Trust, control, and cooperation have always had special meaning in the financial services industry (FSI). Trust is the “lubricant” of the industry, control is the safeguard that this trust will not be misused, and cooperation between banks is a precondition for them to function. Banks need each other to fulfill their joint role as the financial infrastructure of society. The importance of these concepts is only increasing, given various developments within the FSI. Cooperation that occurs across the boundaries of organizations, so-called interorganizational relationships (IORs), has become business as usual for many financial institutions (FIs). Sourcing models like outsourcing and alliances are common practices nowadays.

At the same time, the importance of formal control mechanisms like contracts, rules, and regulations has also appeared to increase in the FSI since the last financial crisis. Supervising authorities are very eager to prevent another collapse of the financial infrastructure, as happened during the crisis that started in 2007. Many decision makers within FIs feel that they are being confronted with an increasing amount of strict rules and regulations. Such dynamics have resulted in a recalibration of the use of trust and control as mechanisms to govern cooperation, not only within organizations but also across the boundaries of autonomous entities. This combination of an increase in both the importance of IORs and the importance of formal control mechanisms has made the following question more relevant: How can formal control mechanisms best be used to benefit fully from the potential of cooperation across the boundaries of organizations? Petrosjan Damen aimed to help practitioners answer this question by studying the governance of five IORs between FIs. The cases he studied focused on cooperation in the operations domain (back office) of FIs, which explains the title of this book. Based on not only the results of his research, but also on his extensive experience as a management consultant within the FSI, Petrosjan advises practitioners to shift their focus from a compliance view to a reliance approach, combining the strengths of contractual governance with the benefits of relational governance.
Cooperation in Operations

Insights into the governance of cooperation in the financial services industry

Petrosjan Damen
Colophon

Petrosjan Damen
Cooperation in Operations,
270 pages.


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Insights into the governance of cooperation in the financial services industry

Thesis

with regard to the doctorate/PhD degree at Nyenrode Business Universiteit
on authority of the
Rector Magnificus, prof. dr. M. Džoljić
in accordance with the Doctorate Committee.

The public defence takes place on
Wednesday November 8 2017
at exactly four o’clock

by

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Preface

‘I want you to be more pro-active, like we wrote in the contract!’ shouted my client to our project members on the other side of the conference call line. He, a manager of a Dutch financial institution, was annoyed by the passive attitude of those particular team members. The meeting took place in the middle of a transition of administrative activities from Amsterdam to Mumbai, India. This client had assumed that adding a clause to a service level agreement, a kind of contract, was sufficient to actually get the behavior he wanted.

Even then, in 2003, I was fascinated by the assumptions made about the interaction between contracts and behavior. It seemed that we didn’t fully grasp the way that the one, the contract, influenced the other, the actual behavior. Since then, this fascination has grown as I encountered many situations throughout my work as a management consultant for outsourcing, offshoring and shared services. Text box 1 shows a typical situation I have come across often in the last decade when helping my clients optimize the way they organize their value chains.

So, when I got the opportunity to start doing research in addition to my work as a consultant, I didn’t need a lot of time to choose a topic that kept me motivated for several years. I finally wanted to better understand how, and maybe even if, you can manage behavior by abstract concepts like contracts, rules, and regulations. To make it even more interesting, I decided to do my research within a domain where competition and cooperation meet, which is why I chose to focus on cooperation between competitors in the financial services industry. Situations where, for example, banks both have a common goal and are still each other’s competitors appeared to be an interesting context to study the phenomenon I was fascinated by.

I have chosen to study interorganizational relationships because I am convinced that cooperation has a lot more potential than currently is being used. One important pre-condition to unleash this full potential is, in my view, that we better understand the way so-called formal control mechanisms, like contracts, can increase the added value of cooperation. I started this research to contribute to this required understanding.

This document reflects both the ‘journey’ (the approach used) and ‘destination’ (the outcome) of my research. I hope these insights will help practitioners benefit more from the potential that cooperation has to offer. I chose to illustrate this document with images of animals that are cooperating with each other. Animals have nothing to do with my research, but these kinds of pictures seemed a lot more fun than typical financial services images.
Inspiring experiences

During the various projects I did as a management consultant, I encountered the same situation that inspired me to choose the topic of this research. Over the last decade I have helped several of my clients, mainly within the financial services industry, to outsource or offshore their activities, or to organize them as a shared service center. Outsourcing means that activities are transferred to an external vendor. In offshoring, activities are migrated to an offshore location like India or China. With the shared services option, the activities remain within the organization and are organized centrally. All these activity organization options require a document that contains information about how the various departments or organizations are going to cooperate. As long as this cooperation remains within one organization, a so-called service level agreement is sufficient. The moment an external vendor is involved, formal contracts are needed.

Most often, these documents became very lengthy, detailed agreements. Every single aspect of what the (internal) supplier should do was spelled out. Furthermore, not seldom, the focus of the content of these documents was on situations and behavior that both parties wanted to prevent. Clauses often started with ‘thou shall not…’, stressing the negative behavior. Then, once the new situation had been operational for a while, my clients started complaining about the behavior of their counterpart (the external vendor or an internal shared service center). They were too bureaucratic, not innovative or proactive enough, etc. After experiencing this situation several times, I began to think that we, both my clients and myself, did not understand the relationship between contracts, behavior and the results of cooperation well enough. That insight, combined with the example included in the preface, inspired me to focus on this relationship during my research.

Text box 1: Experiences that inspired this research.
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Why research as a management consultant?

Before I share the content of the research that resulted in this thesis, I would like to share my motives for doing research. This gives you, as a reader, more insights into the context of this document and into my background as researcher. It is not an obvious choice, doing part-time PhD research while working as a management consultant. So I believe that this decision deserves an explanation.

One of the main reasons I started my professional career within the consulting business was that I assumed it was a profession where theory and practice would reinforce each other, where academic theories would be put to use to solve problems faced by practitioners, and where practitioners, consultants like me, would turn their experiences into new theoretical models. “Nothing is as practical as a good theory,” one of my professors once said to me during my studies in Business Administration. So, that was what I was expecting to find in the consulting industry when I finished my Strategic Management degree.

However, when I joined a Big Four consulting firm, I discovered the difference between the academic world and the refractory reality of doing business projects. In a context with a lot of pressure to deliver results within a limited amount of time, it appeared to be difficult to really take the required time to look for meaningful patterns truly objectively. It turned out to be tempting to have the existing model determine what the answer to your client’s question was—to exploit the approach that your firm already had.

After having spent about 10 years with various consulting firms, my need to explore, to start looking for a deeper understanding, increased. I wanted to be able to spend as much time as needed to truly understand a phenomenon I was fascinated about. That’s why I was instantly enthusiastic when I got an offer to start doing part-time PhD research next to my work as a consultant – especially when I learned that I could start doing research at Nyenrode Business Universiteit, with Prof. Dr. Annemieke Roobeek as my promotor. Nyenrode, being a business university, prides itself on the way it turns research and knowledge into practical value. Prof. Dr. Annemieke Roobeek is the embodiment of a synthesis between theory and practice, being not only a professor but also an entrepreneur and a Non-Executive Board Member at several organizations.

And so, after more than 10 years in business, I hoped to find what I had been looking for since the start of my professional career, namely a combination of
exploitation of existing tools and techniques during my work as a consultant and exploration for new insight during my part-time PhD research. This fruitful combination resulted in this document.

Reading guide

Welcome to this dissertation. I sincerely appreciate that you are taking the time and effort to read about the background, approach, and results of the research that have led to this document. To make reading as easy and pleasant as possible, this chapter starts with some guidelines for you as a reader.

To help you to make sense out of this lengthy document, the following tools have been incorporated into the text.

• At the beginning of each chapter:
  A. Visualization of structure: a visual representation of the various sections of the chapter, with the corresponding questions that part of the text aims to answer. This will help you to grasp the content of each chapter.

• In the middle of each chapter:
  B. Real life examples (in text boxes): situations I encountered during both my work as a consultant and as a researcher and quotes from the cases I studied. The objective of these examples is to make the content of this document as specific and vivid as possible.

• At the end of each chapter:
  C. Summary of key points: a list of the essence of that chapter. This addition aims to help you to grasp the main points of that part of the text. Furthermore, it allows readers who have little time to review the document more efficiently.
  D. Translation into layman’s terms: I have added a fictitious WhatsApp conversation about my research with one of my (again fictitious) aunts and one of her grandchildren. This makes it easier for non-academics and non-experts to understand the essence of the text. Furthermore, it allows me to share more information with you about my background and personal views on doing research and on the topic at issue.

In the next sections, tools A and D are explained more extensively and are accompanied by examples.
A. Visualization of structure

Each chapter of this document starts with a figure that visualizes the sections and the corresponding questions the text aims to answer. As an example and starting point for reading, Figure 1 shows the structure of the entire document. It shows the chapters and the corresponding questions that are answered in that part of the text.

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Questions that are answered</th>
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<tbody>
<tr>
<td>1. Introduction</td>
<td>What and who has been researched where and why?</td>
</tr>
<tr>
<td>2. Method</td>
<td>Who has done this research and how has it been done?</td>
</tr>
<tr>
<td>3. Results</td>
<td>What has been found?</td>
</tr>
<tr>
<td>4. Conclusions</td>
<td>What is the answer to the research question?</td>
</tr>
<tr>
<td>5. Discussion</td>
<td>What does this answer tell us about the assumptions before the start of this research?</td>
</tr>
<tr>
<td>6. Strategic Relevance</td>
<td>Why do the outcomes of this research matter?</td>
</tr>
<tr>
<td>7. Recommendations</td>
<td>What should both academics and practitioners do (differently), as a result of this research?</td>
</tr>
</tbody>
</table>

Figure 1: Overall structure of this document.

The objective of Chapter 1 (Introduction) is to set the scene of this research to explain to you what and who has been analyzed (the research question and the conceptual model), in which context (where), and why research was needed (cause and objectives). Next, in Chapter 2 (Method), you will be given insight into the way the research has been done. That chapter explains both how data has been gathered and how that data has been analyzed. Chapter 3 (Results) shares the key discoveries from the data. Next, in Chapter 4 (Conclusions), the research question is answered. This answer is compared in Chapter 5 (Discussion) to what was expected before the start of the research and to existing literature. Then, Chapter 6 (Strategic relevance) explains why the outcome of this research matters. This
D. Translation into layman’s terms

“Write your thesis in a way that even your aunt is able to understand it,” one of my supervisors said to me during one of our meetings. “Guide your aunt through the document and make sure that she understands how each step is a logical follow-up of the previous one.” So that is exactly what I did while writing this document. I imagined one of my aunts, and used that image as a criterion for what I was writing.

I not only used this “aunt-check” to review the core text of my dissertation, but I also added a dimension to the regular, required parts of this document. At the end of each chapter, I have included a fictitious conversation I could have had with my aunt about my research. I used the format of communicating via WhatsApp (an application used for instant messaging via smartphones) to illustrate an informal tone of voice and to keep the messages as short as possible. Each chapters ends with one of my aunt’s questions, in her straightforward words, followed by my response, formulated in a way that fits the characteristics of my aunt. To look at the topic of my research from another perspective as well, at the end of this document I also introduce one of my aunt’s grandchildren. She represents the views of a new generation. To give you insight into the background and characteristics of my aunt and her grandchild, I am introducing them in Text box 2.

The objective of including this conservation is threefold: firstly, I want to make my assumptions and beliefs as explicit as possible so you can take them into consideration when reading this document. Secondly, it is meant to make reading the document as easy as possible, both for experts and laymen like my aunt. The subject of this research is rather complex, including several dimensions and actors. Therefore, simplifying both the background, method, and results of this research is a tool for the reader. Thirdly, it forced me as researcher to come to the essence of and make clear what I was trying to say and why I was saying it. As an example, WhatsApp conversation 1 introduces the tone of voice of my aunt and gives some background of me as a researcher. At the same time, this example reveals more about my motives for doing research.
Meet my aunt Jane and her grandchild Sophie

My aunt Jane is a lovely woman. She is 75 years old, has three children, and 7 grandchildren. She lives in a small village in the South of The Netherlands, as she has all her life. Jane started working right after secondary school, so she isn’t familiar with the academic world at all. Her only experience with the financial services industry is as a consumer. However, she is an expert in cooperating. That’s what she did for 45 years with her late husband Peter, before he died some years ago. Other relevant features are that my aunt is very curious, down-to-earth, and persistent. When she wants to know something, she will not stop asking questions until she fully grasps what you mean. Finally, although my aunt Jane is at a respectable age, she is still quite modern. This shows, among other things, in the way she communicates very actively via WhatsApp, as you will notice in the rest of this document.

One of her grandchildren is Sophie. She’s 17 years old and in her last year of high school. Sophie has a lot of friends, with whom she communicates all day long, via every possible means, via for example social media apps like Snapchat, Musically, and WhatsApp. She is used to communicating 24x7 via her smartphone. This can drive her parents mad, but at the same time this intensive way of communicating built very close relationships with her friends. This experience resulted in some interesting remarks by Sophie, as you will read at the end of this document.

Text box 2: Features of my fictitious aunt and her grandchild.

To stress the fact that these conversations are an addition to the regular parts of a dissertation, the rest of the WhatsApp discussions will be presented on separate pages. This will make it easier for you to identify these parts and to decide whether or not you want to read them.

Now that the tools at your disposal in this document have been explained, it is time to start with the main document. Starting with Chapter 1, Introduction. That chapter will explain what has been researched and why.
Aunt Jane
Hi Petrosjan, how are you? I heard you are doing research now? Why for God’s sake? Aren’t you busy enough with your job as a consultant, your wife and two children and the foundation you started? You already have a Bachelor in International Marketing and a Master degree in Strategic Management? Why on earth did you decide to start studying again?

Me
Hi aunt Jane, I am fine. You’re right, I started doing research. And you’re also right that it can be quite a challenge, doing all those things at the same time. But on the other hand, it also gives me a lot of energy. I started studying again because, in essence, I am curious. I want to understand how things work.

Aunt Jane
Oh, I see. Of course it is up to you what you do with your time. Maybe you can teach your old aunt something about your research along the way?

Me
More than happy to share my insights with you. I will send you a new message once I have made some progress with my research.

Aunt Jane
Great! Looking forward to your next shout.

**WhatsApp conversation 1:** Start of the conversation with my aunt.
Chapter 1

Introduction: governance of cooperation in the financial services industry
Chapter 1: Introduction

The objective of this chapter is to set the scene of this research. Figure 2 shows the structure that has been used to achieve this goal and illustrates what the various sections are and what questions are being answered in the respective parts of the text. The structure of this chapter is based on the ANNABEL method for designing and doing research, as advocated by Groenland (2009).

<table>
<thead>
<tr>
<th>Chapter / sections</th>
<th>Questions that are answered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction</td>
<td>What has been researched: who, where and why?</td>
</tr>
<tr>
<td>1.1 Background of this research</td>
<td>What are relevant features of the industry and organizations under study?</td>
</tr>
<tr>
<td>1.2 Provisional problem analysis</td>
<td>What is the reason for this research, the intended use of the outcomes and what are the deliverables?</td>
</tr>
<tr>
<td>1.3 Results of literature study</td>
<td>What can earlier research learn us about this topic?</td>
</tr>
<tr>
<td>1.4 Final problem analysis</td>
<td>What are the research objective and research question and how does the conceptual model look like?</td>
</tr>
<tr>
<td>1.5 Assumptions</td>
<td>What was expected before the start of the research?</td>
</tr>
</tbody>
</table>

Before the content of the research will be shared, first the background will be explained. In Section 1.1, important features of the financial services industry (FSI) and financial institutions (FIs) are given. This provides the necessary context to better understand the reason for and the outcome of this research. Next, in Section 1.2, the Provisional problem analysis is shared. From the viewpoint of practitioners, the reason for this research is given together with the deliverables and the intended use of these outcomes. This provisional problem analysis is complemented by the results from the literature study in Section 1.3. This section shares the main themes in academic literature within the domain under study. Furthermore, the main ex ante choices are explained and the concepts that play a central role during this research are scrutinized. The provisional problem analysis and the results from the literature study combined lead to the final problem analysis in Section 1.4. This section includes the research objective, research questions, and the conceptual model. This chapter ends with the assumptions that I made before the start of this study.
1.1 Background of the research: Cooperation in the Dutch FSI

In this section, the background of this research is explained at both the industry level (Section 1.1.1) and the level of the organizations that make this industry (Section 1.1.2).

1.1.1 The FSI
The underlying research was done in the FSI in The Netherlands. Financial services are the economic services provided by the finance industry, which encompasses a broad range of businesses that manage money, including banks, credit card companies, insurance companies, pension funds, consumer-finance companies, credit unions, stock brokerages, and investment funds.

Figure 3 shows the main stakeholders of the FSI that are relevant for this research. First of all, the clients of the organizations within this industry can be both individual consumers, non-profit organizations, or companies – so-called corporate clients. Providing added value to all these different kind of clients is the raison d’être of the industry.

Figure 3: Most relevant stakeholders of the FSI.
An important difference compared to other industries, like retail, is that the financial services industry acts as the infrastructure for the entire society. Adding economic value, by businesses and individuals, can only happen thanks to the flow of money that FIs enable. This role of societal infrastructure has as a consequence that almost every single person is, in one way or the other, a client of the financial services industry. This role has also consequences for the importance of the industry and the interest that other stakeholders have in making sure that it remains sound. Furthermore, being an important part of society’s infrastructure requires FIs to cooperate not only nationally, but also internationally. An example is the way in which international payments function. Cross-border payments would be impossible if FIs are not prepared to cooperate with each other. Therefore, cooperation is part of the DNA of the industry.

The second important group of stakeholders are the shareholders, i.e., the owners of the FIs. They require a sound return on investment of their equity. FIs are constantly looking for ways to create value for their clients in a way that also optimizes the return for their shareholders. These dynamics are being influenced in an important way by the third and fourth groups of stakeholders: the politicians in their roles as legislators and the supervising authorities. This latter group is responsible for making sure that FIs behave according to the rules and regulations the politicians have made. Politicians determine the assignments that the supervising authorities need to execute. In turn, clients, in their role as voters, determine the tone of voice that politicians use towards the supervising authorities and to the financial services industry itself. As described in Text box 3, this tone of voice has changed over the last decade. The example in this text box illustrates the relevance of legislation and supervision to the matter discussed in this paper.

As already illustrated by the description of the various stakeholders, the concepts of trust, control, and cooperation have special meanings within the financial services industry. Because of the importance of the concepts in this research, their roles will be illustrated through simplified examples. First, the role of trust will be clarified using retail banks, which service individual consumers, as the example. The essence of retail banks is that they take care of our savings in case we have more money than we need, and lend us money in case we have too little. Certainly in the case of giving banks our money in a savings account, we trust them to give our money back to us the moment we need it. The other way around functions more or less the same. In case we borrow money from a bank, it trusts that we will pay the amount back to them. But it is not only trust that acts as a lubricant for the FSI. There is where control comes in. As a society, we have agreed to incorporate a number of safeguards to make sure that our economic system keeps functioning.
The most important safeguard concerns the rules and regulations we have introduced as a foundation for doing business and working together. These rules and regulations give us a common language, a common framework, that increases the predictability of our behavior. That is, in general, we can expect people and organizations, like FIs, to behave according to the law. But to increase the chances that individuals and institutions will act legally, another safeguard has been introduced. Supervising authorities are independent institutions that check whether individuals and organizations act according to the law. Their main task is to prevent socially undesirable consequences. The main supervising authorities for the Dutch FSI are the Autoriteit Financiële Markten (AFM), De Nederlandsche Bank (DNB), and the European Central Bank (ECB).

**Impact of increased rules & regulations in the FSI**

The latest financial crisis was triggered by several incidents and scandals and had a significant impact on both the legislation and supervision that applies to the FSI. Society, represented by the media, asked politicians for increasingly strict rules and regulations for banks and insurance companies, combined with tougher supervision. So that is what happened. More severe laws were drafted and implemented. In some instances, individual managers of FIs were held accountable for their decisions and behavior. Some of them were even prosecuted, something that was very rare before the crisis. Furthermore, the FSI’s reputation dropped to an all-time low.

This situation lead to a recalibration, both within FIs and within the supervising authorities. The risk appetite of the management of FIs decreased significantly. Leaders of banks, insurance companies, and pension companies started focusing more on the guidelines from the supervisors. In the dozens of interviews I had during the explorative phase of my research, I observed that a lot of managers within the industry appeared to be “mentally paralyzed” by these stricter laws and supervision. It seemed like they, board members of financial institutions, stopped thinking by themselves. They unquestioningly applied the extra rules and regulations, mainly due to the fear of getting into problems with the supervising authoring or getting more bad publicity. These observations strengthened my fascination for the impact that not only contracts, but also rules and regulations have on professionals within the FSI.
To illustrate the special meaning of cooperation for the FSI, insurance companies are used as an example. Insurance is based on the principle of solidarity or cooperation, in essence sharing risks we cannot bear by ourselves. Because a lot of people deposit a small amount periodically when they are doing fine, the insured individuals will have enough money the moment they are facing huge costs as a result of damages or loss. In addition to insurance companies, banks also profit from cooperation, especially within the payments domain. Each bank needs other banks in order to be able to perform payments for their clients when the beneficiary, the person who needs to receive the money, is a client of another bank. Now that some main features of the FSI have been introduced, the next subsection introduces the most relevant characteristics of FIs.

1.1.2 Financial institutions
Organizations that operate within the FSI are called financial institutions (FIs). FIs are, in many ways, like “normal” organizations. They aim to add value for their clients by providing services to them. As explained in the previous chapter, FIs provide services that have to do, one way or the other, with money. The most well-known FIs are banks, insurance companies, and pension funds. Other types of companies within the industry are investment management firms, trust offices, and intermediaries, like brokers.

As with all organizations, FIs can be divided into a front office, a middle office, and a back office (see Figure 4). The front office concerns all departments that have contact with customers, like marketing and sales. The middle office concerns the group of employees that manages risk, calculates profits and losses, and (generally) is in charge of information technology. The back office is the part of the organization in which the administrative work is carried out. This part of the organization is also referred to as the operations function. This research focuses in particular on cooperation within this part of financial institutions. This is where the title of this research, “Cooperation in Operations” comes from.

Figure 4: Simplified divide of the value chain of FIs.
During the last couple of decades, a lot of back office activities have become commodities. That means that there is little variation in the way these activities are being performed by different FIs. They have become more similar, and they often use the same processes and the same information technology (IT). As a consequence, these activities have become non-competitive and are not being used by FIs to differentiate themselves with respect to their clients. This development has increased the opportunity for FIs to cooperate with each other and to achieve their goals together.

This subsection clarified the context of this research, both on a macro-level (the FSI) and on a meso-level (the FIs that populate this industry). The main message was that trust, control, and cooperation are special themes within this context. The FSI is built on trust keeping the industry turning. Furthermore, control has a special meaning within both the industry and FIs. Legislators and supervisors have implemented a “system of control” on behalf of society.

In the next section, the provisional problem analysis will be shared. This provisional problem analysis will later be complemented by existing insights from academic literature (Section 1.3), leading to the final problem analysis (Section 1.3.4).

1.2 Provisional problem analysis: How can cooperation be governed optimally?

As described earlier, first the provisional problem analysis will be given. This will be done from the viewpoint of practitioners to explain the management problem that initiated this research. First, the reason for starting this research is clarified (Section 1.2.1). Next, the intended use of this research, together with the deliverables, are explained (Section 1.2.2).

1.2.1 Reasons for the research

The main reason for this research was the observation that practitioners didn’t fully grasp the impact that governance mechanisms, like contracts and service level agreements, have on behavior of professionals within the FSI, especially professionals who were cooperating across organizational boundaries.

Another reason I decided to pursue this research was the observation that the potential of cooperation between FIs, especially within the operations domain, didn’t appear to be fully used. This observation was based on the following two elements:
Commoditizing of operations-activities, creating chances for cooperation: As mentioned earlier, in Section 1.1.2, a lot of operations activities had become commodities. That means that these processes became so generic that they didn’t provide competitive advantage to FIs. Most banks and insurance companies perform more or less the same activities in their back offices. A lot of these activities, mainly administrative work, did not differ much across the various organizations. For example, administering client data was being done the same way everywhere. I didn’t understand why these organizations stopped their search for economies of scale at their own organizational borders. Why didn’t they join forces with other FIs, as these activities didn’t give them any competitive advantage at all? Now and then I heard my clients talk about opportunities for cooperation with competitors, but they seldom initiated such a cooperation. And, if FIs tried to cooperate, most often those initiatives failed. One specific example was Orbay, a cooperation between the Dutch Rabobank and Belgian FI KBC. Orbay was started in 2004 as a joint platform for processing and administrating securities transactions. Due to various problems during the implementation, this cooperation was ended in 2006 even before Orbay actually starting operating. I did, and still do not, know the exact reasons for this failure.

However, I thought then and still think now that cooperation has much more potential than the FSI is actually using. I am convinced that in order to unleash the full potential of cooperation, we need to understand better how formal control mechanisms do and do not impact behavior within cooperative relationships. Recently, new initiatives have been started by FIs to benefit from the potential that Blockchain technology seems to offer. For example, 15 insurance companies started working together to create new services (Betlem & Groot, 2017). More explanation about this is included in Chapter 6. This development illustrates the practical relevance of this research.
FIs had standardized these activities and were focusing on efficiency and cost reduction, amongst others by achieving economies of scale.

2. **Limited cooperation across organizational boundaries**: This development within the operations domain of standardizing, commoditizing, and creating economies of scale brings about an opportunity for FIs to join forces. After all, combining volumes would create economies of scale that one FI could never achieve alone. However, before the start of this research, I did not see a lot of FIs that were using this potential, and the examples I did see did not last very long. See Text box 4 for more information regarding my observations on this topic.

This second observation, regarding the unexploited potential of cooperation, was the reason for the domain that has been selected for this research, specifically cooperation between FIs.

Following is a clarification of the intended use of the outcomes and the tentative research objective.

### 1.2.2 Intended use and tentative research objective

As explained in the previous section, the reasons for this research included two observations: (1) the limited insight into the impact of contracts on behavior, and (2) the unutilized potential that cooperation within the financial services industry seems to offer.

The outcomes of this research are intended to be used by practitioners to fully utilize cooperation within the financial services industry by using governance mechanisms like contracts and service level agreements in the most effective way. Therefore, the tentative objective of this research is to gain insights into the relationship between the use of these kinds of governance mechanisms and the performance of cooperation between FIs within the operations domain. By gaining these insights, the management of FIs can use governance mechanisms in a way that increases the performance of cooperation. This will make the use of these mechanisms more effective, because decision makers can focus on those elements that have the most impact on performance. The deliverables to achieve the outlined objectives are discussed in the following section.

### 1.2.3 Deliverables

After the research is completed, the following questions, which can be regarded as both the preliminary research questions and the deliverables of this research, can be answered:
• What are the features of governance mechanisms like contracts and service level agreements that have most impact on the performance of cooperation in the operations domain across the boundaries of FIs?
• What is the best way to use governance mechanisms like contracts and service level agreements to benefit from the full potential of cooperation in the operations domain across the boundaries of FIs?

In this section, the background and cause of this research were explained from the viewpoint of practitioners. To benefit from the full potential of cooperation between financial institutions, more insights are needed into the impact of governance mechanisms on the behavior of professionals cooperating within the FSI. In the next section, this topic will be addressed from an academic standpoint. The observations from practice will be complemented with findings from existing literature on this subject.

1.3 Results of literature study: perceived performance as a dependent concept

The objective of this section is fourfold: (1) introduce the basics from the literature on cooperation between organizations, which is referred to as interorganizational relationships in the academic world (Section 1.3.1); (2) explain the ex ante choices that have been made regarding the literature review (Section 1.3.2); (3) scrutinize the main concepts within this research (Section 1.3.3); and (4) determine the research gap (Section 1.3.4).

1.3.1 Basics of interorganizational relationships

In this section, an overview is given of the basics of interorganizational relationships (IORs) and the way they are being governed. This step, explaining the basics, is taken to be able to make the research question as specific as possible. Figure 5 shows the items and questions that will be addressed in this section.

First, IORs will be explained, then why companies decide to cooperate, and next why it is necessary to govern them. Finally, the main instruments that can be used for this governance will be explained.
Definition of interorganizational relationships

Interorganizational relationships are governance modes with a medium or long time span that involve two or more autonomous organizations. Examples of IORs are strategic alliances, joint ventures, and also outsourcing relationships (Ring & Van de Ven, 1994; Dekker, 2004). This means that from the classical governance modes of hierarchy, market, and hybrids, only hierarchy is excluded (Williamson, 1991). The various types of IORs can be grouped based on the degree to which the participants are linked or coupled. For example, Barringer and Harrison (2000) made a distinction between tightly coupled forms and loosely coupled forms. Tightly coupled forms, such as joint ventures and network structures, are those in which the participants are linked together by formal structures and may involve joint ownership. Loosely coupled forms, such as research consortia and trade associations, involve less structure and joint ownership. Figure 6 gives an overview of this kind of IOR clustering based on the intensity of the linkage between the cooperating organizations. Table 1 gives a description of the various types of interorganizational relationships that are shown, as examples, in Figure 6.

A specific type of IOR particularly relevant to this research concerns cooperation between competitors. This kind of cooperation is often referred to as coopetition (Dagnino & Padula, 2007).
Table 1: Explanation of Various Types of Interorganizational Relationships (Barringer & Harrison, 2000)

<table>
<thead>
<tr>
<th>Type</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Venture</td>
<td>An entity that is created when two or more firms pool a portion of their resources to create a separate jointly owned organization.</td>
</tr>
<tr>
<td>Network</td>
<td>A hub and wheel configuration with a local firm at the hub organizing the interdependencies of a complex array of firms.</td>
</tr>
<tr>
<td>Consortia</td>
<td>Specialized joint ventures encompassing many different arrangements. Consortia are often groupings of firms oriented towards problem solving and technology development.</td>
</tr>
<tr>
<td>Alliance</td>
<td>An arrangement between two or more firms that that establishes an exchange relationship but has no joint ownership involved.</td>
</tr>
<tr>
<td>Trade Association</td>
<td>Organizations (typically non-profit) that are formed by firms in the same industry to collect and disseminate trade information, offer legal and technical advice, furnish industry related training, and provide a platform for collective lobbying.</td>
</tr>
<tr>
<td>Interlocking Directorate</td>
<td>An interlocking directorate occurs when a director or executive of one firm sits on the board of a second firm or when two firms have directors who also serve on the board of a second firm. Interlocking directorates serve as mechanisms for interfirm information sharing and cooperation.</td>
</tr>
</tbody>
</table>
Reasons to start interorganizational relationships

The way researchers look at the reasons companies start an IOR depends on the school of thought they belong to. As stated by Barringer and Harrison (2000), the six widely used theoretical paradigms that explain interorganizational relationship formation are transaction costs economics, resource dependency, strategic choice, stakeholder theory, organizational learning, and institutional theory. An important difference between these schools of thought is their focus in the analysis of IORs. In this section, two schools of thought on IORs are briefly explained. These are transaction costs economics (TCE), focusing on the costs of governance modes, and strategic choice, with a focus on the potential benefits. These two views have been selected because they use completely different angles, as explained in the rest of this section. TCE focuses on the means of executing activities (how?), and strategic choice concentrates on the reason for performing certain tasks (why?). These totally different perspectives are the main reason for choosing these two paradigms.

According to TCE, organizations choose the most optimal governance mode based on the total costs (Williamson, 1991). These costs are being determined by the sum of the production costs (what are the costs involved to produce the product or service) and the transaction costs (what are additional coordination costs, e.g., regarding contracting, monitoring, etc.). The amount of these transaction costs depends, according to TCE, in large part on the level of uncertainty and the accompanying level of risk. This risk and uncertainty can apply to the activities involved and/or the context, for example market conditions. Put simply, TCE expects organizations to choose market as the governance mode in cases of low risks and hierarchy in cases of high risks. The main argument for this distinction is that in cases of high uncertainty it would be very expensive to cover all possible events in contracts. The underlying assumption is that these transaction costs will not be made in case the activities are being performed within the organization itself. According to TCE, a hybrid form would be the preferred mode of governance in cases where the risks are too high for market transactions, but too low to incorporate the activities into the hierarchy of the organization.

Various researchers have criticized TCE. For example, Zajac and Olsen (1993) stated that the transaction cost perspective has at least two major limitations when used to analyze interorganizational strategies: (1) a single-party, cost minimization emphasis that neglects the interdependence between exchange partners in the pursuit of joint value, and (2) an over-emphasis on the structural features of interorganizational exchange that neglects important process issues.
As stated earlier, the strategic choice perspective uses a totally different starting point for explaining IORs. According to this theory, firms form cooperative arrangements in order to maximize long-term profitability by improving their competitive position. Consequently, strategic behavior theory predicts that firms will engage in cooperative activities as a means of achieving overall strategic objectives regardless of its effect on specific transaction costs (Kogut, 1988). These strategic objectives can vary from gaining access to a foreign market, increasing market power, or blocking the moves of a competitor (Barringer & Harrison, 2000). The strategic choice perspective was originally advanced as a correction to the view that the way in which organizations are designed and structured is determined by their operational contingencies. This view overlooked the way in which leaders of organizations, whether private or public, were able, in practice, to influence organizational forms to suit their own preferences. Strategic choice drew attention to the active role of leading groups who had the power to influence the structures of their organizations through an essentially political process (Child, 1997). Table 2 compares both schools of thought, transaction cost economics and strategic choice.

