

**RISK MANAGEMENT SYSTEM IN BUSINESS RELATIONSHIPS –
POLISH CASE STUDIES
Competitive paper**

Dr Robert Szczepanski¹, Dr Justyna Swiatowiec-Szczepanska²

¹ *Department of International Marketing
Poznan University of Economics, Poland
r.szczepanski@ue.poznan.pl*

² *Department of Strategic Management
Poznan University of Economics, Poland
justyna.swiatowiec-szczepanska@ue.poznan.pl*

Abstract:

The article discusses the problem of risk management in business relationships. The authors' research (including a case study analysis of 5 different relations) enabled them to identify and characterise the risk management systems based on a combination of formal control and relational mechanisms. In the authors' research it has been assumed that relational risk has a negative influence on the cooperation results and therefore it should be a subject of management. The main objective is not to avoid taking risk in relationships, but to reduce it to the minimum possible level. Companies' cooperation, including partnerships with different entities and participation in business networks, is an immanent characteristic of contemporary business. Therefore managers should look for the most efficient methods of dealing with additional relational risk and opportunistic behaviour of potential partners.

In the paper the case study analysis of five relationships of companies operating on Polish market was presented. The main objective was to demonstrate the relation between the level of trust and the intensity of formal control (including contract and formal monitoring). The range of social control applied in analysed relationships was also an important issue of consideration.

The research presented in the paper indicated that companies located in Poland in order to reduce relational risk aimed at diversification of its partners or full integration. Managers often underlined their fear of being dependant on one, particular partner. This phenomenon could comprehensively decrease the advantages of intensive and deepened inter-organisational cooperation in Poland. Furthermore, the research demonstrated the decisive role of relational mechanisms and limited significance of contract in business relationship risk management. However, relatively higher importance of contract was observed in unbalanced relations between partners representing diverse bargaining power. A positive relationship between application of relational tools and cooperation results was identified as well.

The aim of the paper is to demonstrate the nature of the relationship risk management system and the role of particular mechanisms, that enable to reduce risk and its negative influence on cooperation results.

Keywords:

business relationships, relationship risk management, control, trust

RISK MANAGEMENT SYSTEM IN BUSINESS RELATIONSHIPS – POLISH CASE STUDIES

INTRODUCTION

Uncertainty of the environment and behaviors which exert an influence on the problems in monitoring cooperation results of a partnership, on the level and risk of investment in specific assets, or adaptation difficulties together with unstable nature of alliances, constitute a high risk of business partnerships. Despite optional character of strategic cooperation, the economic situation, numerous benefits from business relationships as well as expectations of many stakeholders of an enterprise are responsible for the fact that avoiding strategic partnership risk is not a beneficial solution. Searching for and applying such strategies and instruments which will best respond to the undertaken risk of mutual exchange become a key task for decision makers. Success of many partnerships allows an assumption that in practice some enterprises skillfully use the mechanisms preventing and controlling behaviors harmful for long-lasting and sustainable relationships. These problems seem to be of crucial significance since companies seek inter-organizational cooperation and create business networks (Ford & Hakansson, 2006).

The authors have accepted a definition of strategic business relationships management risk according to which this risk means *a process of identification, evaluation and control of the negative influence of strategic cooperation with an independent economic entity on assets and profit-making opportunities of an enterprise carried out by the Board, management or other company staff members*. Business organizations carry out this process at different stages of organizational development. Risk-related activities mean the selection and implementation of some measures to modify the risk. The main activity is to limit the risk through controlling. Other possible reactions include risk avoidance, risk transfer or financing of risk through insurance (Chapman, 2008, pp.188-190). Concerning strategic relationships, risk avoidance and risk reduction seem to be the most feasible activities. The former strategy means that enterprises resign from establishing and participating in external inter-organizational relations both in the form of partnership relations with a single contractor and in larger network structures, including e.g. integrated supply chains. Due to constraints on growth and development, this situation cannot be maintained in the long term. Therefore, another solution for the companies which avoid the risk of business relationships is to obtain the necessary resources through hierarchical structures, namely mergers and takeovers. This method of expansion involves other governance problems which are beyond the scope of this paper. However, keeping in mind the main imperatives of today's business, such as: globalization, competition within networks, pressure on creating value and pressure of time, it is difficult to imagine an effective enterprise without any support from contractors in the field of widely defined external resources and skills, frequently of strategic significance. Therefore, business relationships risk-related activities will come down, above all, to risk restriction thanks to the application of formal and informal instruments of control. It shall ensure effective and efficient functioning of an enterprise. The measure of control mechanisms effectiveness is to what extent a given risk is eliminated or restricted when certain measures are introduced. Profitability, on the other hand, refers to a comparison between the costs of implementation of risk-reducing mechanisms and the expected benefits.

The main aim of the paper is to identify, through the analysis of theory and research results, instruments of relationship risk management and the relations between them. The paper presents an empirical exemplification of the considerations in the form of case study analysis. The first part of the article develops a holistic model of risk management system in business partnerships based on the theory. The assumption concerning dependencies between the elements of the system is accepted. The research methodology was presented in the second part of the paper. Third part (case study presentation) contains the analysis of surveyed companies and relationships. All important findings and results of the conducted research and analysis, including conclusions and implications for managers, as well as further research directions are presented in the final part of the paper.

RISK MANAGEMENT SYSTEM IN BUSINESS PARTNERSHIPS – THEORETICAL FRAMEWORK

Business partnerships management is becoming an immense and important area of activity due to an increasing number of alliances in which an enterprise participates. Research carried out by Accenture proves that a typical large enterprise governs over 30 alliances which jointly account for 6-15 % of the company's market value (Reuer & Ragozzino, 2006, pp.27). As enterprises frequently possess a portfolio of alliances and develop their alliance capability (Kale et al., 2002; Kale & Singh, 2007; Sluyts et al., 2010) a portfolio approach to alliance management risk is also possible. In such a situation a tendency to minimize risk may be replaced by optimization of the joint risk of external business relationships. There exists a considerable cognitive gap in this area. How an enterprise responds to partnerships risk depends on many factors. The most significant determinants include: level of risk acceptable for an enterprise (*risk appetite*), extent of expected benefits, alliance capability and attitude of the organization and its managers to risk-taking. A manager's characteristics may significantly influence not only the decision to establish and develop a strategic operation but also the perception of partnership risk (MacCrimmon & Wehrung, 1986; Sitkin & Pablo, 1992). Further considerations will concentrate on identification of instruments applied by the company to control business relationship risk. Defining the most effective mechanisms to minimize strategic partnership risk will be the main objective. The concept of mechanism is treated as a total of mutually dependent elements fulfilling the task of reducing or optimizing strategic relational risk in an enterprise.

