Trust, Power and Control in Trans-Organizational Relations

Reinhard Bachmann

Technical University of Hamburg-Harburg
FSP 1-11
Schwarzenbergstraße 95
21073 Hamburg, Germany
Email: bachmann@tu-harburg.de
Phone: ++49-40-42878.3679
Fax: ++49-40-42878.2635

Paper Presented to the SASE-conference, July 8-11, 1999, in Madison/Wisconsin, U.S.A.

Abstract

This paper analyses 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 Structuration Theory and Systems Theory.

1 Introduction: Hybrid Co-operation and Trust

1.1 The Attractiveness of Hybrid Forms of Co-operation

In modern societies, which are characterised by a high degree of division of labour, it is essential that the exchange of information, payments, parts and materials is organised efficiently. Both in vertical supply chains and in horizontal relations between firms these exchanges need to be fast and easy to control. For this reason the co-ordination of mutual expectations plays a central role within trans-organizational relationships[1], and the social quality of these is crucial for the functioning of advanced socio-economic systems. These insights are little more than common sense knowledge to those who - in practical or academic terms - are familiar with today's world of business and management. Much less consensus, however, exists when it comes to the questions of which factors determine the nature of inter-firm relations and which mechanisms are invoked in the process of shaping them. The present article investigates these latter issues and strives to develop a suitable theoretical framework to understanding this process.

In the earlier decades of this century (and before) the answers to these questions seemed much more simple than today. Although there was no consensus within economic theory, two clear-cut alternative approaches were held against each other in fierce debates fuelled often more by ideological beliefs than reasonable argument. *(Neo-)classical* economic theory viewed the institution of the market and the principle of competition as basically sufficient to co-ordinate actors' expectations and interactions effectively. Within this approach it was supposed that if each individual followed his egoistic interests and behaved opportunistically, the market would - *a tergo* - create a perfect world of co-ordinated exchanges between economic actors. In contrast, *Marxist* economic theory and the advocates of the planned economy had only very limited faith in the 'invisible hand' (Adam Smith) of the market. Instead they preferred direct control of economic interactions and believed in the rationality of bureaucratic structures to solve economic allocation and co-ordination problems. With little exaggeration one could say that while in the perfect capitalist world there would ideally not exist a single organization but only *external,* i.e. market-based, exchange relations between individuals, the perfect socialist system would consist of merely one single organization, all relations being *internal* ones.

Today, a majority of academics and practitioners 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, 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 the most promising form of trans-organizational relationships. The various reasons given for this view are built on the observation 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 1994). It is, on the one hand, conducive to reducing costs through specialisation and competition; on the other hand, long-term oriented relationships allow for mutual flexibility, the joint use of technical and economic know-how and a collective bearing of risks particularly associated with technological innovation (Loasby 1994).

This trend towards the establishment of close and long-term oriented relationships has also been confirmed by many contributions which in recent years discussed the characteristics of the system of inter-firm relations in Japan. Particularly 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). Furthermore, the literature on so-called 'industrial districts' (e.g. Keeble and Weever 1986; Sengenberger, Loveman and Piore 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 have lost part of their economic dynamism in the mid-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 today towards stable and tightly woven trans-organizational relations among legally independent businesses. At the same time, short-term oriented opportunism, as one extreme, and organizational integration and central control, as the other, seem to have forfeited much of the attractiveness which they obviously had in more ideological times.

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 to avoid extreme tensions but only hybrid forms of co-ordinating interaction are seen as being based on trust as the *central* mode of controlling interaction. 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 extremely important in business relationships.

1.2 Trust as a Complex Phenomenon and the Need for an Adequate Framework of Analysis

Trust is a valuable asset. It allows for more than zero-sum games since it is not consumed when it is used. Rather it can be seen as a 'capital' (Coleman 1990) which will be increased by its use. Thus, trust can have a considerable ***surplus-value*** and both sides of a relationship can benefit from it. At the same time, however, it is also a very complex social mechanism and as yet ill-understood. In many ways trust does not fit into conventional categories of economic theorising. It tends to escape narrow definitions and clear-cut terminological distinctions which, however, is no disadvantage. It rather seems to be a basic characteristic of trust, laying the ground for its ability to control exchange relations between economic actors highly effectively (Bachmann 1998). The *fuzzy logic* of trust, in other words, seems to be a precondition of its efficiency. As we know from ethno-methodology (Harold Garfinkel), the sociology of knowledge and the sociological reconstruction of the development of Artificial Intelligence Systems (for the latter see for instance Dreyfus and Dreyfus 1986; Malsch et al. 1993) *ill-defined* and *implicit* knowledge which is incorporated in routines and social practices is essential to the co-ordination of expectations and interactions but much more difficult to capture than rule-based and explicit expert knowledge of specific domains. Remarkably, all these strands of sociological research confirm that *fuzzy knowledge* is often most efficient in regard to problem-solving. Trust - as it seems - operates precisely on the basis of this logic.

Although attempts to analyse the phenomenon of trust theoretically 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) numerous articles have been published in the past 10 years or so which look at 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). It may be doubted that these classification schemes lead very far in coming to grips with the phenomenon itself, but they show that, by many scholars, trust has been recognised as a key issue in relationships within and - particularly - between organizations. Compared to trust there are very few issues which currently attract similar attention in the organizational and socio-economic literature. But the debate seems to only have reached the point where the research agenda can be set and the relevant research questions become distinguishable from minor issues (Bachmann 1998). The relevant conceptual approaches to answer these questions, however, exist only in rudimentary form and much theoretical input is still needed to understand fully how trust works as a social governance mechanism and what function it can fulfil in co-ordinating expectations and interactions within trans-organizational relationships.

Large parts of the economic and management literature on trust 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 business relationships after all can transcend the Hobbesian state of *homo homini lupus.* Capitalism, it is even argued, 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 by 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 simply is 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 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 minimise 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 debate but none of them seems to dig deeply into the complex social processes determining the quality of inter-firm relationships. Doing so would mean analysing tensions and contradictions instead of constructing simple solutions. The problems of how to balance the principles of dependence and autonomy, for instance, and to establish successful relationships in circumstances of greatly intensified competition seem to be central issues in this context which are unlikely to be captured by one-dimensional approaches. Rather, it should be seen that the necessity to take *both* of these principles into account produces a paradoxical situation: Fierce competition, on the one hand, destroys trust which only seemed to be affordable 'in the old days' while, on the other hand, trust relations with closely collaborating suppliers, customers and business partners seems to more and more become important for survival in the shark tank of contemporary capitalist competition.