Table 2: Overview of Transaction Cost Economics and Strategic Choice

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Transaction Cost Economics</th>
<th>Strategic Choice</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>Focuses on how an organization should organize its boundary-spanning activities to minimize the sum of its production and transaction costs.</td>
<td>Study of factors that provide opportunities for firms to increase in competitiveness or market power. Profit and growth are typically the major firm objectives that drive strategic behavior.</td>
</tr>
<tr>
<td><strong>Focus</strong></td>
<td>Cost</td>
<td>Value creation</td>
</tr>
<tr>
<td><strong>Reason for companies to start an IOR</strong></td>
<td>In case the risks are too high for market transactions, but too low to incorporate the activities into the hierarchy of the organization.</td>
<td>To maximize long-term profitability by improving their competitive position.</td>
</tr>
</tbody>
</table>

Now that IORs and the reasons for organizations to start them have been defined, this section will continue with an explanation about the governance challenges of IORs and the instruments organizations have to respond to these challenges.
Governance challenges

In large part, IORs face the same governance challenges as regular organizations. However, these challenges can be a bit more complex because the interests and resources of two or more autonomous organizations need to be balanced. This results in issues that can be categorized into two main clusters, namely appropriation concerns and coordination requirements (Dekker, 2004). Appropriation concerns have to do with the question “who gets what”, and coordination requirements with the question “who does what”. As put by de Man and Roijakkers (2009), the first category, appropriation concerns, is primarily rooted in differences in motivation and interests between partners, while coordination problems generally arise from the cognitive limitations of individuals.

According to academics that support the TCE paradigm, two important reasons why governance mechanisms are needed to manage behavior in the IOR context reside in the concepts of opportunism and bounded rationality (Speklé, 2001). “Opportunism is a variety of self-interest seeking but extends simple self-interest seeking to include self-interest seeking with acting with guile”, as Williamson (1979, p. 234) defined this concept. Based on this view of mankind, the assumption is that certain safeguards are needed to prevent people from acting with guile. Bounded rationality refers to the fact that humans do not have the cognitive ability to make optimal decisions. We are just not smart enough to oversee all possible situations. That is one of the reasons why contracts, as important governance mechanisms in cases of market as governance mode, are seldom complete. As stated by Speklé (2001), the nature and magnitude of this contracting problem depend on the features of the transaction in question. Next to the feature of uncertainty, which was clarified earlier in this section, two important characteristics are the asset specificity and the frequency of the transaction. Asset specificity refers to how unique the assets concerned are to that specific transaction. In case, for example, a company needs to build an entire factory that can only be used to service one specific client, that situation is considerably different than when a company uses assets that can be used for any random client. This level of asset specificity determines the requirements for contracting. The other feature, frequency of the transaction, is more evident. It differs significantly if a specific transaction only happens once or if it will be repeated dozens of times. This frequency has consequences for the effort that is justified to put into building a contract.

As stated by Gnyawali, Madhavan, He, and Bengtsson (2016), when a firm engages in collaboration with a close rival, the paradox of simultaneous competition and cooperation becomes most prominent. In an example mentioned by Le Roy and Czakon (2016), working with rivals creates tensions relative to the risk of undesired
knowledge transfer and asymmetrical learning. These findings stress the importance of using governance mechanisms to mitigate these risks in these kinds of IORs.

**Governance instruments**

Most literature about IORs makes the distinction between two kinds of governance instruments: trust and control. The definition of these concepts will be covered in more detail in Section 1.3.3. This section deals with how these concepts can be categorized.

One of the most widely used distinctions between the various modes of control is between *formal control* and *social control* (Das & Teng, 2001). As Das and Teng (2001) explained, formal control “emphasizes the establishment and utilization of formal rules, procedures, and policies to monitor and reward desirable perfor-

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**Parallel to “rule-based” versus “principle-based” supervision**

When analyzing the various modes of control, a parallel strikes with a distinction that is being used in the debate about supervision on a macro level. That is, the divide between rule-based and principle-based supervision. According to de Vries (2013), before the 2008 financial crisis, the trend in financial supervisory legislation was to replace detailed rules with more open “principles.” Financial institutions were increasingly instructed to achieve a certain outcome (for instance, adequate conduct of business). *How* that outcome was achieved was left to the institution itself. This differentiation resembles the split between behavior control and output control. As de Vries (2013) stated in her article, the consequence of the latest financial crisis was that principle-based supervision got a bad reputation. It was being regarded as part of the problem instead of part of the solution. That was why rule-based regulation increased, which led to the observations included in Text box 4. However, principle-based regulation did not disappear altogether. Like de Vries (2013) wrote, financial supervisory legislation remains a mix of detailed rules and open standards. Supervising authorities continue looking for the most optimal way of combining these perspectives. This search on a macro level could inspire the quest that takes place on a meso level, looking for the most effective way to combine output control with behavior control.

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*Text box 5: Rule-based versus principle-based regulation.*
Governance mechanisms can be divided into trust and control. In its turn, formal control can be divided into behavior control and output control. This distinction is based on the object of control as referred to earlier, namely behavior or output. Text box 5 explains the similarity of these categories with a distinction that is being used in the approaches of supervising authorities. Social control focuses on developing shared values, beliefs, and goals among members so that appropriate behavior will be reinforced and rewarded (Das & Teng, 2001). Social control mechanisms are designed to permit the evolution and inculcation of norms and values through structured personal interaction and training.

The other main governance mechanism, trust, can be divided between goodwill trust and competence trust (Das & Teng, 2001). Whether or not a partner can really deliver what they promise is addressed as competence trust. Goodwill trust is about good faith, good intentions, and integrity and refers to a firm’s reputation for dealing fairly and caring about its partner’s welfare in the alliance. Figure 7 gives an overview of the way the governance mechanisms can be divided.

In addition to this split, another distinction is being made in academic literature dividing contractual governance and relational governance (Cao & Lumineau, 2015). Contractual governance highlights the importance of contracts between firms and its formal rules to safeguard against opportunism and conflict. Contractual governance may define outputs to be delivered, specify monitoring procedures, and detail duties, rights, and contingencies (Mesquita, Anand, & Brush, 2008; Reuer & Ariño, 2007; Ryall & Sampson, 2009). Relational governance emerges from the values and agreed-upon processes found in social relationships (Poppo & Zenger, 2002). With this kind of governance, as Poppo and Zenger (2002) stated “the en-
forcement of obligations, promises, and expectations occurs through social processes that promote norms of flexibility, solidarity, and information exchange” (p. 710). As explained by Arranz and de Arroyabe (2012), contractual governance has an economic and legal origin (formal contracts) and relational governance has a social cause (relational norms and trust).

As shown in Figure 8, contractual governance can be regarded as a part of formal control mechanisms that is part of control. Relational governance includes both social control and trust. This is illustrated by the definition used by Yu, Liao, and Lin (2006). They defined relational governance as “interfirm exchanges that include significant relationship-specific assets combined with a high level of interorganizational trust” (p. 129).

Fryxell, Dooley, and Vryza (2002) made a clear distinction between social control mechanisms, social control, and trust. They stated that the outcome of social control mechanisms, which they regarded as structural arrangements that foster socialization and interaction, is social control based on mutual understanding and the development of shared values and norms. This social control leads to trust, since the willingness of individuals to make themselves vulnerable to risk determines the success of the relationship, as there are no formal mechanisms in place to control behavior.

Schaan (1983) made an additional distinction regarding control in the context of international joint ventures (IJV). He distinguished positive control mechanisms, which parent firms employed to promote certain behaviors, from negative control mechanisms, which were used by a parent to stop or to prevent the IJV from implementing certain activities or decisions. Positive control was most often exercised through informal mechanisms, staffing, participation in the planning process, and
reporting relationships. In contrast, negative control relied principally on formal agreements, approval by parents, and the use of the joint venture’s board of directors.

A different perspective was used by Klein Woolthuis, Hillebrand, and Nooteboom (2005). They stated that “control may be interpreted in a weak and in a strong way. In a weak interpretation, control is regarded as any instrument or condition that may mitigate relational risk. This could include trust” (Klein Woolthuis et al., 2005, p. 814). They stated that relational risk occurs when partners behave opportunistically. In a strong form, control is seen as “deterrence”, i.e., in cases of opportunistic behavior, the partner incurs a penalty or material loss. In other words, control is based on power. According to Klein Woolthuis et al. (2005), relational risk can be mitigated in three ways: opportunity control, incentive control, and benevolence. Opportunity control is about reducing the opportunity of people to behave opportunistically. Incentive control aims to limit incentives that could encourage opportunistic behaviour, for example bonuses that are at odds with the objectives of a partnership. Finally, benevolence is about goodwill and social control (Klein Woolthuis et al., 2005). Further, Klein Woolthuis et al. (2005) divide opportunity control into an “outside form” and an “inside form”. The difference can be explained by referring to two of the main modes of governances that TCE distinguishes, as explained in Section 1.3.1: market and hierarchy. The “outside form” of opportunity control refers to how external partners can be controlled when the mode of governance is the market. This is mainly being done by using contracts that are grounded in the rules and regulations we use in our society. The “inside form” of opportunity control concerns the situations where hierarchy is the governance mode. It applies to employer–employee relationships, where the control mechanisms are, for example, the mandate a manager has to determine the labour conditions for its employees.

One dimension that can be added to this distinction between control and trust is the question of if these mechanisms are merely “dead” instruments or actors by themselves. Based on their case study into an outsourcing relationship between two companies, Minnaar, Vosselman, van Veen-Dirks, and Zahir-ul-Hassan (2017) concluded that contracts and control structures are actors and that trust is a quasi-actor. According to these academics, contracts and control structures have agency of their own; they have the capacity to interact with other actors and to perform. They regard trust as not being the straightforward result of decision making, for example about contracts (contractual trust) or on decisions concerning relational signaling (leading to goodwill trust or thick trust), but rather of an interactive assignment of trust properties to actors.
As stated by de Man (2013), the way organizations govern their IORs depends on the assumptions they are using. He distinguished two views on alliance design: the control view and the trust view. These two views use totally different assumptions, as shown in Table 3. The control view assumes that partners cooperate to take care of their own interests. The trust view, on the other hand, assumes that common interest is the motive of partners to cooperate.

<table>
<thead>
<tr>
<th></th>
<th>Control</th>
<th>Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alliance assumption</strong></td>
<td>• Partners look out for their own self-interests</td>
<td>• Partners benefit from a common interest</td>
</tr>
<tr>
<td></td>
<td>• Conflicts of interest are likely to arise</td>
<td>• Joint growth and development ensure long-term alignment</td>
</tr>
<tr>
<td><strong>Alliance design challenge</strong></td>
<td>• Prevent opportunism</td>
<td>• Build social capital</td>
</tr>
<tr>
<td><strong>View on alliance design</strong></td>
<td>• Target driven</td>
<td>• Vision driven</td>
</tr>
<tr>
<td></td>
<td>• Value appropriation</td>
<td>• Value creation</td>
</tr>
<tr>
<td></td>
<td>• Rule based: detailed contracts</td>
<td>• Principle based: norms and values</td>
</tr>
<tr>
<td></td>
<td>• Extrinsic motivation</td>
<td>• Intrinsic motivation</td>
</tr>
<tr>
<td></td>
<td>• Strong senior management control</td>
<td>• Senior management as coach</td>
</tr>
</tbody>
</table>

Where the control view expects conflicts of interest to arise, the trust view assumes long-term alignment between partners to be a result of joint growth and development. As illustrated in Table 3, both views use totally different governance modes. The control view advocates detailed contracts with clear targets, aiming at extrinsic motivation. In this school of thought, the role of senior management focusses on strong control to insure that their organization gets their “piece of the pie”. This way of governance is mainly aimed at mitigating the appropriation concerns, answering the question “who gets what?” The trust view concentrates on “growing the pie” in joint value creation. The governance modes that this view advocates are norms and values and shared vision. It assumes that partners cooperate as a result of intrinsic motivation. The corresponding management style can be characterized as coaching. Where the focus of the governance of an IOR is on preventing opportunism by the control view, the trust view selects governance mechanisms that facilitate building social capital.

This distinction between the control view and the trust view resembles the split that Zahir-ul-Hassan, Minnaar, and Vosselman (2016) made between individualizing and socializing consequences of governance and control structures used for
inter-firm relationships. These authors stated that “individualised governance aims to prevent opportunistic behaviour from occurring, or to fight it when it occurs. Individualised governance has disciplining consequences.” (p. 367). In that way it aligns with the control view as stated by de Man (2013). Zahir-ul-Hassan, et al. (2016) explained that socialized governance “encourages learning behaviour and the search for continuous improvement; it creates a trusting atmosphere in the relationship” (p. 368). This type of governance could be characterized as an application of the trust view, as it is focus on building social capital.

In this section, the basics of the literature on interorganizational relationships was shared. A definition was given to explain that IORs need to involve two or more autonomous organizations. Furthermore, the section explained why organizations start IORs. The reasons researchers have given for organizations to start IORs depends on the school of thought they belong to. From a transaction cost economics perspective, the level of risks determine the mode of organization. Strategic choice researchers, however, reported that organizations set up IORs as a result of value creation motives. Trust and control were introduced as main governance mechanisms, helping organizations to determine who does what and who gets what. It was shown that scholars divided these main governance mechanisms in various ways. In the next section, the choices that were made at the beginning of the research will be clarified.

1.3.2 Ex ante choices
As explained by Groenland (2016), researchers can discuss academic literature either with an open mind or based on ex ante choices regarding the type of conceptual model with which they wish to end. For this research, some ex ante choices are made, namely:
1. Performance as a dependent concept;
2. Formal control mechanisms as an independent concept;
3. Behavior as a mediating concept; and
4. (Dis)trust as a moderating concept.
These choices were made at the beginning in order to give focus to this research and therefore to increase the chance of gaining new insights. In the rest of this section, these ex ante choices are explained. Precise definitions of the various concepts are given in Section 1.3.3, where the concepts will be scrutinized. Later on in this document, in Section 2.3, the concepts are operationalized.

Ad 1: Performance of IOR as a dependent concept
Governance mechanisms are means to achieve an objective. Whether or not a means is effective needs to be determined based on the impact it has on the underlying objective. This research focuses on IORs between financial institutions, as
explained earlier. Therefore, the performance of the IOR and the extent to which the objectives are being met, will be used as the dependent concept. This means that this research will study how the other concepts impact this concept.

A lot of literature on IORs focuses on concepts that can be regarded as means instead of goals of interorganizational relationships. An important part of research on IORs concentrates on the various governance modes (e.g., Garrette & Dussauge, 1995), control issues (e.g., Birnberg, 1998), and the relationship between trust and control (e.g., Gulati, 1995; Faems, Janssens, Madhok, & van Looy, 2008), often being complemented with the concept of risk (e.g., Das & Teng, 1998; Das & Teng, 2001). Besides the interaction between these three concepts, a lot of attention has also been paid to their effect on learning (e.g., Doz, 1996; Inkpen & Currall, 2004). Exceptions to this rule are, for example Geringer and Herbert (1989), who looked at the relationship between control and performance of IJVs and Jap and Ganesan (2000), who looked at the effects of control mechanisms in buyer-seller alliances and used performance as a dependent concept. These studies, and other research on the relationship between control and performance in an IOR context, will be described in more detail in Section 1.3.4.

Ad 2: Formal control as an independent concept
One of the main reasons to start this research is the observation that more insights are needed into the impact of governance mechanisms like contracts and service level agreements on the behavior of professionals within the financial services industry (see 1.2.1). Section 1.3.1 showed that these kinds of means are referred to as formal control mechanisms. Therefore, the use of formal control mechanisms will be used as an independent concept. This means that the research will focus on the impact these mechanisms have on the dependent concept, i.e., the performance of IORs.

Ad 3: Behavior as a mediating concept
Much of the research into the relationship between governance on the one hand and performance on the other hand assumes a direct relationship between the two concepts (Aulak, Kotabe, & Sahay, 1996; Fryxell et al., 2002, Gulati & Nickerson, 2008). Only rarely, researchers include behavior as a concept in their conceptual model (Kauser & Shaw, 2004; Robson, Skarmeas, & Spyropoulou, 2006). A number of researchers already recognized this deficit (Leung & White, 2006), but still, too often behavior is being forgotten or ignored. In this research, behavior will be included as a mediating concept between formal control and the performance of the IOR. The reason for this is that it is being assumed that formal control does not impact this performance directly. This impact occurs via the behavior of the decision makers, meaning the way they interact with each other, within the IOR.
Ad 4: (Dis)trust as a moderating concept

Based on the literature review, a fourth concept will be added to this research. This concept concerns trust. The main reason for this addition is that a lot of research has shown that the level of trust impacts the effect of control (Faems et al., 2008; Vlaar, Van den Bosch, & Volberda, 2007; Vosselman & van der Meer-Kooistra, 2009). As explained by Klein Woolthuis et al. (2005), the various ways scholars look at how trust and control interact can be divided into three categories: the first category of academics, mainly advocates of TCE and contract theory, see trust and contracts as complementary. They regard contracts as a specific control mechanism, as a prerequisite for trust. Contracts are a precondition for trust to prosper, according to them. Formal control mechanisms are reducing or even preventing opportunistic behaviour, according to the supporters of this school of thought. The second category of scholars regard trust and control as substitutes that are at odds with each other. The more control is being used, the less trust will be present, they think, because control is being regarded as a sign of distrust. According to Klein Woolthuis et al. (2005), this view is mainly being shared by social scientists. The third and final category thinks, according to Klein Woolthuis et al. (2005), that trust and control are negatively related. This group’s school of thought is that the more trust there is in a relationship, the less control is needed.

In the previous sections, the research domain was explored on a relatively high level. The basics of the literature on IORs were specifically introduced in Section 1.3.1. Next, the ex ante choices were clarified in this section. These two steps have created the preconditions to reflect on the main concepts in detail, which will take place in the next section.

1.3.3 Main concepts scrutinized

In this subsection, the main concepts from this research will be analyzed in detail. For three out of the four concepts, I will use a concurrent analysis (Groenland, 2016), which means that several alternative definitions of the concepts will be compared. Similarities and differences will be observed, presented, and evaluated. Each concept will be taken apart and dissected into categories and elements through a synopsis. Several definitions of the concept will be included in a matrix, where the columns will designate the definitions and the rows will designate the elements of the definitions. In the cells, the actual contents of the definitions, as categorized in components, will be presented. Similarities and differences between the various definitions will be observed as well. Based on this analysis, each concept will have a definition applied. Furthermore, the variables, the indicators, or measures of the concept that will be used will be selected. Later, in Section 2.3, the attributes and categories of the variables will be explained.
To prevent confusion, it is important to explicitly state which definitions of concepts, constructs, and variables are used for this research. These definitions are based on the view of Groenland (2014b). A concept is regarded as a “unit of thought,” a means to categorize the things around us and to create order in our complex reality. Concepts can be seen as building blocks for our thought processes. Some of these building blocks are very complex, and these are called “constructs.” To gather data, all concepts within the conceptual model will be translated into one or more questions. The respondents that will answer these questions must have the possibility to choose from multiple positions regarding such a concept. Concepts have multiple meanings for the respondents, and only one is applicable for a single respondent. As a consequence, we speak of variables when analyzing the responses.

Only the concept of behavior will be scrutinized differently, specifically by describing research on the kind of behavior that impacts the performance of IORs most, given the fact that this is the dependent concept of this research. As explained in the previous section, the following concepts will be scrutinized:
1. Performance;
2. Behavior;
3. Formal control; and
4. Trust.

In the rest of this section, the concepts will be analyzed, ending with a definition that will be used throughout this research.

**Performance**
Finding a definition for the concept of performance of IORs appeared to be quite difficult. A lot of previous research focused on the attributes and measures of performance without actually giving a definition (Geringer & Herbert, 1989; Aulakh et al., 1996; Murray & Kotabe, 2005; Mohr, 2006; Gulati & Nickerson, 2008). However, as shown in Table 4, several definitions have been found and compared. These definitions are compared to the dimensions used by Christoffersen, Plenborg, and Robson (2014) to classify and assess strategic alliance performance:
1. **Mode of assessment (type of measure):** How is performance assessed?
2. **Construct-assessed:** Which performance is assessed?
   a. Level of analysis: The performance of which organizational unit is being assessed? (alliance/partner).
   b. Domain: Which domains of performance in that unit are being assessed? (operational/financial/overall).

For dimension 1, mode of assessment, the distinction of Beamish and Lupton (2009) is used. They make a distinction between two types of joint venture performance, namely subjective measures and objectives measures. According to Beam-
ish and Lupton (2009), subjective measures are the opinions of joint venture (JV) managers, and objective measures can be obtained from external sources such as company financial statements or third-party surveys. Common objective measures include profitability, longevity (assessed by the age of the JV), survival, and stability. For this research it has been assumed that this divide between subjective and objective measures can also be used for other types of IORs than JVs.

Almost all definitions in Table 4 use a combination of subjective and objective measures. Most definitions assess the performance of the alliance and not the partner. However, the “pattern of interactions” referred to by Ariño (2003) concerns the partner’s behavior. This part of that definition fits the objective of this research well. After all, this research will analyze the impact of formal control mechanisms on the behavior of the decision makers within interorganizational relationships. The “pattern of interactions” can be regarded as a type of behavior.

The majority of the research on interorganizational relationships performance focuses on subjective performance measures. An important reason for this is that objective performance measures, like the profitability of the IOR, are hard for researchers to obtain. Furthermore, previous research has found that subjective performance measures are highly correlated with objective performance measures (Geringer & Hebert, 1989).

The definition used by Krishnan, Martin, and Noorderhaven (2006) refers to “local partner”, making it applicable to international IORs. As the IORs that were studied as part of this research didn’t include foreign partners, this definition will not be used for this research.

Combining these findings makes that for the concept performance, the definition of Ariño (2003) will be used in combination with subjective measures. This means that the decision makers will be asked for their perception of the performance of the interorganizational relationships. Several definitions (Ariño, 2003; Walter, Lechner, & Kellermanns, 2008) not only use the degree to which the objectives have been fulfilled as a criterion to determine the performance, but also the perception of the relationship. Therefore, during this research, not only will the perception be assessed, but also the main reason for this perception. This way, this research can potentially provide new insights into the criteria that decision makers use to determine their perception on this topic.

The selected definition of the dependent concept, the perceived performance of the IOR, gives direction to the choice of the definitions of the other concepts. This direction results from the following guidelines, as given by Groenland (2016):
Table 4: Synopsis of the Performance Concept

| Definitions | Elements of definitions | Luo (2002): “... objective measures such as sales and profitability” (p. 908). | Ariño (2003): “...both the degree of accomplishment of the partners’ goals, be these common or private, initial or emergent (outcome performance), and the extent to which their pattern of interactions is acceptable to the partners” (p. 76). | Krishnan, Martin, & Noorderhaven (2006): “…(1) the extent to which the local partner is satisfied with the overall performance of its alliance, (2) the extent to which the local partner perceives the foreign partner to be satisfied with the overall performance of the alliance, (3) the partners’ satisfaction with respect to the attainment of goals, (4) the extent to which the local partner is satisfied with the financial performance of the alliance, and (5) the extent to which the local partner perceives its foreign partner to be satisfied with the financial performance of the alliance” (p. 900). | Walter et al. (2008): “…the extent to which a partner believes that the alliance is characterized by a strong and harmonious relationship; that the primary objectives for the alliance have been fulfilled; and that the company has succeeded in gaining an enhanced competitive position or new capabilities” (p. 532). | Beamish and Lupton (2009): “…any desirable outcome over which JV owners and managers have control” (p. 93). |

<table>
<thead>
<tr>
<th>Mode of assessment (subjective measures/objective measures)</th>
<th>Objectives measures</th>
<th>Subjective measures and objective measures</th>
<th>Subjective measures and objective measures</th>
<th>Subjective measures and objective measures</th>
<th>Subjective measures and objective measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of analysis (alliance/partner)</td>
<td>Alliance &amp; Partner</td>
<td>Alliance</td>
<td>Alliance</td>
<td>Alliance</td>
<td>Alliance</td>
</tr>
<tr>
<td>Domain of analysis (operational/financial/overall)</td>
<td>Operational &amp; financial</td>
<td>Overall</td>
<td>Overall</td>
<td>Overall</td>
<td>Overall</td>
</tr>
</tbody>
</table>
1. **Same unit of analysis**: All of the concepts within the same research and the corresponding conceptual model should have meaning at the chosen level of analysis. As for the concept of performance, the unit of analysis is the individual or the decision makers. This will also be used for the other concepts.

2. **Same paradigm**: Generally, only one paradigm should be chosen for the conceptual model as a whole. Regarding the concept of performance, the focus will be on the perception the stakeholders have about the performance of the IOR. Perception can be regarded as part of the paradigm of psychology. Therefore, this will also be the paradigm for the other concepts within this research.

**Behavior**

Behavior is a very broad concept involving all kinds of elements and aspects. Given the topic of this research, this concept can be limited to behavior by individuals in the context of the IORs that were studied. The discipline that studies this kind of behavior is called organizational behavior (OB). As defined by Robbins (1991), OB is a field of study that investigates the impact that individuals, groups, and structures have on behavior within organizations, for the purpose of applying such knowledge towards improving an organization's effectiveness. Using this, the simplest definition of behavior is “what people do.”

Given the dependent concept of this research, the literature study on this mediating concept focused on the type of behavior that appeared to have the biggest impact on the perceived performance of IORs. Several earlier findings by scholars will be shared, starting with Mohr and Spekman (1994). In their study into the characteristics of partnership success, they used communication behavior as one of the indicators of success. In their conceptual model, they focused on three elements of this kind of behavior: (1) communication quality, (2) extent of information sharing between partners, and (3) participation in planning and goal setting. They tested their hypotheses with vertical partnerships between manufacturers and dealers. Their results indicated that the primary characteristics of partnership success are partnership attributes of commitment, coordination, and trust; communication quality and participation; and the conflict resolution technique of joint problem solving. From these aspects, in particular coordination, participation and joint problem solving can be regarded as behavior. Commitment and trust can be regarded as “states of mind” and communication quality is more a feature of communication.

Saxton (1997) did a study on alliance behavior and outcomes that integrated partner and relationship characteristics. He examined their separate and combined effects on alliance outcomes by analyzing 98 alliances through a two-stage survey.
design. His findings suggested that although initial satisfaction may be explained by relationship characteristics, including a prior relationship with a partner and similarities between partners, a combination of partner and relationship characteristics offers the stronger explanation of sustained alliance success. Partner reputation, degree of shared decision making, and strategic similarities between partners were all found to have a significant, positive relationship to partner firm benefits from alliance participation. From this study, the degree of shared decision making can be considered behavior by the decision makers involved. The other aspects are features of the cooperating partners.

Aulakh et al. (1996) used a behavioral approach to understand the ex post maintenance of cross-border marketing partnerships. They used a conceptual model that was developed by identifying the antecedents of trust and performance in such partnerships. They empirically tested their model on a sample of U.S. firms having distributor and licensing relationships with firms from Asia, Europe, and Central South America. Their findings supported the importance of bilateral relational norms and informal monitoring mechanisms in building interorganizational trust and improving market performance of international partnerships. Both aspects cannot, as such, be regarded as behavior. Behaving according to the relational norms and using the informal monitoring mechanisms can, however, be seen as behavior. This study will be discussed in more detail in the next section.

Kauser and Shaw (2004) assessed, by means of sending questionnaires, the impact of both behavioral and organizational characteristics on the success of international strategic alliances. Their results showed that behavioral characteristics play a more significant role in explaining overall alliance performance compared to organizational characteristics. High levels of commitment, trust, coordination, interdependence, and communication were found to be good predictors of international strategic alliance success. Conflict, meanwhile, was found to hamper good performance. By contrast, organizational characteristics such as structure and control mechanisms were found not to strongly influence the success of international strategic alliances. Of the behavioral characteristics, coordination and communication are the most evident examples of behavior. Looking at the organizational characteristics, using the control mechanisms could be classified as behavior, not the mechanisms themselves.

Robson et al. (2006) did an integrative analysis of 41 studies investigating the performance relevance of behavioral attributes within international strategic alliances. They used a conceptual framework that included two categories of these attributes – relationship capital (i.e., trust and commitment) and exchange climate (i.e., cooperation, communication, and conflict reduction). Their review suggested that
while there are direct links between behavioral aspects and alliance performance, the strength of these varies across the two categories. Of the relationship capital and exchange climate aspects, commitment and cooperation, respectively, proved to be most consistently positively linked to performance. Of these two aspects, cooperation can be regarded as a type of behavior. However, this is a very high-level concept that would need to be further operationalized.

Mahama (2006) investigated the relationships between two management control systems (MCS) and cooperation and how that translates into relationship performance in strategic supply relationships. He looked at the impact performance measurement systems (PMS) and socialization processes have on cooperation. The results of his research showed direct relationships between performance measurement systems and three dimensions of cooperation: information sharing, problem solving, and willingness to adapt to changes. An indirect relationship was found between PMS and restraint from use of power. Three dimensions of cooperation were found to be directly associated with relationship performance, namely problem solving, willingness to adapt to changes, and restraint from use of power. Information sharing had indirect relationship with performance. All of these dimensions of cooperation, information sharing, problem solving, restraint from use of power, and willingness to adapt to changes can be regarded as behavior. Also, this study will be discussed in more detail in the next section.

In their research, Walter et al. (2008) created and validated a framework of decision-making processes within alliances and their impact on the performance of the alliance. They defined alliance-related decision making as “an intraorganizational process dealing with all the strategic judgments (in terms of actions taken, resources committed, or precedents set) that a focal organization makes in a cooperation” (Walter et al., 2008, p. 531). Their results showed a negative impact of decision-making recursiveness and no significant relationship for openness and procedural rationality. They defined recursiveness as “the tendency of decision makers to cycle between the stages of a decision process in order to re-examine key assumptions” (Walter et al., 2008, p. 538). The authors referred to openness as the extent to which decision makers are receptive to new ideas, information sources, and roles (Walter et al., 2008, p. 535). Walter et al. (2008) defined procedural rationality as “the extent to which the decision process involves the collection of relevant information and the reliance upon analysis of this information in making a choice” (p. 536). Their results showed that in situations with low politicality, openness and procedural rationality have a positive influence. However, recursiveness in such situations has a negative impact on alliance performance. In situations with high politicality, openness and procedural rationality have a negative influence. In
this kind of context, the negative impact of recursiveness becomes stronger. However, as this study focused on the decision-making process within cooperating organizations rather than between them, these findings are less relevant to this study.

For this study, the four dimensions of cooperation used by Mahama (2006) were selected: information sharing, problem solving, restraint from use of power, and willingness to adapt to changes. The reason for this is twofold. First, these four dimensions clearly involve the behavior of decision makers. This aligns with one of the ex ante choices, that behavior is being used as a mediating concept. Secondly, a lot of the other studies referred to in this section involved IORs in an international context. This international dimension results in all kinds of cultural aspects that do not apply to this study, which purely focuses on IORs in The Netherlands between Dutch organizations.

So far, the concepts of perceived performance and behavior by decision makers have been theoretically defined and operationalized. Next, the independent concept of formal control will be analyzed theoretically.

**Formal control**

First, several observations will be given regarding the overall concept of control by listing and scrutinizing a number of definitions. Secondly, the specific definitions of formal control will be analyzed based on the synopsis that is included in Table 5.

**Observations on definitions of control.** In academic literature, a lot of definitions of control focus on making things predictable. What differs in the various definitions is the answers that are given to the following questions:

1. Why is control needed? The reason for control; either the objective (what does control aim to achieve?) or the trigger (what causes control to be necessary?).
2. What needs to be controlled? The object of control.
3. Who is controlling this object? The actor of control.
4. How can control be exerted? The means to exert control; the control mechanisms.

Ouchi (1977) defined control as “the process by which one entity influences, to varying degrees, the behavior and output of another entity.” He used this definition when studying the difference between organizational structure and organizational control in the context of retail department stores in the U.S. The reason for control, according to this definition, is to influence behavior and output of another entity, apparently the object of control. So, this definition includes both behavior control and output control. The actor of control is “one entity.” The means
of control is limited to “the process by which one influences....” This looks a bit like circular reasoning: control is the process by which one can exert control.

Leifer and Mills (1996) defined control as “a regulatory process by which the elements of a system are made more predictable through the establishment of standards in the pursuit of some desired objective or state” (p. 117). They used this definition in their study into control in emerging organizations, using an information processing perspective. According to this definition, the reason for control is to make elements of a system more predictable. So, “a system” is the object of control and the means to exert control are referred to as “a regulatory process.” In their article, they refer to “the use of rules and supervision” to describe these means. The actor that exerts the control is not included in their definition.

