Re-examining the Role of Accounting, Contracts and Trust in Inter-Organisational Networks

By Suresh Cuganesan
Senior Lecturer in Management, Macquarie Graduate School of Management

Abstract

In contrast to the popularity of network organisational forms as a means of conducting business, there is growing evidence of failure amongst these arrangements. Despite a significant amount of research on the topic, a number of gaps exist in relation to the trust-formal control relationship and the mechanisms by which trust is produced. This paper theoretically examines the trust-formal control nexus, considering both contracts and accounting control mechanisms equally and how these interact with trust mechanisms. In contrast to prior literature which posits a substitutive relationship, the means by which formal controls can both complement and substitute for trust are outlined, with the implications for law, accounting and organisational practitioners identified.

Key words: accounting, contracts, trust, networks

1. Introduction

It is widely recognised that contemporary business environments are characterised by rapid change, heightened competition and decreasing product and market life-cycles. Within this context, inter-organisational alliances and networks continue to be promoted as a means of: accessing scarce resources; fast-tracking the development of new capabilities; sharing the costs and risks of innovation and responding to the emergence of new competitive threats. In the global economy, new possibilities are relentlessly created within networks whilst, outside of networks, organisational survival is increasingly difficult[1].

However, there is also growing evidence of failure amongst these arrangements, initiating a renewed concern about the mechanisms that govern and control network organisations[2]. Despite a significant amount of research on the topic, a number of gaps still exist in the literature. Specifically, the mechanisms that produce trust are insufficiently understood, with calls for more attention to the dynamics of trust creation[3]. In addition, "an important question is how over time the evolution of trust influences the governance structure and in particular the use of formal control mechanisms"[4]. Thus, the focus of the paper is the trust-formal control dynamic, with an emphasis on how trust is generated in network relationships.

The literature on trust in networks vis-à-vis other governance mechanisms is both extensive and multi-disciplinary, spanning the areas of accounting, law, economics, organisational theory and sociology. However, this literature suffers from a lack of integration across the various disciplines, with each area advancing in separate fashion. In the area of economics and law, the operation of contractual mechanisms where flexibility and modification are required, and the implications of trust between contracting parties for legal systems has been examined[5].

Similarly, accounting researchers have focused on how accounting controls impact trust[6]. Despite both accounting and contracts forming part of the formal control mechanisms that parties can employ to govern economic exchanges within the network, either literature has not sufficiently considered the other. This is especially problematic given the convergence of these mechanisms in practice, a prime example being the growing practice of developing key performance indicators and service level agreements, and incorporating these either in the contract document proper, or in schedules to contractual documentation.

Thus, the objectives of the paper are two-fold. The first and primary objective of the paper is to present a theoretical re-examination of the trust and formal control relationship, considering both contracts and accounting mechanisms equally and how these interact with trust mechanisms. The second objective of the paper is to integrate some of the recent developments in the literature on accounting and law and highlight the implications of these for both policy-makers, designers of network governance mechanisms and future research. The next section of the paper overviews the phenomenon of interest: network organisational forms. The third section of the paper then discusses the complex nature of the trust construct and interprets contracts and accounting control mechanisms in terms of their impact on trust. The paper concludes by identifying a number of implications for legal practitioners and policy-makers, accountants and contract designers and researchers in general.

2. Network Organisational Forms

Networks have been situated as an organisational alternative between the ideal types of markets and hierarchies by a number of authors and Powell (1990) and Ring and Van de Ven (1992) in particular[7]. According to these authors, contracts and market mechanisms are considered to be effective governance mechanisms for discrete transactions. Relationships in market forms of organisation are driven by a contract designed to facilitate the one-time economically efficient transfer of property rights, and the terms of exchange between the parties can be clearly defined with the mode of communication comprising the mechanism of price.