Newer *empirical* work on inter-firm relations (for a concise and informative review see Bresnen 1996) confirms that many firms today find themselves confronted with precisely this paradoxical situation. While in some cases firms, in particular smaller firms, find it a rational reaction to competitive pressures to terminate long-standing relations with suppliers or customers in order to profit from short-term opportunities and/or to reduce their vulnerability, others strive to engage in almost symbiotic relations with very few reliable suppliers, customers and partners. In similar vein, firms can be found which more and more concentrate on their core business and extend their outsourcing activities to save on production costs, whereas the management of other firms in the same sector base their decisions on the assumption that the strategy of saving on costs by bringing already dependent suppliers under complete control - by means of merger or take-over - will eventually still pay off. These contradictory developments show that - while management today is very conscious of the importance of the quality of trans-organizational relations and trust - a profound understanding of the conditions and consequences of different forms of trans-organizational co-operation and trust is badly missing.

From these observations one can conclude that essential changes in the constitution of inter-firm relationships take place today and that trust plays a central role in the re-engineering of business relationships. But current developments bear a deep-seated dilemma related to the question of how to effectively combine the need to control relationships and the chance to harvest the fruits of autonomy. Abstract economic theory, as it seems, is ill-equipped to provide a solution for this problem. The argument which, for instance, is provided by Transaction Cost Economics (Williamson 1985), namely that it all depends on asset specificity and the weighing up of costs and profits seems too simple to explain the existing diversity of strategies and recent trends. Even less capable of comprehending the complexity of relationships 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 extremely simplified but it also places itself far beyond the terrain of realistic empirical research perspectives.

This article is keen to 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 which includes a particular emphasis on the institutional framework of interaction between business organizations. In doing so, it will dig into basic sociological theory which will be necessary to gain a deeper understanding of trust as a *social control mechanism* in business relationships. To analyse the preconditions and consequences of economic decisions and interactions - it will be assumed - a variety of different social factors, rather than a single abstract principle, are relevant in constituting the qualitative aspects of economic relationships.

On the basis of this insight, section 2 of this article will be concerned with a conceptual analysis of trust drawing on Systems Theory (Luhmann) as well as 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 regards 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 as quite distinct examples of different modes of producing co-operation and controlling the dynamics of economic interactions (section 3). In this section it will be demonstrated how the quality of inter-firm relationships emerges in a dialectic process which involves both the constitution of trust and the exertion of power, the latter being another highly efficient mechanism for the co-ordination of social interaction. The concluding part of this article (section 4) 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.

2 Theoretical Considerations

2.1 Trust as a Means to Cope with Uncertainty

Luhmann's analysis of the social function of trust starts with a mind experiment: Imagine a social world which is completely unstructured and thus appears to be ultimately complex to those 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 alike from any other actor, and thus it seems unlikely that two (or more) actors actually manage to establish any kind of interactive process. On the basis of these conditions social actors are confronted with a problem which they have little chance to solve as the future behaviour of other actors with whom they might want to interact is completely contingent and an unlimited number of possibilities of (re-)actions would need to be taken into account. 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. 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 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 an in itself ungrounded 'Vorleistung' (Luhmann 1989: 23)[2] which means to simply make the assumption that the trustee will behave trustworthily without being willing or able to insist on any guarantees or concrete 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 to start to interact with each other. It is worth to note that in such a situation it is not only the trustor who can make specific assumptions about the trustee's behaviour; also the trustee singles out a small number of (re-)actions he assumes the trustor will find preferable to all other possibilities. Thus systems of social interactions emerge as the reduction of diffuse complexity allows for establishing longer strings of co-ordinated social actions and reactions. Trust alone may not be sufficient to generate differentiated social systems but it is a necessary precondition of many forms of social interaction. If there was no trust in the sense of 'Vorleistung' in the world when actors start to consider actually engaging in social activities with other actors, they would often find it impossible to do so.

2.2 Trust and Risk

Although trust is such a fundamental mechanism in all social reality it also involves a problem: 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*[3] 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 (ibid.: 26). Trust can thus be disappointed and, then, appear to be misplaced for in business (as well as in other fields of life) one can be betrayed, and naive assumptions can result in considerable losses. This is the risk that someone, who considers whether he should trust another actor or not, wants to *minimise*. 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* to believe 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 either avoid social interaction at all or seek an alternative basis for it. Thus one could say that a trustor in a *first step* comes to the point where he considers to make a 'Vorleistung' and in a *second step* seeks reasons why he actually should decide to do so. Only if these are found is trust likely to become the dominant mechanism of co-ordination and social control within the relationship.

As Luhmann suggests, the existence of *legal norms* is one of the most effective remedies to confine the risk of trust and thus to provide those *good reasons* which a potential trustor needs to decide 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 mobilised. According to his theory, the basic social function of legal norms can 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' (ibid.: 36). With reference to relationships between *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 be inclined to offer a 'Vorleistung' to his customer, supplier or business partner, the existence and *latent* influence of the legal system may 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 (Macauly 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, it does so irrespective of whether there exist legal norms or not. Referring to the legal code by, for instance, detailed contracts is seen as likely to be detrimental rather 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 trust and law would indeed be difficult to reconcile.

Along the lines of Luhmann's argument, commercial law and practices of contracting can be understood as *one* important element of the wider institutional framework (Deakin, Lane and Wilkinson 1994; Lane and Bachmann 1996) in which business relationships are embedded. But besides legal regulation there are other elements of the institutional arrangements within socio-economic systems which need to be taken into account. The role of trade associations, for example, which represent the collective interests of a whole industry, the financial system, the system of technical norming and standardisation of products and production processes, and the economic policy of the 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 mobilise sanctions, the risk that cannot be ruled out 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 minimising 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 business partner will behave in an unforeseen manner and cheat when the institutional framework, in which his interactions are embedded, is strong and coherent. Exceptions, of course, are always possible.

2.3 Reconstructing the Link Between Action and Institutions

Luhmann's theory of trust, on the one hand, fundamentally differs from conceptualisations 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 maximise 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 anthropological 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 it is the very nature of trust that the propensity for defection as well as the amounts of potential gains and losses simply cannot be assessed with sufficient reliability. At the same time, however, it is only these situations in which trust might become relevant at all. If - in a given situation - the involved social actors are in positions to assess quite precisely the consequences of their decisions, trust will no longer be needed.

