

HOW DO CONTROLS AND TRUST INTERACT? THE CASE OF FAILED ALLIANCE NEGOTIATIONS IN THE FINANCIAL SERVICES INDUSTRY

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ABSTRACT

This case study responds to recent calls for investigation of the relationship of trust and control in managing risk during the early negotiation phases of alliances (CÅker, & Siverbo 2011; Faems, Janssens, Madhok, & Van Looy 2008; VÁlez, SÁnchez, & Álvarez-Dardet 2008). In order to do this, we conduct a case study on the failed alliance negotiation in the Scandinavian financial services industry. Specifically, we investigate the interactions of goodwill trust and competence trust with output, behavioral and social controls on relational, and performance risk. First, we find that the use of diverse controls has ambivalent effects on different forms of trust. Output and behavioral controls among partners have both deteriorated goodwill trust and competence trust during the alliance negotiations. Contrary, social controls were conducive to building both types of trustâ€yet, social controls were strongly underdeveloped. The latter led to an overly lengthy, two year negotiation period before a disagreement on the alliance was reached. Second, we illustrate how the same control mechanisms can be interpreted differently by negotiation partners, e.g., as a behavioral or a social control. Thereby, the effect of the same control can have ambivalent effects on mutual trust. Third, we address the unresolved issue of the optimal control-trust-risk constellation in early life cycle stages of alliances.

Keywords: *control; risk; trust; alliance; negotiations; failure; financial services.*