Also, definitions that focus on control in an IOR setting use the objective of making things more predictable. For example, in a specific joint venture setting, Geringer and Hebert (1989) defined control as “the process by which partner’s firms influence a joint venture entity to behave in a manner that achieves partner objectives and satisfactory performance.” They used this definition in their paper, in which they review and synthesize prior studies addressing the conceptualization and operationalization of control within IJVs as well as the IJV control-performance relationship. The objective of control, in their definition, is to make sure that the “joint venture entity” behaves in a way that the goals of the partnering firms are being achieved. So, the object of control is the JV and the means of control are only described as “the process.” The actors that exercise control are the “partner firms.”

Jap and Ganesan (2000) defined control mechanisms as “safeguards that firms put in place to govern interorganizational exchange, minimize exposure to opportunism, and protect transaction-specific investments” (p. 230). In their study into a relationship between a retailer and a supplier, they defined three control mechanisms: the supplier’s transaction-specific investments (TSIs), the development of relational norms, and the use of explicit contracts. This latter form can be regarded as formal control, as explained in Section 1.3.1. These scholars regard explicit contracts as contracts that explicitly state in the present how various future situations will be handled. Two objectives of control are included in this definition: (1) minimizing exposure to opportunism and (2) protect TSIs. The object of control is, in their definition, interorganizational exchange, i.e., exchanges between organizations. The actors of control are the “firms” and the means are only briefly mentioned in their definition as “safeguards.” In addition to the control mechanisms that were already included in Section 1.3.1, relational norms that are part of social control and explicit contracts that are part of formal control, are added as TSIs.
According to Coletti, Sedatole, and Towry (2005), control broadly comprises “the various policies and procedures that firms use to mitigate different types of risk” (p. 480). They used this definition in their article about the effects of control on trust and cooperation in collaborative settings. Their definition mentions the different types of risk as reasons for why control is needed. The objective is to mitigate these risks. The means to do this, according to these scholars, is to use policies and procedures. The actors are briefly mentioned as “firms” and the object of control is not included in this definition.

The common ground of the definitions included so far is that they all use a single perspective, which is making things more predictable. In the last few years, these definitions have been enriched, in particular by researchers with an accounting background. For example, Dekker (2004) looked at control from a broader perspective than only making things predictable, also taking into account the value-creation perspective of control. This resulted in a definition that described the purpose of control as “creating the right conditions that motivate the partners in an IOR to achieve desirable or predetermined outcomes” (Dekker, 2004, p. 29). By using this broad definition, control can be used not only to solve the appropriation concerns, but also the coordination requirements. The objective of control can, according to this definition, be regarded as realizing behavior and choices that are needed to achieve the desirable or predetermined outcomes. “Creating the right conditions” (Dekker, 2004) can be seen as a means to achieve this goal. The objects of control are the partners in an IOR. It is not clear, in this definition, who or what the actor of control is, however.

Vlaar et al. (2007) focused on the means of control. In their article about the evolution of trust, distrust, formal coordination and control in interorganizational relationships, they referred to formalization as a control mechanism. They stated that “although trust and distrust involve the expectations of managers concerning their partners, formalization involves actual interference in collaborative endeavors. This consists of the codification and enforcement of inputs, outcomes, and interorganizational activities” (Vlaar et al., 2007, p. 410). According to these scholars, the principal exponent of formalization in interorganizational relationships consists of contractual planning.

These various observations give an impression of how the focus of the different definitions of control and control mechanisms varies. Now that the overall concept of control has been explored, it is time to focus more precisely on formal control. For this objective, the synopsis shown in Table 4 is used. This table illustrates that precise definitions of formal control are rare. Often, researchers refer to formal con-
control as one of the types of control, without specifying its meaning. An example concerns Rustagi, King, and Kirsch (2008), who stated that scholars investigating control often make a distinction between formal and informal controls, noting that mechanisms used to exercise formal control are documented, while mechanisms of informal control are generally implicit. Thus, they stated, written project plans, testing procedures, and job descriptions are mechanisms of formal control, whereas peer pressure, influence, and social events constitute informal control mechanisms. In their article about predictors of formal control usage in IT outsourcing partnerships, they do not define formal control. They only define the amount of formal control as “the variety of mechanisms used by a client to exercise control over a vendor and the extent to which the mechanisms are used” (Rustagi et al., 2008).

Also, Li et al. (2009) did not define formal control in their article about formal control and social control in domestic and international buyer-supplier relationships. They only referred to formal control as a type of control “which primarily relies on contracts” (Li et al., 2009). These scholars state that formal control mechanisms cultivate cooperation and suppress opportunistic behaviors, since explicit contracts detail the roles and responsibilities of the partners, determine the deliverables, and specify the adaptive processes necessary to resolve unforeseeable problems.

If we look at the definitions in Table 5, the most precise definition is from Das and Teng (2001). They defined formal control as “…the establishment and utilization of formal rules, procedures, and policies to monitor and reward desired performance” (Das & Teng, 2001, p. 259). This definition suggests that the aim of formal control is to achieve “desired performance” (Das & Teng, 2001). At the same time, if determined very precisely, the definition says that “to monitor and reward desired performance” is the goal of formal control. The means to exercise control are “formal rules, procedures, and policies” (Das & Teng, 2001), according to this definition. The objects and actors of control are not clarified.

In their paper about trust and formal control in interorganizational relationships, Klein Woolthuis et al. (2005) referred to formal control as “governance based on private and legal ordering mechanisms (safeguards) to protect against opportunistic behavior.” The cause for control is potential opportunistic behavior. The means of formal control are, according to these scholars, “private and legal ordering mechanisms” (Klein Woolthuis et al., 2005). This definition also does not include references to the objects and actors of control.

In his article about control of inter-organizational relationships, Dekker (2004) referred to formal control as “contractual obligations and formal organizational
mechanisms for cooperation.” The objective of formal control is described on a high level as “cooperation” (Dekker, 2004). The means “contractual obligations and formal organizational mechanisms” (Dekker, 2004) refer to both contracts and internal procedures. Again, the actors and objects of formal control are not included in this definition.

These various definitions still do not answer very clearly what “formal” exactly means. Li et al. (2009) and Dekker (2004) both referred to contracts as the basis for this kind of control. In their definition, Klein Woolthuis et al. (2005) referred to “private and legal ordering mechanisms (safeguards)” as fundament for formal control. Apparently the basis of control determines whether or not control can be regarded as formal. Looking at the broader definition from Dekker (2004), this source of control is not only limited to contracts, as he also referred to “formal organizational mechanisms” in his definition. But what if, for example, corporate values are being formalized in an internal procedure? Are they being regarded as formal control mechanisms or as social control, because the underlying governance mode concerns values? Maybe the definition of social control will help to create clarity. As shared earlier, social control focuses on developing shared values, beliefs, and goals among members so that appropriate behavior will be reinforced and rewarded (Das & Teng, 2001). This explanation stresses that social control can be regarded as a process. The various definitions of formal control, on the other hand, refer to a more static mechanism. For now, this divide will be used to understand what ‘formal’ exactly means.

This study uses the definition by Das and Teng (2001). Formal control has been regarded as “the establishment and utilization of formal rules, procedures, and policies to monitor and reward desired performance” (Das & Teng, 2001, p. 259). I used this definition for two reasons:
1. The included reference to the means of formal control, “formal rules, procedures, and policies” (Das & Teng, 2001) best fit the observations that led to this research. As stated in Section 1.2.1, one of the reasons for this research was the fact that the use of formal procedures, like service level agreements, appeared sub optimal.
2. The objective of formal control, achieving “desired performance” (Das & Teng, 2001) is very broad, making it possible to apply this definition in many different situations.

The overall concept of control and the specific concept of formal control were analyzed in detail above. The section continues with scrutinizing the final concept, trust.
Table 5: Synopsis of Formal Control Concept

<table>
<thead>
<tr>
<th>Elements of definitions</th>
<th>Das &amp; Teng (2001): “…the establishment and utilization of formal rules, procedures, and policies to monitor and reward desired performance” (p. 259).</th>
<th>Klein Woolthuis et al. (2005): “…governance based on private and legal ordering mechanisms (safeguards) to protect against opportunistic behavior”</th>
<th>Dekker (2004): “…contractual obligations and formal organizational mechanisms for cooperation” (p. 29).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reason for formal control</td>
<td>Objective: achieve desired performance</td>
<td>Objective: protect against opportunistic behavior</td>
<td>Objective: cooperation</td>
</tr>
<tr>
<td>• Objective</td>
<td>Cause: possible opportunistic behavior</td>
<td>Cause: possible opportunistic behavior</td>
<td>Cause: possible opportunistic behavior</td>
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<tr>
<td>• Cause</td>
<td>-</td>
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</tr>
<tr>
<td>Object of formal control</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Actor of formal control</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Means to exert control</td>
<td>Formal rules, procedures, and policies</td>
<td>Private and legal ordering mechanisms</td>
<td>Contractual obligations and formal organizational mechanisms</td>
</tr>
</tbody>
</table>

Trust

In academic literature on the governance of IORs, a distinction is made between trust between individuals, called interpersonal trust, and trust between organizations, referred to as interorganizational trust (Gulati & Nickerson, 2008). Given the unit of analysis of this research, the individual decision maker, the definitions of trust will focus on interpersonal trust.

Distinctive elements of the definitions researchers have used are:
1. The basis of trust, i.e., what causes trust to occur;
2. The precondition for trust, i.e., what needs to be present in order to truly be able to talk about trust; and
3. The consequence of trust, i.e., what is the result?

First, it is good to determine what trust is. Is it a state of mind or an action? Moorman, Zaltman, and Deshpande (1992) recognized two general conceptions of trust in business literature: (1) trust as a belief or expectation about a trustee, and (2) trust as a behavioral intention that reflects a reliance on the trustee and involves vulnerability and uncertainty on the part of the trustor. However, Bachmann and Inkpen (2011) stated that although attitudes and dispositions are often viewed as the essential foundations of trust in the psychologically (microlevel) oriented lit-
erature, it is — from their point of view — the action taken that follows the trustor’s decision to invest trust in a relationship that actually shows the existence of trust between two actors. According to them, the “mental state,” the belief, expectation, or intention is not enough (Bachmann & Inkpen, 2011). It is the actions that results from this state of mind that make trust what it is.

Now let’s analyze the definitions that are included in Table 6. To start with, Mayer, Davis, and Schoorman (1995) defined trust as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (p. 712). The basis of trust is, according to this definition, a certain expectation about the behavior of somebody else. The precondition that needs to be present is that it doesn’t matter whether or not the other party can be monitored or controlled. The consequence of trust is that the trusting party is willing to be vulnerable to the actions of another party.

Gulati (1995) defined this concept as "a type of expectation that alleviates the fear that one's exchange partner will act opportunistically" (p. 91). The precondition included in this definition is potential opportunistic behavior of one's exchange partner. The consequence of trust is that it alleviates the fear that one's exchange partner will act opportunistically.

Lewicki, McAllister, and Bies (1998), on the other hand, used a very short definition: “confident positive expectations regarding another’s conduct” (p. 444). This definition focuses on the consequence, a confident positive expectation. The basis and precondition are not included at all.

McEvily, Perrone, and Zaheer (2003) defined trust as “the willingness to accept vulnerability based on positive expectations about another’s intentions or behaviors” (p. 92). The basis of trust here is a bit broader than the previous definition. It is not only the positive expectations about another’s behavior, but also about his intentions. The consequence is the same, meaning the willingness to accept vulnerability.

Krishnan, Martin, and Noorderhaven (2006) defined trust as “the expectation held by one firm that another will not exploit its vulnerabilities when faced with the opportunity to do so” (p. 895). This definition concerns interorganizational trust. The consequence of trust is an expectation by a firm. The cause for trust is not included in this definition. The precondition is, however, the presence of vulnerabilities of a firm. This definition suggests that in cases where a firm is not vulnerable, it can also not trust other firms.
Minnaar et al. (2017) defined trust as “a consequence of the interactions in a network that constitutes the interfirm relationship” (p. 32). They stated that the consequence of trust is an emotional value or an aspiration that can be expressed and that is linked to an actor or to multiple actors; it can change when the actor is removed from the network or when the identity of the actor changes. When referring to the basis of trust, they made a distinction between so-called “thin trust” and “thick trust” (Minnaar et al., 2017). Thin trust, they stated, is produced by contracts and their incorporated formal control structures. Thick trust is produced in the course of the relationship through the relational signals ensuing from local rational decisions.

For this research the definition of McEvily et al. (2003) was used. As stated, they defined trust as “…the willingness to accept vulnerability based on positive expectations about another's intentions or behaviors” (McEvily et al., 2003, p. 92). The reason for this choice is the broad range of this definition and that it refers to both intentions and behavior.

Where trust can exist, distrust can also exist. This raises the question of how distrust can be defined. Following several scholars, trust and distrust are not being regarded as two ends of a continuum, but as separate but related constructs (Lewicki et al., 1998; Vlaar et al., 2007). In this research, the definition used by Lewicki et al. (1998) is applied as “confident negative expectations regarding another's conduct” (p. 439).

Another relevant topic about interpersonal trust was raised by Bachmann and Inkpen (2011). They stated that it is too narrow an approach to only look at interpersonal trust. These academics pointed out that institutional-based trust deserves more attention in business contexts. In their view, advanced socio-economic systems can hardly rely on interaction-based forms of trust creation alone. The latter requires repeated face-to-face contact and is thus usually very time-consuming and, economically speaking, not always very efficient. In contrast, where institutional trust exists, both parties refer to institutional safeguards in their decisions and actions and can thus develop trust without having any prior personal experience with one another. This aspect refers to the role of rules and legislation and of the supervising authorities, which are included as important stakeholders within the financial services industry in Section 1.1.1.

This analysis of the trust concept ends with two examples of the related, but different concepts of confidence and reliance.
Related but different concepts. In academic literature, several concepts are being used that are related to trust, but are different at the same time. For example, Das and Teng (1998) used the concept of confidence in partner cooperation. They defined this concept as “a firm’s perceived level of certainty that its partner firm will pursue mutually compatible interests in the alliance, rather than act opportunistically” (Das & Teng, 1998, p. 491). The main difference between the concepts trust and confidence is, according to Das and Teng (1998), the object of the expectation. In case of trust, the expectation is that the motives of the trustee are positive. The concept of confidence, however, refers to the actual behaviour that is being expected. Confidence is the result of the combination of trust and control. Even if little trust is present, people can have confidence in the behaviour of a person, according to Das and Teng (1998). This confidence, in this situation, is the result of the control mechanisms that are in place. For example, consumers might have very limited trust in bankers, since the incidents that preceded the last financial crisis. However, they probably still have enough confidence in the services that banks provide as a result of the rules and regulations, the control mechanisms, that exist.

Another example concerns the concept of reliance. Mouzas, Henneberg, and Naudé (2007) used the concept of reliance as one possible complementary construct to trust in order to stress the diametrically opposed characteristics of a non-person-based, rational standard within inter-organizational relationships. These authors stressed that the concept of trust is suitable for the level of inter-personal relationships, and their concept of reliance is more suited for inter-organizational relationships. Mouzas et al. (2007) stated that for trust, emotions are required, and organizations are deprived of emotions. As they put it: “it is individuals, as members of organizations, rather than the organizations themselves, who trust” (p. 1019). Reliance is, according to Mouzas et al. (2007), about companies that expect other companies to behave in a certain way. The reasons why companies rely on that behavior are based on formal control mechanisms like contracts, rules, and regulations. In that way, this reliance view regards trust and control to be complementary.

In this section, the main concepts of the research were specified. In the next section, the research gap will be described in order to clarify the academic contribution of this research.
### Table 6: Synopsis of Trust Concept

<table>
<thead>
<tr>
<th>Elements of definitions</th>
<th>Definitions</th>
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<tbody>
<tr>
<td><strong>Mayer et al.</strong> (1995):</td>
<td>“the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (p. 712).</td>
</tr>
<tr>
<td><strong>Gulati</strong> (1995):</td>
<td>“a type of expectation that alleviates the fear that one’s exchange partner will act opportunistically” (p. 91).</td>
</tr>
<tr>
<td><strong>Lewicki et al.</strong> (1998):</td>
<td>“confident positive expectations regarding another’s conduct” (p. 444).</td>
</tr>
<tr>
<td><strong>McEvily et al.</strong> (2003):</td>
<td>“the willingness to accept vulnerability based on positive expectations about another’s intentions or behaviors” (p. 92).</td>
</tr>
<tr>
<td><strong>Krishnan et al.</strong> (2006):</td>
<td>“...the expectation held by one firm that another will not exploit its vulnerabilities when faced with the opportunity to do so” (p. 895).</td>
</tr>
<tr>
<td><strong>Minnaar et al.</strong> (2017):</td>
<td>“...a consequence of the interactions in a network that constitutes the interfirm relationship” (p. 32).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The basis of trust</th>
<th>The expectation that the other will perform a particular action important to the trustor.</th>
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</thead>
<tbody>
<tr>
<td>Thin trust: contracts and their incorporated formal control structures. Thick trust: in the course of the relationship through the relational signals ensuing from local rational decisions.</td>
<td></td>
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</table>

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<tr>
<th>The precondition for trust</th>
<th>Irrespective of the ability to monitor or control that other party.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential opportunistic behavior of one’s exchange partner.</td>
<td></td>
</tr>
<tr>
<td>The opportunity to exploit the vulnerabilities of a firm.</td>
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<tr>
<th>The consequence of trust</th>
<th>The willingness of a party to be vulnerable to the actions of another party.</th>
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<tbody>
<tr>
<td>Alleviating the fear that one’s exchange partner will act opportunistically.</td>
<td></td>
</tr>
<tr>
<td>Confident positive expectations regarding another’s conduct.</td>
<td></td>
</tr>
<tr>
<td>The willingness to accept vulnerability.</td>
<td></td>
</tr>
<tr>
<td>An emotional value or an aspiration that can be expressed and that is linked to an actor or to multiple actors.</td>
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1.3.4 Research gap

To determine the research gap and to see where this research could add value to existing insights, I have performed a literature review that focuses on specific articles on the relationship between the use of formal control and the performance of IORs as a dependent concept. To do this, I used a combination of the approaches advised by Randolph (2009) and Webster and Watson (2002). The focus of this literature review was on both the outcome (findings) and approach (methods) of earlier research on this topic. Next to studying the results, I looked at how those insights were gained, focusing on the samples that have been used in the past and how the central concepts of formal control and performance have been operationalized. The reason for this focus was that I wanted to use these earlier experiences to determine the conceptual model and methods for my own research. The question that guided this literature review was the following:

*What have previous studies on the relationship between formal control and performance of IORs showed and how were those insights gained?*

In the tradition of qualitative research, I tried to reveal my biases when performing the literature review as much as possible (Randolph, 2009). The criterion I used to determine whether or not to include articles in this review were:

1. *Performance of an IOR as dependent concept*: The dependent concept needed to be the performance or success of an IOR;
2. *Formal control as part of conceptual model*: For example, as an independent concept or as a mediating or moderating concept;
3. *Published in A or B journals*: To make sure that the foundation of my research was sound, I only used journals that were assessed to be of the highest quality according to the Nyenrode Journal Rating list from May 2009 (Nyenrode Business Universiteit, 2009); and
4. *Published between 1989 and 2009*: I assumed that focusing on the last two decades before the start of my research would give a good overview of the outcomes of previous studies, as insights that were gained before this period will be incorporated in later research.

The data collection process, looking for suitable articles, started with an electronic search of the databases that were available via Nyenrode Business Universiteit. During these searches, (combinations of) the following key words were used: interorganisational relationships, IOR, alliances, formal control, control mechanisms, performance, financial services industry, joint venture, partnerships, and governance. As a next step, I studied the references cited in the articles that I retrieved to determine which additional articles fit the criteria for inclusion. I repeated this
process until a point of saturation was achieved. This resulted in the 10 studies that are shown in Table 7. I organized the outcome of the literature review in an historical format. The reason for this is that I want to illustrate the way the insights on this specific topic have evolved over time.

As a starting point, I used an article from Geringer and Hebert (1989), who reviewed prior studies addressing the conceptualization and operationalization of control within IJVs. This article is a suitable starting point for my literature review because they explicitly looked at the IJV control-performance relationship. Especially, these authors stated that the ultimate objective of research on the governance of IORs should not be limited to governance mechanisms like control. The underlying rationale of this research, those scholars wrote, should be an improved understanding of the relationship of control to IJV performance. In their article, they did not explain their reasons for this remark. In my view, it is the effectiveness of the means of the governance mechanism control that determines its added value. That is why, in my opinion, it is important to focus on the relationship between control, as a means, and performance, the ultimate objective. This article focuses on how the earlier research was done and not on the findings of those studies. Based on their review of prior studies on this topic, Geringer and Hebert (1989) found that the dimensions that had been studied most by scholars were: 1) the mechanisms by which control was exercised, 2) the extent of control exercised over an IJV, and 3) the focus of control. Geringer and Hebert (1989) stated that the main problem of most studies on IJV control was that they had a limited perspective of the control concept or only looked at one of the three dimensions. Another aspect of their criticism concerned the identification of the different types of control mechanisms. According to these authors, researchers “need to broaden the range of control mechanisms which managers may employ, as well as refining the operationalization of these various mechanisms” (Geringer & Hebert, 1989, p. 241). They distinguished three components of control mechanisms: 1) context-oriented mechanisms that encompass a wide variety of informal and culture-based mechanisms, 2) content-oriented mechanisms, relying on direct interventions, and 3) process-oriented mechanisms, in which parent firms exercise control through reporting relationships or influence on IJV planning and decision-making processes. Context-oriented mechanisms have similarities with what other academics call social control mechanisms (Das & Teng, 2001), as explained in Section 1.3.1. Geringer and Hebert (1989) themselves mentioned that content-oriented mechanisms resemble negative control mechanisms, which were used by Schaan (1983), as referred to earlier in Section 1.3.1. Process-oriented mechanisms have similarities with behaviour control, as also defined in Section 1.3.1. One of their main conclusions concerned the use of the concepts of performance and control in most stud-
<table>
<thead>
<tr>
<th>Study</th>
<th>Method for gathering data</th>
<th>Type of IOR</th>
<th>Elements of performance</th>
<th>Type and role of control</th>
<th>Relevant findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geringer and Hebert (1989)</td>
<td>Literature review</td>
<td>IJVs</td>
<td>n.a.</td>
<td>Independent concept</td>
<td>The fit between strategy and focus extends mechanisms of control affects performance.</td>
</tr>
<tr>
<td>Aulakh et al. (1996)</td>
<td>Survey</td>
<td>Cross-border marketing partnerships</td>
<td>Sales growth and market share</td>
<td>Monitoring mechanisms as antecedent of trust</td>
<td>The use of output control by the focal firm to monitor the foreign partner is negatively related to the market performance of the partnership.</td>
</tr>
<tr>
<td>Jap and Ganesan (2000)</td>
<td>Survey</td>
<td>Supplier–retailer relationships</td>
<td>Evaluation of supplier’s performance, conflict level, and relationship performance</td>
<td>Control mechanisms as antecedents of retailer’s perception of supplier commitment to the relationship</td>
<td>The use of explicit contracts is negatively related to supplier commitment, except during the decline phase of the relationship when the retailer has made TSIs.</td>
</tr>
<tr>
<td>Fryxell et al. (2002)</td>
<td>Survey</td>
<td>IJVs</td>
<td>Evaluations of multiple performance dimensions</td>
<td>Formal control mechanisms as an independent concept</td>
<td>Formal control is positively related to perceptions of IJV performance for younger IJVs and negatively related to mature IJVs.</td>
</tr>
<tr>
<td>Luo (2002)</td>
<td>Survey</td>
<td>IJVs</td>
<td>Objective performance, including sales level and ROI</td>
<td>Contracts as antecedents of cooperation</td>
<td>When term specificity and contingency adaptability of a contract are higher, there will be a stronger positive relationship between cooperation and performance.</td>
</tr>
<tr>
<td>Murray and Kotabe (2005)</td>
<td>Survey</td>
<td>Alliances</td>
<td>Improved efficiency and improved competitiveness</td>
<td>Level of formalization as an independent concept</td>
<td>The higher the level of formalization in an alliance, the higher the improved efficiency for alliances that are formed using EA than those based on non-EA.</td>
</tr>
<tr>
<td>Lee and Cavusgil (2006)</td>
<td>Survey</td>
<td>Alliances</td>
<td>Alliance strength and stability and knowledge acquisition</td>
<td>Contractual based governance as an independent concept</td>
<td>Contractual-based governance positively affects knowledge transfer, but has no significant effect on alliance strength and stability.</td>
</tr>
</tbody>
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Table 7:  Continued

<table>
<thead>
<tr>
<th>Study</th>
<th>Method for gathering data</th>
<th>Type of IOR</th>
<th>Elements of performance</th>
<th>Type and role of control</th>
<th>Relevant findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mahama (2006)</td>
<td>Survey</td>
<td>Strategic supply relationships</td>
<td>Relationship performance</td>
<td>Performance management systems as an independent concept</td>
<td>Problem solving, willingness to adapt to changes, and restraint from use of power are directly associated with relationship performance, information sharing indirectly via restraint from use of power.</td>
</tr>
<tr>
<td>Vlaar et al. (2007)</td>
<td>Literature review</td>
<td>All kinds of IORs</td>
<td>Relational quality and outcomes of the IOR</td>
<td>Formalization</td>
<td>Very low and very high levels of formal coordination and control have a negative effect on interorganizational performance.</td>
</tr>
<tr>
<td>Beamish and Lupton (2009)</td>
<td>Literature review</td>
<td>JVs</td>
<td>Process and outcome performance</td>
<td>Division of equity ownership as independent concept</td>
<td>Two-partner JVs are likely to outperform those with three or more partners.</td>
</tr>
</tbody>
</table>
ies. Regarding performance, their criticism was that a lot of researchers only use objective performance, like financial results of the IJV, to measure performance. In their view, objective criteria do not always correctly reflect the success of an IJV. For example, objective measures disregard qualitative goals like learning. Geringer and Hebert (1989) stated that no consensus on the appropriate definition of IJV performance had emerged at the time they wrote their article. As they wrote, earlier research had used a variety of objective measures for IJV performance, ranging from financial indicators to instability of ownership. However, these scholars continued, these objective measures may not adequately reflect the extent an IJV has achieved its objectives. Despite poor financial results, liquidation, or instability, an IJV may nevertheless have attained the objectives of its parents and thus be considered "successful" by one or all of the parents. Likewise, IJVs may be viewed as "unsuccessful," despite achieving good financial results or continued stability in ownership or governance structures. The main lessons that I learned from this article were that research on this topic should pay attention to the various dimensions and types of control and that the performance of an IOR should not be based solely on objective measures. I used these observations as lenses to assess the other articles that I included in my review. One point of attention of this review, however, is that the authors did not make explicit how they selected the articles.

The next article I included in my review was written by Aulakh, Kotabe, and Sahay (1996). They developed a conceptual model to identify the antecedents of trust and performance in cross-border marketing partnerships. In this model, they used partnership performance as a dependent concept. These authors looked at relational norms and monitoring mechanisms as antecedents of trust. For their monitoring mechanisms, they distinguished output control, process control, and social control. This approach aligns with the suggestion given by Geringer and Herbert (1989) to take the various types of control into account when studying this topic. Aulakh et al. (1996) defined process control in a similar way as behaviour control was defined in Section 1.3.1. The most relevant hypotheses they tested concerned the relationship between the types of formal control, both output control and process or behaviour control, on the market performance of the partnership. Aulakh et al. (1996) hypothesized that the use of output control by the focal firm to monitor the foreign partner is negatively related to the market performance of the partnership. As a reason for this expectation, the authors stated that output controls may encourage foreign partners to seek immediate payoffs at the expense of the partnership’s long-term goals. At the same time, they hypothesized that the use of process control by the focal firm to monitor the foreign partner was positively related to the market performance of the partnership. Aulakh et al. (1996) explained this hypothesis by stating that process control is also expected
to enhance the market performance of the partnership, since such behavioural monitoring mechanisms reward long-term outlook by removing pressures and incentives to sacrifice long-term results for immediate ones. The data for this study were collected by a mail survey of Fortune 500 U.S. industrial firms and their major affiliates. The hypothesis about the relationship between the use of output control and the market performance of the partnership was supported. The authors stated that imposing specific goals in the form of output control is detrimental to partnership performance. This finding should be interpreted with caution, as this study focused on cross-border partnerships. To really understand the meaning of this result, the potential role of cultural differences should be taken into account. The other hypothesis, about the relationship between process control and the market performance of the partnership, was not supported. A weakness of this study was that its results were based on information obtained from only one side of the partnership dyad. Furthermore, these authors only looked at sales growth and market share to determine partnership performance, ignoring the relationship aspect of it. They did not take into account the criticism of Geringer and Herbert (1989), who said that simply looking at objective measures is not enough to determine the performance of an IOR.

I proceeded with the article written by Jap and Ganesan (2000). They studied the relationship between a supplier of chemical products and its retailers and focused on the investments that retailers often need to make on behalf of suppliers. The authors examined how a retailer might better manage the hold-up potential of these TSIs through the use of three control mechanisms: suppliers’ TSIs, the development of relational norms, and the use of explicit contracts. Jap and Ganesan (2000) referred to explicit contracts as contracts that “…explicitly state in the present how various future situations will be handled” (p. 231). Furthermore, they looked at the effects of these control mechanisms over the course of a relationship life cycle. They distinguished four phases: exploration, build-up, maturity, and decline. The conceptual framework that Jap and Ganesan (2000) used consisted of antecedents, a mediator and relationship outcomes, as dependent concepts. As antecedents, these academics looked at the control mechanisms, including supplier TSIs, and at retailer’s TSI as a separate antecedent. The mediator was the retailer’s perception of their supplier’s commitment to the relationship. Finally, the relationship outcomes they used consisted of three elements: evaluation of supplier’s performance, conflict level, and relationship satisfaction. This is a significant strength of that study, specifically that the authors used a balanced combination of dependent concepts. The most relevant part of their study, given the topic of this research, was the role of explicit contracts. One of the hypotheses Jap and Ganesan (2000) used was that the use of explicit contracts is negatively related to
a retailer’s perception of supplier commitment. They defined supplier commitment as “the supplier’s desire to develop a stable relationship with the retailer, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship” (p. 229). The explanation these academics gave for this expectation was that earlier research suggested that the disadvantages of explicit contracts due to inflexibility and the perceptions of mistrust outweigh the advantages offered by specific guidelines and specification of penalties for opportunistic behavior. The other most relevant hypothesis concerned the role of explicit contracts during the various phases of a partnership. The hypothesis was:

In the exploration and decline phases of a relationship, the use of explicit contracts to safeguard a retailer’s specific investments will be positively related to the retailer’s perception of supplier commitment. The use of explicit contracts to safeguard a retailer’s specific investments will not be related to supplier commitment in the buildup and maturity phases. (Jap and Ganesan, 2000, p. 232)

As method to gather the required data, Jap and Ganesan (2000) used a survey. Their sample consisted of 1,457 United States retailers that cooperated with a major manufacturer of chemical products. To measure explicit contracts, a scale was developed that assessed the degree to which the relationship operated under explicit contracts involving formal, written, and detailed operational procedures. To measure evaluation of supplier performance, a scale was used that reflected the extent to which the retailer perceived the supplier’s performance to be successful, exceed expectations, and good in an overall sense. The scale used to assess relationship satisfaction measured the extent to which the retailer was satisfied with the financial returns from the relationship, the quality of the supplier’s products, and the service and support offered by the supplier’s sales representatives. The hypothesis that the use of explicit contracts is negatively related to supplier commitment was supported by the results of this study. According to Jap and Ganesan (2000), explicit contracts reduce flexibility and trust and thus reduce supplier commitment. The other hypothesis, about the role of explicit contracts during the various phases of a partnership, was partially supported. As predicted, in the decline phase of a relationship, explicit contracts have a positive effect on supplier commitment when the retailer has made TSIs. In addition, explicit contracts are not significantly associated with supplier commitment in the build-up and maturity phases, which offers further support to this hypothesis. However, contrary to this hypothesis, the study showed that explicit contracts are negatively related to supplier commitment in the exploration phase of a relationship. Analyses of the significant interaction in the decline phase indicate that the relationship between a retailer’s TSIs and supplier commitment becomes more positive as the contracts
become more explicit and more negative as the contracts become less explicit. In contrast, analysis of the interaction in the exploration phase indicates that the relationship between the retailer’s TSIs and supplier commitment becomes more negative as the contracts become more explicit and becomes more positive as the contracts become less explicit. This study also supported the researchers’ assumption that a retailer’s perception of supplier commitment is positively associated with its evaluation of both supplier performance and its satisfaction with the relationship. This article illustrates that research on the relationship between control and performance of IORs has become more nuanced over the years. As advised by Geringer and Herbert (1989), this study looked at very specific elements of both control and performance, taking both objective and subjective measures into account. A weakness of this study is that the data was only gathered from the retailers and not the supplier, and therefore only examined one side of the relationship.