Interestingly, there are also ideas which Coleman and Luhmann share. Both, for instance, assume that *institutions* play an important role with reference to the problem of assessing the risk which is implied when a social actor decides to invest trust. Similar to Luhmann, Coleman recognises '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 but most effective manner orient social actors' expectations and decisions, irrespective of how much consciousness they might have of this process.

In Luhmann's view the very basic problem social actors need to cope with 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 co-ordinate their interactions, the institutional framework of the business system, in which their relationships are embedded, provides 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. At the latter point Rational Choice Theory steps in 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 simply tend to do their job in a *latent* manner. Rare exceptions do exist but there are simply not enough of these 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 Rational Choice based concepts. Both theoretical approaches, Luhmann's Systems Theory and New Institutionalism, share the assumption 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 with Luhmann[4] - 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' interactions are often withdrawn from their consciousness is actually viewed not only as accidental but as a precondition of institutions being able to do their job effectively - which, however, is not to say that they are totally 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. Social institutions, Giddens agrees with Systems Theory and New Institutionalism, are relatively stable patterns of social practices which shape social actors' behaviour. In this process, Giddens argues, expectations and interactions between social actors are channelled and controlled in a highly effective *fuzzy* 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. But according to Giddens, they cannot avoid permanently orienting their behaviour towards *existing* institutional arrangements unless they accept that their actions are arbitrary and meaningless to others. As a consequence of these referencing processes the institutional arrangements of a given social system *in normal circumstances* tend to be confirmed 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 (Giddens 1990; Sydow 1998) thus focuses on reconstructing the role of institutions in a way which has little in common with what Rational Choice suggests. Although Coleman acknowledges that institutions are important with reference to whether social actors tend 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 onto 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. Institutions reduce the risk of being betrayed in that they constitute a 'world in common' (Harold Garfinkel) with shared norms and standards of behaviour. Seen from a Neo-Institutionalist as well as from a Structurationist point of view, this process appears very similar to what Systems Theory suggests. In all three of these perspectives, trust is constituted on the basis of *shared beliefs* and *fuzzy logic* rather than calculation. Structuration Theory as well as 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 it, at the same time, produces risk in regard to the potential trustor's specific decision problem, and it is an intrinsic feature of trust that this risk is extremely difficult to assess. For this reason it makes not much sense to describe social actors' decision 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! - information (Bachmann 1998: 301-303). But this is a step out of everyday-practice and routine which is the exception and indeed 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 regard to a specific issue is only a *subsequent* problem which would not exist if social actors had not in a *first impetus* already developed a disposition to make a 'Vorleistung' which - in a *circular* process - confirms itself in a *second impetus* in the light of institutional arrangements apt for reducing the risk of trust. Rational Choice is blind to the *first impetus* to trust which reduces diffuse uncertainty on the basis of relatively vague and ungrounded assumptions and has no understanding of the circularity of trust production as a self-hightening process being possible within a fertile institutional environment.

2.4 System Trust and Personal Trust

Luhmann (1979) as well as Giddens (1990) are primarily interested in what they call '*system trust*'. They oppose it to 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 (*'personal trust'*). Here again, they closely connect to 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 being a means to reduce risk most directly refers to the concept of *system trust* or *institutional-based trust* (both terms will be used as synonyms in the following part of this article). Thus it seems worth to have a closer look at this concept and to analyse the associated issues.

A classical example which is often referred to in the context of *system trust* is trust individuals have in the universal acceptance of money as a precondition of the existence of large and efficiently working economic systems. Money as medium to symbolise the transfer of material resources to a large extent works independent of whoever uses it. Thus 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 that amount of trust being necessary for differentiated modern socio-economic systems to function efficiently. Like other elements and subsystems of the institutional framework in which business behaviour is embedded, the abstract rules of the monetary system provide a means of collective control of individuals' expectations and thus facilitate co-ordinated interaction between them. In such a manner, trust - *i.e. system trust* - can be produced in a way that is not dependent on individual sympathy and/or long-standing personal experiences social actors might - or might not - have with each other.

Personal trust once fulfilled a pre-eminent role in business. Zucker (1986), however, argues that *personal trust* - or what she calls *'process-based trust'* - is by no means sufficient in highly differentiated economies. With reference to the American economy of the 19th 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 - in particular if it is solely used - cannot be deemed a very efficient way to co-ordinate transactions within complex socio-economic systems. According to Zucker (1986), face-to-face contacts might still be extremely important today but they cannot serve any longer as the main - or even less so: the only - mode of trust production. In other words, individual actors' integrity today can only fulfil a supplementary function with reference to trust produced by institutional arrangements.

It appears that this argument could be confronted with the assumption that although *system trust* might be seen as an *advanced stage* of trust production, *personal trust* or *process-based trust* would still be essential as the *starting point* within a relationship. Notwithstanding that much of the more superficial organizational literature on trust indeed argues along these lines, it is not too difficult to see that - as already has been shown with reference to the example of the monetary system - *system trust* is not only most central to the functioning of modern society and economy generally, but also- if not particularly! - in the starting phase of a relationship. Luhmann's analysis of the role of the legal system in regard to *system trust* is constitutively based on this premise, and with reference to Giddens and Zucker the same assumption can be exemplified even clearer.

According to Giddens' (1990) theory of trust the functioning of abstract systems, such as the monetary system, the legal system, the system of medical health care or the air traffic system (which Giddens himself suggests as a most instructive example of *system trust* - ibid: 85f) presupposes that social actors such as friendly stewardesses on air-planes or lawyers in black gowns appear in person at the 'access points' of these systems and by 'face-work commitments' assure potential users or clients that these systems can be deemed trustworthy. In this way face-to-face contacts can help to absorb diffuse uncertainty as well as specific risk. These contacts seem to be necessary but they are not really sufficient to produce trust. Imagine a lawyer, a physician, a stewardess on an aircraft, a banker or a chairman of a trade association who would only appear as a more or less sympathetic individual person and not as representing abstract systems of institutionally guaranteed standards of expertise, rules and procedures. It would simply be unlikely that these individuals are assumed to be particularly trustworthy. Much more it seems that whether or not in a specific situation a professional expert or - equally - a business partner is trusted depends on how well uncertainty and risk are confined through stable and anonymous institutional arrangements which are represented by individuals who behave according to highly generalised rules.