Holistic model of strategic partnership risk management

Treating the system as a set of deliberately separated in the time - space interactive elements, the system of risk management may be defined as a set of instruments influencing the risk and the relations between them. Each concept of dividing the areas of risk accepted here is only a model trying to reflect the real external and internal uncertainty. The holistic model of business partnerships risk management system, including the elements which reflect different theoretical and managerial approaches, whose detailed impact is not fully recognized, is oriented towards reduction of risk through a broadly defined control (Fig.1).

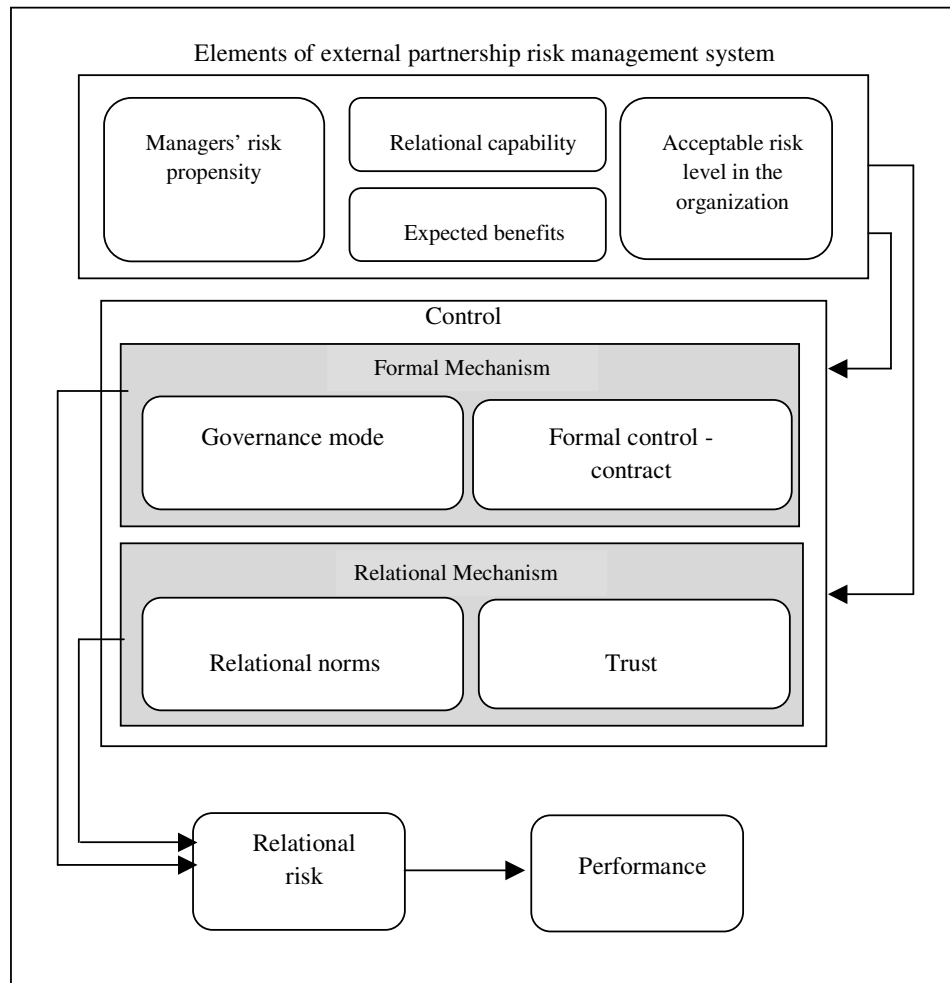


Fig. 1. Holistic model of strategic partnership risk management

The holistic model contains the main determinants of strategic partnership risk management. The first group of determinants refers to responding to internal risk. Elements of control including a formal mechanism represented by supervision structure and the contract, is another determinant. Finally, the relational mechanism, reflecting the aspects of social norms and trust in inter-organizational relationships, is included. These mechanisms illustrate two theoretical perspectives which find their reflection in the studies concerning the search for an effective mode of strategic alliance management. The former concentrates on structure and design of single transactions. It strongly emphasizes the significance of formal, written and legally binding contracts as an effective and efficient mechanism of governance. The latter perspective focuses on relational processes within the frameworks of the existing inter-organizational relationship and strongly emphasizes the significance of trust in securing and coordinating an alliance (e.g. Faems et al., 2008). The structure of partnership governance is especially interesting in the context of formal mechanisms. It includes various formal ways of partnership management, from unilateral agreements (influenced by one dominating party) through bilateral agreements, exchange of minority capital shares, up to joint ventures. A general distinction between capital and non-capital alliances is particularly important. The former reveal characteristics connected with hierarchical management due to the established separate administrative structures and the formal mechanism of coordination and control.

According to the traditional approach, capital alliances equip the partners in better possibilities of supervision than non-capital alliances thanks to a residual right to control. Research, however, does not prove that capital ownership guarantees an adequate system of control and reduction of cooperation risk. According to studies, capital alliances are usually connected with bigger specific investments and thus with a higher sensitivity of the partners to undesirable behavior of the other party. It is influenced by a potentially higher quasi-economic rent which may be appropriated (Das & Teng, 2008). For this reason alliances based on capital ownership require a higher level of trust than non-capital cooperation, particularly in the context of knowledge-based resources. Considerations found in the related literature suggest that one should not expect any systematic connection between the risk of opportunism, trust and governance mode (Globerman & Nielsen, 2006). Regardless of this fact, risk management resulting from the owner's control is of hierarchical character and thus has no features of partnership. Due to this fact, as emphasized earlier, the subject of studies in this paper is non-capital instruments of strategic partnership risk reduction.

According to the theory of transaction costs, a contract is the main way to reduce risk in hybrid forms of exchange, including strategic alliances. Complete contracts define in detail the roles, duties, procedures and consequences of breaching the contract, etc. and aim at preventing the partner's opportunism. A manager's task is to arrive at such arrangements which will ensure minimum costs of deliveries in the expected quantity, of the expected quality and at the expected price (Williamson, 1985). As the preparation of a complex contract is expensive, the parties undertake this task only when the consequences of contract breaching are considerable. When preparation of the contract and its realization involve too high costs the partners, according to the discussed theory, should consider vertical integration which means hierarchical control resulting from ownership (Williamson, 1991). The theory of transaction costs overestimates considerably the attractiveness of both solutions. Observation of many sectors makes it possible to notice that managers are involved in a complex strategic cooperation characterized by a high level of specific investments, where neither of the above-mentioned solutions plays a significant role. These observations open a newer, extremely interesting trend of studies referring to behavioral instruments, or as some researchers underline – to the “soft” variables of management.

