

Interorganizational-trust; the choice of make, buy, or ally; and the performance of interorganizational relationships in the us auto industry

Ranjay Gulati
Kellogg School of Management
Northwestern University
2001 Sheridan Rd
Evanston, IL 60208
r-gulati@kellogg.northwestern.edu

Jack A. Nickerson*
John M. Olin School of Business
Washington University in St. Louis
Campus Box 1133
One Brookings Drive
St. Louis, MO 63130-4899
[*nickerson@wuolin.wustl.edu*](mailto:nickerson@wuolin.wustl.edu)

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Abstract

This paper investigates the implications of interorganizational-trust for the performance of exchange relationships between buyers and suppliers and considers the role of varying antecedents of trust on this performance. It develops a theory of the relationship between exchange performance and two distinct sources of interorganizational-trust—trust arising out of past interactions or the institutional environment that existed prior to the focal transaction, which we call exogenous trust, and trust that is intrinsic to the mode of governance used, which we call endogenous trust. The central focus of this paper is to consider in detail the role that exogenous interorganizational-trust plays in both directly enhancing exchange performance and indirectly enhancing exchange performance by facilitating the use of less costly modes of governance. Drawing on a sample of 222 sourcing arrangements for components from two assemblers in the automobile industry, we evaluate our hypotheses using a novel three-stage switching regression model. We find broad support for our theory that exogenous interorganizational-trust enhances performance both directly and indirectly through governance choice.