In other words, economic actors whose interactions are deeply embedded in a *shared* world of legal regulation, financial arrangements, interests organised by trade associations etc. are more likely to behave trustworthily than would be the case if there were nothing but face-to face experiences to rely on. But, at the same time, it is important to see that face-to-face commitments fulfil a vital function, in particular in regard to confining *risk* in specific situations. Imagine a car mechanic to which a car driver's vehicle is brought anonymously for repairs of the brake system. There might well be institutions such as professional organizations, standards of training or licences issued by a state controlled agency to run a garage which absorb general *uncertainty*. But a brief face-to-face conversation with a mechanic which allows 'to see the whites of eyes' (Giddens 1990: 87) might still have a strong influence on whether the customer actually decides to commit the car to this specific mechanic. In the rare case that the customer knows something about vehicle brake systems himself, such a conversation could well be the basis for a rational decision to trust or not to trust the mechanic, and if the customer has easy access to the same services elsewhere, he could even compare different offers and make a calculation over risks and prices which might even leave a Rational Choice Theorist satisfied. The more such evaluation of alternatives is possible, the more face-to-face contacts seem to play an important role and - in these circumstances - can indeed provide a basis for a rational decision either to trust or not to trust the other actor. However, this example also shows why *personal trust* is not sufficient to control relationships effectively in contemporary socio-economic systems, and why trust, particularly in the form of *system trust*, has increased its importance in modern 'trust societies' (Wagner 1994)

2.5 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 as to whether there are alternative mechanisms to substitute for it. Uncertainty and/or the risk associated with the decision to invest trust in a relationship may be seen as intolerably high and social actors might thus find themselves not able spontaneously to offer a 'Vorleistung' to any other actor nor would they 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. But this is not the only problem which can occur with trust. Even if trust has been established successfully in a relationship it is a fragile mechanism. Irrespective of how likely it is, it simply is an intrinsic feature of trust that it *can* turn out to be misplaced and the danger of a sudden breakdown of trust can never be excluded. If this happens considerable consequences, not only in emotional terms, are to be expected. Economic organizations, for instance, who realise that their main suppliers, customers or partners begin 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. Not in all, but in many respects, power is equally efficient and - at the same time - it seems more robust and much less in danger of an unforeseen breakdown. 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 with how trust does its job. Both mechanisms allow social actors to link their mutual expectations into each other and to co-ordinate (re-)actions between them. However, there also exists 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 selects the possibility that the potential trustee will behave in the way he as the trustor prefers, the powerful actor selects a possibility of behaviour which he suggests to the subordinate actor as an undesirable behaviour and which should thus be avoided. The powerful actor does not simply make the assumption that the subordinate actor will comply with what he wants him to do. He rather constructs an undesirable hypothetical possibility regards 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 while power is constitutively based on a *negative* selection of a hypothetical possibility which is presented by the powerful actor and believed by the subordinate actor not to be in the interest of either side.

In many fields of social interaction the identification of an undesired possibility can reduce complexity sufficiently. Thus, power - similar to trust - can be seen as another mechanism to co-ordinate social interactions efficiently and to allow for relatively stable relationships between co-operating social actors. Power often suggests itself as a serious alternative to trust, particularly since it is much more robust and it is less in danger of being disappointed. However, 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 doubt that power - like trust - can break down if it is massively challenged. However, the damage is usually not that severe and a relationship may be continued more easily in the case of this event since power has not the same emotional weight that trust has. 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 which may not exclude risk but which can reduce it considerably. As argued before, 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 usually can refer to 'authoritative' and 'allocative' resources[5] which can be deemed likely to find recognition by the subordinate actor. Otherwise it would seem hazardous - or at best silly - 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 esteem 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 dynamics within social relationships. Although it may not always carry the seal of legitimacy, Luhmann argues, it should not be overlooked that it is an important mechanism which highly differentiated societies cannot afford to renounce. But whether power is used to confirm authority and hierarchy or whether it is used to challenge such structures is a subsequent empirical question which indeed 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 also uses this understanding of power as one of the central premises of Structuration Theory.

In fact most relationships are usually based on a mixture of both trust and power. Since both of them are limited in their capacity, a combination often seems to be the only way to ensure that the co-ordination of expectations and interactions is achieved satisfactorily. But as trust and power can produce very different qualities of relations and are not equal in terms of what benefits they can produce for both sides, it is important to know on which of these mechanisms a relationship is *predominantly* based. In that sense one can speak of two *alternatives* between which social actors can choose. However, this is not a voluntaristic choice. As with trust, social actors usually also have *good reasons* for their decisions when power is concerned. If it is true that - as equally has been shown already - the risk of trust can be reduced by 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 given business system is patchy or cannot be deemed very reliable, potential trustors are more inclined to use power since they often find it easier to bear the risk of open conflict than the risk of misplaced trust. Power may be the second best choice but it is a good choice if trust cannot be afforded.

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 - to fulfil the same social function. On the other hand, however, it seems that the relationship between trust and power is still more complicated and that what has been argued so far only applies when the focus of analysis is confined to the scope of an individual social actor choosing one of the two mechanisms to be the preferred co-ordination mechanism in a specific relationship. But as soon as the focus of analysis is widened and different forms of trust and power are taken into account, including those manifesting themselves as elements of 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 in an imagined social world in which the institutional order is weak and patchy, where trust is *personal trust* rather than *system trust*, and where power solely depends on individually attributed resources, might an individual social actor be confronted with a choice between basing a relationship more on trust or more on power. But in this situation - as has been touched upon already - the risk of trust is likely to be intolerable 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. In case he does not have these 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 interactions between social actors. But in circumstances of a strong and coherent institutional framework where trust is produced on an institutional basis and the risk of betrayal can be deemed relatively low by someone who considers either to dominate using this mechanism or to refrain from doing so in a specific relationship, individual power resources have a relatively low value and will often remain unused. Instead, *institutional trust* is likely to be the dominant social co-ordination mechanism under these conditions. At the same time, however, one should see that it is not power generally that is absent in this case. Rather, power appears as *system power* in the form of law, powerful trade associations, inflexible business practices, technical standardisation, and rigid structures of hierarchy. It is precisely this de-personalised form of power which can 'mass-produce' trust and thus is to be seen as the central *precondition* rather than an *alternative* to *system trust*.