Trust is definitely the most important instrument in this research trend. It is perceived as an antidote to opportunistic behavior. Traditionally, trust is treated as a domain of ethics and psychology. At the end of the 20th century it also became the point of interest for sociology and economics. This shift is connected with the complexity and wide areas of uncertainty and risk in economic world. Increased significance of trust in social life and business reflects the tendency to reduce a harmful state of uncertainty. Moreover, trust has become the most desirable element of social capital (Coleman, 1988). Generally speaking, the higher the trust, the lower the perceived risk of partnership (e.g. Ring & Van de Ven, 1992; Nooteboom et al., 1997; Das & Teng, 2001). The growth of trust is frequently conditioned by the so-called relational norms existing in a partnership and including a set of principles of conduct for the partnership firms. Numerous authors (e.g. Dyer & Singh 1998; Gulati, 1995; Uzzi, 1997, Adler, 2001, Swiatowiec, 2001, 2006) pay attention to the significance of this element of cooperation. However, there are also some critics of the relational approach who point out too optimistic assumptions concerning the human nature.

Relations between formal and relational mechanism

All the above-mentioned factors should significantly influence the perception of risk and, indirectly, corporate performance. However, defining the nature of relations between the elements indicated becomes a subject of discussion. It specifically concerns relations between a formal mechanism and a relational mechanism. According to some authors, trust along with relational norms plays the role of an independent, effective and less costly substitute in comparison with formal contracts, capital structures and full integration (Hill, 1990; Uzzi, 1997). The formal contract can weaken a company's capability to develop relational norms. As it results from immense achievement of social psychology and management sciences, control does not generally favor development of the culture of trust (Møllering, 2005; Das & Teng, 2001). A formal contract may indicate the lack of confidence in the partner of exchange and may encourage opportunistic behavior (Ghoshal & Moran 1996; Macaulay, 1963).

Recently more and more authors postulate that there exists a complementary relation between the formal and the relational mechanism (Poppo & Zenger, 2002). A contract which is precisely drawn up may prove useful in promoting more cooperative, long-term relationship based on trust. The contract can ensure an individualized approach and mutually accepted procedures and enable to make indispensable changes during the cooperation. According to some authors, this complementarity may also work in the opposite direction. Continuity of cooperation, strengthened by relational norms, may generate contract improvements which further on lead to an even better cooperation. Trust itself may prove to be an insufficient risk reduction mechanism. More and more frequently researchers emphasize rather the moderating impact of trust on certain negative dependencies in relationships (Delerue-Vidot, 2006; Ryu et al., 2008). Control, in turn, may be able to replace trust, however, this is usually connected with higher transaction costs. They ultimately result in a decline of the value created in the relationship and can diminish attractiveness of the partnership performance. The analysis leads to a conclusion that trust and control are complementary. The proportion of both elements in a relationship and the range of control instruments applied become an important and sensitive issue.

Therefore, in this context a question arises about the real position and significance of trust in the consciously created business relationship management system. This is a particularly important research task in countries representing relatively low level of social capital. It considerably reduces the opportunity of participating in the development of international networks based on trust. Summing up these considerations, one can indicate counteracting mechanisms and risk management instruments most frequently appearing in the studies:

- Trust – governance structure (including a contract and ownership) (Nooteboom et al., 1997; Puranan & Vanneste, 2009);
- Contract – relational management (elements remaining outside control, such as: trust, mutuality and flexibility) (Poppo & Zenger, 2002; Mellewight et al., 2007);
- Trust - control (including a contract, monitoring, ownership and public control) (Das & Teng, 2001; Huemer et al., 2009).

Despite differences in details of the approaches mentioned, the essence of research is similar. Nearly all of them search for the most efficient and most effective ways of influencing appropriate partners' behavior in a relationship due to the common long-term interest. In each approach it is important to identify and analyze the influence of factors whose mutual impact is not unambiguous. These are usually two opposing groups: trust along with other social elements of control and a formal mechanism of control. Both forms of control are inseparably linked with strategic partnership management risk.

RESEARCH METHODOLOGY

The paper presents *case study* as a research method complementary to quantitative methods applied in wider studies which are not included here (Szczepanski, Swiatowiec-Szczepanska, 2010)¹. The authors represent a critical realism in their research attitude. The aim of these case studies is to get closer to the real process of effective strategic partnership management risk. Investigations do not embrace the best practices only. Examples which show failures in risk management may also prove useful for the process of conclusion-making (Pindelski, 2008, p.10). The accepted mode of generating knowledge is of mixed character, convergent with the abduction model (Järvensivu & Törnroos, 2010, p.103). The starting point is accepted theory. However, discovering and explaining new aspects of the phenomenon is one of the purposes of the study. Some of them could not be sufficiently explained so far because of the research methods limitations. Thus, an ultimate objective is to test the accepted theory in the Polish economy and business conditions. This aim should be accomplished by descriptive-explanatory character of the conducted case studies. The authors developed the research process according to the Yin model (Yin, 2003) presented in Table 1.

Table 1. Case study analysis – research process

Phase of case study process	Key decisions	Approach applied in project
Linking theory with empirical data	Aim of research	Descriptive-explanatory aim: description of typical activities of managers in strategic relations with other enterprises. Exemplification – searching for confirmation of the accepted theory verified by surveys, above all – dynamic aspect in the development of partnership governance.
Selection and justification of empirical cases	Number of case studies Case study selection method	Analysis of 4 different case studies: Franchising with the share of foreign capital Outsourcing Strategic partnership supplier – recipient in trade (two case studies) Criterion of selection: relatively huge importance of partnership for the studied enterprises.
Defining range of studies	Defining the case (unit and range of analysis)	Unit of research: chosen strategic relationship from the perspective of both parties (exception: case study of the partnership based on franchising contract).
Selecting appropriate data sources	Various sources of data	Accessible secondary sources concerning enterprises establishing a strategic relationship (press, the Internet, enterprise's reports, etc.). Direct detailed interview with representative of top management level, conducted as an individual conversation using a categorized set of questions.
Analysis and reduction of data	Method/process of data analysis	Interviews based on a categorized questionnaire In order to facilitate a comparative analysis between case studies.
Checking data quality	Method of verification	Rejection of those case studies which were impossible to be verified in other accessible sources of information(IT company case study) and those which did not meet the criterion of strategic importance of partnership (case of trade chain and its main supplier).
Description and presentation	Presentation and discussion	Description in the form of a comparative Table including division into constructs searched for in the research and general conclusions.