Furthermore, investments and exchanges tend to be short-term and non-specific and can be transacted among many parties. Flexibility can thereby be attained through switching partners and negotiating new terms of exchange as appropriate. As a result, this non-unique relationship between legally equal parties is most efficiently governed by market norms, a competitive market place, and formal contractual mechanisms supported by the societal legal system.

Hierarchical organisational forms, on the other hand, are primarily concerned with the production of wealth and/or the rationing of resources among superiors and subordinates. According to the afore-mentioned authors, the terms of exchange in hierarchy forms are derived from authoritarian structures and routinisation, which in turn stem from the employment contract. Also, the climate in the hierarchical form is seen as formal and bureaucratic within a broader system of organisational culture and norms, with the parties being significantly committed and dependent on each other. In addition, the relationship is indefinite and can be typified as a command-obedience relationship between legally unequal parties. Consequently, these forms are said to be governed by the employment contract in conjunction with internal conflict resolution by fiat and authority.

In contrast to the above forms of organisation, network organisations are seen as occurring as a result of firms pursuing a diverse set of objectives involving reciprocal dependencies which require cooperation[8]. Transactions occur neither through discrete exchanges nor by administrative fiat, but through networks of participants engaged in reciprocal, preferential, mutually supportive actions. Furthermore, the objective of the relationship is identified as being the utilisation of complementary strengths in order to achieve sustained production and transfers of property rights.

In these relationships, there also exist idiosyncratic investments and exchanges which cannot be clearly specified in advance of the transaction's execution. Consequently, it is the relationship which serves as the communication device. Although having similar levels of commitment as hierarchies, network forms possess greater levels of flexibility. This is largely due to network actors having the freedom to transact with other parties if they so desire.

Due to the collaborative ideals ascribed to network organisations and the simultaneous need for flexibility and specificity in the exchange, trust has been widely advocated as the appropriate governance mechanism. Indeed, it is argued that the mutual dependence and the need for flexibility in exchanges between network participants promote and require trust[9]. As such, the imperative for informal controls such as trust within networks has been extensively emphasised. Importantly, this was often to the detriment of more formal mechanisms such as contracts and performance measurement and monitoring systems. Specifically, a substitutive relationship between trust and formal controls has been posited[10]. As will be demonstrated in the ensuing sections of this paper, this is primarily because trust and formal controls are often presented as singular constructs, with little explication of the various dimensions that comprise them and their inter-connections. To examine these issues and revisit the widely advocated substitutive relationship, the trust construct, contracts and accounting controls are explicated next.

3. Trust and Formal Controls within Networks

3.1 The Nature of Trust

Trust is commonly described as comprising positive expectations about the intention or behaviour of other parties in situations of risk or vulnerability[11]. It involves beliefs held by organisations towards others: "trust is a state of mind, an expectation held by one trading partner about another"[12]. Furthermore, trust has consequences for managing conditions of uncertainty: "Trusting in someone enables us to act as if the uncertainty that we face is reduced, although it does not reduce that actual uncertainty"[13]. Thus, trust is an uncertainty reduction mechanism, driven by expectations held by an entity towards others. The interesting question then becomes one of how these expectations are derived.

The populist approach to conceptualising trust is to see it as a 'leap of faith'. Fukuyama (1995, p.11), in his widely regarded treatise on trust argues that[14]:

> *"Law, contract and economic rationality provide a necessary but not sufficient basis for both the stability and prosperity of post-industrial societies; they must as well be leavened with reciprocity, moral obligation, duty towards community, and trust, which are based in habit rather than rational calculation. The latter are not anachronisms in modern society but rather the sine qua non of the latter's success"*

In similar fashion, Tom Peters (1992, p.483) enjoins business leaders to give freely of trust to employees and business partners:[15]

> *"The only way to make a man trustworthy is to trust him ... The offering of trust must at first be unilateral on the part of management. Trustworthiness, tomorrow, comes only after granting trust in the first place."*

The formulation of expectations for trust is hence portrayed as a non-cognitive process. For trust to occur there has to be an absence of calculation. Understanding this conceptualisation of trust helps to explain the popular depiction of formal controls as being redundant and detrimental to the collaborative ideals of network organisations, for any calculation is interpreted as an ante-thesis to the generation of trust between participants.