In 2002, Fryxell, Dooley, and Vryza published their article about the moderating effects of age and partner trust on the relationship between control mechanisms and perceptions of performance. They used a survey as a means to gather data. Their sample included 129 US-based IJVs. According to these authors, earlier research on the relationship between control and performance resulted in equivocal insights, mainly because a lot of these studies assumed a positive, monotonic relationship between control mechanisms and alliance performance (i.e., the more control, the better). This observation does not match the findings of both Aulakh et al. (1996) and Jap and Ganesan (2000), who already showed that more control does not always improve the performance of an IOR. In their study, Fryxell et al. (2002) reasoned that the relative effectiveness of control mechanisms depends upon perceptions of behavioural uncertainty in the IJV relationship. The most relevant hypothesis they tested was that the relationship between the use of formal control mechanisms and IJV performance would be positive for younger IJVs and negative for older IJVs. Fryxell et al. (2002) assumed that during the beginning of IJVs, formal control mechanisms would create the necessary stability and efficiency that is needed in these early stages. They assumed that in later stages these control mechanisms would impede inter-partner adaptation and mutual adjustments on evolving needs and expectations. Fryxell et al. (2002) looked at both formal control and social control mechanisms. The formal control mechanisms they took into account were appointment of key personnel, representation on the board of directors, financial reports, and progress reports. IJV performance was measured as a weighted index of evaluations of multiple performance dimensions: return on equity, operating costs, production processes, marketing and sales, technology, and customer service. The result of their study supported their hypothesis, showing that IJV age and formal controls interact in predicting perceptions of IJV
performance for both parents. Formal control is positively related to perceptions of IJV performance for younger IJVs and negatively related in mature IJVs. One of the strengths of this study was that it took the perspectives of all IJV partners into account. A weakness was that they used a narrow definition of performance, not taking into account the satisfaction about the relationship between partners.

In the same year, Luo’s (2002) article about the relationships between contract, cooperation, and performance within IJVs was published. He made a distinction between structure and process as central concepts in relational contracts. Luo (2002) stated that the structure of an exchange is primarily covered by the contract and that the process is manifested in the cooperation between partners. According to him, to better understand the impact of contracts on cooperation, specific features of contracts needed to be distinguished from each other. He used the characteristics of term specificity and contingency adaptability. Luo (2002) defined the term specificity as “the extent to which all relevant terms and clauses are specified” (p. 904) and contingency adaptability as “the degree to which guidelines and possible solutions for handling various unanticipated contingencies are incorporated in the contract” (p. 916). The aspect of term specificity has similarities with the concept of explicit contracts, as used by Jap and Ganesan (2000). The most relevant hypotheses Luo (2002) tested, given the topic of this research, was that there would be a stronger positive relationship between cooperation and performance when term specificity in an IJV contract was higher. The same applied to contingency adaptability, so Luo (2002) hypothesized that there would be a stronger positive relationship between cooperation and performance when contingency adaptability in an IJV contract was higher. His explanation for this hypotheses was that term specificity would provide an ex ante system ensuring interfirm reciprocity and an obligatory framework restraining private incentive seeking, and that contingency adaptability would facilitate conflict resolution. To test these hypotheses, he used a survey within IJVs with Chinese partners and archives to determine the performance of these IJVs. Luo (2002) used objective measures to assess performance of the IJVs, including sales level (total domestic and export sales/total assets) and return on investment (ROI, profit/total investment). This choice to limit the assessment of the performance of IJVs to objective measurements alone is remarkable, given the importance of also looking at relational aspects of the partnership, as shown by other researchers (Jap & Ganesan, 2000; Fryxell et al., 2002). Luo’s (2002) findings showed that when term specificity and contingency adaptability of a contract are higher, there will be a stronger positive relationship between cooperation and performance. His research showed that the impact contract and cooperation have on performance differs. The positive influence of cooperation on performance remains linear as cooperation progressively increases. At the other hand,
this study showed that the contribution of contract completeness to performance declines as completeness increases.

A couple of years later, Murray and Kotabe (2005) used the strategic fit paradigm in examining the factors affecting alliance performance. They looked at the impact of coalignment of alliance form with alliance attributes on alliance performance. In their study, they used improved efficiency and improved competitiveness as two performance measures to reflect the different motives for partners to start an alliance. In their opinion, it is important to reflect potential competing motives when evaluating alliance performance. According to Murray and Kotabe (2005) improved efficiency involves cost reduction, while improved competitiveness represents the improved ability to compete. They tested their hypotheses by means of sending a questionnaire to managers of Fortune 500 firms that were in charge of major alliances. The most relevant hypothesis was about the impact of a high level of formalization on the efficiency and competitiveness of an alliance. They made a distinction between two alliance forms: 1) equity alliances (EA) and 2) non-equity alliances (non-EA). As Murray and Kotabe (2005) explained, EA involve capital contribution, while non-EA do not. As hypotheses, they stated that: 1) the higher the level of formalization in an alliance, the higher the improved efficiency for alliances that are formed using EA than those based on non-EA and 2) the higher the level of formalization in an alliance, the higher the improved competitiveness for alliances that are formed using non-EA than those based on EA. In justifying these hypotheses, Murray and Kotabe (2005) stated that it is much more difficult to codify the knowledge needed for skill than for cost sharing. Therefore, they wrote in their article that they expected formalization to be positively related to improved efficiency, but negatively related to improved competitiveness. They also stated that an equity-based governance structure, an EA, should be used when a task is frequently performed and clearly measurable. They assumed that this mode of governance creates more clarity for the partners involved. When tasks are non-routine and difficult to assess, as in the case of achieving improved competitiveness, a relational form, non-EA, with less formalization is desired. In their article, they did not define formalization very clearly, however. All they mentioned was “formalization involves rules, policies and procedures in governing alliance relationships” (p. 1527). Their findings confirmed that an appropriate match between alliance forms and attributes has a positive impact on alliance performance, which may not be achieved by having the alliance attributes or alliance form alone. The first hypothesis, the higher the level of formalization in an alliance, the higher the improved efficiency for alliances that are formed using EA than those based on non-EA, was supported. The second hypothesis, the higher the level of formalization in an alliance, the higher the improved competitiveness for alliances that are
formed using non-EA than those based on EA, was not supported. Their results suggested that formalization alliance form coalignment does not seem to affect improved competitiveness. When formalization is used, codified rules, goals, and procedures are specified as a control mechanism for desirable patterns of behavior. These formal rules and contracts may impede the flexibility needed for effective skill sharing. Their focus on the level of formalization is in line with Jap and Ganesan’s (2000) attention for the role of explicit contracts and Luo’s (2002) focus on term specificity of contracts. However, their findings differentiate depending on the elements of the relationship between control and performance they looked at in particular.

One year later, Lee and Cavusgil’s (2006) article on the effect of governance structure on alliance performance was published. They made a distinction between two types of governance, contractual-based governance and relational-based governance, and two types of performance, alliance performance and market performance. They tested the relationship between these concepts by analysing 184 business alliances by means of a survey. Lee and Cavusgil (2006) collected data from a cross-section of technology-intensive U.S. firms. The most relevant hypothesis they used was that contractual-based governance positively affects alliance performance. Their reasoning behind this hypothesis was threefold: 1) Contracts provide a set of normative guidelines and create clarity, 2) The legal and economic consequences of violating a contract reduces opportunistic behavior, and 3) Contracts create means for conflict management, as they include a specific procedure to use in case of disputes. Lee and Cavusgil (2006) stated that it is important to distinguish the strategic aspect of alliance performance from general financial performance. They identified three dimensions of alliance performance: 1) alliance strength, 2) alliance stability, and 3) knowledge acquisition. These academics defined alliance strength as “the competitiveness of the alliance in terms of the interfirm partnering competence in solving problems and managing conflicts” (p. 900). Alliance stability was interpreted as the period of time that the interfirm relationship lasted without unplanned changes. Knowledge acquisition referred to the extent to which partners learned from each other. Their results of testing the relationship between contractual-based governance and alliance performance indicated a significant increase in knowledge transfer between partners but no significant effects on alliance strength and stability. Therefore, the hypothesis was only partially supported. Their explanation for the increase in knowledge transfer between partners was that contracts help protect and control the flow of proprietary information across boundaries. Next to this most relevant hypothesis, from the perspective of this research, they also tested the relationship between contractual-based governance and relational-based governance. Their findings
showed that contractual-based governance did not complement relational-based governance in improving alliance performance. Actually, the results even indicated that contractual-based governance may hinder rather than complement relational-based governance. Lee and Cavusgil (2006) did not give a clear explanation for this finding. Another relevant aspect of this study was their analysis testing the relationship between alliance performance and market performance. These academics measured market performance by market share, sales growth, market development, and product development. In their article, they did not explain how they measured these features. The results showed that market performance is significantly correlated with alliance strength and knowledge transfer. However, only alliance strength appeared to be strongly associated with overall market performance but not alliance stability or knowledge transfer. This study appears to be the first time that a distinction was made between the performance of the alliance as an entity and the performance of the alliance in the market. One of the strengths of this study is that the authors made a distinction between these two types of performance, creating more insights into how they interact. One weakness of that study was that the data was only gathered from one side of the partnership.

In the same year, the study by Mahama (2006) was published. He investigated the impact of two MCSs on relationship performance in strategic supply relationships, using cooperation as the mediating concept. Data for this study were collected by means of a survey from a sample of buying firms drawn from the mining and resources sector in Australia. Mahama (2006) distinguished two types of MCS: PMS and socialization. He looked at both the direct relationship between PMS and socialization on performance and the indirect impact of these types of MCS on performance via cooperation. This author distinguished four dimensions of cooperation: information sharing, joint problem solving, willingness to adapt to changes, and restraint from use of power. Three hypotheses that Mahama (2006) tested are most relevant, given the topic of this research. These hypotheses concern the relationship between PMS and the four dimensions of cooperation, the relationship between these four dimensions and performance, and the direct relationship between PMS and performance. Mahama (2006) expected positive associations between all these concepts. However, the results of his research showed direct relationships between performance measurement systems and only three dimensions of cooperation: information sharing, joint problem solving, and willingness to adapt to changes. An indirect relationship was found between PMS and restraint from use of power. The results indicated that restraint from use of power is impacted by PMS via information sharing. The outcome showed that PMS ensures that information is fairly distributed among relationship participants; enables knowledge to be acquired, interpreted, and shared for future learning
and problem solving; and aligns the interest of exchange participants so that they will be willing to adapt to changes when necessary and also avoid the exercise of power. Three dimensions of cooperation were found to be directly associated with relationship performance, namely problem solving, willingness to adapt to changes, and restraint from use of power. Information sharing had indirect relationship with performance. Mahama (2006) found the results on the association between the information sharing dimension of cooperation and performance to be inconsistent with existing research. In his article, he listed three possible explanations for this. First, though information sharing can potentially improve performance, it also opens up avenues for opportunistic behaviour that can have negative consequences on performance. Second, earlier research indicated that it is not the amount of information shared per se that results in adequate performance but also the quality and relevance of the information shared. Third, Mahama (2006) reasoned that “though there is no direct association between information sharing and performance, there could be an indirect relationship through what the shared information is used to achieve (such as problem solving, renegotiation of changes and reduction in power asymmetry)” (p. 332). Analysis of the indirect relationship between information sharing and the other three dimensions of cooperation showed support for an indirect relationship through restraint of the use of power. Mahama’s (2006) explanation was that information sharing reduces information asymmetries and the likelihood of the exercise of power, which then significantly improves performance. The focus of this study on PMS illustrates, according to me, two things: first, the increased level of detail in looking at the study’s main concepts on the relationship between control and performance. This aspect was also shown by how the level of detail in the studies that are included in this review evolved over time. Second, this focus on PMS is an example of the increased attention, at this period of time, of scholars with an accounting background (Speklé, 2001; Dekker, 2004). The strength of this research is its focus on the mediating role of cooperation in the relationship between MCS and performance. Again, this study used data that was gathered from only one side of the dyadic relationship, creating a significant limitation.

In their article, Vlaar et al. (2007) presented a research framework that includes the concepts trust and distrust, formalization, interpretation of a partner’s behaviour, and performance of interorganizational relationships. They discussed the relationships between these concepts by integrating and reconciling previous work on the trust-control nexus. They divided both formalization and performance into two elements. Formalization can, according to these authors, be divided into coordination and control. Two elements of performance are relational quality and the outcome of the interorganizational relationship. In their article they formulate
several propositions about the relationships between the concepts they included in their research framework. Given the topic of this research, the most relevant proposition is about the relationship between formalization and performance. This proposition was: “Very low and very high levels of formal coordination and control have a negative effect on interorganizational performance” (p. 416). Vlaar et al. (2007) stated that earlier research has shown that certain levels of coordination and control are necessary to give partners a degree of certainty, stability, and guidance, for example Weick (2001). At the other hand, they posed that excessive formalization results in several negative consequences, like conflict and disagreement among parties, referring to Ring and Van de Ven (1994). Another relevant hypothesis used by Vlaar et al. (2007) concerned the relationship between formalization and interpretation of a partner’s behaviour. The corresponding proposition was “The higher the level of formalization, the easier it becomes for managers to interpret the behavior of their partners in subsequent stages of development” (Vlaar et al., 2007, p. 419). Vlaar et al. (2007) explained this proposition by stating that the clarity of definitions and expectations that results from formalization facilitates assessments of a partners’ behaviour. These academics made two additional remarks that I found to be very relevant, given my own assumptions. First, they stated that inquiries into interorganizational governance should be accompanied by performance assessments, which help to make sure that trust and formal coordination and control do not become final aims. They stressed the importance of an integrative approach to theory development to fully understand the evolution of governance forms in interorganizational relationships. Second, Vlaar et al. (2007) stated that more attention could be paid to the negative consequences or dysfunctions of trust and the positive aspects or functions of formalization so as to develop a more balanced perspective on these governance forms. The positive sentiments surrounding most research on trust and the negative connotation that many people have with formalization may be replaced by images of both concepts that are closer to reality. This statement aligns with my consulting experiences in the FSI. The main strength of this article was that the authors looked at the role of interpretation of a partner’s behaviour. The main weakness was that these academics did not test their propositions themselves.

In a review written by Beamish and Lupton (2009), they examined research on JV performance in order to identify prominent academic discussions established over the 25 years before they wrote their article. According to them, the findings of earlier studies could lead to conflicting recommendations for the management of JVs as a result of contextual factors, such as the industry in which the JV was established. Just like Geringer and Herbert (1989) and Vlaar et al. (2007), they stated that the performance implications of the various decisions made by managers are
ultimately more important than studying governance mechanisms alone. That is why they focused their review on factors that influence JV performance. Based on all articles they studied, they distinguished governance and control as one of the main streams within JV research. These authors stated that it is often more useful to delineate measures of performance according to an assessment of process and outcomes. According to Beamish and Lupton (2009): “Process performance considers how well JV and parent firm managers deal with issues as they arise, while outcome performance refers to indicators such as profitability” (p. 80). One of the reasons they referred to this distinction is that JVs may not be in existence long enough to achieve the strategic objectives, while managers are still satisfied with the process performance. Their review of literature about governance and JV control focused on the relationship between the division of equity ownership among partners and JV performance. They stated that the results of earlier studies on this relationship depended on the context of the JVs. Several studies they discussed involved IJVs, where cultural aspects determined the context significantly. These findings are less relevant, though, given the focus of this study. The two most relevant aspects in this study are the way control is being organized and the impact of the number of partners on the performance of the JV. Regarding the first topic, Beamish and Lupton (2009) made a distinction between split control and shared control. They explained the difference between these two types as follows: “Split control differs from shared control in that partners take responsibility for managing those functions in which they excel as opposed to both partners sharing responsibility for all functions” (p. 84). According to these authors, shared control increases the potential for conflict between the parent companies and JV management. They did not explain the reason for this statement, however. Regarding the second topic, the impact of the number of partners, they referred to a study by Makino and Beamish (1998), who found that found that two-partner IJVs are likely to outperform those with three or more partners. Again, they did not explain this finding. When discussing opportunities for further research, Beamish and Lupton (2009) stressed the value of case studies for gaining deeper insights into JV management processes. As they stated, until that moment, most studies relied on secondary data sources and surveys rather than direct contact with JV and parent firm managers. They listed several limitations of their approach. First, research that uses secondary data usually does not result in the depth of insight made possible by case studies. Second, it is difficult to differentiate between equity and nonequity strategic alliances when using secondary data. Third, case studies allow researchers to track the development of JVs over time, which allows greater insight into how the dynamic interaction among partners, stakeholders, and other environmental influences affect the partnering process. A strength of this review was that the authors made very explicit what kind of criteria they used to include
articles in their analysis. A weakness was that the authors used a narrow focus of the relationship between control and performance of JVs, only looking at on the relationship between the division of equity ownership among partners and JV performance.

The main findings of this literature review, which I used as input for the design of my own research, are:

1. **Importance of looking at the specific features of control and performance**: The research over the last few decades has shown that the relationship between control and performance is less straightforward than scholars assumed previously. The studies that were discussed in this review illustrated that the impact control has on performance of IORs depends on many aspects, like the age of the IOR (Fryxell et al., 2002), the level of detail of the control mechanisms (Jap & Ganesan, 2000; Murray & Kotabe, 2005), and performance measures that reflect both the objective performance as the satisfaction about the relationship (Jap & Ganesan, 2006);

2. **Focus on surveys as means for data gathering**: All studies that were discussed, except for the literature reviews, were based on surveys. As stressed by Beamish and Lupton (2009), the nuances that are important in the relationship between control and performance benefit from a more direct, detailed insight into the dynamics of this relationship between the main concepts;

3. **Only distant samples used**: None of the samples reviewed applied to Europe. Most of the data of the various studies was gathered in the U.S., as shown in Table 7. Furthermore, none of the studies focused on the FSI. As referred to by Beamish and Lupton (2009), the industry wherein the studies were conducted could impact the findings.

These three items illustrate the research gap that was found as a result of this literature review. Because of the importance of specific features of control and performance to really understand how they interact, using a method that would provide even more detailed insights than surveys would add value to existing knowledge about this topic. Furthermore, to the best of my knowledge, the relationship between control and performance of IORs has never been studied within the FSI in The Netherlands. Studying the dynamics between these concepts in this industry would provide both academics and practitioners with new insights.

In this section, the research gap addressed by the present research was determined using the studies that have been done over the last few decades on the relationship between the use of control and the performance of IORs. The next section gives an overview of the final problem analysis.
1.4 Final problem analysis: How does perceived use of formal control impact perceived performance?

In this section, the provisional problem analysis of Section 1.2 will be transformed into a final version based on the insights and choices from the literature review. First, the research objective will be finalized (Section 1.4.1). Next, the research question will be given (Section 1.4.2). Finally, the problem analysis will result in the conceptual model for this research (Section 1.4.3).

1.4.1 Research objective

Based on the analysis of the concepts and the choices that were made regarding which definitions to use for the various concepts, the tentative objective is put together into a final research objective. The tentative objective was, as listed in Section 1.2.2, to gain insights into the relationship between the use of governance mechanisms like contracts and service levels and the performance of cooperation between FIs regarding operations activities. Now, based on the literature review, the problem analysis can be specified further in the following ways:

1. Governance mechanisms like contracts and service level agreements are being regarded as formal control mechanisms;
2. Cooperation between independent organizations is being called interorganizational relationships in academic literature;
3. Given the measurability of the concept, this research will focus on decision makers’ perceptions of the performance of the interorganizational relationships that will be studied. That means that the unit of analysis will be the individual and that the paradigm will be psychology;
4. The consequences of these choices are that this research will focus on the perceived use of formal control as the independent concept;
5. This research will use the behavior of the decision makers within the IOR as a concept that mediates the relationship between the perceived use of formal control and the decision makers’ perceptions of the interorganizational relationship's performance; and
6. Furthermore, (dis)trust between decision makers is used as a concept that moderates the relationship between the perceived use of formal control mechanisms and the behavior of the decision makers.

Combining these extra insights and choices results in the following research objectives:

1. Identify the relationship between decision makers’ perceptions of the use of formal control mechanisms and their perceptions of the performance of interorganizational relationships within the operations domain of financial institutions;
2. Discover how the behavior by decision makers resulting from their perceptions of the use of formal control mechanisms within the IOR mediates this relationship; and

3. Identify how (dis)trust moderates the relationship between decision makers’ perceptions of the use of formal control mechanisms and their behavior that results from this perception.

These insights will increase the decision makers’ awareness within the operations domain of financial institutions about the impact that the perceived use of formal control mechanisms has on the perceived performance of IORs. This increased awareness will enable them to make more conscious choices about how to use these formal control mechanisms.

Now that the research objectives have been finalized, the corresponding research questions can be drafted.

1.4.2 Research question

Based on the research objectives outlined above, the following research question can be described:

_How do decision makers’ perceptions of the use of formal control impact, via their own behavior resulting from this perception, their perception of the performance of interorganizational relationships in the operations domain of financial institutions, and how does (dis)trust between decision makers moderate this relationship?_

The final problem analysis ends with making the conceptual model explicit.

1.4.3 Conceptual model

The conceptual model is a diagram depicting all the concepts to be studied, as well as the relationships that can be determined between these concepts (Groenland, 2014b). Figure 9 shows the conceptual model of this research.

This research studied the relationship between the perceived use of formal control and decision makers’ perceptions of the performance of IORs, using their behavior as a mediating concept. Furthermore, this research analyzed the impact that (dis)trust between decision makers has as a moderating concept on the relationship between decision makers’ perceptions of the use of formal control and their perception of the performance of the IOR.
Concerning the use of formal control, the focus will be on the *level of detail* and the *type* of formal control that is being used. These dimensions were included based on the assumptions that will be explained in next section and based on the results of the literature review. The studies that were discussed in Section 1.3.4 illustrated the importance of looking at specific features of control. Regarding behavior, this research will explore four specific elements: (1) *information sharing* between decision makers, (2) the way they *solve problems*, (3) their *willingness to adapt to changes*, and (4) their *restraint from the use of power*. The reason that these elements were selected was clarified in the previous section, wherein the concepts are scrutinized. Finally, not only the perceptions of the decision makers about the performance of the IOR will be gathered, also their *explanation* for this perception. Again, the reason for this choice has to do with the assumptions that are explained in next section. Regarding (dis)trust, it was not only analyzed whether trust or distrust was present between decision makers, but also what kind of (dis)trust. The types of goodwill (dis)trust and competence (dis)trust have been distinguished. The reason for this is that, especially in situations where competitors cooperate, like the IORs in this research, the intentions of the partners can have a significant impact on the use of formal control.

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<table>
<thead>
<tr>
<th>(Dis)trust between decision makers</th>
<th>Behavior by decision makers</th>
<th>Decision makers’ perception of performance of IOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presence of (dis)trust</td>
<td>Information sharing</td>
<td>Perception of IOR performance</td>
</tr>
<tr>
<td>Type of (dis)trust</td>
<td>Joint problem solving</td>
<td>Explanation for this perception</td>
</tr>
<tr>
<td>Perceived use of formal control in IOR</td>
<td>Willingness to adapt to changes</td>
<td></td>
</tr>
<tr>
<td>Level of detail of formal control mech.</td>
<td>Restraint from the use of power</td>
<td></td>
</tr>
<tr>
<td>Type of formal control</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Figure 9: Conceptual model.*
1.5 Assumptions: formal control hinders optimal cooperation

Before starting this research, I had a number of assumptions about the outcome of the case studies. These assumptions were that:

a. The use of extensive formal control mechanisms, especially behavior control, would have a negative impact on decision makers’ perceptions of the performance of IORs;

b. Formal control and trust are substitutes and the more formal the control, the less trust; and

c. In cases where trust is present between decision makers, the content of formal control mechanisms is irrelevant.

Ad assumption a: Negative impact of formal control

Assuming that the use of extensive formal control mechanisms would limit the behavior of decision makers within the IOR and assuming that behavior would be strictly demarcated/limited, then there would not be enough room to think and act. By this lack of room, the assumption was that partners would not be able or stimulated to respond to changes in the context of the IOR. With this restricted behavior, not only the perception but also the actual performance would be less than optimal. This assumption focused on the behavior that was the result of formal behavior control. I assumed that formal behavior control would limit behavior.

Ad assumption b: trust and control are substitutes

This assumption is related to the previous one. I assumed that the use of extensive formal control mechanisms would be interpreted as a lack of trust by decision makers and vice versa, that limited formal control mechanisms would be regarded as a sign of trust.

Ad assumption c: trust makes formal control irrelevant

I assumed that when decision makers trusted each other, they would not pay explicit attention to the content of the formal control mechanisms. These mechanisms would not directly influence their behavior. If they trust each other, then they do what they think is good for the IOR, irrespective of the content of the formal agreements. I also assumed that in cases of distrust, behavior would be governed by formal control mechanisms. To put it another way, the assumption was that the behavior of the decision makers would be more directly and explicitly aligned with the clauses of the contracts in cases of distrust. This would lead to a rigid, inflexible relationship.
1.6 Summary

To finish this chapter, I summarize the main messages. Figure 10 shows the same questions as were listed in the beginning of this chapter, with the corresponding answers.

This chapter outlined the context of this research, the financial services industry. It showed that trust, control, and cooperation have a special meaning in that industry. This chapter also clarified the objective of this research, which is to gain insights into the relationship between decision makers’ perceptions of the use of formal control mechanisms and decision makers’ perceptions of the performance of interorganizational relationships within the operations domain of financial institutions. Furthermore, all concepts were scrutinized to determine as specifically as possible, what this research needed to assess in order to answer the research questions. It became clear that the unit of analysis is the individual decision maker within the context of an IOR. Analyzing the concepts also made apparent that the main data that has to be gathered concerns the perceptions and emotions of these decision makers, specifically their perception of the use of formal control mechanisms within the IOR, their perception of the performance of the IOR, their (dis)trust in their fellow decision makers, both at the partner firms and in the management of the IOR itself.

Next I provide insights into how this research was executed. But first, as announced in the reading guide, this chapter ends with another WhatsApp conversation.
<table>
<thead>
<tr>
<th>Chapter / sections</th>
<th>Corresponding questions</th>
<th>Main answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction</td>
<td>What has been researched: who, where and why?</td>
<td>The governance of interorganisational relationships between financial institutions, because more insights are needed to unleash the full potential than of cooperation.</td>
</tr>
<tr>
<td>1.1 Background of this research</td>
<td>What are relevant features of the industry and organizations under study?</td>
<td>Trust, control and cooperation have always played an important role in the financial services industry.</td>
</tr>
<tr>
<td>1.2 Provisional problem analysis</td>
<td>What is the reason for this research, the intended use of the outcomes and what are the deliverables?</td>
<td>The observation that more insights were needed initiated this research, and gaining those insights, answers that can be regarded as deliverables, was what it aimed to achieve.</td>
</tr>
<tr>
<td>1.3 Results of literature study</td>
<td>What can earlier research learn us about this topic?</td>
<td>That most main concepts haven’t been defined very precisely and that most definitions of formal control focus on making things predictable.</td>
</tr>
<tr>
<td>1.4 Final problem analysis</td>
<td>What are the research objective and research question and how does the conceptual model look like?</td>
<td>The final problem analysis focusses on decision makers’ perception of the use of formal control, their behavior, the perceived performance of the IOR, and the role of (dis)trust.</td>
</tr>
<tr>
<td>1.5 Assumptions</td>
<td>What was expected before the start of the research?</td>
<td>That formal control impacted behavior mostly negatively and was a substitute for trust.</td>
</tr>
</tbody>
</table>

*Figure 10: Summary of Chapter 1.*
Chapter 1: Introduction
Aunt Jane
Hi Petrosjan, I have read your first chapter. I am not sure if I understand everything, but I do understand that your research is about financial institutions that are working together, right? What's so difficult about that? It's just a matter of doing it. Isn't it?

Me
Hi aunt Jane. Thanks for your message. You're right. My research is about cooperation between financial institutions. Maybe it sounds easy, but in practice it appears to be quite difficult. Research has shown that most alliances fail. Apparently, cooperating is more difficult than you think.

Aunt Jane
Maybe that's because banks make it too difficult for themselves. Why do you need contracts to work together? I worked together successfully with your uncle Peter for 45 years during our marriage, and we didn't have a contract at all. We just trusted each other; that's all there is to it. Trust!

Me
You're right Aunt Jane, trust is very important. But uncle Peter and you also had a kind of contract, isn't it? You had a marriage certificate, didn't you?

Aunt Jane
Uhm, I guess so. But I never looked at that document once we got married. I certainly didn't need a supervisor to check if I was behaving according to the content of that certificate. That was not needed, because I loved uncle Peter and he loved me. And therefore we trusted each other. Besides, we had children. So we were much too busy raising our children to worry about rules and contracts.

Me
I know you loved uncle Peter a lot. But love is a difficult concept in a business context. Your point about your children is a good example. Raising your children gave uncle Peter and you a clear common goal. Didn't you agree on some ground rules about the way you were going to raise your children? Maybe you can compare those agreements with the governance mechanisms I am referring to in my first chapter?
Method:
Case studies as the core of a dynamic research process
The objective of this chapter is to explain the methodology that has been used for this research. Figure 11 shows the structure of this chapter.

<table>
<thead>
<tr>
<th>Chapter / sections</th>
<th>Questions that are answered</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Method</td>
<td>Who has done this research and how has it been done?</td>
</tr>
<tr>
<td>2.1 Overall approach</td>
<td>Who has done the research and which steps have been taken?</td>
</tr>
<tr>
<td>2.2 Method of data collection</td>
<td>How has the data been gathered that was needed to answer the research question?</td>
</tr>
<tr>
<td>2.3 Operationalising concepts</td>
<td>How have the concepts from the conceptual model been measured?</td>
</tr>
<tr>
<td>2.4 Data gathering</td>
<td>Which procedures have been followed to gather the data?</td>
</tr>
<tr>
<td>2.5 Data analysis</td>
<td>What is the researchers view on data analysis and what approach has been used?</td>
</tr>
<tr>
<td>2.6 Ensuring quality</td>
<td>What has been done to guarantee the quality of this research?</td>
</tr>
</tbody>
</table>

The chapter continues with Section 2.1, where the overall approach is explained, and I elaborate on the team that has done the research and on how this study was approached like a dynamic research process. Section 2.2 covers the method of data collection, explaining the case study method that was used. Section 2.3 explains how the various attributes of the concepts were transformed into questions for the interviews. In Section 2.4, I explain which procedures were followed to gather the data. Section 2.5 gives my view on the essence of data analysis, together with a high level overview of the approach used. Finally, Section 2.6 gives insights in the measures that were taken to guarantee the quality of this research.
2.1 Overall approach: dynamic research process with case studies as core

This section covers who has done the research (Section 2.1.1) and how, on a general level, the research was done (Section 2.1.2).

2.1.1 Research team

To perform this research in a way that allowed frequent validation of the design, including how the data was gathered and analyzed and the conclusions that were drawn, a research program was set up. As shown in Figure 12, this team consisted of three layers of researchers.

Figure 12: Research team.
1. **Core team:** I was the overall responsible person for this research. As stated earlier, my supervisor was Prof. Dr. Annemieke Roobeek. Furthermore, Prof. Dr. Edward Groenland played an important role by advising me on methodological matters.

2. **Students:** In total, four students did their master’s research as part of this program. Two of these students supported me with the case studies that resulted in the data that was used to answer the research questions. See Section 2.4 for more information. The other two students did other kinds of research on the topic. They also helped during the literature review. Furthermore, the outcome of their studies helped to validate the findings from the case studies that were done as the “heart” of this research.

3. **Supervisors of students:** The four students, coming from four different Dutch universities, all had academic supervisors. These supervisors weren’t part of the direct research team, but they ensured that the research done by the students complied with the academic standards.

### 2.1.2 Research process

This study was approached as a dynamic research process with frequent interaction with fellow academics and practitioners, including validation performed by them. Figure 13 shows the various means that were used as part of this process.

The reason for this approach, i.e., engaging frequently with different groups of practitioners and academics, was that the research question concerns a complex, dynamic issue with many involved stakeholders. This required a data collection method with periodic validation by these stakeholders. By using this combination of a cross-sectional and a longitudinal approach, it was possible to gain deep insights into this complex matter.

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**Figure 13:** Means used during the dynamic research process.
The various means used include the following:

I. **Interviews with practitioners:** At the start of this research, a large number of decision makers within the operations domain of FIs were interviewed. The theme of these interviews was the relationship between trust and control within interorganizational relationships within the operations domain of FIs. The main objective of these interviews was to get an idea of the most important themes and concepts from their perspective, to ensure the relevance of this research for practitioners. Next to operations managers, other key stakeholders were also interviewed to get a better understanding of the context in which the IOR decision makers are operating. The main focus was on employees of the Dutch supervising authorities, AFM and DNB, and on compliance officers within FIs.

II. **Literature review:** A wide selection of scientific articles about the governance of interorganizational relationships was read to get an understanding of what has already been studied and how it has been done in the past. This review gave a good overview of the main concepts within this field of research and the research gap, as explained in previous chapter. While in Figure 13, the literature review is shown as the second step in the research process, in fact scientific articles were studied during the entire duration of this research.

III. **Group sessions:** During the first two years of this research, four group sessions were organized to both explore and validate the direction of the research design. This was done to make sure that the research aligned with the needs of practitioners. During these sessions, a varying number (3 to 12 persons) of decision makers within the operations domain of FIs exchanged experiences and ideas about the theme of this research. This was completed in various ways, ranging from working with propositions to having a discussion based on the outcome of the initial literature review.