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

3.1 The Role of the Institutional Framework

The literature which analyses empirical features of national business systems widely agrees that the British socio-economic system is characterised 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; Arrighetti, Bachmann, Deakin 1997; Lane and Bachmann 1996; Bachmann and Lane 1997). In so far as the British and the German business systems seem to differ significantly in their basic features these can be deemed good examples to put the theoretical conceptualisations presented above (section 2 of this article) to test and to examine empirically the conditions and consequences of different forms of trust within each framework of institutional order. 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 and appear in specific relationships to each other within the given institutional context. Thus these mechanisms constitute quite distinct patterns of social control of trans-organizational exchange relations and - to a very large extent - also decide upon the quality of individual relationships between firms.

Comparative empirical studies generally confirm that in patchy and incoherent institutional environments and a relatively weak form of embeddedness of social interactions into these structures, trust is neither produced in sufficient quantity nor in very reliable quality. In the British socio-economic system, where these conditions widely prevail (Lane 1995; Lane and Bachmann 1997), trust is much more difficult to generate than in the German business environment which is characterised 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 economic organizations are highly important as regards the development of trust, but the difference seems to be that in the British case these contacts tend to result in trust in individuals, 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 rather than as 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 constitution of German inter-firm relationships.

Empirical evidence also confirms that - as has been argued at the theoretical level with reference to Luhmann and Zucker (section 2) - modern socio-economic systems are too complex to be dominantly controlled by trust in the form of *personal trust*. As *system trust*, however, is scarcely produced in the British system it is not surprising to see that under these conditions businessmen are more inclined to control the dynamics of their relationships by power instead of trust. In the British system there simply is a much smaller chance of efficiently co-ordinating social actors' expectations and interactions in business relationships by means other than power. Thus, comparative analyses of the British and the German systems widely support the theoretical assumption 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 the case that - as it is characteristic of the British system - institutional arrangements are not strong enough to serve as a basis for a fast and reliable production of trust. Trust in its *genuine* form, in contrast, is *system trust* since the constitution of trust - more than the availability of power - relies on the existence of strong institutions. This, to a large extent, 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 the better choice.

These 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 individuals, this hardly matches Anglo-Saxon views where law is seen as a means to protect individual interests against collective pressures and political dictate. Thus, according to the tradition of English law, it is much more left to the discretion of the individual as to what the conditions of economic relationships he wants to engage in are. If it comes to legal disputes British lawyers would tend to interfere in private business as cautiously as possible and at best refer to the letters of the contract in their judgement even if these seem to have been imposed by the stronger individual on the weaker side. German lawyers, in contrast, apply highly generalised legal rules. They draw on a very detailed legal code which implies general guidelines of business behaviour such as the notion of 'good faith' (Arrighetti, Bachmann and Deakin 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. It usually channels individual 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 can be found which is acceptable for both sides. The German system of legal regulation helps prevent opportunistic strategies of the stronger side. It tends to encourage re-negotiations between the contractors and thus facilitates trust. With reference to the British system almost the opposite holds true.

While different concepts of commercial law are based on very old traditions, in the past 15 years or so deregulation 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 association are small and many of them compete with each other in the same industry. Almost none of them represents the majority of their industry and thus can neither speak for it nor can they be seen as a representative with which the political administration can discuss matters of state-initiated economic policy. They are privately owned consultants which sell their services to *customers* and, thus, can hardly be compared to their German counterparts. Within the German socio-economic system big and powerful trade associations truly represent their industry. These trade associations are self-organised by their *members* who take an active interest in the representation of collective strategies within their sector. In work groups economic and technical knowledge is frequently exchanged between the member firms which is highly conducive to generating and monitoring the rules and standards of business behaviour. 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 relevant elements of the institutional framework since they lack the capacity to provide general guidelines of behaviour. As a consequence they hardly contribute to reducing risk and producing *system trust*. The German socio-economic system, in contrast, shows what the role of trade associations can be regards the constitution of *system trust*. In Germany trade associations, in which membership is almost compulsory for firms active in a given industry, are an efficient tool of self-organised monitoring of the behaviour of individual firms. Idiosyncratic and opportunistic behaviour of individual managers or firms is largely prevented in that these trade associations execute a latent threat of social sanctions which usually is sufficient to channel economic actors' expectations and interactions into rather stable and predictable patterns of behaviour. In that sense in can be said that they are an important element of the institutional framework and through their structural power they produce *system trust* at a high level.

The link between the constitution of trust and the specific features of the institutional order - as has been analysed in section 2 of this article in more theoretical terms - can widely be confirmed by comparative empirical studies. While the German system is generally still characterised by a high capacity to produce *system trust* (Kern 1997; 1998), this does not apply in the case of the British system. Power-based relationships often seem to be the only way to co-ordinate economic interactions between firms when strong institutional arrangements are missing. The social constitution of British inter-firm relationships thus shows that power can equally serve as a basis for the co-ordination of expectations and interactions, and that this apparently is still possible when the inter-personal mode of trust production - *personal trust* - is too slow and the institutionally based mode of trust production is not sufficiently reliable due to erosion of the institutional framework of the system. The British example also shows that the use of power is not always an inappropriate means of controlling the dynamics of relationships. It rather is to be seen 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 and flexibility which can - as has been argued in section 1 of this article - save costs and avoid the necessity of individual bearing of high risks.

3.2 Trust or/and Power as a Strategic Decision Within the Institutional Framework

Empirical research also confirms that economic actors frequently find themselves in situations in which they 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 at the inter-personal level. If the theoretical analysis given above (section 2) holds true, these decisions are neither based on rational calculation nor on idiosyncratic behaviour. As argued above, social actors usually have *good reasons* either to invest trust or to rely 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 the risk a British businessman is prepared to run when he considers trusting an unknown individual or organization is relatively high, which - to a large extent - explains why the quality of inter-firm relations differs significantly between both countries. Within the context of an institutional system of monitoring the conformity of social actors' behaviour, one can with *good reasons* assume that it would hardly pay off for any individual to cheat. If the institutional environment is patchy and/or weak, the chances that social actors will not be able to find *good reasons* to refrain from such a behaviour are significantly greater.