An alternative viewpoint on trust is to see it as the result of calculative acts, be this formal or informal. Gambetta, for example, argues that "trust … is a particular level of the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action"[16]. Rather than a non-cognitive 'leap of faith', trust is conceptualised as a calculative process whereby entities form expectations and assess probabilities about the actions of others. Should this be sufficient, trust can then be utilised as an uncertainty reduction mechanism. Viewing trust in this way enables the identification of different trust types and trust producing mechanisms as follows.

Numerous dimensions of the trust construct have been utilised by prior studies. Of these, the most common have been drawn from Sako (1992), who identifies three types of trust: contractual trust, competence trust and goodwill trust[17]. Contractual trust involves expectations that the other party will honour oral and/or written agreements entered into. It is embedded in the broader moral and ethical standards that support transactions[18]. In contrast, competence trust involves expectations that the other party possesses the skills and ability to perform any tasks assigned to it. Thus, Sako offers the example of a supplier failing to deliver on time. Misplaced contractual trust is consistent with the supplier entering into the arrangement knowing that it lacked the capacity to fulfil the order in a timely fashion. In contrast, misplaced competence trust may have occurred if the delay was due to an unanticipated machine breakdown due to poor production control.

Goodwill trust involves expectations of open commitment. It does not comprise explicit promises to be fulfilled or standards to be maintained. Rather, it involves "expectations that trading partners are committed to take initiatives (or exercise discretion) to exploit new opportunities over and above what was explicitly promised"[19]. Comparing across the different trust types, both contractual and goodwill trust suggest the absence of opportunistic behaviour, although what comprises opportunistic behaviour is driven from the explicit agreement and implicit open-ended commitment respectively. Furthermore, goodwill trust is contextual and emergent, dependent on the norms of reciprocity and behaviour that emerge through repeated interactions in both past and expected future exchanges. In contrast, contractual and competence trust can also be intentionally sought through careful partner selection and inquiry into background, reputation and past achievements. In this manner, different trust producing mechanisms are available to network participants.

A typology of trust producing mechanisms has been developed by Zucker (1986)[20]. According to this author, trust can be generated by three mechanisms. These are process-based, character-based, and institutional-based. The author argues that the operation of each of these mechanisms depends on the types and amounts of information available about the proposed exchange. Process based trust depends on past and expected future exchanges and transactions. As time passes, norms of reciprocity and behaviour emerge through the repeated interactions amongst a group of economic exchange participants that provide common expectations on which the exchange is founded. Further, process-based trust is characterised by strong background and constitutive expectations.

Character-based trust relies on ascribed characteristics such as ethnicity, gender and age. These characteristics provide indications of membership in a common cultural system and shared background expectations. They also provide a basis from which predictions of how individuals with certain ascribed characteristics will behave in specific situations can be made. Consequently, character-based trust gives rise to both within-group and across-group expectations, with the former likely to be stronger due to the denser and tighter nature of intra-group relationships.

In relation to institutional-based trust, trust is embedded in institutional practices that themselves are accepted as "social facts" and not often open to question. Trust results from common expectations which in turn are generated from institutional practices that are largely taken for granted by society. In contrast to process-based and character-based trust, institutional-based trust depends less on the specifics of the particular exchange and exchange participants. In fact, whereas process-based trust and character-based trust depend on a small number of relatively homogenous exchange participants or groups of exchange participants, institutional-based trust is derived from wider institutional structures and practices.

In summary, inter-organisational trust comprises three types: contractual, competence and goodwill trust. Furthermore, trust can be generated from organisational identity and reputation (character-based), recurrent transactions and experience (process-based) or tied to formal social structures and taken-for-granted institutions (institutional-based). Integrating these two categories, one can align character-based mechanisms to initial expectations about the other parties' capabilities (competence trust) and capacity to complete the contract (contractual trust).

