutions. This form of power may not be neutral to individual actors' interests (Berger and Luckmann 1966) but it can hardly be (mis-)used by them for opportunistic strategies. Thus, it can provide generally acknowledged guidelines of behaviour, and for this reason, *system power* can foster the efficient production of a high level of trust in trans-organizational relations. No matter how strongly social actors may be inclined to offer a '*Vorleistung*' as a *first step*, they will take this form of power as an effective means to reduce the risk of betrayal and thus, in a *second step,* will develop a general preference to base their business relations on trust, i.e. *system trust*, rather than making references to their *individual resources of power*. At the same time, however, it should not be overlooked that the existence of this form of power also restricts individual creativity and the ability to speed-up decision processes. The latter is directly linked with the German innovation crisis, which, under conditions of rapidly changing global markets, became evident recently (Kern 1997, 1998).

Conclusion

As has been shown in this article, a theoretically and empirically fruitful approach to analyze the constitution of trans-organizational relations needs to draw substantially on genuinely sociological concepts such as trust and power, and to thoroughly examine how both co-ordination mechanisms are linked into each other within the specific socio-economic order. With reference to these categories, a wider focus of analysis can be established and the limitations of purely economic explanations of what constitutes the quality of trans-organizational relations can be transcended. Besides greater theoretical comprehensiveness, the approach proposed in this article also provides a more realistic view and a deeper conceptual understanding of empirical reality than is possible solely by reference to conventional economic theory.

The theoretical framework presented above is based on the assumption that, within the economic sub-system of society, social actors build their decisions on *good reasons* rather than on calculation or idiosyncratic preferences. These are constitutively drawn from structural contexts and institutional arrangements in which their expectations and patterns of interaction are embedded. In other words, neither a mysterious logic of structural processes nor arbitrary decisions of individuals are assumed to be the ultimate driving force of social processes. Rather, it has been argued, social actors inevitably build their expectations and shape their interactions *in the light of* institutional contexts. The micro–macro link between the level of institutional structure and the level of inter-personal interactions is thus seen as a loosely coupled connection within which intermediary mechanisms such as country-specific patterns of employing trust and/or power play a vital role in the social constitution of trans-organizational relations. Within this context, trust, power and the possible combinations of both can be studied in terms of their efficiency, and the intrinsic *fuzzy logic* of trust can be described in precise analytical terms.

In the empirical part of this article two distinct patterns of the social coordination of economic activities were reconstructed with reference to the

British and the German business systems. Trust and/or power were suggested to be central mechanisms which — according to the institutional framework of economic interaction — take on specific forms and engage in specific relationships to each other. While in a less strongly regulated system, such as the British business environment, social actors, to a large extent, need to secure the effectiveness of the co-ordination of their mutual expectations and interactions on the basis of individual experiences and resources, the same is neither necessary nor a promising strategy — as can be studied with reference to the German example — when the business system is built on a strong institutional framework of governance structures. In the first case, trust and power are likely to appear as *personal trust* and *personal power* between which — provided that suitable resources are available and thus power is an option at all — social actors need to decide. Given these conditions, they indeed often prefer the latter. Under conditions of 'mass-production' of *system trust*, however, trust is constitutively based on *system power* embodied in collective practices and routines, hierarchical forms of social order, and formal rules of business behaviour. In these circumstances, social actors are much less confronted with the need to make an explicit decision between trust and power, preferring to buy *system trust* and *system power* in a package. Thus, generally, the quality and dynamics of trans-organizational relations can be reconstructed as being controlled by patterns of *trust and/or power mechanisms* which are characteristic of the specific arrangements of institutional regulation in which business activities are embedded.