IV. **Validate conceptual model:** The insights from the interviews with practitioners, the findings from the literature review, and the outcomes of the group sessions were combined into the conceptual model that was shown in the previous chapter. This conceptual model was validated during two sessions with fellow researchers. The draft conceptual model was presented during a PhD seminar at Nyenrode Business Universiteit. Furthermore, an updated version of the conceptual model, as part of a broader paper, was validated during a PREBEM PhD conference.

V. **Case studies:** Decision makers within the context of five existing IORs within the FSI were studied. Given the importance of this step, the approach that was used as part of this method is explained in detail in Section 2.2. Furthermore, in Section 2.2.2, an explanation is included about the sample design and the criteria used to select the IORs.
VI. **Intercompany session 1:** Following the main series of interviews, several additional steps were taken to validate and enrich the patterns that were found. These steps were meant to make this research an iterative process that used the power of collective learning. This step was completed by organizing two sessions with practitioners who were involved in the IORs that were being studied. The supervisor of this research also participated in this session. During this first session, the preliminary findings were presented to the auditors of the IORs, being relevant stakeholders given the subject of this research.

VII. **Update interviews:** Since the original case studies were performed some time ago, in 2010 and 2012, a new round of interviews were done in 2015. These interviews were only with IOR’s operational managers, some of whom were interviewed previously and some of whom were new. The objective of this interview was to learn from the developments that occurred since the original analysis to reflect on the preliminary findings.

VIII. **Intercompany session 2:** During this second intercompany session, the provisional conclusions were shared with a group of decision makers of the IORs that were studied. The objective of this meeting was to validate the findings and ensure that the practical relevance of the recommendations suited the needs of the attending practitioners. The supervisor of this research also attended this session.

IX. **Update interviews:** Finally, just before finishing this document, the operational managers of the studied IORs were interviewed about the developments that had occurred since 2015.

The main method of data collection was by means of performing cases studies. Therefore, the next section elaborates on the reason for the decision to use this method.

### 2.2 Method of data collection: five case studies into IORs between FIs

This section includes an explanation about how the data for this research was gathered. First, in Section 2.2.1, the main method, performing case studies, is explained in more detail. As will become clear in the rest of this chapter, the case study approach was based on a combination of methods advised by Eisenhardt (1989), Gibbert, Ruigrok, and Wicki (2008), Gibbert and Ruigrok (2010), and Yin (2014). Section 2.2.2 clarifies the unit of analysis.
2.2.1 Case study as a method
The objective of this research is to explain a phenomenon from the context in which it takes place. This study aims to create insights into how decision makers’ perceptions of the use of formal control mechanisms influences their perceptions of the performance of the IOR, via the concept of behavior. The three conditions that Yin (2014) used to select the most-suited research strategy (see Table 8) show that using case studies is the best fit with the aim and scope of this research. By using case studies, this research aims to add new insights to the findings that have been done by previous studies that used surveys as their data gathering method.

Table 8: Relevant Situations for Different Research Strategies (Yin, 2014)

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Form of Research Question</th>
<th>Requires Control of Behavioral Events</th>
<th>Focuses on Contemporary Events?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment</td>
<td>How, why?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Survey</td>
<td>Who, what, where, how many, how much?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Archival analysis</td>
<td>Who, what, where, how many, how much?</td>
<td>No</td>
<td>Yes/No</td>
</tr>
<tr>
<td>History</td>
<td>How, why?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Case study</td>
<td>How, why?</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

The research question is a “how” question (see Section 1.4.2). Furthermore, the researcher does not require control of behavioral events and the research focuses on contemporary events. For example, as described in Section 2.4.1, one of the main data gathering techniques was interviewing persons who were involved in the events that were studied.

Yin (2014) used a twofold definition of a case study, with one part focusing on the scope of a case study and the other part focusing on the features of a case study. He defined a case study as follows:
1. Focusing on the scope: A case study is an empirical inquiry that investigates a contemporary phenomenon (the “case”) in depth and within its real-world context, especially when the boundaries between phenomenon and context may not be clearly evident.
2. Focusing on the features: A case study inquiry copes with a technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data
needing to converge in a triangulating fashion, and another result benefits from the prior development of theoretical propositions to guide data collection and analysis.

As is often advised (Yin, 2014), a multiple-case design was used. Using multiple cases allows for direct replication. As Yin (2014) stated, analytic conclusions independently arising from several cases will be more powerful than those coming from a single case alone. Dul and Hak (2008) referred to it as both a serial and a parallel single case study. That is, two series of parallel case studies were done. This first group of cases studies, held in 2010, consisted of three parallel single case studies. The second group of case studies, performed in 2012, was comprised of two parallel single case studies. So the total number of cases (five) was above the minimum of four as stated by Eisenhardt (1989). Before performing the second group of cases, however, I studied the outcomes of the first group. That is what made this a serial case study.

2.2.2 **Unit of analysis**

The main objective of this research was to study the way specific perceptions, behavior, and feelings of decision makers within IORs between financial institutions are related and how they interact with each other. Therefore, the case that was studied, the unit of analysis used, was the individual decision maker. The context of this case was the interorganizational relationship (IOR) between FIs. Figure 14 visualizes the relationship between the case and its context. As Yin (2014) clarified, it was important to bound the case this way to determine the scope of the data collection. It helps to distinguish data about the case itself, the “phenomenon,” and data external to the case (the “context”).

![Figure 14: Case & context.](image-url)
Using the individual decision maker as unit of analysis aligns with the view of Bernard and Ryan (2010). They stated that the rule about units of analysis is to always collect data on the lowest level unit of analysis as possible.

Because of the importance of a clear unit of analysis, the term “decision maker” will be described more specifically. Walter et al. (2008) defined alliance-related decision making as “an intraorganizational process dealing with all the strategic judgments (in terms of actions taken, resources committed, or precedents set) that a focal organization makes in a cooperation” (p. 531). Based on this definition, the data collection focused on the actors within the IORs that were involved in making strategic judgments. Within the context of IORs, there are decision makers in various roles, as illustrated in Figure 15.

Fig. 15 shows a generic configuration of an IOR. It illustrates that decision makers from several parents, the cooperating organizations, are represented in the non-executive board of the IOR. It also points out that an IOR can consist of various departments that are managed by an executive board.

**Figure 15:** Roles and relations within an IOR context.
In general, three types of decision making roles can be identified (illustrated with the letters in triangles in Figure 15):

A. **Non-executive board members**: These are the decision makers that formally represent their parent organization in the non-executive board. They do not engage in the day-to-day management of the IOR, but are involved in policy making and planning exercises. In addition, non-executive board members’ responsibilities include monitoring the executive board members and acting in the interests of their parent organization.

B. **Executive board member(s)**: The executive board members see to running the IOR’s business. The executive board members are bound by the organizational bylaws regarding electing members, reviewing current management, governing company policies and approving budgets. These board members also serve the parent organizations, ensuring that the IOR is generating profits and increasing in economic value.

C. **Decision makers within the parent firm**: This role concerns the decision makers from the parent firms that are not part of the non-executive board. An example of this type of decision maker is a member of an advisory board within the context of an IOR.

Given these three types of decision makers, three kind of relations were studied as part of the case studies (illustrated in Figure 15 by the numbers in the circles and the thick arrows):

1. The relationship between the non-executive board members and the executive board member(s);
2. The relationship between the decision makers that are part of the non-executive board; and
3. The relationship between the decision makers that are not part of the non-executive board and the executive board members.

Since one unit of analysis was used and decision makers within the context of several IORs were analyzed, this research can be characterized as an holistic multiple case design, as shown in the top right corner of Figure 16. In this figure, used by Yin (2014), case study designs are classified based on the number of cases (x axis) and number of units of analysis (y axis).

As Currall and Inkpen (2002) pointed out, the levels of theory and measurement must be “aligned” or consistent. “Level of theory” refers to the unit (person, group, or firm) the researcher seeks to explain and about which attribution generalizations are made. “Level of measurement” refers to the source of information, such as individual interviews, group surveys, and firm-level archival records of corporate
financial performance. This need for alignment between the various levels was taken into account when operationalizing the concepts for this study (see Section 2.3). With the unit of analysis explained, the next section will describe the sample design.

2.2.3 Sample design
Given the research question, the most important requirement of the cases was that they needed to be decision makers within the context of existing interorganizational relationships within the operations domain of FIs. Therefore, the defining criteria for selecting the right context were sector (FSI), the specific domain (operations), and whether or not two or more autonomous organizations were involved (interorganizational relationships). The research focused on what Barringer and Harrison (2000) called “tightly coupled interorganizational forms,” like joint ventures, networks, and consortia (see Figure 6 in Section 1.3.1). The main reason for this was that these kinds of IORs most often use formal control mechanisms.
In the exploratory phase of this research, a list was made of all IORs that fit these requirements. This list was validated and completed during the interviews referred to in Section 2.1. This resulted in 10 suitable IORs that met all criteria of the sample design. Next, a number of IORs were approached at two moments in time, in 2010 and 2012, with a request to contribute to this research. In most cases, the requests were sent after an initial interview that took place during the exploratory research. Also, a number of persons that were approached with a request participated in one of the group sessions (see Section 2.1). This sequence appeared to be convenient, because the persons who received the request were already familiar with the research and the researcher. This made sure that a certain level of trust was already present between the researchers and the representatives of the IORs. This process of selecting cases resulted, as stated earlier, in a first group of three cases and a second group of two cases. This number of cases, five in total, is relatively high, knowing that the total number of IORs between FIs is limited.

In this section, the data gathering method was explained. It was shown that this study was approached as a dynamic research process using case studies as the main method and working with several other ways to validate the preliminary findings. Furthermore, this section clarified that the unit of analysis is the individual decision maker within the context of IORs between FIs. In summary, this section explained how the data was analyzed and who, the unit or case, was analyzed. In the next section I will specify what exactly was gathered by operationalizing the concepts that are part of the conceptual model of this research.

2.3 Operationalizing concepts: two sides to every concept

Chapter 1 explained how the conceptual model was created based on the research objective, research question, the assumptions, and the findings from the literature review. Furthermore, the various concepts were specified, and the variables for study were selected. This section contains an explanation about the way these variables were assessed and how the attributes were defined. Specifying these elements is essential to know that the right data was gathered to allow the researcher to answer the research question.

Figure 17 shows the conceptual model, including the operationalization of the various concepts.
In this chapter, the concept behavior is limited to two variables, namely information sharing and joint problem solving. This decision was made because of the fact that during the interviews it became apparent that the other two concepts, the willingness to adapt to changes and the restraint from the use of power, hardly played a role in the case studies. Therefore, for reason of focus, these concepts were left out of the rest of this study.

The first concept that needs to be operationalized is decision makers’ perception of use of formal control in the IOR. For this concept, two variables were distinguished: the level of control and the type of control. To assess the decision makers’ perceptions on this topic, first, an open question (“How is the control side organized within your IOR?”) was used, without referring to the specific variables. This question was phrased purposefully to not steer the interviewees in a specific direction and to allow them to share everything they associated with control. Next, when the interviewer was done replying, more information was given about the focus on formal control and about the variables, the level, and type of control. All interviewees were asked to describe the governance structure of the IOR, making clear the formal and informal mechanisms adopted by the managers to implement control. To assess both the type and level of formal control mechanisms, the interviews were used to get an understanding of the underlying contract. Relying on previous studies (Klein Woolthuis et al., 2005; Faems et al., 2008), in cases where the interviewees referred to clauses that specified performance monitoring, be-
behavior-monitoring, task division, and information flows, the level of control was classified as **extensive**. In cases where the decision makers only mentioned very few or general clauses, the level of control was classified as **limited**. The perceived level of formal control could only be extensive or limited. A combination of both attributes was not possible, as the dominant perception was selected. Next to the level of control, the type of control was also assessed. To do this, the distinction between output control and behavior control, which was introduced in Chapter 1, was used. The type of control was assessed as the output control in cases where the decision maker referred to mechanisms that focused on what needed to be the result of the behavior that was being controlled. An example of this type of control is a focus on the deliverables of the IOR. The attribute behavior control was chosen in cases where the interviewee mentioned mechanisms that focused on how this result needed to be achieved. For example, if the decision maker referred to process descriptions that one of the parent companies prescribed or to the communication structure, as part of a formal control mechanism, then it was assessed as behavior control. The combination of both types of control, both output and behavior control, was also possible. After asking the decision makers how they perceived the use of formal control, in most cases, the contracts were also studied after the interviews to assess the potential gap between the decision makers’ perceptions and the actual content of the contract(s).

The second concept that requires operationalization is the decision makers’ behavior. As already explained in Section 1.3.3, where the concepts were scrutinized, the operationalization proposed by Mahama (2006) was used. He identified the variables of information sharing, joint problem solving, willingness to adapt to changes, and restraint from the use of power. Given the outcomes of the interviews, our data analysis focused on the variables information sharing and joint problem solving. To assess how information was being shared by the various decision makers, the interviewees were asked to describe information sharing. For this variable, the attributes restricted information sharing and open information sharing were used. The assessment restricted was used when the decision makers only referred to information sharing that resulted from the formal agreements between the cooperating partners. An example of restricted information sharing is a situation when decision makers refer to the content of the contract as a reason for not sharing specific information that is requested by their partner. Information sharing between partners was qualified as open in cases where the decision makers shared everything that they assessed as being helpful to achieving the joint objectives of the IOR. Indicators of open information sharing were when interviewees mentioned that they would contact fellow decision makers outside the regular meetings, especially when the formal control mechanisms did not even require them to
do that. For the joint problem solving variable, the attributes *cooperative* and *competitive* were used. Based on how Mahama (2006) described cooperation on this aspect, joint problem solving was assessed as cooperative when decision makers explained, during the interviews, that problems were treated as joint responsibilities and that partners worked collaboratively towards resolving those problems. This variable was assessed as competitive when the partners focused on their own interests when there were problems within the context of the IOR.

The third concept that needs to be operationalized is decision makers’ perceptions of the performance of the IOR. The attributes that were used for this concept are *positive* and *negative*. To capture this perceived performance of the IORs, a self-reported measure was used. Previous research has found this approach to be highly correlated with objective performance measures (Geringer & Hebert, 1989), and it has been frequently used in recent alliance literature as well. IORs’ performance was subsequently estimated by asking the respondents to express whether the collaboration met their expectations and in what way it did or did not. Their answer could be based on financial measures (e.g., achieving revenue targets or achieving low costs), alongside with some non-financial measures (e.g., collaboration with the other decision makers). In the assessment on this variable, a combination of both attributes can occur. Decision makers can have mixed perceptions of the performance of the IOR. It could happen that the perception of a certain aspect is positive, while the perception of another aspect is negative. A second variable, which was taken into account regarding this concept, was the reason for the positive or negative perception of the decision maker about the performance of the IOR. This variable was included because the literature review showed, as included in Section 1.3.3, that academics use various criteria to assess the perceived performance of IORs. The attributes that were used for this variable are *structure* and *process*. This distinction aligns with the split used by Luo (2002), as explained in Section 1.3.4. The interviewees were asked whether their positive or negative perception of the IOR’s performance could be explained by the structural agreements (i.e., the governance structure or contracts) or by the established processes (i.e., communication, collaboration, and joint problem solving). These attributes were used because, as already shared in Section 1.3.3, research by Kauser & Shaw (2004) showed that behavioral characteristics play a more significant role in explaining overall alliance performance compared to organizational characteristics. By using the attributes structure, which is linked to organizational characteristics, and process, linked to behavioral characteristics, this earlier finding could be validated.

The fourth and final concept that needs to be operationalized is (dis)trust. This concept was assessed by asking the decision makers if: (1) they trusted the other
decision makers, and (2) they felt trusted by the other decision makers. To determine the type of trust, the two types of trust that Das and Teng (2001) distinguished were used. As explained in Section 1.3.3, they made a distinction between goodwill trust and competence trust. Whether or not a partner can really deliver what they promise is addressed as competence trust. Goodwill trust is about good faith, good intentions, and integrity. All interviewees were asked what kind of (dis) trust they felt between them and the other decision makers.

Previous sections have explained what kind of data was gathered and who was interviewed. Section 2.2 also elucidated at a high level how the data was collected. In next section, this approach will be accounted for in more detail.

2.4 Data gathering: interviews with decision makers from all angles

This section deals with the details of the data gathering approach. In Section 2.4.1, the sources of evidence that were used are discussed, and Section 2.4.2 expounds on the data-collection plan.

2.4.1 Sources of evidence

I used several sources to gather evidence to answer the research question. This variety in sources ensured triangulation. The main source was a series of semi-structured interviews of one and a half hour per interview. As Appendix C shows, three to five persons were interviewed per case study. In total, 22 persons were interviewed. I led all these interviews, and, except for one interview, a student who supported this research also attended these meetings. Per case study, both the executive board members and the members of the non-executive board were interviewed individually. In one case study, Insurance JV, at the request of the CEO of this IOR, the members of the advisory board were interviewed instead of the members of the non-executive board. As these advisory board members also were decision makers representing their parent companies, this alteration still aligned with the objectives of this research. In my view, the sample number of 22 interviews aligns with the principle of saturation. The main reason for this is that the sample reflects the perceptions of individuals who represent all organizations that cooperate via the IORs that were studied. Furthermore, all executive board members and most non-executive board members of the IORs were interviewed. As described in Chapter 1, including the perspectives of all partners involved does not happen very often in IOR research. As referred to by Mason (2010), the aim of a study is the ultimate driver of a sample size. The sample used enabled me to meet the objective of this research.
Per case study, the number of non-executive board members differed depending on the number of parent organizations that cooperated via the IOR concerned. All interviews were recorded and transcribed in detail by the students who were part of this research. The fact that all decision makers that were interviewed agreed with recording the interview shows that we succeeded in creating a climate of trust. The responses transcribed from the interviews were not “tidied up.” Other phenomena, like hesitations or stressing words, were also not transcribed.

Next to the primary data gathered by means of the interviews, secondary data was also used. The secondary data that was used includes contracts, highlights of the contracts or agreements, annual reports of the companies involved, organizational charts, and corporate brochures. Moreover, clippings from newspapers, trade magazines, and the internet concerning the collaborations were also collected (see appendix C for an overview of the documents studied).

Before the start of the case study, the research team assumed that the organizations involved in the various IORs would not be willing to share the underlying contracts. Surprisingly, most contracts of the IORs that were studied were shared with the researchers. Another change in the method that occurred during the research concerned observations. In advance, the research team thought that it would enrich the data to observe meetings between the IOR manager and the corresponding members of the non-executive board. However, this appeared not to be possible. Therefore, this way of data gathering was abandoned early on in the study.

2.4.2 Data-collection plan

In order for a case study to be suited, it was essential that both the executive board member(s) and the non-executive board members of the IOR and/or other decision makers from the parent companies could be interviewed. This would ensure that perceptions from various angles could be combined in the analysis. To assure this, a document was drafted with a clear overview of what was expected from the IOR and participating organizations. This document also gave an overview of the objectives, approach, and planning of the research. For every case study, the IOR manager was the main contact person for the research team. He, since in all cases it was a man, discussed the request with the members of the non-executive board. Therefore, in this phase the research team depended on how the IOR manager explained the request to the non-executive board members. This dependence was decreased by drafting a hand-out and providing it to the IOR manager.

During the data gathering phase, a case study protocol was used. Elements of this protocol were:
• *Shared hand-out with overview of research program*: A document was drafted that gave an overview of the main features of the research. This document was shared with the IOR manager to inform the members of the non-executive board.

• *Introduction by contact person per case study*: The IOR managers, who were our contact persons for every case study, introduced the researchers to the members of the non-executive board. In order to do this, the researchers provided the IOR manager with text he could use;

• *Logistics*: The students arranged all interviews together with the secretaries of the IORs and/or the parent organizations. All interviews took place at the location of the IOR or of the parent organizations; and

• *Interview protocol finished and controlled*: Both the interview questions and the protocol were extensively checked by both the students’ supervisors and by me. The protocol stressed that every interviewed person was asked for specific examples to illustrate his/her answers. Another aspect of the protocol was that before the start of every interview, the interviewee was explicitly asked for approval to record the interview. These aspects are included in Appendix D.

For every case study, it was made clear to the participating organizations that the data they would share with the researchers would be treated in a confidential matter. In one case, the IOR asked the researcher to sign a non-disclosure agreement. I complied with this request.

Another way that maximum transparency was created was by using a case study database. All recordings, transcriptions, and secondary data was saved onto a shared folder that could be used by both the students and myself. Later on, all data was uploaded into Atlas.ti (Version 7.5.8, Scientific Software Development, 1999), the software used for coding (see Section 2.4).

This section discussed the practicalities of the data gathering method, showing that several sources and a structured approach were used. In the following section, the next phase of the research, the data analysis phase, is covered and the high level views and approach are also discussed.
2.5 Data analysis: construct tables and visualization of output

This section describes my view on data analysis (Section 2.5.1), in order to put the approach that was used into the right context for this research. This approach is further explained in Section 2.5.2.

2.5.1 View on data analysis

Data – qualitative and quantitative alike – are reductions of our experience. Researchers create data by chunking experience into recordable units. Analysis is the search for patterns in the data and for ideas that help explain why those patterns are there in the first place (Bernard & Ryan, 2010). When conducting qualitative research, oral text is processed to find meaningful patterns. This is possible because interviews provide us with words and sentences that we may categorize, order, classify, and interpret.

As Gibbs (2007) stated: “The idea of analysis implies some kind of transformation. You start with some collection of qualitative data and then you process it through analytic procedures into a clear, understandable, insightful, trustworthy, and even original analysis” (p. 3). This research is based on the idea that analysis involves interpretation and retelling and that it is imaginative and speculative (Gibbs, 2007).

This research was based on a combination of deduction and induction to find explanations. Deduction, which involves reasoning from general rules to infer what should be out there and available for observation, was done by transforming the outcomes of the literature review into the conceptual model. Induction, reasoning from observation to formulate rules (Bernard & Ryan, 2010), was done by means of the data gathering and data analysis. This research was a search for general explanations based on the accumulation of lots of particular, but similar, circumstances.

Another fundamental starting point is that this research was done through the eyes of an idealist/constructivist. I agree with Gibbs (2007), who stated: “everything we say and experience is through the medium of our constructs and ideas. Even the very idea of reality itself is regarded as a human construct. The world we experience reflects these concepts and, consequently, if they change, then the world changes too” (pp. 10-11). Gibbs (2007) saw constructivism as a version of idealism, because individuals construct realities that help them to make sense of their experiences. As a result, the observations of constructivists/idealists reflect their preconceptions and prejudices arising from their own and/or their respondents’ constructions of the world. As Gibbs (2007) stated: “For idealists and constructivists, we cannot say how the world is, only how some people see it” (p. 11).
2.5.2 Approach of data analysis

As advised by Silverman (2005), the data analysis for this study started as much as possible on day one. We, the research team, interpreted the output of the various interviews and focus groups that were held during the exploratory research phase.

The main analysis was performed in three phases:

- Phase 1: after the first group of case studies;
- Phase 2: after the second group of case studies; and
- Phase 3: at the end of the research for all five case studies.

The data analysis during Phase 3 was based on the outcomes of the analysis during the first two phases. Figure 18 gives an overview of the scope of the data analysis per phase.

Fig. 18 shows the research model, based on Verschuren and Doorewaard (2007), that was used for this study. Studying theories of interorganizational relationships, organizational behavior, and doing the exploratory research as described in Section 2.1.2 resulted in this conceptual model. The concepts and relationships of this
conceptual model were assessed in five real-life IORs between FIs. A comparison of the results from these case studies resulted in insights that were needed to answer the research question.

The data analysis of Phases 1 and 2 was done together with the students who wrote their thesis as part of this research program, with me as one of their supervisors. The analysis of Phase 3 was solely done by me. Table 9 gives an overview of how the concepts from the conceptual model are linked to the interview questions that were used during Phases 1 and 2 of the research. See Appendix D for an overview of the questions.

Table 9: Link between Concepts and Questions

<table>
<thead>
<tr>
<th>Main Concepts</th>
<th>Variables of the main concepts</th>
<th>Questions Phase 1</th>
<th>Questions Phase 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived use of formal control mechanisms</td>
<td>Level of control</td>
<td>1.1, 1.2 &amp; 1.3</td>
<td>1.1 &amp; 1.2</td>
</tr>
<tr>
<td></td>
<td>Type of control</td>
<td>1.1 &amp; 1.3</td>
<td>1.2 &amp; 1.2</td>
</tr>
<tr>
<td>(Dis)trust</td>
<td>Level of trust</td>
<td>2.1, 2.2 &amp; 2.3</td>
<td>2.1, 2.2 &amp; 2.3</td>
</tr>
<tr>
<td></td>
<td>Type of trust</td>
<td>2.4 &amp; 2.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Behavior</td>
<td>Information sharing</td>
<td>3.1 to 3.5 &amp; 4.1</td>
<td>3.1 to 3.8</td>
</tr>
<tr>
<td></td>
<td>Joint problem solving</td>
<td>4.2 &amp; 4.4</td>
<td>3.8 &amp; 3.9</td>
</tr>
<tr>
<td></td>
<td>Willingness to adapt to changes</td>
<td>4.3</td>
<td>3.1 to 3.8</td>
</tr>
<tr>
<td></td>
<td>Restraint from the use of power</td>
<td>4.4</td>
<td>3.1 to 3.8</td>
</tr>
<tr>
<td>Perceived performance</td>
<td>Perception of IOR performance</td>
<td>5.1, 5.2, 6.1 &amp; 6.2</td>
<td>4.1, 4.2 &amp; 4.3</td>
</tr>
<tr>
<td></td>
<td>Explanation for perceived performance</td>
<td>6.3</td>
<td>4.2 &amp; 4.3</td>
</tr>
</tbody>
</table>

The analysis during Phase 1 of this research was done using a structured three-step process. First, the recorded interviews were transcribed in Dutch. These transcriptions resulted in “bounded” data, meaning, the minutes are a literal reproduction of what was said. Then, these transcriptions were coded and categorized to develop meanings from what was said in those interviews. To do this, terms that emerged from the data were used. Categories were also derived in light of the extant literature, and then the derived categories were reviewed in light of the interviews and documents. Terms that emerged from the data were utilized and generated into categories. Coding the text of the semi-structured interviews was
done with the qualitative data analysis program MAXQDA Version 10. The archival data was coded by hand, since most documents were not digitally available due to their confidential status. Finally, for each case, a case study report was written with extensive use of citations from both the interviews and the documents to maintain a chain of evidence and to achieve a high level of accuracy. When describing the cases, events that caused a change in the development of trust and the application of control were emphasized. Subsequently, the case study reports were analyzed through an inductive approach, which was repeated until dominant findings emerged. Further, the empirical findings were compared and contrasted with previously discussed theoretical perspectives and with other relevant theoretical propositions (Yin, 2014). A summary of the results of this first phase of the data analysis is included in Section 3.6.

For the data analysis during Phase 2, the interviews were also transcribed. Next, the gathered interview data was analyzed using the approach formulated by Graebner (2009). The first important step was to organize the attained raw data to reduce complexity of extracting the valuable knowledge (Eisenhardt, 1989). The different case studies were therefore described in a separate manner. The next step was aimed at interpreting how the different concepts were actually explained by the managers. The concluding step was to integrate the data from a wide array of sources collected in the preceding stages to ultimately gain knowledge. A summary of the results of this second phase of the data analysis is included in Section 3.9.

For Phase 3 of the data analysis, the interview transcriptions from Phases 1 and 2 were used. Next, all transcripts were coded again using Atlas.ti (Version 7.5.8, Scientific Software Development, 1999). This coding was done based on the definitions that were selected from the literature review, as explained in Chapter 1. Then, an approach advocated by Eisenhardt and Graebner (2007) was used to promote the use of so-called “construct tables” and other visual devices to summarize the related case evidence as being central to signaling the depth and detail of empirical grounding. In other words, they stated that the use of summary tables and aids that summarize the case evidence complements the selective story descriptions of the text and further emphasizes the rigor and depth of the empirical grounding of the theory (Eisenhardt & Graebner, 2007). Given the importance of this approach, this type of analysis is explained in more detail in Section 3.2.

In the last couple of sections, several references are made to the used approach to ensure that this research meets academic standards. In the next section, these measures will be made even more explicit.
2.6 Ensuring quality: using proven case study tactics

To ensure the quality of the research, several measures were taken. These measures are clustered based on the objective they wanted to achieve, specifically construct validity, internal validity, external validity, and reliability. As stated by Yin (2014), these four tests are commonly used to establish the quality of any empirical social research. Table 10 shows the tactics advised by Yin (2014) when doing case study research. This table also shows the phase of research in which the various tactics occurred.

Table 10: Case Study Tactics for Four Design Tests (Yin, 2014).

<table>
<thead>
<tr>
<th>Tests</th>
<th>Case Study Tactic</th>
<th>Phase of Research in which Tactic Occurs</th>
</tr>
</thead>
</table>
| Construct validity | • Use multiple sources of evidence.  
                          • Establish chain of evidence.  
                          • Have key informants review draft study case report. | • Data collection.  
                          • Data collection.  
                          • Composition. |
| Internal validity | • Do pattern matching.  
                          • Do explanation building.  
                          • Address rival explanations.  
                          • Use logical models. | • Data analysis.  
                          • Data analysis.  
                          • Data analysis.  
                          • Data analysis. |
| External validity | • Use theory in single case studies.  
                          • Use replication logic in multiple case studies. | • Research design.  
                          • Research design. |
| Reliability      | • Use case study protocol.  
                          • Develop case study.  
                          • Database. | • Data collection.  
                          • Data collection. |

This research was done in cooperation with four students who graduated as part of this research program. These students, coming from four different Dutch universities, all had academic supervisors who verified the methods used during this research. This verification by the students’ academic supervisors provided a generic safeguard for the quality of this research. The information about these students (their names, universities, supervisors, etc.) is listed in Appendix B. Two students supported me during the case studies. They also each wrote their thesis based on the outcome of these case studies. The research of the other two master’s students was not used directly for this research. One student did not finish her research and another student preferred to do quantitative research above the case studies.

Putting it simply, reflexivity is the recognition that the product of research inevitably reflects some of the background, milieu, and predilections of the researcher.
The scientific model claims that good research is objective, accurate, and unbiased. However, those who stress reflexivity of research suggest that no researcher can guarantee such objectivity (Gibbs, 2007). To address this, the assumptions I made were explicitly discussed in Section 1.5. Furthermore, in the WhatsApp discussions that are included at the end of every chapter, I share several features of this background. This enables you to place the text in context. A good reflexive research report will clearly demonstrate how it is grounded in the data collected and interpreted. A key way this can be done is by providing the reader with evidence in the form of quotations from field notes, interviews, or other documentation that has been gathered. In Chapter 3, several quotes are included to illustrate the case descriptions.

As Denzin and Lincoln (1994) stated, “the construct validity of a procedure refers to the extent to which a study investigates what it claims to investigate, i.e., the extent to which a procedure leads to an accurate observation of reality”. To achieve construct validity, three measures were taken in this study. First, a literature review was done to see what earlier research had shown as important constructs within this field of study. These constructs and their definitions were used during the research. The second measure was to use several sources of evidence. Not only were the decision makers of the IORs interviewed, also several documents, like contracts, were studied. As Yin (2014) stated, findings or conclusions in a case study are likely to be much more convincing and accurate if they are based on several different sources of information. Third, this document reflects a clear chain of evidence to allow the reader to reconstruct how research went from the initial research questions to the final conclusions (Yin, 2014).

“Internal validity” refers to the causal relationships between variables and results (Gibbert et al., 2008). Four methods were used to ensure internal validity: the refutability principle, the constant comparative method, comprehensive data treatment, and deviant-case analysis. The refutability principle is a solution to the problem of anecdotalism (Silverman, 2005). This phenomenon is the risk that the findings of qualitative research are based on well-chosen “examples.” This was addressed in this study by constantly seeking to refute the initial assumptions about the data to achieve objectivity. Using the constant comparative method means that the qualitative researcher needs to try to find other cases to validate a provisional hypothesis (Silverman, 2005). As part of this research, two groups of several cases (first three in 2010 and then two in 2012) were studied. During the data analysis, these cases were compared constantly. Comprehensive data treatment means that all data that has been gathered need to be included in the analysis (Silverman, 2005). All five cases were included in this research, so no data was left out. Devi-
Deviant-case analysis means that the researcher also includes cases that do not align with the theoretical framework or with the hypotheses that are being developed (Silverman, 2005). As Gibbert and Ruigrok (2010) stated, deviant-case analysis can be a direct result of comprehensive data treatment.

External validity, or generalizability, means that theories must be applicable in all kinds of situations, not only in the context in which they are researched (Silverman, 2005). According to Gibbert and Ruigrok (2010), differentiating between statistical generalization and analytical generalization is key. They stated: “Whereas statistical generalization refers to generalization from observation of a population, analytical generalization denotes a process that refers to generalization from empirical observations to theory, rather than a population” (Gibbert & Ruigrok, 2010, p. 715). Eisenhardt (1989) suggested that a cross-case analysis with four to 10 case studies may result in a sound fundament for analytical generalization. As part of this research, five case studies were implemented. This number exceeds Eisenhardt’s (1989) threshold. Furthermore, the rationale for the selection of the case studies was discussed in Section 2.1.3. Finally, ample details on the case study context are given in the next chapter.