Similarly, process-based mechanisms can reinforce or destabilise competence and contractual trust while also leading to the emergence of relationship-specific norms of open commitment (goodwill trust). Finally, institutional-based trust mechanisms support all forms of economic exchange. Market transactions, hierarchies and networks all rest on a set of background norms and values which are derived in turn from wider institutional practices that are taken for granted by society. These background expectations are thus common to different forms of economic organisation. Hence the first proposition of the paper:

> *Proposition 1: Trusting another party is a calculative act, whereby: (a) contractual and competence trust types are produced and reinforced by the operation of character-based and process based mechanisms respectively; (b) goodwill trust is generated by process-based mechanisms; and, (c) institutional-based trust mechanisms provide common background expectations to the economic exchange.*

Given this calculative notion of trust, one can then usefully consider the nexus with contracts and accounting controls, and the role that these play in network organisations. Are they indeed redundant or detrimental to the generation of trust as widely posited in the extant literature? Or is there a role for these in the generation of trust itself? The next two sub-sections of the paper investigate these issues.

3.2 Contracts

Contracts specify the terms and arrangements for carrying out economic exchange. The contract "refers to a formal written contract between two or more competent parties, which creates obligations, whereby one party becomes bound to another to do or omit to do certain acts that are the subject of that contract"[21]. Thus contracts provide the 'frame' for the economic exchange, outlining the nature and term of the relationship, what is to be provided and the rights and obligations of parties to the contract.

In addition to specifying the nature and rules of exchange, contracts also fulfil another important role in minimising potential opportunistic behaviour. This can occur through ex ante mechanisms that bind the parties together, such as requiring parties to undertake transaction-specific investments or credible commitments to the relationship[22]. Alternatively, ex post mechanisms may be incorporated which provide parties with rights and sanctions over others in the event of non-performance or other pre-specified situations. Thus contracts involve parties binding themselves to carry out the actions necessary to achieve the goals of the contract. Finally, both the body of contract law and the institution of courts that underpin contracts provide an avenue for contract parties to seek external dispute resolution.

Despite affording the above benefits, contracting becomes increasingly problematic in network organisations. Given both bounded rationality of parties and possibilities of opportunism, the costs of both describing possible future states of the economic exchange in the contract, and verifying realised ex post states leads to incomplete contracting[23]. Furthermore, flexibility-creating mechanisms such as 'agreements to agree' may be intentionally designed into the contract.

Thus, classical contracting law, which is based upon the presumption of discrete contracts, becomes insufficient in the face of contracting gaps and uncertainties. Either contracts are incomplete or are overly rigid in the face of uncertainty. While the contract is advantageous in that the institution of 'contracts' is generalisable throughout the economy, readily available and understood by the network parties, and is supported by the possibility of legal actions, its lack of flexibility and richness is seen as a major disadvantage, especially when partner roles and obligations change over time[24].

In light of this, alternative contracting systems have been proposed. Indeed, as far back as MacNeil (1978), alternative systems such as neoclassical and relational contracting have been proposed[25]. However, even neoclassical contract law, whereby the duration and complexity of contracts and their incompleteness are recognised, and more transaction specific adjustment processes (such as third party arbitration) are utilised, is seen as inadequate for dealing with situations such as network relationships. In contrast to a neoclassical contracting system where the reference point for deciding adaptation and change is the original agreement, "in a truly relational approach the reference point is the entire relations as it had developed to the time of the change in question… This may or may not include an 'original agreement' and if it does, may or may not result in great deference being given to it"[26].