¹ The research results presented constitute part of the post-doctoral research project no. N N115 326534, titled *Managing strategic partnership risk in an enterprise* (a study financed from research funds in the years 2008-2010 as a research project).

Four different case studies were used in the research. According to K.Eisenhardt there is no ideal number of cases to be included in the studies, however, the number between 4 and 10 usually yields the best results (Eisenhardt, 1989). The main criterion of selecting the companies and their strategic relations was the importance of partnership declared by respondents. While choosing the candidates, the authors took into account their willingness to cooperate expressed by a representative of an enterprise. Attempts were made to select the key respondents from top level management (chairmen or managing directors). Keeping in mind that the interview lasted on average for over three hours, the research could not have been carried out without the respondents' goodwill. Data were gathered, above all, from a direct detailed interview based on a standardized questionnaire. One of the aims of the studies was to gather information which would not only enrich the theory but also enable to go beyond the accepted theoretical frameworks. The problems mentioned in the questionnaire finally made it possible to put information in order and to carry out a comparative analysis. Nine main interviews were conducted in the period from December 2009 to April 2010. Data obtained from a direct contact were supplemented with desk research based on information obtained from the studied companies and from the websites. Two cases were excluded from the studies despite the interview, due to the lack of secondary data confirming the information obtained during the interview or because of weak relations between the partners, i.e. the lack of strategic significance of the relationship.

Searching for a more in-depth explanation of contract significance in strategic relationships, applied instruments of control, and significance of trust in mutual contacts was the main research task.

Finally, reports analyzing seven interviews and four relationships were elaborated. In their studies the authors wanted to interview representatives of both partnership enterprises. They managed to accomplish this task for three relationships under analysis. However, it should be underlined that the subject of studies was risk management from the viewpoint of a given company. Therefore, in some cases, one-sided report concerning the cooperation may be a sufficient perspective of the analysis.

At the stage of analyzing the reports a major problem was obtaining permission to publish the names of companies. In two cases, at the request of the firms' representatives, the names of enterprises were changed. This was done for the sake of cooperation which is continued in three cases. This situation emphasizes a delicate nature of the critical analysis of ongoing strategic relations. The case studies include companies representing the production sector and the trade-service sector. A list of major problems and aspects of cooperation is presented in Table 2.

Table 2. Case study – comparative analysis of surveyed strategic relationships

Features of partnership	Eastern Group & Mistral Innovation*	Operator & TXN*		Philips Lighting & Grodno S.A.		Philips Lighting & Elektroskandia S.A.	
		Perspective of Operator	Perspective of TXN	Perspective of Grodno S.A.	Perspective of Philips Lighting	Perspective of Eletroskandia S.A.	Perspective of Philips Lighting
Character of cooperation	Franchising	Subcontracting (Outsourcing)		Distribution contract		Distribution contract	
Duration of cooperation	4 years	8 years		15 years		15 years	
Direction of change in relational risk	Moderate → high	High → low	High → high	High → moderate	Moderate → low	High → moderate	Moderate → low
Economic risk	High	Moderate	High	High	High	High	High
Trust	High (unilateral)	Moderate	Low	High	High	Moderate	Moderate
Monitoring of behaviours (significance of contract)	Moderate, franchising contract including crucial points – flexible approach to cooperation	Very high; huge range of contract details; Operator – a dominating party	Extremely detailed range of contract oriented towards activities, not aims. High costs of implementation of contract provisions. Contract of unilateral character.	Rather general contract, clauses required by accepted customs; current cooperation is not based on contract's provisions but on current situation. Practical significance very limited. Key significance of trust.	Standard contract used for all Philips's distributors	Standard contract, not too significant in current cooperation. Major part of joint activities is not included in the contract provisions. Key significance of mutual experience	Standard contract used for all Philips's distributors
Monitoring	Moderate, in the form of reporting results to the Swedish party (franchisor)	High	Moderate	High	High	High	High

Features of partnership	Eastern Group & Mistral Innovation*	Operator & TXN*		Philips Lighting & Grodno S.A.		Philips Lighting & Elektroskandia S.A.	
		Perspective of Operator	Perspective of TXN	Perspective of Grodno S.A.	Perspective of Philips Lighting	Perspective of Eletroskandia S.A.	Perspective of Philips Lighting
Social control (relational norms)	Rather of unilateral character – meetings, training organized by franchisor	Similar corporate culture, however not oriented towards cooperation (many TXN employees were the former staff of Operator), no informal meetings. Flow of information ensured by IT system.	No meetings, low level of mutual relationship behaviour; distrust among employees	High level Frequent formal and informal meetings, unrestricted communication, multi-level contacts, joint ventures	High level Corporate strategy oriented towards integration with distributors Many meetings initiated by partner.	Satisfactory level Top management meetings twice a year on average. Multi-level contacts	Moderate Corporate strategy oriented towards integration with distributors
Features of risk management	Informal, based on open communication and exchange of important information. More intensive activity of franchisor. Final decision about a total buyout of partner In Poland.	Based on competitive advantage and detailed contract.	Based on dependence and detailed unilateral contract	Mutual talks, open communication, transparency of project-related data	Joint problem solving	Open communication Monitoring of results	Joint problem solving
Results	Below expected	According to expectations	Below expected	According to expectations	According to expectations	According to expectations	According to expectations

*names of companies were changed

CASE STUDY ANALYSIS

Case Study 1 - Strategic partnership in the hotel sector (Eastern Group and Mistral Innovation²)

Eastern Group Ltd. has been operating in the hotel sector in Poland for over 20 years. In 2009 it was one of the most reputable suppliers of imported specialist products and services for hotels. At that time the company decided to conclude a franchising agreement with a Scandinavian enterprise - Mistral Innovation - one of the biggest hotel suppliers in Europe. Eastern Group has been trading with for many years. The Scandinavian company specializes in supplying solutions and technical systems to increase hotel profitability as well as conference facilities for commercial buildings. The company was established in 1994 and its headquarters are now located in Sweden.