Reliability means that the research does not contain random errors. This feature enables other researchers to come to the same conclusions in case they would do the study again in the same way (Denzin & Lincoln, 1994). According to Gibbs (2007), ways to ensure that research is as self-consistent and reliable as it can be include transcription checking, preventing definitional drift in coding, working in teams, and code cross-checking. All transcriptions in this study were drafted by the students and checked by me. Preventing definitional drift in coding refers to the risk of having differences between material coded later in a project versus codes established earlier. This phenomenon was addressed by repeating the coding at the end of the research phase.

As Gibbert and Ruigrok (2010) stated, the keys to ensuring reliability are transparency and replication. To address these points, a case study protocol was drafted and a case study database was used (see Section 2.4). In this database, all recordings of the interviews and all transcriptions were organized in a way that enabled other researchers to find it.
2.7 Summary

Figure 19 shows the same questions as listed in the beginning of this chapter, with the corresponding answers.

This chapter elaborated on the method used for this research. It was explained that, as advised by Yin (2014), the method for performing case studies was chosen to understand the phenomenon from the context in which it takes place. Furthermore, the selection of the cases was also discussed. Most of the case studies involved tightly coupled interorganizational forms within the FSI. Then, the main concepts of the conceptual model were operationalized. Next, this chapter included an explication about how the data was analyzed, namely in three phases: after each of the two batches of cases studies and at the end for all cases studies. Finally, the safeguards that were taken to ensure the quality of the research were elucidated. These measures were taken to achieve construct validity, internal validity, external validity, and reliability.
### Chapter / sections

#### 2. Method

**Corresponding questions**

- Who has done this research and how has it been done?

- Who has done the research and which steps have been taken?

- How has the data been gathered that was needed to answer the research question?

- How have the concepts from the conceptual model been measured?

- Which procedures have been followed to gather the data?

- What is the researchers view on data analysis and what approach has been used?

- What has been done to guarantee the quality of this research?

**Main answers**

The PhD researcher, supported by his supervisors and students, did the research with case studies as main method.

A research team, with the PhD researcher as main responsible person, has gone through a dynamic research process consisting of case studies, several sessions and series of interviews.

A holistic, multiple-case study into existing IORs between FIs has been used as main method of data collection.

The concepts have been assessed by asking decision makers about their perceptions and behavior.

Several sources have been used, to ensure triangulation, and a data collection plan has been followed.

The PhD researcher regards data analysis as transforming words and sentences in order to find meaningful patterns. To do this, construct tables have been used.

Attention has been paid to construct-, internal- and external validity and to reliability.

---

**Figure 19: Summary of Chapter 2.**
Chapter 2: Method
Aunt Jane
Hi Petrosjan, your latest chapter was quite tough to read. Did I understand it correctly that you talked to a lot of people to do your research? In that sense, I am doing a lot of research myself. I talk to people every day. What’s the difference with what you did?

Me
In a way, you’re right Aunt Jane. I indeed talked to a lot of people during my research. The main differences between this and normal, day-to-day conversation is how I prepared for the interviews and what I did with the outcome. I carefully selected the people I interviewed and the questions I used were based on earlier research. I also used other sources, like the contracts that the organizations used for their cooperation. I also processed the answers of the people I interviewed in a structured way, looking for recurring themes. That’s not something you do when you talk to your friends, is it?

Aunt Jane
No, that’s right. But I thought that science was much more difficult. Doctors doing tests in laboratories, that kind of stuff.

Me
That’s only a part of science. In a way, the various types of organizations I have studied can be regarded as laboratories in real life.

Aunt Jane
Ok, but why is what you did scientific?

Me
I ensured four things: 1. I assessed the right relationships, 2. I used the right definitions, 3. my study could be repeated by other researchers, and 4. my findings also can be applied to other alliances. I did this by making sure that my analysis was guided by logic, consistency, and coherence.

Aunt Jane
Well, then maybe what you did made more sense than I thought. I am getting curious about what you discovered. When will you share that with me?

Me
The results of my case studies are included in next chapter, so you’re almost there!

Aunt Jane
Ok, looking forward to that text then!

WhatsApp conversation 3: Method.
Chapter 3

Results of the concepts and methodologies applied to the case studies
Chapter 3: Results

The objective of this chapter is to share the outcomes of the case studies and to explain the strategy that was used to analyze this data. Figure 20 shows the structure of this chapter. First, Section 3.1 gives an overview of the IORs that were analyzed for this research. Then, Section 3.2 shows how the data that was found in the various IORs was analyzed. Sections 3.3 to 3.5 include the findings from the case studies that took place during the first phase of this research.

<table>
<thead>
<tr>
<th>Chapter / sections</th>
<th>Questions that are answered</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Results</td>
<td><em>What has been found in the IORs that are part of this research?</em></td>
</tr>
<tr>
<td>3.1 Overview IORs</td>
<td><em>What are the main features of the IORs that have been studied?</em></td>
</tr>
<tr>
<td>3.2 Analysis strategy</td>
<td><em>How has the data that has been found during the case studies been analysed?</em></td>
</tr>
<tr>
<td>3.3 – 3.5 Case studies phase 1</td>
<td>*What has been found during the case studies that were part of phase 1 of this research?</td>
</tr>
<tr>
<td>3.6 Reflection after phase 1</td>
<td><em>What did cross-case analysis learn about the patterns that have been found?</em></td>
</tr>
<tr>
<td>3.7 – 3.8 Case studies phase 2</td>
<td>*What has been found during the case studies that were part of phase 2 of this research?</td>
</tr>
<tr>
<td>3.9 Reflection after phase 2</td>
<td><em>What did cross-case analysis learn about the patterns that have been found?</em></td>
</tr>
<tr>
<td>3.10 Final iteration and reflection</td>
<td><em>How did the objectives of the IORs and the use of formal control evolve over time?</em></td>
</tr>
</tbody>
</table>

*Figure 20: Structure of Chapter 3.*

As an intermediate step, Section 3.6 includes the reflections from cross-case analysis regarding the IORs of Phase 1. Subsequently, Sections 3.7 and 3.8 show the results of the IORs that were studied during Phase 2 of this research. Finally, the outcome of the cross-case analysis of the last two IORs is incorporated in Section 3.9. Section 3.10 includes a final iteration and reflection on the IORs.
3.1 Overview of IORs: various types of cooperation between financial institutions

Table 11 gives an overview of the IORs that were studied, their main features, and the names that will be used in the rest of this document. Anonymous names were used that reflect the main features of the IORs. These names are more relevant to the objective of this study.

Table 11: Overview of IORs Studied During this Research

<table>
<thead>
<tr>
<th>Actual names</th>
<th>Phase 1</th>
<th>Phase 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Altajo/GSN</td>
<td>CZ-DLG</td>
</tr>
<tr>
<td>Names used in this document</td>
<td>Banking JV</td>
<td>Insurance Alliance</td>
</tr>
<tr>
<td>Activities</td>
<td>Cash handling and logistics</td>
<td>Health insurances</td>
</tr>
<tr>
<td>Objective</td>
<td>Achieve economies of scale</td>
<td>Achieve efficiencies &amp; cross sell services</td>
</tr>
<tr>
<td>Cooperating FIs</td>
<td>ABN AMRO</td>
<td>CZ</td>
</tr>
<tr>
<td>Legal entity</td>
<td>Equity joint venture</td>
<td>Contractual alliance</td>
</tr>
<tr>
<td>Number of employees</td>
<td>100-150 fte</td>
<td>5 fte alliance management</td>
</tr>
</tbody>
</table>

Table 11 shows the variety of IORs that were studied, including IORs that perform different kinds of activities, have different legal forms, and that were established for varying reasons. However, as explained in Section 2.2.3, all IORs operate within the FSI and focus on the operations domain of FIs.
3.2 Analysis strategy: creating construct matrices and corresponding visualization

In Section 2.5, the overall data analysis approach was introduced. Furthermore, in that same section, my view on the data analysis was clarified. In this section, more detail is provided regarding how the data was transformed to look for meaningful patterns.

As explained earlier, the first step for every IOR included in the study was to codify the transcriptions of the interviews with the various decision makers. The second step, to get acquainted with the data, was to study all transcriptions in detail looking for themes. The various observation techniques advised by Bernard and Ryan (2010) were used for this step, varying from looking for repetitions, metaphors, and analogies to looking for missing data. In order to do this, several features of Atlas.ti (Version 7.5.8, Scientific Software Development, 1999) were used. As an example, Figure 21 shows a network view, linking quotes about the relevant aspects of their behavior to the transcripts of the interviews with the decision makers of one specific case, Banking JV. This example illustrates the important role of information sharing and, to a lesser extent, joint problem solving, compared to the other features of decision makers’ behavior. These kinds of features of Atlas.ti (Version 7.5.8, Scientific Software Development, 1999) made it easier to detect possible patterns across the various transcriptions.

The third and fourth step were completed according to the conceptual model structure. Therefore, the conceptual model is shown again in Figure 22.

The conceptual model reveals that this research studied how decision makers’ perceptions of the use of formal control mechanisms impact their perceptions of the performance of IORs via their own behavior and the behavior of their fellow decision makers. This relationship was studied, taking the presence of (dis)trust between decision makers into account.

For the third step of the data analysis, as already mentioned in Section 2.5.2, an approach advocated by Eisenhardt and Graebner (2007) was used. They promoted the use of so-called “construct tables” and other visual devices to summarize the related case evidence as being central to signaling the depth and detail of empirical grounding. The method that was used was furthermore inspired by the matrix method advocated by Groenland (2014a). The construct tables were made by creating matrices that reflected two different variables of two concepts from the conceptual model that are linked by arrows. In these matrices, not only were the concepts
Figure 21: Example of network view used in Atlas.ti.
(Dis)trust between decision makers

Presence of (dis)trust
Type of (dis)trust

Behavior by decision makers
Information sharing
Joint problem solving

Decision makers’ perception of use of formal control in IOR
Level of detail of formal control mech.
Type of formal control

Decision makers’ perception of performance of IOR
Perception of IOR performance
Explanation for this perception

Figure 22: Conceptual model.

and variables included, but also the attributes that were explained in Section 2.3. By creating this kind of concept matrix, each cell represented an interface between two attributes of two variables of two concepts whose relationship needed to be studied, as visualized in the conceptual model. This was done to get a good understanding of the nature of the relationship between these concepts and variables.

With each matrix, and for every context separately (i.e., for each IOR that was studied), two steps were taken:

1. **Filling the matrix with raw data:** All kinds of remarks, taken from the transcriptions regarding the interviews with the decision makers within that particular IOR, which applied to the two concepts that were combined in the matrix, were included. Each sentence was displayed in the cell, combining the two attributes of the two concepts that applied best. Selecting the text for these concept matrices was done based on the coding. This made it easier to process the transcriptions into the matrices. See Figure 23 for an example of a “raw” concept matrix.

2. **Tidying up the raw data:** Next, the raw data was studied per cell and turned into categories. Responses that emanated from the same basic category were combined.

Because the matrix was based on variables and attributes that resulted from the literature review, this method of data analysis can be referred to as a theoretical approach.
Chapter 3: Results

The example in Figure 23 shows the raw concept matrix concerning the variable “information sharing,” part of the concept “behavior by decision makers,” the variable “level of detail of formal control,” and part of the concept “decision makers’ perception of the use of formal control.” All statements from the interviewed decision makers, in this example within the IOR Banking JV, were included in the applicable cell. The example only shows a part of the statements made. This text clustering made it easier to look for meaningful patterns. To make this even more apparent, I took a fourth step.

<table>
<thead>
<tr>
<th>Concept</th>
<th>Variable</th>
<th>Attribute</th>
<th>Open information sharing</th>
<th>Restricted information sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision makers’ perception of the use of formal control in the IOR</td>
<td>Extensive</td>
<td>We have documented quite a lot, but it is also what we expect. Apart from what has been documented, we expect BJV2 that he informs us. BJV2 informs us about more things than he needs to do. That is pleasant, in a way that BJV1 and I have instructed BJV2 to do so. You could say that we do not need to be informed about investments that are 5% below his mandate. But we appreciate that he sends us a message, telling what he is going to do. We always try to align our opinions as Non-Executive Board members before a Non-Executive Board meeting. We do this, to be sure that we have the same story towards BJV2. Of course, we both have our own role and what we advocate for. So the moment we have a difference of opinion, then you need to determine how you find a solution. But I do not know examples of situations where we didn’t solve our difference of opinion.- BJV2, Non-Executive Board Member</td>
<td>No applicable quotes in this quadrant.</td>
<td></td>
</tr>
<tr>
<td>Decision makers’ perception of the use of formal control in the IOR</td>
<td>Limited</td>
<td>No applicable quotes in this quadrant.</td>
<td>No applicable quotes in this quadrant.</td>
<td></td>
</tr>
</tbody>
</table>

Figure 23: Example of raw concept matrix.

As the fourth step, the assessment of the various variables of the concepts within the conceptual model were visualized per IOR. This was done similarly to the illustration in Figure 24.
For every concept, a matrix was created by combining the variables that are part of the conceptual model. Each cell represents a possible combination of two attributes of those variables. If a particular combination applied, then that cell is filled in grey. The impact the concepts had on each other is visualized by an arrow with a qualification of the influence concerned. See the legend in Figure 24 for the various options.

When assessing these relationships between the various concepts, a number of assumptions were made:

1. **Relationship between decision makers’ perception of use of formal control in IOR and behavior by decision makers**: Whenever a decision maker’s perception of use of formal control stimulated open information sharing and/or cooperative behavior in the case of problem solving, this impact was assessed as positive (+). In cases where a decision maker’s perception of use of formal control stimulated restricted information sharing and/or competitive behavior in case of problem solving, this impact was assessed as negative (-). In cases where a combination occurred, this was assessed as mixed (+/-);

2. **Moderating impact of (dis)trust between decision makers on the relationship between decision makers’ perception of use of formal control in IOR and be-
behavior by decision makers: When (dis)trust between decision makers increased the impact that decision makers’ perception of use of formal control had on open information sharing and/or cooperative behavior in the case of problem solving, this effect was assessed as positive (+). When this moderating effect decreased open information sharing and/or cooperative behavior, the impact was assessed as negative (-). When both situations were found, the effect was assessed as mixed (+/-);

3. Relationship between behavior by decision makers and decision makers’ perception of performance of IOR: In situations where decision makers’ behavior resulted in their positive perception of the performance of the IOR, this impact was assessed as positive (+). Whenever decision makers’ behavior resulted in their negative perception of the performance of the IOR, this impact was assessed as negative (-). Again, when a combination occurred, this was assessed as mixed (+/-).

This way of assessing the impact the various concepts had on each other includes subjectivity, which says a lot about what I regard as being good or bad. That’s why this approach was made as explicit as possible here.

Where perceptions of the interviewed decision makers per IOR differed, this has been made explicit. The focus of this analysis is on the specific aspects that have to do with cooperation between individuals from different organizations. Therefore, in this chapter, less attention is paid to the aspects that have to do with generic management and leadership issues.

The next sections detail the data that was gathered from the various studied IORs. First, the background of the IOR is shared. Then, the attributes that were observed within that specific IOR are described per concept. The observations are visualized per IOR, as explained in this section. Throughout the case descriptions, various quotes of the interviewed persons are included. These quotes, shown in the grey quotation boxes, were incorporated to illustrate the findings.

Because the original case studies took place some time ago, in 2010 and 2012, an update of the situation in 2015 was carried out and is included in this report. These updates were based on interviews with the IORs’ managers (CEOs, etc.). This information therefore only reflects the perception of one person per case. Because of this limited number of sources, these observations were not directly used in the data analysis.
3.3 IOR 1: Banking JV

Background
In 2006, ABN AMRO and Rabobank started official negotiations to create a joint venture to handle cash (counting, sorting, checking, etc.). One partner had specialist knowledge of these processes and used to own the business process, but was confronted with structural overcapacity and was hence looking for ways to lever age costs. The other partner wanted to reduce dependency on one single supplier. They were reluctant to outsource to a direct competitor, and therefore it was decided that a JV would provide an appropriate structure. Together they aimed to increase efficiency and reduce costs while meeting the demands of authorities and customers. This negotiation led to Altajo (Banking JV), a JV with the legal status of a “besloten vennootschap” (BV).

Perception of use of formal control mechanisms
Figure 25 gives an overview of the governance of Banking JV.
Both organizations own 50% of Banking JV as described in their shareholder agreement. Both institutions are also clients of Banking JV. Therefore, they have service level agreements with each other. These service agreements state that both organizations can perform audits if required. The internal relationship between the CEO of Banking JV and the non-executive board, which consists of two members, is governed by several documents (annual accounts, business plan, etc.) and processes (monthly management info and benchmarks).

As Figure 26 shows, the perceived level of control within this case can be characterized as **extensive**. The interviewees referred to both **behavior control** and **output control** mechanisms. The perceived extensive level of control was illustrated by the fact that the decision makers referred to the inclusion of milestones, target dates, and roles in the shareholder agreement. This was confirmed by contract analysis, that showed that clauses were present that described the supervisory board’s tasks: to monitor the course and actions of the JV. The supervisors were obliged to exchange information during supervisory board meetings four times a year. Moreover, decision making procedures and procuration schedules were present and had to be executed in case of strategic decisions or concerning projects with a certain minimum value.

<table>
<thead>
<tr>
<th>Decision makers’ perception of use of formal control in IOR</th>
<th>Behavior by decision makers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>Level of detail</td>
</tr>
<tr>
<td>Behavior</td>
<td>Limited</td>
</tr>
<tr>
<td>Output</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 26:** Perceived use of formal control Banking JV.

**Figure 27:** Behavior Banking JV.
An example of behavior control is that the cash handling processes were described in detail by both “mothers.” They, the partnering organizations, determined how this was to be done. The interviewed decision makers described how cash handling differs per institution. They also explained how this different approach was documented. The quote stated in Quotation box 1 illustrates the perception of one of the non-executive board members.

Illustrations of the perception of extensive output control mechanisms are the examples that the interviewees gave about the monthly performance indicators that they used. These indicators include financial metrics and service levels. The monthly reports also included behavior control mechanisms, like information about the level of sick leave.

**Behavior by decision makers**

There was an open information exchange between the partnering organizations and the non-executive board members. The interviewed decision makers explained that problems were solved in a cooperative way. See Figure 27. The CEO put in a lot of effort to continuously inform the non-executive board members about all the matters at hand. This information sharing was largely limited to the meetings that were described in the formal mechanisms, like the monthly management information and the non-executive board meetings. However, the interviewed decision makers explained that information sharing was very open during these meetings. Furthermore, the CEO explained that he also had the possibility to contact the non-executive board members in between formal meetings, in case of issues or questions. However, he very rarely used this option. The most important reason for this low frequency was that business was going fine. The non-executive board members were also being informed via their colleagues, Banking JV customers, on a tactical level.

Maybe I need to use those two words right away: trust is good, control is better. No, I’m not a control freak. Not at all. But I did learn that you shouldn’t be naive. If you’re talking about the formation stage, then I think the deal should be well framed. And I have included a number of crucial thoughts. Also to make sure that, as a means, trust will not be damaged... as is in every deal, I believe in executing a deal that is inherently good. And by that I actually mean that for the partners, the mechanism of the deal clearly shows why it has advantages. – BJV3

**Quotation box 1.**
Quotation box 2 gives an example of the cooperative behavior encountered when solving joint problems. Another example is the fact that one of the non-executive board members stressed that if another party had a problem with the JV, it was also his problem. He was convinced that it is important to show your commitment the moment your partner organization has a problem.

There is also a third way [to build trust]: Being open for problems of the other one. So, if the other one has a serious problem, see if we can think of something, maybe another way, how we can address and take away that problem without me having too much pain. So organising things slightly different in a way that the problems of the other one are taken away. – BJV3

Quotation box 2: joint problem solving Banking JV.

The cooperative way problems are being solved refers to the contact between the partnering organizations, meaning between the non-executive board members themselves, and not between the non-executive board members and the CEO of Banking JV. These members used open information sharing between themselves to come to a shared viewpoint toward the CEO. As explained in the rest of this section, this behavior resulted in the CEO distrusting in the non-executive board members.

(Dis)trust between decision makers

Both non-executive board members said that they trusted each other with both competence trust and goodwill trust (see Figure 28). One of the non-executive board members based their opinion about the presence of trust on how his fellow non-executive board member communicated with the CEO. As an example, the member mentioned a recent mail from the CEO to both members. Before the other non-executive board member replied to the CEO, she first contacted the non-executive board member to discuss the CEO’s question. The member we spoke to reasoned that she spoke to him first because she trusted him; otherwise she would have answered directly to the CEO and would have confronted him with this answer.

They also trusted the CEO, however. As mentioned by one of the non-executive board members, if they didn’t trust the CEO, then the CEO would have been replaced. This remark was made in several of the other case studies as well. Still, the CEO partly distrusted both non-executive board members. This distrust had to do with the information sharing between the non-executive board members. This relationship is explained in the final part of this section.
Decision makers’ perception of performance
As with the trust between the decision makers, their perception of the performance of the IOR also varied for the same reasons as the difference with trust. The CEO had a mixed perception, both positive and negative, of the IOR’s performance, while both non-executive board members were positive. The positive perception was mostly due to the fact that the goals of the IOR had been met. The negative perception had to do with how the decision makers shared information, not only between themselves but also with others. This aspect can been seen as process as explanation for the perception of the performance of the IOR. See Figure 29.

This mixed perception of the CEO was the result of both structure and process, illustrated by Quotation box 3, where the CEO refers to both the advantages of the structure of the IOR and the room for improvement in the relationship between the decision makers.

We benefit from starting this joint venture and still will in the future. However, in my opinion, the manner of collaboration leaves room for improvement. It’s the emphasis on control and the lack of trust that I think is… this atmosphere is not motivating. I think that’s wrong. – BJV2

*Quotation box 3: Perceived performance Banking JV.*
Impact of concepts on each other

Figure 30 gives a visual summary of the outcome of the study into Banking JV.

The extensive level of detail of the contract, e.g., requiring the CEO to share management information on a monthly basis with the non-executive board members, stimulated open information exchange and cooperative joint problem solving. This open information exchange had both a positive and a negative effect on the perceived performance. The positive effect was that decisions could be made fast as a result of the fact that the non-executive board members were continuously informed about all matters of importance. The negative effect was that one of the non-executive board members shared information with her colleagues, who were clients of Banking JV. This information was only meant for the non-executive board members. This incident annoyed the CEO and resulted in goodwill distrust, because the information was used in his discussions with that specific client. Another aspect that led to a mixed perception of the CEO was how the non-executive board members communicated with him. Before every meeting, the non-executive board members had contact with each other and discussed each agenda item. This way, they agreed on every item in advance of the meeting and presented one opinion to the CEO. They, the non-executive board members, thought this would be convenient and helpful for the CEO. The CEO, however, experienced this
as irritating, because to him it felt like the non-executive board members were conspiring against him.

Situation in 2015
Since the original data gathering in 2012, several things had changed for this IOR. First of all, a third financial institution, ING, joined the partnership. This was one of the largest financial institutions in The Netherlands. The second important change was that the IOR broadened its services into cash logistics. Previously, cash logistics were handled by external vendors. All three partners, ABN AMRO, Rabobank, and ING, had their own contracts with several suppliers. The idea behind incorporating cash logistics into this IOR was to achieve economies of scale. The name of this new IOR became Geldservice Nederland, shortened as GSN. None of the decision makers that were interviewed during the original case study was still present in the same role. As a consequence of the broadening of the scope of services of Banking JV, the non-executive board members decided that it was better to appoint another CEO, i.e., someone with more experience with logistics.

With respect to the use of control mechanisms, several other things also changed. The non-executive board not only gained a member from ING, but they also gained a member from the Dutch National Bank (DNB). These additions occurred because cash logistics is, according to the supervising authority DNB, a crucial part of the Dutch financial system. The non-executive board member of DNB did not have voting power. Another change regarding the non-executive board was that all current members were positioned higher in the hierarchy of their own organizations. Furthermore, they were all responsible for cash. As a consequence, the non-executive board members were positioned at the highest level within the client organizations. That is, all three financial institutions not only owned GSN, they were also its major clients. Having non-executive board members that were responsible for cash within their own organizations was a conscious decision. This illustrates, in the opinion of the current CEO of GSN, the importance of cash handling.

The level of behavior control varies per mother organization. A generic aspect is that the wish for control originates mostly from the tactical level of the parent organizations, meaning the managers that used to be responsible for the activities were migrated to GSN. This urge for control is illustrated by Quotation box 4.

There was no more distrust between the CEO and the non-executive board members. What stayed the same was the open information exchange and the cooperative way problems were solved. The perception of the CEO of the performance of the IOR was positive, with process as the explanation.
3.4 IOR 2: Insurance Alliance

Background
In January 2008, CZ and Delta Lloyd Group (DLG) reached an agreement on a strategic alliance. CZ is a nationwide health insurance organization, but historically has a focus on the south part of the country. DLG, as an insurance company and financial services provider, pursued a multi-brand, multi-channel strategy in The Netherlands. So where health insurance is the CZ organization’s core business, for DLG it is part of a larger portfolio. After integrating the IT systems, harmonizing the working conditions, and finishing the specific contractual agreements on January 1, 2009, CZ purchased DLG’s health insurance business. While they retained the Delta Lloyd and Ohra label, CZ then used health insurance as a risk and expense bearer. The transaction is in line with CZ’s aspiration to increase market share, thereby strengthening their purchasing power and moreover to minimize execution costs by gaining economies of scale. For DLG, the transaction opened up opportunities to pursue health insurance products with their own label. Furthermore, DLG had the exclusive rights to sell income, damage, and life-insurance products to CZ’s health insurance customers.

Perception of use of formal control mechanisms
Figure 31 gives an overview of the governance of Insurance Alliance, as this IOR is referred to in the rest of this document.

The main governing instruments that impacted decision makers’ perceptions of the use of formal control within this relationship were the five underlying contracts. One contract, the purchase agreement, purely focused on the transaction regarding the health insurance portfolio. This contract contained all the expected clauses, which were specified in great detail. These clauses included, among others: ownership and a procedure for relationship escalation or termination. The fact that CZ acquired the health insurance companies was a result of Dutch law, which required one party to be the risk-bearer.
The second contract, the healthcare distribution agreement, dealt more directly with the actual execution of the agreement. For instance, the healthcare distribution contract specified in great detail that CZ was solely responsible for the operational processes of all labels, while DLG was solely responsible for the marketing and sales activities of the DL and Ohra labels. This distribution agreement was signed for a period of 30 years. DLG and CZ did choose this relatively long period of time to stress their intention of a strategic partnership. The partners agreed that only after a period of 10 years would they have the opportunity to exit the partnership.

The third contract, the cross-sell agreement, included, for instance, when and how customers could be approached. Furthermore, milestones, actions, and target dates were specified in an annual marketing plan. The fourth contract, focusing on income and absenteeism services, was not specified. During the case study, partners were still negotiating on the service level agreements, and mentioned that the progress of the process left much to be desired. Finally, the fifth contract contained rules concerning asset management. The partners agreed that DLG would provide asset management services to CZ. This contract covered that client-supplier relationship.

Both organizations created special departments responsible for managing the cooperation. CZ introduced the Label Contact Center (LCC), which was designed as a first point of contact and knowledge center for all questions concerning the
collaboration. LCC informed and reported to both CZ and the labels about all agreements and possible changes in agreements. Additionally, LCC identified issues that did not develop in accordance with agreements. The department had no decision making power since this was organized within the line. However, as a staff function, LCC was directly linked to the board of directors and if necessary, there were options for escalation.

DLG introduced the Business Contract Management (BCM) department to manage and control both the relationship as well as the whole chain. Whenever CZ had any questions, BCM was contacted and referred to the right manager. Moreover, this division played a planning, coordinating, and controlling role for projects that required the attention of both parties. Unlike LCC, BCM was not directly linked to the board of directors because of the difference in priority, given the broad portfolio of the DLG organization.

Combined into one team, LCC and BCM were responsible for managing the alliance. Difficulties in execution were discussed during fortnightly operational meetings. In addition, there were strategic meetings to review progress with two representatives from each firm and the managers of the team. In case problems were not resolved during operational meetings, they were reconciled at strategic meetings.

Mainly based on the healthcare distribution agreement, decision makers’ perceptions of the level of detail of the control mechanisms of this IOR were assessed as extensive. Both output and behavior control mechanisms were used (Figure 32). Examples of output control are that in the healthcare distribution agreement, performance standards and target dates for these deliveries were defined. An example of behavior control was that the interviewed decision makers explained that on some tasks there were statements regulating the activities that the partners were supposed to conduct in order to accomplish them. For instance, stipulations described when to use which stationery and how to answer incoming calls. While, according to the perception of the interviewed decision makers, the level of detail of the formal control mechanisms was extensive, they were aware that the underlying contracts could not cover all possible events. This is illustrated by Quotation box 5.

<table>
<thead>
<tr>
<th>Quotation box 5: Formal control Insurance Alliance.</th>
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<tbody>
<tr>
<td>You can draft very extensive contracts, but in the end the real difficulties in executions occur at unexpected points. You can almost not foresee that. – IA1</td>
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Chapter 3: Results
Behavior by decision makers

This case showed **open information exchange on output** and **restricted information exchange on behavior**. This difference was a consequence of the way the division of responsibilities was interpreted by both partners. The decision makers at CZ were of the opinion that they were responsible for how the activities were executed. According to them, DLG should focus on the output (what). Therefore, they did not automatically answer all of DLG’s questions. Within DLG, several people thought that they outsourced the activities to CZ and that DLG was in charge. From this perspective, they did not understand why CZ was not willing to answer all their questions. This difference in perception is illustrated in Quotation box 6.

We want to be as transparent as possible. And that transparency should lead to trust. That is the explicit expectation. But when I hear your question I realise what happens. That is that transparency leads to questions, which leads to the wish to be in control. In fact, to sit on the driver’s seat. And when you ask ‘why do you want that?’ then that question is not really understood. – IA4

**Quotation box 6**: Information sharing Insurance Alliance.
On the one hand, joint problem solving can be characterized as cooperative. Especially in the initial stage, the decision makers on a strategic level helped each other in case one of the partners had a problem. In such situations, they gave each other the time and space to solve the issues. On the other hand, in some situations this aspect of behavior became more competitive as a result of the different views on the governance of the IOR. The operational departments at DLG and BCM were under pressure by their own organization to have CZ provide information. The employees of the LCC department at CZ were facing the consequences of the fact that BCM was not able to counter this internal pressure. This assessment is shown in Figure 33.

### (Dis)Trust between decision makers

The presence of (dis)trust varies between the strategic level and the operational/tactical level. On the strategic level, both competence and goodwill trust were present from the beginning. On an operational/tactical level, there was also distrust present, mostly about the level on which CZ was willing to meet the requirements of DLG. So this concerns goodwill distrust.

### Decision makers’ perception of performance of IOR

Decision makers have both a negative and a positive perception of this IOR. The negative perception, of the CZ stakeholders’ side on a tactical level, was mainly due to the structure of the IOR, specifically how DLG had positioned the BCM department. A process explanation for this negative perception was the restricted
information sharing between the partners, due to a different view on the governance of the IOR. The decision makers at the strategic level had a **positive** perception of the IOR. Their explanation for this was mainly the **process** of cooperation, especially during the initial stage of this IOR. They helped each other the moment the other one had a problem. Furthermore, they did not show a rigid application of the contracts. They gave each other room for improvement. Both organizations understood that the start-up period was challenging.

*Impact of concepts on each other*

Figure 36 shows the entire conceptual model of the assessment of Insurance Alliance. The extensive level of detail of both output and behavior control mechanisms had a positive influence on the behavior of the decision makers.

![Image](image.png)

**Figure 36**: Visual case summary of Insurance Alliance.

To determine precisely what the reasons were for the restricted information sharing and the competitive problem solving, it is good to take another look at the definition of formal control that was used for this research. Das & Teng’s (2001) definition was used. They defined formal control as “the establishment and utilization of formal rules, procedures, and policies to monitor and reward desired performance” (Das & Teng, 2001, p. 259). Within this IOR, the restricted information sharing and the competitive problem solving at a certain phase in the relationship
were mainly due to two reasons: 1. the lack of communicating clearly to the entire organization, especially DLG, what the governance of the IOR was, and 2. the positioning of the BCM department within DLG. Given the definition that was used, the element of lack of clear communication is regarded as a part of formal control. The reason for this is that it concerns the utilization of a formal rule, the content of the contracts. The positioning of the BCM department within DLG is not regarded as part of the formal control. It was, instead, the consequence of the internal governance by DLG. These two aspects were also the reason for the presence of distrust on a tactical/operational level. This distrust had a negative impact on the relationship between the concepts of decision makers’ perception of the use of formal control and behavior. Because of this distrust, the partners started to look at the contracts more often. They started using the clauses of the contracts to decide what information to share and what not to share. However, the presence of trust at a strategic level ensured that, in the end, the problem solving was done in a cooperative way and that there was open information sharing. The mixed behavior by the decision makers, both open and restricted information sharing and cooperative and competitive joint problem solving, was also the reason for the mixed perception of the performance of this IOR. The structural element of the explanation for the perceived performance is the positioning of DLG’s BCM department.