Hence, in recognising the uncertainties created by the long-term nature of network relationships, and their non-discrete nature, contract designers intentionally design flexibility-creating mechanisms while courts and systems of contract law have shifted towards less formalistic and narrow approaches in deciding contractual disputes. In relation to the latter, a variety of mechanisms are increasingly utilised in facilitating a courts ability to ascertain and implement the parties' intentions regarding network relationship, including the good faith doctrine, contextual interpretations rather than a reliance on formalism, and a preference to consider modifications[27]. As enumerated below, the subordination of the contract in this manner not only impacts contracting costs but also the mechanisms that produce trust.

Contracts and underpinning systems of law are institution-based trust mechanisms. They provide a basis for expectations that the agreed-to contract terms are enforceable all else being equal. Should one party default, the other party can seek performance or restitution as specified in the contract and enforced by the courts. Importantly, these effects are dependent on the stability of expectations around possible court interpretations of the intent of the contracting parties.

In this context, principles such as formalism provide a basis for stable interpretations of contracting intent as written evidence and contractual documents form the primary evidence for this process. Thus, contracting as an institution-based trust mechanism can positively influence contractual trust. Conversely, the eschewing of this in favour of neoclassical and/or relational contracting mechanisms introduces potential ambiguity into courts' interpretation of contracting intent. This has a two-fold effect. Firstly, contractual trust may be impinged upon as institutions such as contract law and the institution of courts may not form a basis for stable expectations around the interpretation and enforcement of the contract document.

Secondly, reaching beyond written evidence to ascertain the intent of contracting parties and incorporate the effects of change in their roles may be conducive to the emergence of relationship-specific norms and open commitments. This is because contracting parties may feel that courts will take these into account in the event of any dispute resolution. Thus, goodwill trust may be facilitated. Hence, the relationship between contracts and trust is complex as the second proposition of the paper outlines below:

> *Proposition 2: As an institution-based trust mechanism, contracts and underpinning legal systems can simultaneously enhance (hinder) contractual trust and hinder (facilitate) goodwill trust to the extent that formalistic and classical contracting approaches are adopted (not-adopted).*

3.3 Accounting Controls

Accounting controls as a subset of formal control mechanisms can take the form of outcome controls and behaviour controls, whereby the behaviours or the outcomes of these behaviours are respectively measured[28]. Behaviour controls in network relationships both specify how the partners should act and monitor whether actual behaviour is in accordance with that pre-specified. Examples of behaviour controls include: planning, defining rules and regulations, developing standard operating procedures and dispute resolution procedures.

In contrast, outcome control mechanisms specify outcomes to be realised by the network relationship and its partners and monitors the achievement of performance targets. Importantly, both of these have ex ante and ex post influences, with the process of specification and implementation reducing goal divergence amongst network partners at the start of the relationship, and the monitoring of behaviours and outcomes coupled with reward provision acting to provide information about compliance with these controls and helping to mitigate unresolved control problems[29].

As noted earlier, accounting controls and trust have been widely depicted as alternatives, with the latter obstructing the operation of the collaborative relationship. This substitutive perspective is well summarised by Tomkins[30]:

> *"If, on the other hand, there is little trust, but one still wishes to deal with the other party, there will be the need for more complete information about plans (what the other party intends to do, processes (how it is proposed to do it) and results (desired or unexpected ends obtained) coupled with appropriate sanctions for inappropriate behaviour. This ... will incur higher agency costs and may have further disadvantages in terms of inhibiting creativity and developing new capabilities"*

The contention that formal controls impede trust has recently been problematised. In explaining how formal controls such as accounting can have both positive and negative effects for trust, Tomkins (2001) argues that the relationship between trust and 'information' is an inverse U-shaped function rather than monotonic and inverse[31]. Similarly, Dekker (2004) argues for a non-linear relationship between trust and formal controls, being complementary until a certain 'safety' threshold is reached given the associated risks, and substitutive thereafter[32].