From the perspective of the franchisor the main aim of the agreement was to obtain access to the Polish hotel market in order to sell their own range of goods and to ensure current servicing of the global customers entering the markets of Central and Eastern Europe. An external method of expansion was regarded by the Scandinavian Board as less costly and risky than internal development, i.e. opening their own office. Although such a strategy (own office) was successfully applied in Russia, administrative difficulties and culture gap the company faced there, influenced the final decision of cooperation with the local partner in Poland. A selection of the Polish company was dictated by several factors. One of them was the earlier cooperation concerning sales of Scandinavian company's products. Other important arguments concerned a very good knowledge of Polish market (over 20 years of experience) and well-developed long-lasting customer relationships. Thanks to the franchising agreement, the Polish partner - Eastern Group - extended its range of products, obtained organizational know-how and the possibility to operate within a strong multinational group. Eastern Group also gained the opportunity to sell highest quality innovative products and, thanks to the franchisor, the access to new more favorable sources of supply. Apart from the agreement, strategic cooperation with the Polish company was sealed by purchasing minority of shares by the Scandinavian partner and including its name in the logo of Polish company. The buyout concerned 10 percent of Eastern Group's shares. Cooperation between both partners started successfully. In April 2010 Eastern Group was fully bought out by the Scandinavian partner who left its primary owners in the management team. The takeover took place with their full approval. The global crisis adversely affecting the hotel sector and the necessity of consolidation were quoted as the main reasons for the buyout. According to the former owners of the Polish company, considerable investments affordable only for the biggest players was a condition to survive in this sector. Although this takeover was accepted by the Polish shareholders, the long-lasting negotiations were far from friendly. The biggest disappointment was a marginal role of the previous owners and managers in current Eastern Group operations after the buyout. It finally forced them to step down from their positions. Subsequently, employees' rights became a matter of argument and had been solved by legal action for many months.

Case Study 1 - conclusions

The case of partnership between Eastern Group and Mistral Innovation aspired at the start to be an example of successful cooperation with good prospects, based on experience, trust, relational norms and similar corporate culture of the partners. Nevertheless, after interviews had been conducted, the situation changed dramatically, which became an impulse to a more

² The case study was conducted in December 2009. Because certain confidential aspects of cooperation between the described enterprises are disclosed, their names were changed at the request of management

critical assessment of the previous events. By assumption, the cooperation between Eastern Group and Mistral Innovation was to be based on trust gained from the earlier business contacts. Apparently formal control seemed to be limited as for franchising standards. Social control, on the other hand, well developed mainly on the side of the Scandinavian partner, became much more important. A certain threat perceived by the Polish management was the fact that cooperation was based on specific persons in both entities, not on the organizations themselves. The problem of distinction between interpersonal and inter-organizational trust and its consequences was indicated among others by: P.Ring and A.Van de Ven (1992), A.Zaheer, B.McEvily and V.Perron (1998). In case of relationship based on personal trust only, all potential misunderstandings between the management may become a crucial source of crisis and the reason to break cooperation.

Evaluating the situation from a longer time perspective, one can see some mistakes made by the Polish shareholders. First of all they misjudged strategic intentions of the partner who treated this stage of cooperation as temporary in the process of full buyout. The policy of Mistral Innovation was convergent with the real options theory, where the purchase of minority shares was equivalent to the option purchase (Folta, Miller 2002). Mistral Group's strategy of expansion based on buyouts and takeovers seems to confirm this thesis. Eastern Group's management did not conduct a necessary analysis of the partner's strategy prior to conclusion of the franchising agreement. Thus, they did not realize the threats concerning the information exchange and reporting system. Such an open policy seemed to be attractive because it guaranteed the Polish company access to modern organizational know-how. This, however, made it easier for the Scandinavian partner to obtain the information necessary to start and conduct the process of buyout - effective and beneficial for them. Disappointment noticed on the Polish side is connected above all with a tough business attitude of the partner who probably from the very start consequently aimed at accomplishment of their own business objectives – i.e. another takeover.

This example indicates that trust and relational norms must be supported by good recognition of the partner's aims and must be mutual. Otherwise the relationship assumes the features of the model of prisoner's dilemma described in the theory of games where trust of one party together with opportunism of the other one results in bigger losses than in case of lack of trust on both sides. Similarly, a permanent character of partnership is not guaranteed by a unilateral social control. An in-depth analysis and assessment of strategic behaviors of the potential partner should be a vital activity preceding the decision about closer cooperation.

Case Study 2 - Partnership in telecommunication industry (Telecommunication Operator and TXN)³

The analyzed relation concerns one of the main telecommunication operators in Poland (further on referred to as Operator) and its technical partner (further on called TXN company) responsible for technical service of the part of telecommunication zones on the home market. Operator's activities include among others servicing stationary and mobile telephone network, transfer of data, and television. Within the wholesale offer it also provides other operators with access to extensive telecommunication resources to facilitate development of their own telecommunication services. When offering this type of services, it is indispensable to have technical partners who, as independent market entities, provide specialized outsourcing services for the Operator.

³ Because certain confidential aspects of cooperation between the described enterprises are disclosed, their names were changed at the request of management

TXN belongs to a multinational group - one of the leading suppliers in Northern and Central Europe, providing services for such sectors as telecommunication and power industry, which employ nearly 9000 employees. The multinational group operating area embraces Scandinavian and Baltic countries, including Russia, Germany, and Poland. In 2002 the group has invested in Poland. As a result several companies were established, including TXN, operating in the telecommunication sector. Its core competence is to maintain telecommunication networks for the owners and operators of stationary and mobile telephone networks. Formally the cooperation between Operator and TXN has lasted since 2002. In fact its history is much longer. Today's TXN, prior to its buyout by the international group, was a company separated from Operator's assets. Although the company was purchased by the foreign investor, the corporate culture of TXN is more similar to Operator's culture than to the culture of the group it belongs to today. At present, however, there are no equity links between Operator and TXN. The cooperation between both firms concerning the outsourcing of technical services is based on very detailed contracts (documents of several hundred pages). These documents contain, among others 150 of the so-called KPI (*Key Performance Index*), and describe in detail technical requirements of cooperation. The contracts are negotiated and signed at the top management level in Operator's headquarters. The contracts concluded for the period of two years are of exclusive character which practically means that within a given area TXN cannot sign any contract with another competitive operator. On the other hand, provided outsourcing services (adaptation of infrastructure, technical installment and maintenance) are of crucial importance for Operator's customers in terms of the value added. The partner's employees are in direct contact with the customers who treat them as Operator's representatives. In 2010 TXN served Operator's two regions: the Western and the Eastern ones, having 100% of their shares. This required signing as many as 12 exclusive contracts with Operator (each zone was to have one partner). Moreover, TXN provides for Operator construction-assembly services where Operator uses the following policy: 1 zone – 3 partners. In this way TXN concluded another 14 contracts which guarantee from 30 to 50 percent of the market share, depending on the zone. Altogether TXN's market share amounts to 25 percent, with the company's services provided for 1/3 of the zones differentiated by the Operator. This in turn required concluding as many as 26 contracts (separately for each zone and type of outsourcing).