**Situation in 2015**

The governance of this IOR stayed, though on a higher level, the same as in 2011. The difference in the position of both departments that managed this IOR on a day-to-day basis still brought along challenges. The LCC at CZ was positioned right below the board of directors. The BCM department, nowadays called SLA Management, of DLG was positioned three levels lower within the OHRA label. This difference resulted in varying speeds of decision making by the cooperating partners.

The level of detail of the control mechanisms changed in various ways. The SLA increased slightly, because DLG needed more information to be able to plan their workload better. CZ agreed to this, because DLG had good reasons for this request. On the other hand, the partners deleted a specific clause of the healthcare distribution agreement about how to deal with claims regarding ICT failures. In the beginning they agreed that CZ had to report to DLG each week about the number of failures. However, CZ dealt so professionally with these failures, that DLG no longer requires these reports.

Another example of the changes in the level of detail of the control mechanisms concerns how CZ calculated the ex works price. In the beginning, CZ did not want
to give DLG insight into how the price was calculated. After a couple of years, however, as a result of the increased level of trust, CZ started to explain the elements of this price to DLG. This led to “very smart questions” (IA3) by DLG, that, in turn, increased the level of competence trust even more.

The level of trust between the key stakeholders increased significantly. On the strategic level, almost all key stakeholders changed since 2011. In the beginning, according to CZ’s LCC manager, several stakeholders were not intrinsically motivated to make a success out of this IOR. They saw it as a decision taken by someone else. However, over the years they saw the advantages of this cooperation, mostly due to the efforts that both departments, LCC and SLA Management, put into explaining to the key stakeholders what the essence behind this IOR was and how both organizations benefit from it. As a result of this increased level of trust, both partners gave each other more room to think and act. A specific example concerns the subject of mandates. In the beginning, the DLG directors were not allowed to sign a collective contract. This led to delays in their processes. Therefore, as a result of the increased level of trust, CZ arranged for directors to be able to sign such contracts.

The perceived performance of the IOR is more positive than it was during 2011, when it was mixed. DLG’s healthcare portfolio was growing and the economies of scale were leading to a competitive premium. On the other hand, the cross-sell agreement and the income and absenteeism contract were less successful. On the whole, the perception of this IOR was very positive.

### 3.5 IOR 3: Insurance Consortium

**General overview**

In 2003, the Dutch Association of Insurers established the Clearinghuis Reegschades (CR). To realize this, a new foundation was instigated that was transferred by the association and is now managed by a separate management team. This foundation was called Stichting Efficiënte Processen Schadeverzekeraars (SEPS), and is referred to as Insurance Consortium in this document. The Insurance Consortium aims to achieve efficiencies for indemnity insurers in areas where the competitive relationships between different organizations are not affected; it is a non-competitive market initiative. CR is an electronic platform designed to efficiently handle matters between insurers. Ultimately, insurers can achieve substantial savings on administrative costs involved in the conduct of recourse. In addition, the foundation is responsible for recruiting new members and to further realize CR.
Perception of use of formal control mechanisms

Figure 37 gives an overview of the governance of the Insurance Consortium. As this figure shows, SEPS provides not only of CR as a service, but also a service called Roy Data. However, this service was not studied as part of this research. The case study focused on CR.

The main governing entities are the non-executive board and the executive board. The main formal control mechanisms between these two entities are the annual plan and the periodical management information, provided by the General Manager to the members of the Non-Executive Board. The interviewed decision makers perceived these type of control mechanisms as output control. The level of detail that the decision makers perceived of the formal control mechanisms can be described as limited.

The most important control mechanisms between Insurance Consortium and its members are the participants’ regulations. These regulations contain descriptions of how the members need to interact with each other. Furthermore, the document states that members have the right to audit each other. The main rationale behind CR is that the members are able to process cases more efficiently by no longer exchanging physical documents each time. This requires, according to the interviewed stakeholders, a certain level of trust and detailed agreements about how to
interact. However, these detailed control mechanisms apply to the client–supplier relationship between Insurance Consortium and the insurance companies that are members of this IOR. So, this IOR showed a combination of extensive control at a tactical level, between the consortium and its members in their role as client, and limited control at a strategic level, between the consortium and the insurance companies in their role as non-executive board members. Given the focus of this research, only the last assessment has been used.

**Behavior by decision makers**

Various interviewed decision makers gave examples of open information exchange. Again, this open information sharing is one of the preconditions for this IOR to succeed. Joint problem solving is assessed as cooperative behavior. No formal conflicts occurred between the members of the CR or between the non-executive board and the executive board. Differences of opinion, whenever they occurred, were solved by talking about it in an informal way.

Quotation box 7 gives an example of the way the General Manager regards the non-executive board as a business partner instead of an entity he needs to report to.

> I don’t have the feeling that those documents (the contracts) limit me in my daily work. I don’t see the non-executive board as a party I am accountable to, but as a business partner – IC1

**Quotation box 7: Behavior Insurance consortium.**
**Trust between decision makers**

Both **goodwill and competence trust are present** within this IOR. Trust is the main reason why the CR model works, in fact. It enables the cooperating insurance companies to handle indemnity cases more quickly. The clarity of this rationale, of this common goal, creates an environment of trust. Also, one of the interviewed persons referred to the fact that the activities of CR concern non-competitive processes. That fact is another important condition for trust to prosper.

<table>
<thead>
<tr>
<th>(Dis)Trust between decision makers</th>
<th>Decision makers’ perception of performance of IOR</th>
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<tbody>
<tr>
<td>Presence of (dis)trust</td>
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<tr>
<td>Distrust</td>
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<td>Trust</td>
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<td>Type of (dis)trust</td>
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<tr>
<td>Goodwill</td>
<td>Structure</td>
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<td>Competence</td>
<td>Process</td>
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**Figure 40**: (Dis)trust Insurance Consortium

**Figure 41**: Perception of performance for Insurance Consortium.

**Decision makers’ perception of performance**

The decision makers have a **positive perception** of the performance of the CR. The main reason being that the objectives of the IOR are being achieved. As illustrated by Quotation box 8, the success of the CR is mostly due to the evident common goal the member insurance companies have. Furthermore, **process** has been mentioned most as the reason for this positive perception. The interviewees referred often to how the members are able to cooperate with each other.

CR has become such a success because the objective just is the same. We do not want to exchange documents, we want to speed up the process. That requires a lot of trust. And if this trust is being disappointed, then the consequences are huge as an insurance company in this market. Then you really have a very big problem. – IC4

**Quotation box 8**: Perceived performance Insurance Consortium.
Impact of concepts on each other

As illustrated by Figure 42, in this IOR, the various concepts have a positive impact on each other. Both the level of detail and the type of control mechanism are based on the main rationale of this cooperation, which is decreasing costs and increasing speed through fewer controls.

Decision makers’ perceptions of the use of formal control has a positive effect on their behavior. It stimulates open information sharing and cooperative behavior. This interaction between the use of formal control and the behavior of decision makers is positively influenced by the fact that trust is present between the decision makers. This trust was a precondition to start this IOR, given the rationale of the cooperation. This cooperation is based on trust and was the main reason for the positive perception the decision makers had about the performance of this IOR.

Situation in 2015

With the exception of the annual plan, the control mechanisms of Insurance Consortium have stayed the same. It appeared that there were too many external developments that made the use of an annual plan not valuable anymore. The plan was too rigid compared to the speed of the external developments. Both the level of detail and the focus (on output) of the control mechanisms stayed the same. However, one of the insurance companies asked for an extra report as a result of misuse.
Because the non-executive board members change every three to six years, trust building needs to start all over again each time. In general, the level of trust regarding the original activities concerning CR stayed the same.

Improvements in IT made it possible to exchange more information about the claims, like photos, between the insurance companies. However, the rationale behind CR is to make this process as efficient as possible by exchanging as few documents as possible. Therefore, in this case, increasing the information that was being shared had a counterproductive effect. Since the original case study, no serious conflicts occurred. The general manager had to mediate between insurance companies now and then, but he was able to prevent escalations. Mostly those discussions were about the way the participants’ regulations needed to be interpreted.

The perception of the performance of Insurance Consortium varies the same way the presence of (dis)trust varies. The perception of CR’s activities stayed positive. Insurance Consortium was the final IOR studied during Phase 1 of the case studies.

### 3.6 Reflection after phase 1: sense making determines group dynamics

Figure 43 gives an overview of the results of the first batch of case studies.

Regarding decision makers’ perception of the use of formal control, it can be noted that two times the combination of perceived extensive control with both types of control, output and behavior control, was found. In the situation of perceived limited control, in the Insurance Consortium case, only output control was used. These two blends align with the expectations in advance. If behavior is being controlled, then it can be assessed as extensive. When control mechanisms only focus on output, however, this conveys the impression that it involves a limited level of control.

With respect to the behavior of decision makers, the combination of open information sharing and cooperative behavior was found at both Banking JV and Insurance Consortium. At Insurance Alliance, all combinations were found, namely open and restricted information sharing and cooperative and competitive behavior. This mix shows that all kinds of behavior can be found within the same IOR, depending on the exact topic and depending on the level of the decision makers involved.
### Decision Maker's Perception of Use of Formal Control in IOR

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<th>Concept</th>
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<td>Banking JV</td>
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<td>Extensive</td>
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### Behavior by Decision Makers

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<td></td>
<td>Competitive behavior</td>
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### (Dis)trust Between Decision Makers

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<td>Trust present</td>
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<td>Goodwill</td>
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### Decision Makers' Perception of Performance of IOR

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<td>Positive</td>
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<td></td>
<td>Structure</td>
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**Figure 43:** Overview of cases from first group.
Also, concerning (dis)trust between decision makers, a mix of attributes was found, especially at Banking JV and Insurance Alliance. At those IORs, both trust and distrust was present and both goodwill trust and competence trust were found. At Insurance Consortium, both types of trust were assessed, but only trust was found. This presence of trust aligns with the limited level of detail of formal control mechanisms that was found in this case.

On decision makers’ perceptions of the performance of the IORs, it can be noted that again, the found attributes were the same for the first two cases, Banking JV and Insurance Alliance. Combinations of attributes that can be regarded as contradictory to each other were also found. The perception of decision makers regarding IORs’ performance were both negative and positive. The reason for this was that these opposing perceptions applied to different features of the IORs. One part of the perception had to do with process as an explanation and the other part with the structure of the IOR.

Overall, when looking for meaningful patterns in the outcome of the first batch of case studies, the similarities between the first two cases can be easily noticed. The only difference was found within the behavior of the decision makers. This shows that even when all other concepts have the same attributes, one concept can be different. This entirely depends on the specific situation of the IOR and on the specific part of the IOR.

In the rest of this section, the findings of the student that was part of the research team that performed the first group of case studies, Maartje Visser, are included. In addition to the concepts and variables that were already introduced, this student identified the variables of understanding, norms and values, and sense making. Understandings contain representations of phenomena that allow members to make sense of cues and information. Sense making relies substantially on initial impressions, whether they are accurate or not (Weick, 1985). So when members get to know each other, their behavior becomes a force in shaping members’ perceptions and beliefs (Vlaar & Klijn, forthcoming). In her research, Visser (2010) focused on formal contracts as specific type of formal control.

Visser (2010) found support for two types of team dynamic patterns: a virtuous cycle with successful alliance outcomes and a vicious cycle with unsuccessful alliance outcomes. She stated that high initial trust and limited formal contracts likely stimulated cooperative behavior, encouraging joint sense making and shared understanding. In contrast, Visser (2010) stated, low initial trust and extensive formal contracts fostered competitive behavior, hampering the ability of members...
to come to a joint understanding of processes, activities, norms, and values. But, in stating this, she suggested that the use of extensive formal contracts, in combination with a low level of trust, can trigger a vicious cycle, which in its turn results in a negative perception of the IOR overall. The results that were presented in this Chapter so far nuance this conclusion. At two out of the three cases, a situation where the decision makers perceived extensive use of formal control was combined with a positive perception of the performance of the IOR by the same decision makers. In these situations, I found a combination of trust and distrust. This lack of unambiguous findings raises the question of what the exact role of extensive formal contracts is in sense making between the cooperating partners? Furthermore, the student observed how virtuous and vicious cycles are continued because of team members’ perceptions and beliefs. Vlaar et al. (2007) stated that beliefs are not necessarily correct, but can be based on incomplete information that fit the facts as partners try to make sense in ways that minimize the differences between their expectations and their observations. This selective perception makes partners with positive beliefs interpret the behavior of their counterparts in a positive rather than a negative light and vice versa. When lacking joint sense making, partners are forced to use individual beliefs as a key basis for interaction, thereby reinforcing either cooperative or competitive behaviors. This aspect could explain the difference between the findings at Banking JV and Insurance Alliance. At the Insurance Alliance IOR, joint sense making was initially less developed than at Banking JV. That is, the perceptions that both partners at a tactical level had about the construction of the Insurance Alliance differed. This indeed resulted in a vicious cycle, where trust between the partners decreased and decision makers at a tactical level started looking at the content of the contracts more often.

Maartje Visser also asserted that decision makers’ cooperative behaviors and extensive joint sense making resulting in virtuous cycles, increasing the likelihood of a positive assessment of both performance and affective outcomes. Additionally, in cases of competitive behaviors and limited joint sense making resulting in vicious cycles, members prevent alliance failure by means of interventions. A variety of interventions to influence virtuous or vicious cycles were found, including ad hoc meetings, back to basics, involving a person from a higher hierarchical level, joint evaluation sessions and renegotiations. Ad hoc meetings and back to basics supported members in preventing virtuous cycles from transforming into vicious cycles. The involvement of a person from a higher hierarchical level, joint evaluation sessions, and renegotiations were found to support transforming vicious cycles into virtuous ones. Figure 44 and Figure 45 show the virtuous and vicious cycles, as found by Visser (2010).
Chapter 3: Results

**Figure 44:** Virtuous cycle of team dynamics (Visser, 2010).

**Figure 45:** Vicious cycle of team dynamics (Visser, 2010).
An example of a virtuous cycle of team dynamics was found at Insurance Consortium. In that IOR, the decision makers perceived a limited use of formal control and high trust was present, mainly because of the clear rationale behind the cooperation. It was clear to all partners what the added value was of doing things together. The presence of trust enabled flexible contract application, open information sharing and joint problem solving and decision making. The management team of this IOR organized regular meetings to make sure that all partners remained aware of the rationale behind the cooperation. This created a shared understanding and shared norms and values, enabling extensive sense making. This combination resulted in a positive perception of the performance of the IOR by the decision makers.

An example of a vicious cycle of team dynamics was found at Insurance Alliance. The decision makers within this IOR perceived extensive use of formal control. At a certain moment of this cooperation, the level of trust was low. This was mainly the result of different understandings of the roles and responsibilities within the IOR, as explained earlier. As a result of this lack of trust, contract application became rigid. That lead to restricted information exchange between the two partnering firms. At that moment, the partners tried to solve problems individually. Decision making became rule based. This combination resulted in a lack of shared understanding, with individual norms and values and limited sense making. An intervention was needed by the decision makers on a strategic level to turn the negative perception of the performance of the IOR into a positive one.

**Text box 6: Example of virtuous and vicious cycles of team dynamics.**

Visser (2010) concluded that the empirical findings of this first batch of case studies suggested that different combinations of initial trust and formal contracts contributed to different kinds of alliance outcomes by triggering either a virtuous cycle or a vicious cycle at a micro-level. Specifically, her results indicated that team dynamics are triggered by two alliance conditions: the initial level of trust and formal contracts. According to her, virtuous cycles result in positive performance and affective outcomes, while vicious cycles require interventions to prevent for alliance failure Visser (2010).

After this reflection on the results of the first group of IORs, the document continues with the outcome of the second group of IORs.
3.7 IOR 4: Pensions JV

Background
This IOR was initiated on January 1, 2011 by financial institutions a.s.r. and Brand New Day. This is the youngest IOR in the sample of the present study. This organization was structured as a premium pension institution (PPI). This legal entity was, at the time of this case study, a newly established type of pension institution. Its operations essentially evolve around employees and their pensions earned. During the data collection period, they acquired the official permission of DNB to start their operations. At the time of data collection, there was little competition in this specific market, as it was considered to be a fairly unique concept in the FSI.

The main reason for the establishment of this IOR was to spread risk across the organizations involved. By cooperating with a partner, a.s.r. was allowed to enter this market much quicker and more efficiently as opposed to unaccompanied exploration of the market. For Brand New Day, an important advantage of partnering was the trustworthy reputation of a well-established organization such as a.s.r.

Perception of use of formal control mechanisms
Figure 46 gives an overview of the governance of Pensions JV, as this IOR is being called in this document.

Both Brand New Day and a.s.r. Nederland own 50% of the shares of the Pensions JV. This was documented in their partnership agreement, which gives both partners the opportunity to have their audit and compliance departments perform checks at Pensions JV. In addition to this partnership agreement, a.s.r., via the legal entity a.s.r. deelnemingen (participations), bought 12% of Brand New Day’s shares. This way, they would have a bigger stake in their partner. Furthermore, both Brand New Day and a.s.r. Levensverzekeringen (another legal entity) provided services to Pensions JV. This relationship was covered in their service agreements. Brand New Day and Pensions JV also shared information via periodical commercial meetings.

The governance within Pensions JV consisted of two entities, the shareholders meeting and the management, which consisted of two managers. Management regulations cover the tasks, roles, and responsibilities of the management. The management informs the stakeholders by means of bi-weekly reports and periodic meetings.

As shown in Figure 47, the perceived level of detail of formal control at Pensions JV is extensive and both output control and behavior control mechanisms are
A very detailed and precise partnership agreement was established, as illustrated in Quotation box 9. The four important aspects (i.e., organizations’ goals, behavior, and performance measurement, and division of tasks and methods of information) are all included and described in great detail. The interviewed decision makers mentioned, as an example of behavior control, that the IOR managements’ mandates were formulated very precisely, including aspects like when do they have to present a decision to the shareholders and what is their financial mandate. All those kinds of things are documented in contracts.

During the formation stage of this IOR, the supervising authority of DNB played an important role. Originally, a.s.r. and BND wanted another kind of governance for their IOR, with an non-executive board and an executive board. Furthermore, in the beginning, someone from the Brand New Day management team was part of the management of Pensions JV. DNB, however, wanted to prevent conflicts of interest. That’s why the IOR needed to assign someone else.
The structure of reporting is fully tied down... Management needs to inform shareholders about the organization. But you don’t make that very specific, otherwise you give them a reason not to share something with you. But the majority of the partnership does not revolve around that. If you say “the contract states that I do not have to do anything,” then you basically already know that you are pulling at the wrong side of the horse. – PJV4

**Quotation box 9: Level of detail of control Pensions JV.**

<table>
<thead>
<tr>
<th>Decision makers’ perception of use of formal control in IOR</th>
<th>Behavior by decision makers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of detail</td>
<td>Information sharing</td>
</tr>
<tr>
<td>Limited</td>
<td>Restricted</td>
</tr>
<tr>
<td></td>
<td>Open</td>
</tr>
<tr>
<td>Type</td>
<td>Joint problem solving</td>
</tr>
<tr>
<td>Behavior</td>
<td>Competitive</td>
</tr>
<tr>
<td>Output</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 47: Perceived use of formal control Pensions JV.**

**Figure 48: Behavior at Pensions JV.**

Behavior by decision makers

Within Pensions JV there was open information sharing and cooperative problem solving between the decision makers (Figure 48). The location of the IOR brings along a point of interest regarding information sharing. Pensions JV was located in the same building as Brand New Day. As a result, the managers of Pensions JV had more contact with the Brand New Day representative. In certain circumstances, this information asymmetry could lead to tension. However, this did not happen in this IOR. This illustrated the level of trust between both partners. Another relevant aspect was the fact that both managers used to work with a.s.r. in the past. Therefore, they had the advantage of already knowing many key players at a.s.r. Furthermore, they were able to assess the cultural differences between both partners. Brand New Day is a small and entrepreneurial company. A.s.r., however is a large insurance company. One of the IOR managers expressed this fact in a nice way, as stated in Quotation box 10.
As part of the partnership agreement, the partners drafted a very detailed escalation path. As part of this procedure, both organizations agreed on appointing a third, independent party that could mediate when there was a difference in opinion. Both organizations trusted this person completely and his opinion was decisive.

At the time of the case study, there hadn’t been any serious conflicts between both partners due to the cooperative behavior between both partners and the fact that the IOR only existed for a couple of months. There was one situation where there was a disagreement on an operational level between employees of the IOR and employees of a.s.r. Levensverzekeringen N.V. This tension was, according to the interviewed decision makers, partly due to the fact that a.s.r. Levensverzekeringen N.V. became a competitor of Pensions JV, next to their role as supplier of the IOR. Since the IOR was setup, a.s.r. Levensverzekeringen N.V. changed its strategy and started providing services that are similar to the services of Pensions JV. This disagreement, which was about the cost price that a.s.r. Levensverzekeringen N.V. charged to Pensions JV, was solved in an informal way by contact between one of the IOR managers and the representative of a.s.r.

(Dis)Trust between decision makers

Most decision makers trusted each other’s goodwill and competence, as shown in Figure 50. One of the decision makers of Brand New Day, the smaller partner, explained that it was important for them that a.s.r., the bigger partner, was willing to buy shares of Brand New Day. This showed, according to him, that a.s.r. trusted them. However, one of the decision makers, a Pensions JV manager, was not sure whether a.s.r. was able to position their decision to start the IOR and to buy 12% of the shares of Brand New Day in a good way, both internally and externally. As a result of this, goodwill distrust was also found at this IOR.

This aspect was characterized as goodwill trust because it involved the intention and not the ability of the decision makers. As explained in Chapter 1, competence trust is about whether or not a partner can really deliver what they promise. Good-

Quotation box 10: Cultural differences at Pensions JV.

Brand New Day’s locomotive always runs at 100. They are typical entrepreneurs. It’s a small company, everyone works very hard, and they are cutting corners. A.s.r. drives at 20, the joint venture needs to drive 70. Too fast, then I will make mistakes, too slow, then I will not meet my deadlines. – PJV1
will trust is about good faith, good intentions, and integrity and refers to a firm’s reputation for dealing fairly and caring about its partner’s welfare in the alliance (Das & Teng, 2001). The decision maker that raised this concern was not doubting the capability of a.s.r.; rather, he was concerned that their intentions would change.

Decision makers’ perceptions of performance
All interviewed decision makers had a positive perception of the performance of this IOR. As shown in Figure 50, they referred to process as the main reason for their positive perception. The quote in Quotation box 11 illustrates this. Furthermore, the development of the IOR went according to plan, financially, commercially, operationally, and regarding the development of trust between the partners. However, it needs to be stressed that this IOR was still in the preparation phase. As a result it was too early for the decision makers to determine whether or not the financial objectives were going to be met.

Structure can be hindering, but that is not what is most important. You have to think carefully about structure, because it can be an obstruction, but in the end it is only a small part. Good people know that, irrespective of whatever structure, they can achieve or frustrate something. – PJV2

Quotation box 11: Reason for perceived performance Pensions JV.
Impact of concepts on each other

Figure 51 gives a visual summary of the outcome of the study of Pensions JV. The extensive level of detail of the control mechanisms had a positive influence on the open information sharing. Indirectly, the supervising authorities helped to achieve this open information sharing. Because of their requirements about the governance of this IOR, they forced the partners to discuss all kind of details regarding the way they were going to cooperate, so to share information. In this specific case, two other elements influenced open information sharing as well: the physical location of this IOR (in the same office as one of the mother organizations), and the fact that the IOR management was very familiar with the other parent organization. The element of distrust is not the consequence of the use of formal control or of the behavior of the decision makers. This small level of distrust was the result of doubt regarding the impact external changes would have on the interest, and with that the behavior, of one of the partner organizations. The behavior of the decision makers, open information sharing, and cooperative problem solving all had a positive effect on decision makers’ positive perceptions of the performance of the IOR. This was emphasized by the fact that the decision makers mentioned process as explanation for their positive perception of the performance of the IOR. What also needs to be taken into account, regarding this explanation, is that this IOR was in its initial stages.
Situation in 2015
The most important change regarding the use of formal control is that the Pensions JV got their own supervisory board. This board has four members: one member for each parent organization, a.s.r. and Brand New Day, one independent member, and one client of the PPI. This supervisory board has its own regulations and the members meet four times a year. The rest of the formal control mechanisms did not change.

The level of trust, especially between a.s.r. and Pensions JV, increased. This was partly the result of a change in the decision makers at a.s.r. and the effort that Pensions JV put into explaining the advantages of their cooperation at the tactical level of a.s.r. In the beginning, some people at a.s.r. saw Pensions JV as an organization that was taking away their clients. The last couple of years however, Pensions JV invested a lot of time into explaining to a.s.r.’s middle management that, in cases where clients considered other providers than a.s.r., the deal would go to Pensions JV. That way, a.s.r. would at least still profit from it.

What stayed the same, however, was the open information exchange and the cooperative way problems are solved. The dominant perception of the performance of the IOR is positive, with process as the explanation.

3.8 IOR 5: Insurance JV

Background
The Insurance JV IOR was initiated on June 22, 2001 by Aegon, Generali, Delta Lloyd, ASR, Reaal, Nationale Nederlanden, and Goudse, making this IOR the oldest in this research. The main objective of the collaboration between all of these insurance organizations was to jointly engage in IT development to share the considerable costs and anticipate improved quality. This resulted in the establishment of a platform that is available for the intermediaries. The associated technology can also be used by every participating organization in Insurance JV. A vast majority of these intermediaries are independent financial advisors hoping to save a considerable amount of money by adopting the Insurance JV platform. In addition, the platform leads to enhanced operational efficiency for these participating intermediaries, as Insurance JV shows all the related products of participating insurance organizations in one single platform, enabling the user to easily calculate premiums and request offers. Insurance JV has the legal status of a “besloten vennootschap” (BV).
In 2010, Goudse decided to withdraw from the Insurance JV collaboration, and as a result only six shareholders remained. Avéro Achmea is an exception and is currently not a shareholder of Insurance JV, but they have made use of the platform since 2010. Therefore, they are now represented in the advisory board of the SA.

**Perception of use of formal control mechanisms**

Figure 52 gives an overview of the governance of Insurance JV.

![Governance of Insurance JV](image)

Day-to-day operations are governed by the executive board, which consists of two members. Insurance JV has two formal boards of consultation, the non-executive board and the advisory board. The shareholders' rights and obligations are covered in a shareholders' agreement. As all shareholders are also users of the Insurance JV platform, they have also signed a participant agreement. The same applies to Avero Achmea, which is a user but not a shareholder of Insurance JV.

The decision-making process primarily takes place throughout the meetings held between the non-executive board and the executive board of Insurance JV. The control mechanisms that govern the relationship between these two entities are, in addition to their meetings, a yearly business plan and periodic management information sharing. The advisory board has only one primary obligation: to provide the non-executive board with advice and, as a supplement, to often present them...
with various policy preparations. All shareholders possess equal voting rights. The director of Insurance JV does not have the right to vote at all, however. The rights and obligations of the director are included in the contracts of Insurance JV.

The perceived level of formal control of Insurance JV can be characterized as extensive, with both output control and behavior control as mechanisms (see Figure 53). All elements that are required to have an extensive level of detail of formal control were mentioned by the interviewed decision makers. A specific aspect of this formal control that has an impact on the other concepts concerns the objectives of this IOR. According to several interviewees, the objectives of Insurance JV are not clear. Insurance JV provides two different kinds of services: (1) a multi-insurance company platform (MP4ALL), and (2) online platforms for specific insurance companies (MP4Inside). The main objective of Insurance JV is not clear to its participants. Furthermore, half of the participants use both services and the other half only one – the multi-insurance companies platform, as illustrated in Quotation box 12. This lack of clarity in the focus of Insurance JV has consequences for the other concepts. When regarding the objectives of this IOR as a type of formal control, it is good to take another look at the definition for this concept that is used in this research, i.e., Das and Teng’s (2001) definition. They defined formal control as “the establishment and utilization of formal rules, procedures, and policies to monitor and reward desired performance” (Das & Teng, 2001, p. 259). Determining the objectives of an IOR is being regarded as establishing a formal rule that makes explicit what desired performance is. Therefore, this element, of determining and communicating the objectives, is seen as part of the use of formal control.

What I always say to <IJV2>, is that the main reason why things aren’t going as they should be, according to me, is that half of the insurers use two propositions and the other half only one. We belong to the half that only uses one. We are only interested in MP4All, not in MP4Inside. ...We developed that ourselves. To me it’s okay that other insurance companies do things differently. I don’t have a problem with that at all. The only difficult thing is that all insurance companies are paying the same amount. So in our opinion we are supporting the development of the extranets of competitors. And then we say, “wait a minute!” – IJV5

Quotation box 12: Formal control Insurance JV.
An example of an output control mechanism is the Insurance JV yearly business plan. The behavior control mechanisms mainly apply to the way the partners cooperate. For example, the contract includes the entry and exit procedures. However, Insurance JV itself determines how it provides their services. This was not specified by the partners.

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Figure 53: Perceived use of formal control in Insurance JV.
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Figure 54: Behavior of Insurance JV.
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**Behavior by decision makers**

Compared to the other cases, the information sharing between the cooperating partners at Insurance JV was restricted. Furthermore, partners were showing increasingly competitive behavior when problems needed to be solved. Two reasons were given for the restricted information sharing: (1) anti-trust legislation, and (2) competitive reasons. Quotation box 13 shows an example of such a competitive reason. Anti-trust legislation applied to all other IORs as well, but in this situation it was referred to as a reason not to share information with other insurance companies.

Say Insurance JV wanted to do a certain action and it wants to know from each insurer what their top 100 intermediaries are. Then we will think things like, “Is it a problem that they will know at <competitor x> what our top intermediaries are?” That has nothing to do with trusting a certain person or a certain organization, but with the fact that you are competing on one hand and cooperating on the other hand. – IJV5

**Quotation box 13: Behavior Insurance JV.**
Real disagreements did not occur between the partners. However, various interviewees referred to the fact that the cooperating insurance companies were putting an increasing amount of focus on their own interests instead of the goal of the IOR. A reason for this that was mentioned various times during the interviews is the cost of alternatives. At the time Insurance JV was started, the costs of doing it yourself were too high for the individual insurance companies. However, since then, the costs of developing an online platform have substantially decreased, making it a viable option for insurers to build such a platform by themselves, therefore needing the others less. This decrease in costs changed the partners’ behavior. Furthermore, it needs to be taken into account that this case was being studied during the financial crisis. In that period of time, insurance companies had difficulties with maintaining their profit margins. This pressure increased competitive behavior within the insurance industry. This is an important factor to bear in mind when explaining the behavior of decision makers within insurance companies at that time.

Trust between decision makers

Both trust and distrust between decision makers are present, both regarding competence and goodwill (Figure 55). On an individual level, the interviewees trusted the persons with whom they worked. However, they had their doubts regarding the motives and competences on an organizational level, doubts for which several explanations were given. Next to the reasons that already were referenced, namely lack of a clear focus and the decrease in the cost of going alone leading to competitive behavior, several other aspects were cited. One interviewee referred to the fact that most insurance companies were frequently changing their advisory board members, which made him start doubting the intentions of those insurers. Earlier in this document it was explained that the focus of this research is on trust between individuals and not between organizations. However, in case the added value of an IOR decreased for an organization, this could result in other behavior by individuals that represent this organization. This way it impacted trust between individual decision makers within this IOR.

Quotation box 14 shows a quotation about another reason to distrust the competence of the partners. This reason refers to the consequences of the size of the cooperating organizations.
With some non-executive board members you see the incapability of having their entire organization to follow the decision that was made. If Insurance JV decided to turn left, then the level just below the non-executive board member also turned left. However, the level below that level continued to go straight ahead and the level that needed to do the work thinks that we have understood it totally wrong and turns right. – IJV1

**Quotation box 14:** (Dis)trust Insurance JV.

<table>
<thead>
<tr>
<th>(Dis)Trust between decision makers</th>
<th>Decision makers’ perception of performance of IOR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Presence of (dis)trust</strong></td>
<td><strong>Perception of perform.</strong></td>
</tr>
<tr>
<td>Distrust</td>
<td>Negative</td>
</tr>
<tr>
<td>Trust</td>
<td>Positive</td>
</tr>
<tr>
<td><strong>Type of (dis)trust</strong></td>
<td><strong>Explanation for perc.</strong></td>
</tr>
<tr>
<td>Competence</td>
<td>Structure</td>
</tr>
<tr>
<td>Goodwill</td>
<td>Process</td>
</tr>
</tbody>
</table>

**Figure 55:** (Dis)trust Insurance JV.  
**Figure 56:** Performance Insurance JV.

**Decision makers’ perception of performance**

Most interviewees had a mixed perception, both positive and negative, of the performance of Insurance JV. Both structure and process were mentioned as the reasons for this mixed perception. See Figure 56. One of the reasons for the negative perception was the costs of cooperation versus the benefits. The benefits were too low compared to the costs, according to several interviewees. One of the interviewees made a distinction between the perception on a strategic level and the perception on a tactical and operational level. According to that interviewee, the cooperation was successful on a strategic level, based on the shared vision and the way partners cooperated (process as reason), but on a tactical and operational level, the IOR was perceived as not being successful. The reasons he used for this perception were the support of and adaptation by the employees on that level. A structural aspect of this mixed perception is the lack of clarity of the model that Insurance JV uses, such as the lack of focus on one of the two services they provide.
**Impact of concepts on each other**

Two important elements of decision makers’ perception of the use of formal control have a negative influence on the decision makers’ behavior, i.e., the duality in the objectives and the corresponding pricing mechanism. As explained earlier, the aspect of the clarity of the objectives of an IOR is being regarded as a feature of formal control. This lack of focus creates the feelings with several stakeholders that they are paying too much for the services provided by Insurance JV. Combined with distrust, this stimulates restricted information sharing and competitive behavior. The presence of distrust is mainly a consequence of the changing context. In particular, the decrease of the costs of alternatives, like doing it alone, and the reduced importance of intermediaries to insurance companies, increased the feeling of distrust. The presence of distrust combined with the fact that the objectives were not met, resulted in the mixed perception of the performance of this IOR. That the perception of the performance of the IOR is not only negative results from the positive perception that decision makers on a strategic level had of the performance of the IOR.