While representing first steps towards recognising the complexity of the trust-formal control dynamic, both perspectives are deficient. Tomkins assumes trust is a singular concept, overlooking its various dimensions, while Dekker sees trust as moderating the relationship between formal controls and appropriation concerns and coordination needs and does not consider the possibility that formal controls can influence trust directly. Furthermore, both of these do not describe the trust-formal control relationship in terms of the various trust producing mechanisms identified above.

Accounting controls, through the provision of information about the performance of exchange partners, can confirm existing expectations about the capacity to fulfil contractual obligations and perform to agreed-upon service levels. Hence, accounting controls can act as a process-based trust mechanism, reinforcing pre-existing levels of contractual and competence trust where initial expectations are confirmed. Furthermore, if expectations are sufficiently confirmed, the benefits of continued use of behavioural and outcome based controls may be seen as insufficiently justifying the costs of doing so, resulting in its use decreasing and possibly being discontinued over time.

Conversely, should initial expectations and trust levels be disconfirmed or diluted, then a stronger reliance on accounting controls may occur due to its apparent objectivity in representing performance levels vis-à-vis anecdotal evidence or mere perceptions of the behaviour of network participants. Thus the relationship between accounting controls and contractual and competence trust is state-contingent, with accounting as a process-based mechanism being more/less relied upon depending on the extent to which initial expectations are diluted/reinforced..

In contrast, it is submitted that the relationship between accounting controls and goodwill trust is substitutive. While one might argue that the relationship between accounting controls and goodwill trust should be similar to that proposed above for contractual and competence trust, the key difference here is that goodwill trust is emergent, comprising a broad expectation of open commitment rather than explicit expectations to be met. Thus, the use of accounting information is not likely to directly reinforce the expectations associated with goodwill trust.

Indeed, it is reasonable to argue that behavioural and outcome controls actually impinge upon goodwill trust to the extent that a reliance upon these mechanisms may limit the emergence of norms of reciprocity and parties engaging in behaviours other than those explicitly specified. Hence the third and fourth propositions of this paper:

Proposition 3: As a process-based trust mechanism, accounting controls can reinforce (dilute) contractual trust and competence trust to the extent that initial explicit expectations are confirmed (disconfirmed)

Proposition 4: An extensive reliance on accounting controls hinders the emergence of goodwill trust.

4. Summary and Conclusions

Discussions of how inter-organisational alliances and networks are to be governed and managed are replete with discussions of trust. The notion that contracts are incomplete and rigid while accounting controls hinder both collaboration and the emergence of reciprocity are widespread. This paper addresses the need to consider the trust-formal control dynamic and the mechanisms by which trust is produced. In doing so, it corrects the imbalanced view of trust as an absence of calculation, arguing that the various types of character, contractual and goodwill trust are produced in particular ways through the operation of character-based, process-based and institutional-based mechanisms. A number of propositions are developed in the paper which identify the trust effects of contracts and accounting controls. These are summarised in Figure 1. Overall, a number of implications derive from these proposed relationships.

Firstly, courts need to consider the extent to which relational contracting approaches are adopted in resolving contractual disputes in network settings. Where courts subsume the contract document within the broader and emergent relationship in assessing contracting intent, it is argued that contractual trust suffers Importantly, the ability of parties to manage the risks and costs of contracting effectively and efficiently may also be hindered in that the mechanisms included in the contract are reinterpreted by courts in referring to, for example, doctrines of good faith, resulting in inefficient contracting outcomes[33].

Against this, however, relational contracting approaches may result in environments conducive to the emergence of open-ended commitments and goodwill trust. A complex effect derives and courts need to balance both impacts in deciding their stance on managing contracting disputes within long-term inter-organisational networks.

Secondly, despite much of the prior literature, an absence of accounting may actually make network relationships more fragile. The objectivity and representativeness of accounting numbers can result in less ambiguity around partner performance vis-à-vis anecdotal evidence or mere perception. To the extent that accounting information confirms expectations, as a process-based mechanism it can reinforce character and contractual trust types.