The cooperation between both firms is economically justified. From the very beginning it was profitable for the Operator to approve such a business concept, whereas for the outsourcing company the results are much lower than those expected. In the analyzed partnership the perceived relational risk is asymmetric. Significantly higher risk is experienced by TXN company. Operator, who plays the role of the main decision-maker when establishing the principles of cooperation, is a dominating party. Operator is aware that its technical partner is strongly dependent and realizes that the services it provides are its core business. Terminating the cooperation with Operator would mean revenues at the level of merely 5-10% of the current ones. Another problem is the lack of similar alternative partners for TXN on the home market and the in-sourcing policy the Operator commenced in chosen zones. This situation results from a still dominating market position of Operator. On the other hand, Operator notices a high operational risk in the relationship with its technical partner. A high bargaining power led to the increase of performance indicators concerning the technical cooperation requirements (KPI). In the future, however, this may cause an insufficient level of accomplishment of the tasks assigned.

Case study 2 - conclusions

The above presented strategic cooperation is an example of unbalanced relationship. This is proved by a different level of relational risk perceived by both sides. The Operator, having a dominating position, additionally applies instruments strengthening its own advantage. This is exemplified by signing a number of many partial agreements with the same partner (for each zone) thus reducing the partner's role in the total value of the outsourced services. Despite using the policy of exclusive agreements for its technical partners in a given region, Operator does not feel the risk of "imprisonment". This is guaranteed by a short-term character of the contracts. Therefore, despite a long-lasting relationship, the cooperation has the form of repeated transactions which do not contribute to the development and strengthening of the relation. Such an approach considerably reduces the potential and value of cooperation according to the theory of transaction value, mainly because of the lack of the partners' motivation to invest in the relation and due to high transaction costs. A crucial instrument of relational risk management is an extraordinarily detailed contract oriented not only towards aims but rather towards control of the partner's behavior (Ouchi, Maguire 1975). One can notice some ignorance of the dominating entity towards other partners on the market, which is certainly connected with its traditionally monopolistic market position. The lack of social control linked with mutual trust and relational norms, with excessively developed unilateral control of behaviors may only lead to advantages for the stronger partner. However, due to insufficient factors motivating for investment in the relationship these advantages are of short-term character. According to the management of the outsourcing company, making the mutual cooperation difficult damages Operator's image and decreases the level of final services delivered to the customers.

An analysis of Operator's future strategy proves that its suppliers will become more consolidated. This may indicate two completely different effects. On one hand, it can result with a decrease in the number of suppliers, potentially greater dependence on them, and simultaneous introduction of real partnership relations. On the other hand it can lead to the cooperation with the weakest suppliers in price negotiations and further development of company's advantage. However, a rather shortsighted nature of such a strategy has to be underlined.

Case study 3 - Partnership in the lighting industry (Philips Lighting Poland S.A. and Grodno S.A.)

Philips Lighting Poland S.A., a part of multinational enterprise Royal Philips Electronics (worldwide leading manufacturer of lighting products, consumer goods and healthcare products) is a leader on the Polish market of lighting products. The company manufactures energy-saving compact fluorescent lamps, fluorescent lamps, incandescent lamps, lighting electronics and equipment. Philips Lighting Poland S.A. jointly employs over 6000 people. The company offers interior lighting (homes, shops, offices, schools, hotels, production plants and hospitals) and outdoor equipment (public places, housing estates, sports facilities). Its dynamic expansion contributed to the fact that Philips Lighting Poland S.A. became an international sales and distribution center, providing lighting products worldwide (its exports amounts to 90 percent).

One of the main distributors of Philips Lighting in Poland is Grodno S.A. This company is operating on the market since 1990 and is a model example of expansion of a family business with 100 percent of the Polish capital. At present Grodno S.A. is one of the largest chains of wholesale outlets and electro-technical stores in Poland. The company's annual turnover

exceeds 110 million zlotys. (ca. 28 million Euro). The company employs over 150 people. In 2009 Grodno transformed its legal personality into a joint-stock company, thus indicating the intention to grow and expand in the future.

Grodno S.A. has been actively cooperating with Philips since the mid-1990s. The beginning was not impressive, however, slowly but gradually the company was increasing its share in Philips's sales. A friendly attitude of Philips Sales Director to the new distributors significantly contributed to the development of relationship at that time. Until now Philips has not applied any formal categorization concerning trade partners. Taking into account their reliability distributors are divided into two groups. The key determinant of their significance is their share in the sales of a given product category (the so-called *turnover share*). Grodno is located in the first ten distributors as regards turnover share in Philips's sales. This position is strongly appreciated because Philips's products (particularly lamps and luminaries) amount to 70 percent of Grodno's whole portfolio.

Strategic relational risk is evaluated by the Boards of both companies as not too high. The partners do not perceive a high risk related to changes in management of their organizations. The position of Philips brand is so strong and well-recognized that changes in top management level should not have any influence on the continuity of cooperation. Operational risk is much more important. Philips's management is aware of the fact that their brand does not participate in certain projects implemented by the partners. This is a result of the current economic conditions and to a high extent depends on the share of Philips's products in a given distributor's portfolio. For Grodno company this share is very high (over 70 percent), therefore such situations are relatively rare. It should be underlined that Philips does not sign exclusive contracts. If cooperation is terminated Philips is exposed to the loss of delivered know-how and investments made on partners' employees training. Because of the brand power it is possible to find new distributors, nevertheless in the short-term this would be a certain loss.

For Grodno Philips is a reliable supplier of high competences, good reputation, offering fair conditions of cooperation. The contract and additional trade agreements are the formal documents concerning cooperation. This is a standard procedure applied for all distributors of Philips Lighting. The framework contract is of standard character and includes routinely required clauses. It is renewed every year. It determines major terms of trade, among others: terms of payment, merchant limit, discounts, payment deadlines and bonuses. Moreover, the contract determines penalties for breaching agreements. Nevertheless, each party makes efforts to prevent such a situation and does not feel the need to refer to this type of clauses. Both partners emphasize that potential problems should be solved together.

Case Study 4 - Partnership in the lighting industry (Philips Lighting Poland S.A. and Elektroskandia Polska S.A.)