At the empirical level it is not always easy to identify precisely who or what a social actor puts his faith in when he considers trusting another actor. This confirms what has been argued in theoretical terms (section 1), namely that trust is an intrinsically *fuzzy* - which, however, is not the same as arbitrary! - phenomenon. While in the British business system *good reasons* for trust are much more difficult to find and often turn out to be non-existent, it is more likely in this system that social actors who have resources of power available will actually make use of them. In particular this is likely to occur when an actor, who considers investing trust in a relationship, does not find *quickly* enough *sufficient* reasons within the given situation to assume that the risk of betrayal will be bearable. If - as the German case shows - *good reasons*, such as tight legal regulation of contractual relations or the existence of a powerful trade association can be found, the decision to trust a potential business partner is built on a *fuzzy* but *strong* basis. Within the German governance system an individual could hardly quantify the chance that the trust he offers to another social actor will not be betrayed and what precisely it is that - in his eyes - makes this actor trustworthy. All that makes the risk of trust tolerable for him is that he trusts the other individual as a representative of an organization which acts within the institutional framework of an abstract - but familiar - business system constituted and guaranteed by the political administration, hierarchical structures of self-control within the industry as well as latent threats of social and legal sanctions.

Also, empirical evidence confirms that the alternative between trust and power is often not very clear-cut and the question often simply is what are the *proportions* of trust and power which together should govern a business relationship. But nevertheless it does make a significant difference to the quality of inter-firm relationships whether trust or power is the dominant mechanism. Within the German system where conformity and stability are the prevailing features of the socio-economic system social actors are easily inclined to invest trust unless there are reasons to take special precaution. But at the same time, German businessmen can - and do - draw on institutional power in that they insist on the usual 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. Thus trust is not *blind trust* as it is limited and counter-balanced by power. Within this system both trust and power are cushioned in the same generalised rules and routine practices which makes it unnecessary for the individual to run great risks.

In Britain trust and power are more likely to come into conflict with each other than in Germany but mixtures of both mechanisms are nevertheless the normal case since trust without any precaution is generally too risky and drawing solely on individual resources of power makes it impossible to profit from the *surplus value* which only trust can generate in business (and other social) relationships. Thus classical Socio-Legal Studies mentioned above (section 2.2) might at least be seen as partially accurate with their argument when one looks at the British case. But the explanation of their observation, namely that trust, on the one hand, and insisting on detailed contracts and their actual enforcement, on the other, do not go together smoothly in the Anglo-Saxon business system, is missing within this research tradition. To understand the phenomenon fully, apparently, presupposes comparative analyses of different structures of governance and institutional regulation which shows that where *personal* forms of trust and power need to be amalgamated - as is the case in Britain - tensions between trust and power are more likely and insisting on detailed contracts as well as regular checks of products and procedures can more easily be detrimental to the constitution of trust. In other words, when - and only when! - power originates in *individuals*' interests and preferences rather than in common practices and usual routines controlled by collective interests and anonymous rules, it is indeed not very conducive to developing trust

Institutionally produced as well as guaranteed social *and* legal rules are the basis of the German business system. For both ways of controlling interactions it can be said that - as already explained at the theoretical level - the central mechanisms employed are often built on latent and unconscious influence rather than on the mobilisation of sanctions. However, it would be naive to assume that this can happen without any reference to power. Rather, comparative empirical analyses can confirm that power embodied in rigid institutional structures is a precondition of the possibility that trust can be produced quickly and efficiently between socio-economic actors personally unknown to each other. Thus one can say that power is more a condition of trust than an alternative to trust within the German system. But it is most important to note that the form of power described here does not appear as individual power but as power which is anonymous and is executed 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 used by them to execute opportunistic strategies. Thus, it can provide generally acknowledged guidelines of behaviour. For this reason *institutional power*, on the one hand, can be understood as a *condition* of the efficient production of a high level of trust. It reduces the risk, which is necessarily implied when a social actor decides to trust another actor. But, on the other hand, it should not be overlooked that the existence of this form of power restricts individual creativity and considerably reduces individual flexibility. The latter is directly linked with the German innovation problem which under conditions of rapidly changing global markets became evident recently (Kern 1997; 1998).[6]

4 Conclusion: Towards a Wider Scope of the Research Perspective

A theoretically and empirically fruitful approach to analyse the constitution of trans-organizational relations needs to draw substantially on genuinely sociological concepts such as trust and power. 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 comprehensiveness the approach proposed in this article provides both 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 (section 2) is based on the assumption that within the economic subsystem of society social actors build their decisions on *good reasons* rather than on calculation or completely 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 voluntary decisions of individuals are assumed to be the ultimate driving force of social processes. Rather, this article has argued that 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 interaction 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 (section 3) two distinct patterns of the social co-ordination 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 lowly 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, the same is - as can be studied with reference to the German example - neither necessary nor a viable strategy 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 power is an option at all - social actors can decide. Given these conditions, they indeed often prefer the latter. Under conditions of 'mass-production' of *system trust*, however, trust is constitutively based on the existence of structural power embodied in collective practices and routines, and the hierarchical forms of social order and legitimisation of decisions. In these circumstances social actors are not confronted with the need to make a decision between trust and power. They rather opt for *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 the 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 reconstruct the constitution of business relationships it is apparent why simplistic explanations of the quality of trans-organizational relations must fail. As has been shown in section 2 and 3 of this article, the quality of inter-firm relations is constituted by a social process much more complex than one-dimensional economic approaches can capture. 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 to merely 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 risk or knowledge-flows across organizational boundaries. However, these arguments are not based on a sufficiently deep understanding of social reality. The theoretical analysis proposed in this article (section 2 and 3), in contrast, is designed to dig below the surface of what can be observed. Thus, 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, while - at the same time - specifically these systems lack the institutional preconditions of producing a high level of trust and emphasise competition between individuals instead, can be analysed quite clearly. The advantages and disadvantages of the German high trust system, in contrast, can be evaluated with reference to the flexibility it produces among economic actors as well as to its capability to foster individual willingness to take risks associated with technical and economic innovation.

Comparative analyses of business systems provide the insight that it is not only the question whether market and hierarchy can be balanced in such a way that none of these principles is predominant in economic 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. But - as the Anglo-German comparison presented above (section 3) 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.

Analysing business systems 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 'subtype 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 system both mechanisms divide into specific subtypes and build up a specific *trust/power control pattern*. At the same time, the notion that the growing importance of trust could lead to the end of capitalist profit-maximising can equally not be confirmed by the analysis presented above. The fact that today many firms, particularly in low trust business environments, highly value trust-based relationships is as much a consequence of intensified competition on globalised markets as - at least under these conditions - it is a trend often sharply questioned by the same developments. This paradoxical situation leads to different strategies with specific conditions and consequences within the prevailing *trust/power control pattern*. 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 continuously 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 extremely fruitful. In contrast, formal models based on counter-factual assumptions - such as the idea of an exclusively calculating economic actor - seem to be exhausted historically. It is high time to re-introduce society in economics (Ortmann, Sydow and Türk 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.