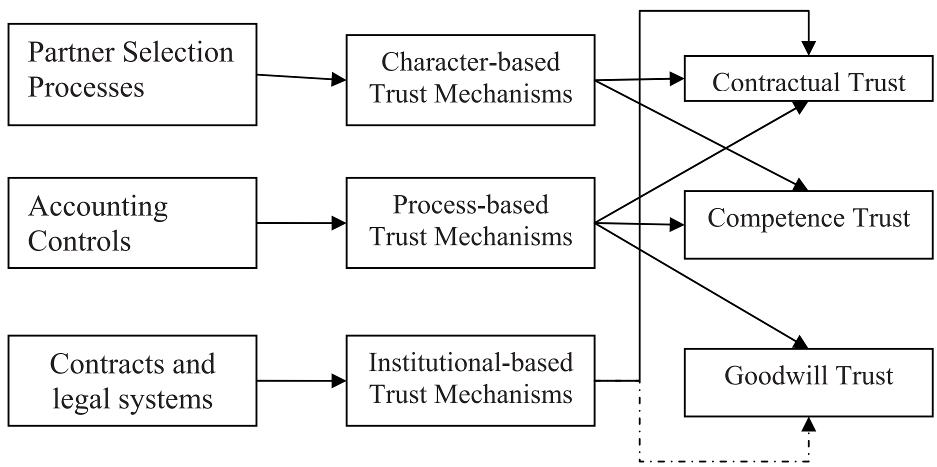
Again, however, extensive use of these controls can hinder the emergence of open commitments and goodwill trust. Thus organisations party to the network relationship need to consider the relative importance of goodwill trust possibilities vis-à-vis contractual and competence trust around explicit commitments specified in the contract. While previous studies have contested the notion that accounting controls hinder trust, the accounting literature is yet to adequately conceptualise how accounting facilitates/dilutes the various types of trusts and the mechanisms by which this occurs. This paper is an important contribution in this regard.

In closing, viewing trust as calculative rather than a 'leap of faith' allows the connection of contractual and accounting controls to trust and a conceptualisation of formal controls as stabilising network relationships. At the least, the paper presents a useful counterpoint and correction to dominant perspectives in the literature that were evident as early as 1963[34]:

> *"You can settle any dispute if you keep the lawyers and accountants out of it. They just do not understand the give-and-take needed in business"*

Future studies within the legal and accounting domain need to consider and empirically investigate the relationships proposed herein, focusing on the relative efficacy of particular contracting mechanisms and accounting controls in both sustaining and governing network relationships and in resolving disputes. In so doing, integrated perspectives that investigates both legal and accounting mechanisms in the governance of inter-organisational relationships and the nexus between these and trust are called for as a means of converging the currently fragmented extant literature.