Elektroskandia Polska S.A. is one of the main distributors of electro-technical materials in Poland. The company's history dates back to the year 1994. In 2010 Elektroskandia owned a chain of 30 wholesale outlets employing over 315 people. Each wholesale outlet is equipped with its own warehouse and means of transport. An integrated IT system facilitates quick and efficient service and communication within the whole Elektroskandia's network. In 1998 Elektroskandia was transformed into a joint-stock company. Two years later its shares were purchased by foreign investors – Hagemeyer N.V. and GE PC Belgium. In 2005 GE sold 50% of its shares to Hagemeyer - one of the biggest world distributors of electro-technical products. In result of merger of Hagemeyer and Rexel, Elektroskandia became the member of

Rexel Group which estimates its share in the world market of electro-technical products distribution at 7 percent, with the global sales worth over 9 billion euros. Elektroskandia is an enterprise whose owners change frequently and therefore it faces new challenges, requirements and standards. The present owner is first of all performance oriented.

The main Elektroskandia's market segments are industry (maintenance), housing industry and commercial constructions (infrastructure – roads, offices, hotels, trade canters, swimming pools, hospitals etc.). The company's efficiency is connected to a high degree with its good relations with suppliers. One of most important suppliers is Philips Lighting Poland S.A. Elektroskandia's cooperation with Philips started since the company was established, i.e. in 1994. The beginning of Philips's cooperation with Elektroskandia was connected with good understanding between the then chairmen of both companies. Since that time one could observe a growth in the volume and diversity of portfolio which was the subject of cooperation. This was connected with both natural expansion of the companies and the market itself (a tenfold increase of electro-technical materials market measured by the value of total sales) and with a more intensive mutual cooperation. From the very beginning of cooperation Philips has been one of the most important partners of the company. Philips' products amount to 60 percent of Elektroskandia's shares in the group of lamps and 30 percent in the group of luminaries. Philips actively participates in the preparation of Elektroskandia's offers for the projects concerning mainly commercial construction, which would be impossible without mutual trust and loyalty.

Case Study 3 & 4 - conclusions

The relationships between Philips and Grodno and Philips and Elektroskandia are an example of long-lasting and fairly successful trade cooperation with long-term prospects. All companies involved in the analyzed relationships indicate major importance of mutual trust at each level of management and they agree that the role of contract and other formal agreements is of secondary significance in partnership governance. A long-term approach to the relationship declared since the start of co-operation is crucial for all partners. To a high extent this situation corresponds to relational contracting described by I.R. Macneil (1980). In the future a certain problem and a new challenge may become a change of Philips's strategy in its trade policy, i.e. a direct servicing of the new investors (interior designers, investment contractors) which may, but does not have to, decrease the importance of distributors. Therefore, a new task for both distributors is to keep Philips interested in further cooperation. Elektroskandia's management is particularly concerned about this. In both cases a crucial role is played by the principles and relational behaviors of the partners. This is reflected above all in a common approach to problem solving, high frequency of contacts, including informal ones, and fairly unlimited communication. However, Elektroskandia's and Grodno's main problem is the fact that they are not formally privileged in the hierarchy of the partner's customers. Using such a policy, Philips does not allow its distributors to feel special. Such a situation may considerably hinder specific investment in the relationships and cooperation itself. From Philips point of view this may be a deliberately applied policy restricting the perceived relational risk. It is understandable, taking into account the painful results of high dependence on one of the distributors caused by his financial problems in 1990s. However, a too wide diversification of sales does not allow the company to experience extraordinary benefits connected with strategic partnership. An additional reason why such a policy is implemented is that Philips, with its dominating position on the market, must obey regulations of the Polish law concerning competition. An entrepreneur who abuses his dominating position, among others in the form of discrimination (i.e. dictating unequal conditions in agreements with trade partners making their competitive position worse) must

be aware of serious consequences resulting from breaching the law on the protection of competition. This problem may be another interesting, less explored in the Polish literature, aspect of studies. Namely, the anti-monopolistic legislation can have a significant impact on the development of close relationships between enterprises.

DISCUSSION AND CONCLUSIONS

Empirical results

Each case is an interesting example of firms' attitude to relationships and their approach to the question of partnership risk. These cases indicate significance of both social aspects of cooperation and more formal ones – in the form of contract and the approved mode of monitoring. One may assume that when both groups of instruments are not equally developed, enterprises are exposed to the biggest losses. Stipulations included in the contract are not able to replace trust and commonly shared relational norms (the case of partnership in the telecommunication sector). However, mutuality is absolutely necessary. Trust, unsupported by activities of the other party or relational norms which are an effect of unilateral activities, do not guarantee the reduction of relational risk. The lack of mutuality leads to a classical model of “the prisoner's dilemma” presented in the theory of games (the case of Eastern Group and Mistral Innovation). The comparison of the case studies makes it possible to draw the following conclusions:

- In strategic cooperation oriented towards well-balanced partnership the contract is of slight importance (Philips-Elektroskandia, Philips-Grodno).
- When the relationship is more oriented towards the mode of activity than towards goals, the contract has a negative influence on trust. Contracts of this type are accompanied by monitoring and atmosphere of distrust (Operator –TXN).
- High costs of realization of a too detailed contract reduce the results of the relationship (Operator- TXN).
- Relational norms and trust are of major significance, provided that they are mutual (Philips-Elektroskandia, Philips-Grodno).
- Having a common goal and experience are extremely important for cooperation. Without the common goals other aspects of cooperation lose their significance.

Figure 2 presents research conclusions made in the context of strategic partnership management risk. In each case the relational risk exerted a crucial impact on the perceived level of results in a relationship. When the anticipated risk was high, the effects of partnership were usually lower than expected. What is interesting, economic risk seems to be a motivator for cooperation, although an exact course of dependencies and the mode of impact on a partnership should be a subject of further analyses. Keeping in mind limited possibilities to obtain other than declarative evaluations of trust, a general conclusion can be drawn about the vital role of mutual trust in a relationship. This fact was emphasized by all the respondents participating in the interview. However, goodwill is more important for cooperation than competence trust (Das, Teng, 2001). Of key importance is the mutual character of relational instruments. One-sided convictions in the system of risk management are not only ineffective but also harmful. In this context the goal of the partners should be to develop social control of bilateral character.