Endnotes

1 In this article the term 'trans-organizational' is preferred to the more common term 'inter-organizational'. The reason for this decision is that the view underlying the argument presented in this article is oriented to the functioning of socio-economic systems consisting of a large number of economic relationships which run *through* the boundaries of organizations. 'Inter-organizational' relationships, in contrast, seems to be a most suitable term when specific relationships *between* two organizations are the focus of the analytical interest.

2 'Vorleistung' is not sufficiently translated by 'investment' which is used in the English version of Luhmann's major work on trust (1979). Therefore the German original text will be referred to at this point. All other concepts and notions within Luhmann's theory of trust can be studied in more detail by using the English version of Luhmann's treatise on trust.

3 In previous (co-authored) publications I was not always clear about the distinction between *uncertainty* and *risk*. No matter whether with or without reference to Luhmann, I would now admit that it is misleading to conceptualise trust as a means to reduce risk (instead of uncertainty).

4 At least this holds true for Luhmann's early - 'pre-autopoietic' - version of Systems Theory, which is referred to in this article exclusively.

5 This terminology of 'authoritative' and 'allocative' resources is borrowed from Giddens (1984). In essence 'allocative resources' can be understood as material wealth and 'authoritative resources' are symbolic capital such as prestige or reputation.

6 A full consideration of issues related to this debate cannot be provided within the lines of the argument presented in this paper. It awaits to be done by the author elsewhere.

References

Ackroyd, S., Burrel, G., Hughes, M. and Whitaker, A. (1988), 'The Japanization of British Industry?' *Industrial Relations Journal* 1: 11-23.

Adler, P. (1998), Market, Hierarchy and Trust: the Knowledge Economy and the Future of Capitalism. Paper presented at the U.C. Berkeley Forum on Knowledge and Firms, Sept. 1997.

Arrighetti, A., Bachmann, R. and Deakin, S. (1997), 'Contract Law, Social Norms and Inter-firm Cooperation.' *Cambridge Journal of Economics* 21: 171-195.

Axelrod, R. (1990), *The Evolution of Cooperation*. London: Penguin.

Bachmann, R. (1998), 'Trust - Conceptual Aspects of a Complex Phenomenon.' in: Lane, C. and Bachmann, R. (eds.), *Trust Within and Between Organizations. Conceptual Issues and Empirical Applications*. Oxford: Oxford University Press: 298-322.

Bachmann, R. and Lane, C. (1997), 'Vertrauen und Macht in zwischenbetrieblichen Kooperationen - zur Rolle von Wirtschaftsrecht und Wirtschaftsverbänden in Deutschland und Großbritannien.' *Managementforschung* 7 (edited by G. Schreyögg and J. Sydow). Berlin and New York: DeGruyter: 79-110.

Beale, H. and Dugdale, T. (1975), 'Contracts Between Businessmen: Planning and the Use of Contractual Remedies.' *British Journal of Law and Society* 2: 45-60.

Berger, P.L. and Luckmann, T. (1966), *The Social Construction of Reality*. Garden City, N.Y.: Doubleday.

Bieber, D. and Sauer, D. (1991), ''Kontrolle ist gut. Ist Vertrauen besser?' Autonomie und Beherrschung in Abnehmer - Zulieferbeziehungen.' in: Mendius, H.G. and Wendeling-Schröder, U. (eds.), *Zulieferer im Netz - zwischen Abhängigkeit und Partnerschaft. Neustrukturierung der Logistik in der Autozulieferung*. Köln: Bund Verlag: 228-254.

Braverman, H. (1974), *Labor and Monopoly Capital: the Degradation of Work in the 20th Century*. 2. print. New York: Monthly Review Press.

Bresnen, M. (1996), 'An Organizational Perspecitve on Changing Buyer-Supplier-Relations: a Critical Review of the Evidence.' *Organization* 3: 121-46.

Child, J. and Faulkner, D. (1998), Strategies of Cooperation: Managing Alliances, Networks and Joint Ventures. Oxford: Oxford University Press.

Coleman, J.S. (1990), *Foundations of Social Theory*. Cambridge, Mass: Belknap Press.

Deakin, S., Lane, C. and Wilkinson, F. (1994), ''Trust' or Law? Towards an Integrated Theory of Contractual Relations Between Firms.' *Journal of Law and Society* 21: 329-49.

Dei Ottati, G. (1994),'Cooperation and Competition in the Industrial District as an Organization Model.' *European Planning Studies* 2: 463-83.

Dreyfus, H.L. and Dreyfus, S.E.(1986), *Mind Over Machine. The Power of Human Intuition and Expertise in the Era of the Computer*. New York: The Free Press.

Ebers, M. (ed.) (1997), *The Formation of Inter-organizational Networks*. Oxford: Oxford University Press.

Foucault, M. (1972), *The Archeology of Knowledge*. New York: Pantheon.

Granovetter, M. (1985), 'Economic Action and Social Structure: the Problem of Embeddedness.' *American Journal of Sociology* 91: 481-510.

Giddens, A. (1976), *New Rules of Sociological Method*. London: Hutchinson.

Giddens, A. (1984), *The Constitution of Society*. Cambridge: Polity.

Giddens, A. (1990), *The Consequences of Modernity*. Stanford: Stanford University Press.

Habermas, J. (1984 and 1987), *The Theory of Communicative Action*. 2 vols. Cambridge: Polity.

Helper, S. (1991), 'How Much has Really Changed Between US Automakers and their Supplier?' *Sloan Management Review* 32: 15-28.

Humphrey, J. (1996), Trust and the Restructuring of Supplier Relations in Developing Countries. Paper presented at the 8th International Conference on Socio-Economics. University of Geneva, 12-14. July.

Jarillo, J.C. (1988), 'On Strategic Networks.' *Strategic Management Journal* 9: 31-41.

Keeble, D. and Weever, F. (eds.) (1986), *New Firms and Regional Development*. London: Croom Helm.

Kern, H. (1997), 'Vertrauensverlust und blindes Vertrauen. Integrationsprobleme im ökonomischen Handeln.' in: *Differenz und Integration. Die Zukunft moderner Gesellschaften. Verhandlungen des 28. Kongresses der Deutschen Gesellschaft für Soziologie*, Vol. 1, Dresden, 7-11 Oct. 1996. Edited by Stefan Hradil. Frankfurt and New York: Campus: 271-82.