Figure 1: The Trust-Formal Control Dynamic



References

1. Castells, M., *The Rise of the Network Society*, (2000) Massachusetts, Blackwell Publishers.
2. See Dekker, H.C., "Control of inter-organizational relationships: evidence on appropriation concerns and coordination requirements", *Accounting, Organizations and Society*, (2004) 29(1) pp.27-49; Langfield-Smith, K. and Smith, D., "Management control systems and trust in outsourcing relationships", *Management Accounting Research*, (2003) 14(3), pp.281-307.
3. Adobor, A., "Trust as sensemaking: the microdynamics of trust in interfirm alliances", *Journal of Business Research* (2005) 58, pp.330-337.
4. Dekker, op cit, p.47.
5. Refer to Chen, Y., "Promises, Trusts and Contracts", The Journal of Law, Economics and Organization, (2000), 16 (1), pp.209-232; Collins, H., "Quality Assurance and contractual practice. In Deakin, S., Michie, J., (eds), Contracts, co-operation and competitions: studies in economics, management and law, (1997) Oxford University Press, UK; Schwartz, A and Watson, J., "The Law and Economics of Costly Contracting", The Journal of Law, Economics and Organization, (2004), 20 (1), pp.2-31.
6. Dekker, op cit; Tomkins, C., "Interdependencies, trust and information in relationships, alliances and networks", Accounting, Organisations and Society, (2001) 26(2), pp.161-191.
7. Powell, W.W., "Neither market nor hierarchy: Network forms of organisation", *Research in Organisational Behaviour*, (1990) 12, pp.295-336; Ring, P.S. and Van de Ven., A.H., "Structuring cooperative relationships between organisations", *Strategic Management Journal*, (1992) 13, pp.483-498.
8. ibid
9. Bradach, J.L. and Eccles, R.G., "Price, authority and trust: From ideal types to plural forms", *Annual Review of Sociology*, (1989) 15, pp.97-118; Granovetter, M. Economic Action and social structure: The problem of embeddedness. *American Journal of Sociology*, (1985) 91(3), pp. 481–510.
10. For a detailed review of this literature, refer to Dekker op cit, Tomkins op cit.
11. Gambetta, D., "Can We Trust Trust?" in Gambetta, D (eds). Trust: Making and Breaking Cooperative Relationships", (1988). Electronic edition, Department of Sociology, University of Oxford, p.ix; Zucker, L., "Production of trust: Institutional sources of economic structure, 1840-1920", *Research in Organisational Behaviour*, (1986), pp.53-111.
12. Sako, M., Prices, Quality and Trust: Inter-Firm Relationships in Britain and Japan, (1992) Cambridge University Press, Cambridge, p.37.
13. Tomkins, op cit, at p.165)
14. Fukuyama, F., Trust, (1995), Penguin Books: London.
15. Peters, T., Liberation Management, (1992), Pan.
16. Gambetta, op cit at p.217
17. Sako, op cit.
18. van der Meer-Kooistra, J. and Vosselman, E.G.,. "Management control of interfirm transactional relationships: The case of industrial renovation and maintenance", Accounting, Organisations and Society, (2000) 25(1), pp.51-77.
19. Sako, op cit at p.39
20. Zucker, L., "Production of trust: Institutional sources of economic structure, 1840-1920", (1986) *Research in Organisational Behaviour*, pp.53-111.
21. Blomqvist, K., Hurmelinna, P., Seppanen, R.., "Playing the collaboration game right – balancing trust and contracting", Technovation, (2005) 25, pp.497-504.
22. Williamson, O., "Credible Commitments: Using Hostages to Support Exchange," American Economic Review, (1983) 73 September, pp.519-540.
23. Williamson, O.E. *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*. (1985) New York. Free Press.
24. See for example, Borys, B., and Jemison, D.B., "Hybrid Arrangements as Strategic Alliances: Theoretical Issues in Organisational Combinations", *Academy of Management Review*, (1989) Vol 14 (2), pp.234-249.
25. Macneil, I., "Contracts: Adjustments of Long-term Economic Relations Under Classical, Neoclassical and Relational Contract Law", Northwestern University Law Review, (1978) 72 (6), pp.854-905.
26. Ibid, at p.890
27. Schwartz and Watson (2004), op cit
28. Ouchi, W.G., "A conceptual framework for the design of organizational control mechanisms" Management Science, (1979) September, pp.833-848.
29. Dekker, op cit.
30. Tomkins, op cit, at p.166.
31. Ibid
32. Dekker, op cit.
33. Schwartz and Watson (2004) provide an example where parties to a long-term contract intending minor deviations to be treated as a breach that is accounted for in the price term, but want a major deviation to be treated as a breach that is compensable with damages. If a court were to infer from the contractual relationship enduring through some deviations that almost any deviation is acceptable, parties may respond by using a sequence of short-term contract instead A less efficient outcome results driven by the ambiguity of courts interpretation.
34. Macauley, S, Non-Contractual Relations in Business: A Preliminary Study, American Sociological Review, (1963) 28, pp.55-69.

This page left blank intentionally