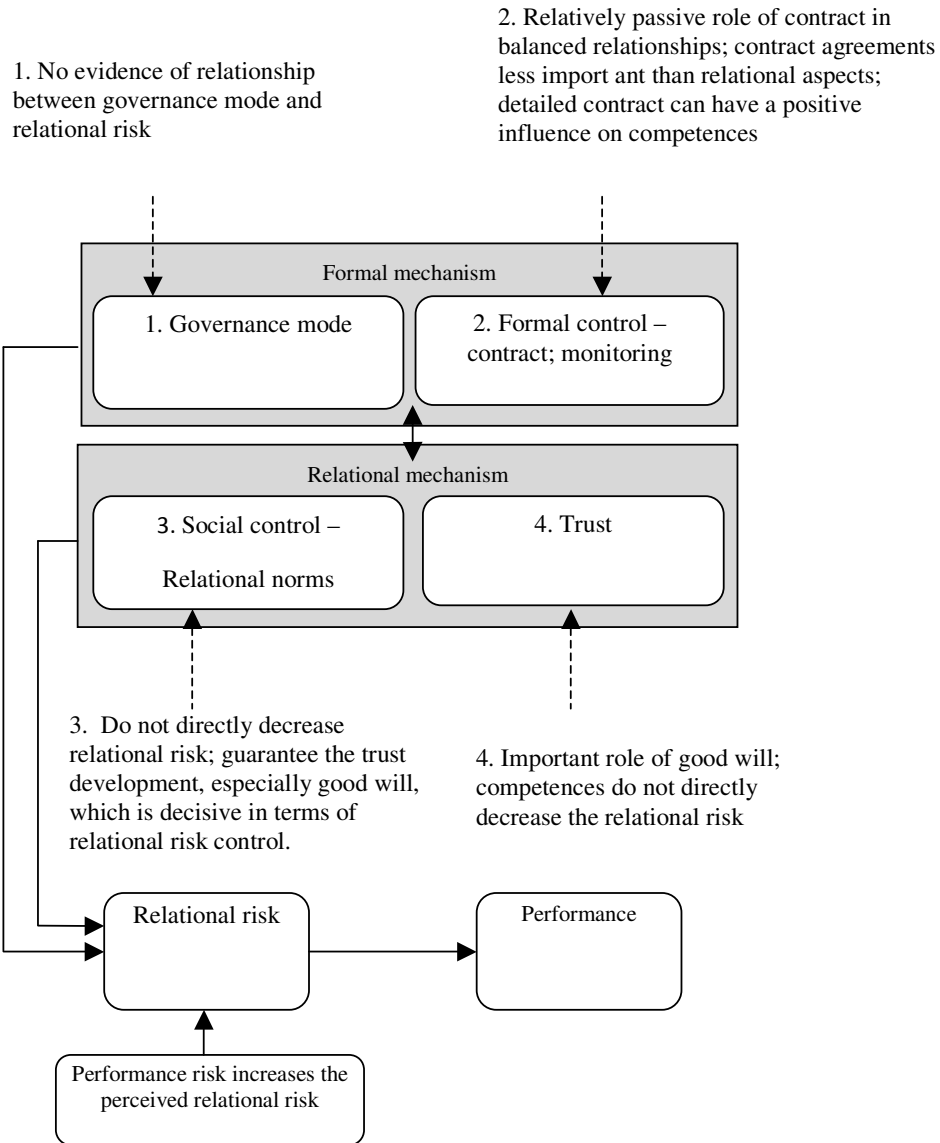


Fig. 2 Strategic partnership risk management system – research conclusions

Final conclusions

The paper's contribution is both of theoretical and practical character. The literature review enabled the authors to create a holistic model of partnership risk management (see Fig.1), which can be also a starting point for further research. The model contains disputable elements and relations, which have not been explained and confirmed in the literature so far. The presented case studies confirmed the role of relational norms being the key factor in relational governance of strategic partnership. Generally, relational norms are closely

connected with mutual trust. In none of analyzed cases a high level of trust was observed without well-developed relational norms, such as frequent meetings, mutual communication, joint problem solving, flexibility of activities or solidarity with the partner in difficult times. One can also notice a strong feedback - trust affects all the factors that have a positive influence on it.

A significant aim of detailed interviews was to find out how important a contract is in strategic relationships. Case study analysis made it possible to identify additional interesting observations in this field which may be an important premise for further research. Namely, in long-term relationships, based on common objectives, with relatively equal level of forces, the significance of contract agreements is of secondary importance. The research was conducted among companies located and operating in Poland. This country is characterized by one of the lowest level of social capital in Europe (Czapiński, Panek, 2009)⁴. Thus, there was a justified concern about the role of the formal mechanism instruments. They seemed to be the most important ones in terms of decreasing the perceived relational risk. However, the research results confirmed the dominating role of relational governance affecting the relational risk. Despite the above mentioned conclusion the role of a contract in economic practice is not totally passive. The contract plays a significant role in unbalanced relationships, where the dominating party deliberately intends to use its advantageous position. Moreover, its role may be crucial when strategic intentions of partners are not fully disclosed. As a rule the contract plays a dominating role in the relationships with a low level of mutual trust. These are usually contracts of unilateral character where the conditions are dictated by the stronger party. However, it is difficult to clearly determine the direction of influence in the relationship between contract and trust, whether a detailed agreement is the cause of low trust or vice versa, whether deficit of trust causes a dominating role of the contract. The answers can not be found in the research results presented in the literature so far. On the other hand, an interesting finding is a positive influence of a detailed contract on the perceived credibility of the partner. However, high competences neither influence the reduction of partnership risk nor do they increase the partnership performance. Their role is limited to the development of relational norms in a partnership.

The conducted research has also direct implications for managers. The main issue is to exploit the partnership potential through being actively involved in cooperation. The lack of close cooperation, most frequently caused by fear of being too much dependent on the partner, is the strategy of relational risk avoidance. This strategy does not allow using cooperation advantage, particularly significant for strengthening the strategic position of the company and for efficient objectives meeting. Although distrust towards partners gives some protection against the possible threats, this takes place at the cost of passivity and the loss of benefits resulting from interaction. The strategies which correspond better to the contemporary conditions of competition are linked with establishment of various partnership relations between companies. It leads to co-establishment of a strong business network able to compete on a global scale with other networks. Avoidance of inter-organizational strategic relationships excludes a company from participation in world-wide business networks.

The presented research was limited to the analysis of relations between partnership risk management system elements identified within the developed holistic model (see Fig. 1). Further research should concentrate on the identification of most efficient risk management instruments influencing the partnership performance. Another interesting point is the

⁴ Social capital is defined as shared norms or values that promote social cooperation, instantiated in actual social relationships (Fukuyama, 1997)

influence of organizational culture of multinational enterprises' involved in the research on their relationships with external entities. This could be also an important research direction, concerning the development of partnership concept in doing business in Poland.

The relational risk reduction is a form of partner control, that according to the IMP network approach is destructive to networks (Ford, Gadde, Håkanson, Snehota, 2003). However, the control aiming at the strengthening of relational mechanism and eliminating formal instruments should lead to the increase of the reputation of entities creating the network. From this point of view, further research concerning partnership risk management at relationship and relationships' portfolio level seems to be reasonable in context of network approach, as well.

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