Against the background of this approach to analyzing the constitution of business relationships, it becomes apparent why simplistic explanations of the quality of trans-organizational relations must fail. As has been shown in the theoretical and empirical sections of this article, the quality of inter-firm relations is constituted by a social process much more complex than can be captured by one-dimensional economic approaches. These seem to be ignorant of the most important mechanisms, which, in specific combinations and in specific circumstances, shape the form and quality of relationships. At the same time, it is not sufficient merely to describe the phenotypical phenomena found. To identify, for instance, *hybrid* forms of co-ordination of expectations and interactions as a way to overcome the shortcomings of purely market-based relationships, on the one hand, and hierarchically integrated relationships, on the other hand, may be built on empirical observations and plausible conceptual assumptions such as the notion that long-term oriented forms of close co-operation allow for the pooling of risks or knowledge flows across organizational boundaries. However, these well-known arguments are usually not based on a sufficiently deep understanding of social reality. The theoretically grounded analysis proposed in this article, in contrast, is designed to dig below the surface of what can be observed at very first sight. With the conceptual tools provided by this article, the problem of why *hybrid* forms of co-operation and the notion of trust today are so much embraced — particularly in low trust systems such as the British business environment which, however, lack the institutional preconditions of producing a high level of trust and encourage aggressive competition as well as the use of individually accessible resources of power instead of trust — can be analyzed quite fruitfully. At the same time, these conceptual insights allow for reconstructing the problem of 'over-embeddedness' (Uzzi 1997: 58) of trans-organizational relations in high trust systems such as Germany, and provide an indication as to what kind of trust is needed under these conditions to increase individual willingness to take risks associated with technical and economic innovation. To harvest the advantages of *hybrid* and flexible relations within this business environment seems to require an approach quite different from what is often suggested with reference to the Anglo-countries.

Comparative analyses of business systems quite clearly show that current mainstream debates are misled in basing their central arguments on the assumption that it all depends on the abstract question of whether market and hierarchy can be balanced in such a way that none of these principles is predominant in business relationships. If the problem was only to find the most effective *mixture* of the two ingredients — individual autonomy and institutional regulation — it would not seem too challenging to agree on a solution. However, as the Anglo-German comparison presented above shows — it is vitally important to gain a deeper understanding of how the specific socio-economic system under review works and how the relevant mechanisms of co-ordination of interactions between firms are constituted. Only if the logic of the specific business system can be revealed may it be possible to reconstruct the patterns in which these mechanisms decide upon the quality of relationships.

Analyzing the social constitution of trans-organizational relations in the way proposed in this article makes evident that neither Marxist, nor Neo-classical, nor harmonic views can contribute much to understanding and solving the current problems of advanced business systems. The Marxist view, which was and still is taken by Labour Process Theorists, assumes that there is 'a constant threat of *collapsing trust into control*' and that trust is nothing more than a 'sub-type of generic power' (Reed 1998: 7). As has been shown in this article, however, the relationship between trust and power is much more complicated, and varies according to the institutional framework of the specific business environment. Within the British and the German business systems, both mechanisms divide into specific forms and build up specific *trust/power control patterns*. At the same time, the notion that the growing importance of trust could lead to the end of capitalist profit-maximizing can equally not be confirmed by the analysis presented above. The fact that today many firms have developed a strongly increased interest in flexible *hybrid* relationships is as much a consequence of intensified competition on globalized markets as it is a trend often sharply questioned by the same developments. This paradoxical situation leads to different strategies of co-operation with specific conditions and consequences within the prevailing *trust/power control patterns*. One of the most important questions to answer in this context is whether, and in what circumstances, this paradoxical situation can be taken as a force to foster performance and innovativeness, rather than a hindrance to both. To find well-grounded solutions to real-world problems of this kind, the employment of sociological theory has been shown in this article to be useful. In contrast, formal models based on counter-factual assumptions — such as the idea of an exclusively calculating economic actor — seem to be historically exhausted today. It is high time to re-introduce society in economics (Ortmann et al. 1997) and to lay the ground for a theoretically informed and empirically interested approach to come to grips with contemporary problems of socio-economic systems.

Note

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