Kern, H. (1998), 'Lack of Trust, Surfeit of Trust: Some Causes of the Innovation Crisis in German Industry.' in: Lane C. and Bachmann, R. (eds.), *Trust Within and Between Organizations. Conceptual Issues and Empirical Applications*. Oxford: Oxford University Press: 173-202.

Knights, D. and Willmott, H. (1990), *Labour Process Theory*. London: Macmillan.

Kramer, R.M. and Tyler, T.R. (eds.) (1996), *Trust in Organizations. Frontiers of Theory and Research*. Thousand Oaks: Sage.

Lane, C. (1995), *Industry and Society in Europe: Stability and Change in Britain, Germany and France* . Aldershot: Elgar.

Lane, C. and Bachmann, R. (1996), 'The Social Constitution of Trust: Supplier Relations in Britain and Germany.' *Organization Studies* 17: 365-95.

Lane, C. and Bachmann, R. (1997), 'Cooperation in Inter-Firm Relations in Britain and Germany: the Role of Social Institutions.' *British Journal of Sociology* 48: 226-54.

Lane, C. and Bachmann, R. (eds.) (1998), *Trust Within and Between Organizations. Conceptual Issues and Empirical Applications*. Oxford: Oxford University Press.

Lewicki, R.J. and Bunker, B.B. (1995), 'Trust in Relationships: A Model of Development and Decline.' in: Bunker, B.B. and Rubin J.Z. (eds.), *Conflict, Cooperation and Justice*. San Francisco: Jossey-Bass: 133-73.

Loasby, B. (1994), 'Organizational Capabilities and Inter-firm Relations.' *Metroeconomica* 45: 248-65.

Luhmann, N. (1979), *Trust and Power*. Chichester: Wiley.

Luhmann, N. (1989), *Vertrauen. Ein Mechanismus zur Reduktion sozialer Komplexität*. 3. print. Stuttgart: Enke.

Lyons, B. and Mehta, J. (1997), 'Contracts, Opportunism and Trust: Self-interest and Social Orientation.' *Cambridge Journal of Economics* 21: 239-57.

Macauly, S. (1963), 'Non-Contractual Relations in Business: a Preliminary Study.' *American Sociological Review* 45: 55-69.

Malsch, T., Bachmann, R., Jonas, M., Mill, U. and Ziegler, S. (1993), *Expertensysteme in der Abseitsfalle? Fallstudien aus der industriellen Praxis*. Berlin: Sigma.

Marsden, D. (1998), 'Understanding the Role of Inter-firm Instituitions in Sustaining Trust Within the Employment Relationship.' in: Lane, C. and Bachmann, R. (eds.), *Trust Within and Between Organizations. Conceptual Issues and Empirical Applications.* Oxford: Oxford University Press: 173-202.

Miles, R.E. and Snow, C.C. (1986), 'Organizations. New Concepts for New Forms.' *California Management Review* 28, 62-73.

Morris, J. and Imrie, R. (1992), *Transforming Buyer-Supplier Relations: Japanese Style Industrial Relations in a Western Context*. London: Macmillan.

Möllering, G. (1998), Dimensions of Trust and Co-operation: Conceptual Considerations and Empirical Insights. Paper submitted to Cambridge Journal of Economics.

Oliver, N. and Wilkinson, B. (1988), *The Japanization of British Industry*. Oxford: Basil Blackwell.

Ortmann, G., Sydow, J. and Türk, K. (eds.) (1997), *Theorien der Organisation. Die Rückkehr der Gesellschaft*. Opladen: Westdeutscher Verlag.

Powell, W.W. (1996), 'Trust-based Forms of Governance.' in: Kramer, R.M. and Tyler, T.R. (eds.), *Trust in Organizations. Frontiers of Theory and Research*. Thousand Oaks: Sage: 51-67.

Powell, W.W. and DiMaggio, P.J. (eds.) (1991), *New Institutionalism in Organizational Analysis.* Chicago: Chicago University Press.

Rainnie, A. (1993), 'The Reorganization of Large Firm Subcontracting: Myth and Reality.' *Capital and Class* 49: 53-75.

Reed, M. (1998), Organization, Trust and Control: A Realist Analysis. Paper presented at the 14th E.G.O.S. Colloquium, University of Maastricht, the Netherlands, July 9-11.

Sako, M. (1992), *Prices, Quality and Trust. Inter-firm Relations in Britain and Japan*. Cambridge: Cambridge University Press.

Sauer, D. and Döhl V. (1994), 'Arbeit an der Kette. Systemische Rationalisierung unternehmensübergreifender Produktion.' *Soziale Welt* 45: 197-215.

Scott, R.W. (1995), *Institutions and Organizations*. Thousand Oaks: Sage.

Sengenberger, W., Loveman, G. and Piore, M. (1990), *The Re-emergence of Small Enterprises: Industrial Restructuring in Industrialised Countries*. Geneva: International Institute of Labour Studies.

Sitkin, S. and Roth, N. (1993), 'Explaining the Limited Effectiveness of Legalistic 'Remedies' for Trust/Distrust.' *Organization Science* 4: 367-392.

Stewart, R., Barsoux, J.-L., Kieser, A., Ganter, H.-D. and Walgenbach, P. (1994), *Managing in Britain and Germany*. London: Anglo-German Foundation.

Sydow, J. (1998), 'Understanding the Constitution of Interorganizatonal Trust.' in: Lane, C. and Bachmann, R. (eds.), *Trust Within and Between Organizations. Conceptual Issues and Empirical Applications*. Oxford: Oxford University Press: 31-63.

Sydow, J., Windeler, A., Krebs, M., Loose, A. and van Well, B. (1995), *Organisation von Netzwerken*. Opladen: Westdeutscher Verlag.

Thelen, K. and Steinmo, S. (1992), 'Historical Institutionalism in Comparative Perspective.' in: Steinmo, S., Thelen K. and Longstreth F. (eds.), *Structuring Politics*. Cambridge: Cambridge University Press.

Wagner, G. (1994), 'Vertrauen in Technik.' *Zeitschrift für Soziologie* 23: 145-57.

Williamson, O. (1985), *The Economic Institutions of Capitalism*. New York: The Free Press.

Zucker, L. (1986), 'Production of Trust: Institutional Sources of Economic Structure.' *Research in Organizational Behaviour* 8: 53-111.