**Situation in 2015**

Since the original study, Insurance JV focused more on MP4All, its multi-insurer platform. It made its business model more clear to its stakeholders. Insurance JV also introduced a more flexible pricing mechanism, called Pay Per Use. This model...
made the cost variable for users. At the same time, this model increased the risk for Insurance JV. The moment the number of transactions dropped significantly, Insurance JV had considerably less revenue. The context of Insurance JV changed significantly since the original study. The market of casualty insurance for consumers was moving to the direct distribution channel, and Insurance JV focuses on the intermediaries. This means that their potential market is decreasing significantly. However, partly due to the increased focus, Insurance JV was able to increase its volumes. Still, as a result of the flexible pricing model and the decreasing size of the market potential, Insurance JV was forced to lay off 30% of its employees.

The control mechanisms stayed the same throughout that time. The shareholders and participant agreements were still exactly the same. However, as a kind of common law, the general manager of Insurance JV had more authority in practice than was stated in the contracts. Over the last couple of years, the formal content of the contracts have not played a role in the contact between the non-executive board and the executive board. The moment the contracts need to change, there will be a discussion about the division of authority between the non-executive board and the executive board.

The information sharing became more open, however. Insurance JV mainly shared information about the development of the transaction volumes with its users, but there was still distrust, in particular regarding the intentions (goodwill distrust) of the users on a tactical level. Their targets focused on turning over as much revenue as possible themselves. These targets were in conflict with the objectives of Insurance JV. This IOR was the last case study of the second batch of cases. In the next section, I present a reflection on these two cases.

### 3.9 Reflection after phase 2: the impact of other features of the IORs

The findings of the student who was part of the second phase of this research are shared in this section. Lotte Geurts (2012) studied Organization and Strategy at Tilburg University. See Appendix 10.2 for more information about her thesis.

After this second phase of two additional case studies, the following main topics resulted from the reflection:

1. The role of informal control;
2. The role of the number of cooperating companies; and
3. The role of the age of the IOR.
These topics are explained in the rest of this section.

Ad 1. The role of informal control
Next to formal control, Geurts (2012) also looked at the role of informal control in the IORs she studied. She used Ouchi’s (1979) definition that informal control “involves the exploitation of informal cultures and systems influencing the SA’s members and is predominantly aimed at self-regulation through social control and relational governance.” As this definition shows, informal control is closely related to the concept of social control, as defined in Section 1.3.1.

This focus on informal control showed its importance. As described in previous sections, the IORs studied rarely had to solve disputes according to formal agreements. This power of informal control is illustrated by the quote in Quotation box 15.

Only in extreme situations, the informal control mechanisms are exchanged for the formal control mechanisms. You have to succeed using the informal control mechanisms. If you are using the formal control mechanisms, then there is a significant hitch in your collaboration. – PJV2

Quotation box 15: Informal control within Pensions JV.

Ad 2. The role of the number of cooperating companies
One of the cases in the second batch of IORs, the Insurance JV, had six FIs as parent organizations. The decision makers of this IOR had the most negative perception of performance. This raises the question of whether the number of cooperating organizations has an impact on decision makers’ perception of performance. Three of the five IORs studied as part of this research only had two parent organizations. This limited number of parents could influence the behavior of the decision makers. In such cases, only the interests of two organizations need be taken into account, and communication between two organizations is easier than communication with six partner organizations, all with different interests and in direct competition with each other. As stated earlier in Section 1.3.4, a study by Makino and Beamish (1998) indicated that two-partner IJVs are likely to outperform those with three or more partners.

However, the Insurance Consortium case combined the interest of even more FIs. The decision makers’ perception of the IOR’s performance was very positive. The main reason for this positive performance appeared to be the clear rationale be-
hind this IOR, which resulted in evident advantages for all cooperating FIs; whereas, with Insurance JV, a lack of a clear rationale was the main reason for those decision makers' negative perception of performance.

Another difference between the Insurance JV and the Insurance Consortium was the legal entity. This could have played a role in the different perception that decision makers had about the performance of the IOR. A JV involves ownership by the parent organization, whereas a consortium involves a more indirect relationship. As the role of the legal entity is not the focus of this research, this element will not be discussed in more detail.

Ad 3. The role of the age of the IOR

Another aspect that may have influenced the optimal combination of the use of formal control mechanisms given the presence of (dis)trust is the age of the IOR. As included in the literature review in Section 1.3.4, the findings of Fryxell et al. (2002) indicated that formal controls are positively related to perceptions of IJV performance for younger IJVs and negatively related to mature IJVs. Three out of the five IORs studied existed for less than five years (Banking JV, Insurance Alliance, and Pensions JV) at the time the interviews were carried out. The oldest IOR, the Insurance JV, had the most negative perception from its decision makers about its performance. This negative perception had to do with, as referred to earlier, the lack of a clear rationale. Additionally, the context of the IOR had changed significantly since the partnership first started. The participating FIs no longer needed each other that much as a result of the decreasing costs of creating an IT platform. The age of the partnership can be regarded as related to the strength of the underlying rationale. However, the context of an IOR that has only existed for one year can also change substantially. Therefore, it looks like it is not so much the age of the IOR that explains the negative perception of the decision makers about its performance, but rather the fact that the rationale was not adjusted to the changing circumstances.

Besides, another IOR, the Insurance Consortium, had also existed for more than five years at the time of the interviews, but those decision makers were very positive about their IOR’s performance. The relationship between the age of the IOR and its perceived performance appears not to be that direct and simple. This means that the findings of this research nuance the findings found by Fryxell et al. (2002). Again, this aspect is not part of the focus of this research, so the observation about this topic will be limited to this. The chapter will now present the results of a final iteration and reflection on the cases.
3.10 Final iteration and reflection: how objectives of IORs evolved over time

Just before finishing this document, a final series of interviews were held to get an update about how the IORs evolved since 2015. These interviews focused on two topics:
1. Did the objectives of the IOR change since the start of the research?
2. How did decision makers’ perception of the use of formal control develop over time?

This section summarizes the outcome of this final series of interviews.

Banking JV (BaJV)
Originally, the objective of this IOR was to achieve efficiencies by combining the volumes of the partnering companies. Over time, this IOR evolved into a platform for cooperation by the three partnering FIs. This means that the objective broadened from cost reduction to a combination with value creation. Decision makers’ perception of the use of formal control developed over time. After some difficulties in 2015, this IOR was again meeting its owners’ expectations in 2016. The operational difficulties resulted from too little capacity regarding processing cash. The CEO of this IOR waited to expand its services until its existing business had stabilized. Reaching this phase also involved the difference between the content of a contract and the perceived performance of the IOR. In the contract, the Banking JV included service levels that applied at a national level. However, the perception of individual clients was based on the actual performance within that region. This difference resulted in situations where the objectives stated in the contract were met, but the individual clients were not satisfied by the performance of the IOR. The CEO of the IOR wasn’t in favor of adjusting the formal control mechanisms to solve this discrepancy. Instead, he preferred to train his employees to improve their ability to provide services to their clients. In his opinion, his staff should be able to provide the right service delivery despite the exact content of the contracts. Worse still, adding more detail and exceptions to the contracts would potentially limit his employees in their use of common sense to serve their clients in the best possible way. In that case, the CEO expected his staff would focus too much on the content of the contracts. This example shows what the impact can be of the perceived use of formal control.

Insurance Alliance (InsAl)
At the start of this IOR, the objectives were a combination of cost reduction and value creation. An example of the intention of value creation was that the partner-
ing insurance companies drafted several contracts that focused on cross-selling
their services. After some years, it turned out that this cross-selling did not result
in the goals the partners had hoped for. That was one reason for the cooperating
companies to focus more on cost reduction. Based on an increased level of trust,
the partners started to share more information with each other to see how they
could help each other with activities that were not directly related to the scope of
their IOR. For example, they started to do IT projects together and helped each
other with digitization of their services. Another important development was that
one of the partners was acquired by another financial institution. Based on the
contracts, that could be one reason to end the cooperation. However, that was not
the intent of the other partner. Still, one partner used this development to reas-

tess their position and their objectives for this IOR. At the time of this update, this
analysis was still in process.

Insurance Consortium (InsCo)
This IOR had expanded its services since the start of the cooperation. Next to CR
and Roydata, the IOR started with Mobiel Schademelden, an app for the first no-
tice of auto claims losses. The original objective of this IOR was to reduce adminis-
trative costs by changing how insurers exchanged information. Gradually, this IOR
was used to achieve other goals. The focus shifted from straight cost reduction
to a combination of cost reduction and value creation. At the time of this update,
one of the non-executive board members recently raised the idea to combine
this foundation with other initiatives that are linked to the trade association of
insurance companies. The idea behind it was to decrease the costs by achieving
economies of scale. However, according to the general manager of the insurance
foundation, this would overlook the potential for value creation of this IOR. This
evolving perception of the main objectives of this foundation did not directly im-
pact the formal control mechanisms that they used. This means that decision mak-
ers’ perception of the use of formal control did not change.

Pensions JV (PenJV)
Pensions JV was still successful when we checked in on their progress. Actually,
they were doing better than anticipated. The IOR already made a profit some time
before originally expected in the business plan. From the perspective of this re-
search topic, one development was especially interesting, specifically the potential
conflict of interest that was addressed by the cooperating partners. During an
exchange of the strategies of both partnering organizations, they came to the
conclusion that it was better to split the roles that one of the supervisory board
members had combined until that point. Over the last couple of years, one of the
cooperating partners was competing more often with the IOR regarding life insur-
ance. This particular supervisory board member combined the role of shareholder, supplier, and client of the IOR, which could potentially lead to tension because that person would receive sensitive information that the shareholders could use to win life insurance deals at the expense of the JV. Fortunately, there was sufficient trust between the partners to discuss this matter in a constructive way in order to find a solution.

Insurance JV

The change at this IOR was the biggest of all the case studies. A couple of months before finalizing this document, this IOR disbanded. More specifically, the entity was bought by a company that provided IT services to this IOR. Hence, this entity still exists, but no longer as an IOR. Already in 2015, two insurance companies, Nationale Nederlanden and Aegon, stopped being shareholders of this Insurance JV as a result of a change in the IOR’s business model. Both insurance companies remained to be clients, but were no longer owners of the company. By the end of 2016, the remaining shareholders concluded that it no longer made sense to own a company that compares prices of their own products and services. The insurance companies wanted to prevent the perceived conflicts of interests and so they sold their shares to a partner that had been providing them with IT services for quite some time. Also, in this instance, the insurance companies remained clients of this company. The added value of the services of this Insurance JV for the parent firms, the insurance companies, changed significantly over the years. This was the result of the increase of the so-called managing general agent (MGA) model. According to this model, an individual or business entity gets appointed by an insurer to solicit applications from agents for insurance contracts or to negotiate insurance contracts on behalf of an insurer and, if authorized to do so by an insurer, to effectuate and countersign insurance contracts. This model decreases the number of steps within the value chain. As a result, the added value of the Insurance JV decreased. In the end, this resulted in the insurance companies selling their shares. Therefore, this entity ceased to be an IOR.

Figure 58 shows how the objectives of the IORs have evolved over time. Insurance JV was not included, because this IOR ceased to exist. The visualization shows what the main objective of the IOR was at the start of this research and what it was at the time of the final updated interviews in 2017. In cases where the main objective was cost reduction, the IOR focused on efficiencies and achieving economies of scale. In cases where the main objective was value creation, the IOR focused on things like creating new value propositions, innovation, and learning.
Figure 58 shows how the objectives of most IORs evolved into a combination of cost reduction and value creation. The updated interviews learned that the control mechanisms the IORs used weren’t adjusted to follow this evolution of the objectives. However, this was not an issue with any of the cases studied.

### 3.11 Summary

Figure 59 shows the same questions that were listed at the beginning of this chapter, but now with the corresponding answers.

This chapter showed the results of the five case studies that were performed as part of this research. Per IOR, the concepts from the conceptual model were described. For every case, decision makers’ perception of the use of formal control, (dis)trust between decision makers, behavior by these decision makers, and their perception of the performance of the IOR were shared. As explained at the beginning of this chapter, the data was gathered by means of semi-structured interviews with decision makers from all angles of the IOR. These transcripts were codified several times and concept matrices were made, both with text and in a
### Chapter 3: Results

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<td>The way formal control mechanisms influence information sharing between decision makers has most impact on their perception of the performance of the IOR.</td>
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<tr>
<td>3.1 Overview IORs</td>
<td>What are the main features of the IORs that have been studied?</td>
<td>The IORs have difference objectives and legal structures. They all operate within the operations domain of FIs.</td>
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<tr>
<td>3.2 Analysis strategy</td>
<td>How has the data that has been found during the case studies been analysed?</td>
<td>All transcriptions have been codified and studied in detail to look for patterns. Concept matrices have been made, both with text of the transcriptions as in a schematic way.</td>
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<td>3.3 – 3.5 Case studies phase 1</td>
<td>What has been found during the case studies that were part of phase 1 of this research?</td>
<td>The use of formal control mechanisms mainly had a positive impact on perceived performance, by stimulating open information sharing.</td>
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<td>3.6 Reflection after phase 1</td>
<td>What did cross-case analysis learn about the patterns that have been found?</td>
<td>This analysis showed how sense making can result in either virtuous of vicious team dynamics, impacting perceived performance.</td>
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<td>3.7 – 3.8 Case studies phase 2</td>
<td>What has been found during the case studies that were part of phase 2 of this research?</td>
<td>One case study aligned with the findings from phase 1. The other one showed the importance of adjusting the formal control mechanisms to changes in the context of the IOR.</td>
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<td>3.9 Reflection after phase 2</td>
<td>What did cross-case analysis learn about the patterns that have been found?</td>
<td>The role of informal control, the number of cooperating partners and the age of the IOR require further research.</td>
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<td>3.10 Final iteration and reflection</td>
<td>How did the objectives of the IORs and the use of formal control evolve over time?</td>
<td>The objectives of the IORs evolved into a combination of cost reduction and value creation. The use of formal control did not change significantly.</td>
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Figure 59: Summary of Chapter 3.
visual way. The first group of case studies showed that formal control mechanisms impacted the perception of IOR’s performance mainly by how they stimulated information sharing. The reflection after Phase 1 showed that sense making determined whether the information sharing resulted in a vicious or a virtuous cycle. The second group of case studies showed the importance of adjusting the content of the formal control mechanisms to changes in the context of the IOR. Finally, the reflection after Phase 2 learned that more research was required into the role of informal control, the number of cooperating partners, and the age of the IOR. In the next chapter, the insights from the various individual case studies are combined into overall conclusions.
Aunt Jane
Hi, here I am again. Did I understand your descriptions of the various types of cooperation correctly in concluding that the way the contracts stimulated people to talk to each other, what you call “information sharing,” determined most what they were thinking about the performance of these alliances?

Me
That’s a very striking summary of the results indeed, Aunt Jane! I found that the way the content of the contracts stimulated people to share information, about all kinds of things that are relevant to their cooperation, had the most impact on how the people that were cooperating looked at the performance of the cooperation. An important element was how the contracts helped people get the same understanding of the alliance’s objective and the kind of behavior that helps to achieve this goal.

Aunt Jane
Right. Is that what you refer to as “sense making“?

Me
Exactly! The cases I studied showed that sharing what you want to achieve and how you want to achieve it helps to get the same understanding. Otherwise, people will start assuming things and most often this will not make it easier to achieve a joint objective. Having a clear and shared understanding of a joint goal gives direction to behavior. Contracts, but also all kinds of procedures, can help to create this clarity not only at the start of a cooperation, but continuously. To do this, it helps when contracts stimulate people to share information.

Aunt Jane
I read in the last part of the chapter that the role of things like shared values and norms, what you refer to as “informal control,” is also very important. How do these two types of control relate to each other?

Me
In the cases I studied, they reinforced each other. For example, in cases where a difference of opinion arose between the cooperating partners, they almost always solved it in an informal way, like extra meetings or by a simple telephone call between decision makers of both partners. This informal way of dealing with those differences appeared to be very effective, partly because of the fact that they also had agreed upon formal ways to deal with conflicts. Apparently, it helps to have a sort of “back up plan,” the moment you are looking for a solution to a certain challenge.

Aunt Jane
I understand. So it looks like contracts are more useful than I thought. I look forward to reading your next chapter if you are concluding more or less the same thing.
Chapter 4

Conclusions: information sharing as key aspect
The objective of this chapter is to answer the research question:

*How do decision makers’ perceptions of the use of formal control impact, via their own behavior resulting from this perception, their perception of the performance of interorganizational relationships in the operations domain of financial institutions, and how does (dis)trust between decision makers moderate this relationship?*

This research question will first be answered per case and then by comparing the results of the analysis of the five cases. This concerns part c and d of the research model (see Figure 60).

In Section 1.3, formal control mechanisms were defined as “mechanisms emphasizing the establishment and utilization of formal rules, procedures, and policies to monitor and reward desired performance” (Das & Teng, 2001, p. 259). A distinction was made between output control and behavior control, based on the focus of the control mechanism. Both the views on the contracts and governance structures used by the IORs were analyzed to determine the perceived use of formal control. In Section 2.3, it was explained that this research looked at subjective measures regarding the performance of the IOR, meaning the opinions of the decision makers. A distinction was made between opinions based on the process of cooperating and opinions based on the structure of the IOR. Furthermore, the behavior of the decision makers...
within the IOR was added as a mediating concept in the conceptual model. Two of the dimensions of Mahama (2006) were used, information sharing and joint problem solving. Finally, (dis)trust between decision makers was included in the conceptual model as a concept moderating the relationship between decision makers’ perception of the use of formal control mechanisms and the behavior between decision makers within the IOR. During this research, the definition of McEvily et al. (2003) was used. They defined trust as “...the willingness to accept vulnerability based on positive expectations about another’s intentions or behaviors” (McEvily et al., 2003, p. 92). As part of the case studies, not only did I analyze whether or not there was trust or distrust present between the decision makers, but I also asked decision makers what kind of (dis)trust it concerned. The two types of trust, goodwill trust and competence trust, as distinguished by Das and Teng (1998) were used.

In Section 1.3.1 the main theoretical paradigms that explain interorganizational relationship formation were clarified. In particular, the paradigm of TCE (Williamson, 1991). According to TCE, organizations choose the most optimal governance mode based on the total costs, meaning not only the costs of production but also the cost of the transaction. The latter especially involves the costs of the formal control mechanisms, like contracts. Two main concepts within TCE are opportunism and bounded rationality. Opportunism, taking advantage of circumstances with little regard for what the consequences are for others, is regarded by TCE as the main reason why formal control mechanisms are needed. Bounded rationality, the limitations of human thinking, requires hierarchy as the chosen mode of governance in cases of environments of high uncertainty, according to TCE. Where opportunism results in appropriation concerns (who gets what?), requiring what Schaan (1983) called negative control, bounded rationality can be linked to coordination requirements. When bounded rationality is the reason control is needed, Schaan’s (1983) positive control mechanisms will do. In those situations, control is not needed to mitigate the differences between partners in motivation and interests, but to compensate the cognitive limitations of us as humans.

At Banking JV, the perceived use of the formal control mechanisms impacted the perceived performance of decision makers primarily by extending these mechanisms to stimulate information sharing between key stakeholders both in a positive way and in a negative way, resulting into trust and distrust. The difference had to do with what kind of information was shared and with whom. Sharing operational information between the CEO and the non-executive board members impacted the perceived performance in a positive way. It kept the non-executive board members informed, enabling them to make decisions fast. Information sharing in two other ways also impacted the CEO’s perception of the performance in a negative way. This
concerned information sharing by one of the non-executive board members with her colleagues who acted as clients of Banking JV. The other type of information sharing that had a negative impact on the performance perceived by the CEO had to do with information sharing between the two non-executive board members before they communicated with the CEO. He, the CEO, perceived this behavior as an act of distrust. The positive effect of information sharing on the perceived performance was directly related to the formal control mechanisms. These mechanisms, the contracts, included the requirement to report frequently to the non-executive board members. The negative impact of information sharing was not related to the formal control mechanisms. In fact, the information sharing between the non-executive board member was even a violation of the formal control mechanisms. The presence of trust between the non-executive board members made open information sharing and cooperative problem solving easier. As a consequence, the moderating effect of the presence of trust on the relationship between the perceived use of formal control and the behavior by the decision makers was positive. That is, the presence of trust made it easier for the non-executive board members to exchange information, but the role of decision makers’ perception of the use of formal control decreased. It was no longer their perception of the exact content of the control mechanisms that determined what kind of information they were sharing, but rather their judgment about what would be beneficial to the IOR. In the situation where distrust was present, the content of the control became more important.

The *Insurance Alliance* case showed several things about the relationship between the independent and dependent concepts. An aspect that had a negative impact on the perceived performance was how DLG governed this IOR. The position of their BCM department, three levels apart from the board of directors and their limited mandate resulted in delays in decision making. However, this element does not concern formal control, according to the definition used for this research. Another important factor concerned the way the IOR was perceived within the partnering organizations. Perceptions differed, resulting in misunderstandings at the tactical and operational levels. This aspect isn’t directly linked to the content of the formal control mechanisms, but it is a consequence of how this content is being communicated. As it concerns the use of a formal rule, the contract, it is regarded as the use of formal control. This aspect also has to do with the aspect of sense making, as explained in Section 3.6. This varying interpretation of the construction of the partnership resulted in distrust, which led to a strict use of the formal control mechanisms. It is important to make a distinction between the dynamics that occurred at a tactical level and the way the relationship evolved at a strategic level. At the strategic level, trust remained present, resulting in open information sharing and a positive perception of the performance of the IOR.
The Insurance Consortium case showed the impact of the perceived use of formal control on various levels. On a tactical and strategical level, the perceived level of detail of the formal control was low. This was partly due to the clear rationale behind the IOR. To all participating organizations, it was obvious what the advantage of the IOR was. It was self-evident that not exchanging a huge number of documents anymore would result in higher efficiency. However, this efficient way of working required an extensive level of detail on an operational level. This method needed to be very clear in order for the parties to work together efficiently. This level of detail about the operational processes isn’t a specific IOR issue, so it is not directly related to this research question. Furthermore, decision makers, the unit of analysis of this research, were not directly involved in these operational processes. The important role of trust as a basis for the rationale behind this IOR made the exact content of the formal control mechanisms less important. The behavior of the decision makers and their perception of the performance of the IOR was mainly the result of their belief in the added value of the cooperation for everyone and the trust that was a result of this conviction.

With the Pensions JV case, the decision makers’ perceptions of the detailed formal control mechanisms also had a positive impact on perceived performance, mainly because they stimulated open information sharing. The contracts required intensive reporting between the management and the shareholders. Next to the requirements regarding information sharing that were described in the contract, the process of drafting a detailed contract increased the level of trust between the partners. This process made clear that all major stakeholders had the required competences to make this IOR successful. All other aspects that impacted the perceived performance, like the fact that all decision makers had already known each other for a long time and that the IOR was located in the same building as one of its “mothers,” were not directly related to the formal control mechanisms. The limited presence of distrust did not negatively moderate the relationship between the perceived use of formal control and the behavior by decision makers. The presence of trust dominated this IOR, making the behavior by the decision makers less the outcome of their perception of the formal control mechanisms content, but more the result of their view of what needed to be done to make a success out of the partnership.

Finally, the Insurance JV case gave clear examples about the impact the perception of the use of formal control mechanisms can have on perceived performance. First of all, the control mechanisms did not create enough clarity about the main objective of the IOR. This resulted in different perceptions between the decision makers, resulting in a negative perceived performance. This negative perception
was reinforced by the pricing mechanism that was used. This mechanism didn’t reflect that not all cooperating institutions used both services provided by Insurance JV, MP4All, and MP4inside. The changing market conditions also had a negative impact on perceived performance. This changing context was obviously not caused by the formal control mechanisms that were used, however, it should have been a reason to change the governance of the IOR, as happened in a later phase. The presence of distrust moderated the relationship between the perceived use of formal control and the behavior of decision makers in a way the exact content of the formal control mechanisms became more important. Decision makers started studying this content again, which resulted in behavior that was being determined by the underlying contracts.

Now that the research question has been answered per case, the analysis of the results can be combined into overall conclusions. For the sake of clarity, first the research question will be repeated again:

*How do decision makers’ perceptions of the use of formal control impact, via their own behavior resulting from this perception, their perception of the performance of interorganizational relationships in the operations domain of financial institutions, and how does (dis)trust between decision makers moderate this relationship?*

Combining the observations from the studied IORs, this question can be answered as follows:

- Decision makers’ perceptions of the use of formal control mainly have an impact on decision makers’ perception of the performance of IORs by the way these perceptions stimulate information sharing between the cooperating partners;
- In case this information sharing is aligned with the objectives of the IOR, the impact on decision makers’ perceptions of the performance of IORs is positive;
- In case this information sharing is not aligned with the objectives of the IOR, the impact on decision makers’ perceptions of the performance of IORs is negative;
- Whenever trust is present between decision makers, the moderating effect of this concept is that the impact that decision makers’ perceptions of the use of formal control mechanisms have on their own behavior becomes less. In these situations, the behavior of the decision makers is less being determined by their perceptions of the use of formal control mechanisms. Decision makers’ views of what is good for the IOR mainly determine their behavior in these situations.
Whenever distrust is present between decision makers, the moderating effect of this concept is that the impact that decision makers’ perceptions of the use of formal control mechanisms have on and their own behavior becomes bigger. In these situations, the behavior of the decision makers is more explicitly being determined by their perceptions of the use of formal control mechanisms. So in cases of distrust, the relationship between these two concepts becomes stronger than in cases of trust. In such situations, decision makers start reading formal control mechanisms like contracts again. As a result, their behavior is being determined more by their perceptions of these formal control mechanisms.

In this chapter, the answer to the research question was provided. The answer to the main research question was that the perceived method and extent of the use of formal control mechanisms stimulates information sharing between partners has the most impact on the perceived performance by decision makers within the IOR.

The findings will be discussed in the next chapter. The outcome of this research will be compared to three aspects: (1) the assumptions I had before the start of the research, (2) the conceptual model, and (3) existing literature.
Aunt Jane
So, after all those years of research, what was the main thing that you learned?

Me
Well, I have changed my view on the role and added value of contracts. Before I started my research, I had a rather negative opinion about most formal documents. I thought that they mainly interfered with using common sense. During several consulting projects I did, I experienced the added value of the process of drafting contracts and service level agreements. This process helped people to get a detailed understanding of the way they were going to work together. But once these documents were ready, no one actually used them anymore. However, during my research I appreciated and acknowledged the added value that formal control mechanisms, like contracts and service level agreements, can bring to a cooperation. I also got to understand that the impact of those mechanisms mainly depend on how they stimulate information sharing between the people cooperating.

Aunt Jane
What do you mean by that? How can a contract stimulate me to talk to anyone?

Me
For example, the people that want to cooperate can agree, and write down in a contract, that they meet on a regular basis. This determines the rhythm of their communication. They can also use this document to describe clearly what they want to achieve together, how they want to achieve this and what kind of behavior helps to reach that goal. I already assumed that before the start of my research. However, now I understand much better how things like contracts influence how people think about the way they cooperate with others.

Aunt Jane
Oh, do you? Can you give me an example of this better understanding?

Me
Sure. For example: A lot of contracts stress things that partners should not do. Things that are forbidden. Instead of that negative focus, you can also stress what you do want. At first sight, this seems like a small difference. But in my experience this different way of looking at things changes the behavior and results you will get.

Aunt Jane
Ok, I get that. Do you have more examples?

Me
I do. With hindsight, I think I personally had too negative associations with the word “control” because I attached another meaning to it than what it actually means. I also think that a lot of people attach a meaning to the word “trust” that does not help to find the optimal governance of cooperation. So one of the things I learned is the impact that language has on behavior.

Aunt Jane
I see. Thanks for your explanation. I am curious to read in your next chapter how these findings relate to existing research. I will send you my new questions asap!

WhatsApp conversation 4: Reflection on results.
Chapter 5

Discussion: main assumption rejected
The objective of this chapter is to contrast the empirical outcomes with the assumptions made before this research, the conceptual model used and the existing literature. This is done for the level of each arrow in the conceptual model. In each section, the same structure is used. The section starts with stating the question that corresponds with that particular relationship between the two concepts within the conceptual model. Next, the initial assumption is listed. Then the observations regarding the relationship found in the various case studies are compared. Next, a summary is presented of the specific outcomes per case study, with figures that show the relationships for all IORs. Finally, the results of this research are discussed in relation to existing literature on this topic.

Figure 61: Structure of Chapter 5.

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<td>5.2 Behaviour vs performance</td>
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<td>5.3 The effect of (dis)trust</td>
<td>Idem</td>
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<td>5.4 Combined relationships</td>
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<td>5.5 Contribution and implications</td>
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As Figure 61 shows, this will first be done for each arrow linking two concepts in the conceptual model (Sections 5.1 - 5.3). Next, in Section 5.4, the same is done for the entire conceptual model. In Section 5.5, the academic contribution and the managerial implications of the findings are explained. Then, the limitations of this research are listed in Section 5.6. This chapter ends by showing the revised conceptual model in Section 5.7.

5.1 The relationship perceived formal control vs behavior: difference between coercive and enabling effect

In this section, the relationship between decision makers’ perception of the use of formal control and their behavior is evaluated. Figure 62 reflects this relationship in the conceptual model of this research.

The accompanying question is:

*How does decision makers’ perception of the use of formal control impact their behavior?*
Initially, the assumption was that a detailed level of behavior control would have a negative impact on the decision makers' behavior. I assumed that especially detailed procedures about how to act (behavior control) would limit the “room to think and act” of the decision makers regarding the IOR. Based on earlier research, the concept behavior was operationalized into four categories. Two of these categories, information sharing and joint problem solving appeared to be particularly relevant during the interviews.

Figure 63 gives a visual overview of the outcome of the analysis per IOR for the specific relationship between decision makers’ perception of the use of formal control and the behavior by the decision makers. The left side of the figure shows
the variations that were found regarding decision makers’ perception of the use of formal control. At the right, the combinations that were found concerning the behavior by decision makers within the IOR are listed. The arrows link the concepts per case, show what decision makers’ perception of the use of formal control and what kind of behavior was found, and show how this relationship was assessed, either as positive (+) or negative (-). Whenever the same combination of characterizations of the two concepts was found at more than one IOR, for example a perception of extensive level of control of both output control and behavior control (as shown at the upper left part of Figure 64), it is only shown once. In those situations, the names of all applicable IORs are shown along the arrow.

As Figure 63 shows, at four out of five of the case studies the perceived use of formal control mechanisms had a positive impact on the behavior of the decision makers within the IOR. This perception stimulated information sharing between the partnering organizations. The underlying contracts included clauses about the frequency of the meetings between the cooperating organizations and, most of the time, also about the frequency of progress reports. These agreements stimulated information sharing between partners because they perceived a formal obligation to do so. The Banking JV and Insurance Alliance case studies showed that information sharing between decision makers on a strategic level was mostly limited to the formal meetings and reports. An important reason for this was the busy agendas of these decision makers in relation to the relatively low importance of the activities of the IOR. This finding concerning the positive impact of the perceived use of formal control rejects my assumption that formal control mainly has a negative impact on the behavior of decision makers.

The contracts regarding Insurance JV also included clauses about the information sharing between the cooperating partners, but with two differences compared to the other four case studies. First, Insurance JV had two different services that created a lack of clarity with the participating organizations. Second, and more importantly, Insurance JV was operating in an environment that significantly changed between the initial stage of the IOR and the later stage. Due to these changes, the partners within Insurance JV needed each other less, which stimulated opportunistic behavior between them. It is important to acknowledge that formal control mechanisms cannot, by themselves, undo changes within the context of the IOR. What they, formal control mechanisms, can do is be a trigger for cooperating partners to periodically evaluate the rationale and governance of the cooperation. This way, this structural elements become means for the process of cooperation.
At both the Insurance JV and the Insurance Alliance, competitive behavior was found in joint problem solving. In both cases, this involved behavior on an operational level regarding day-to-day activities. Within the Insurance JV case study, this competitive behavior was due to the changed environment and the fact that the interests of the cooperating organizations no longer were as aligned as they were at the start of the IOR. At Insurance Alliance, this competitive behavior was mostly the result of mixed perceptions about the governance of the IOR. Some DLG employees thought that they, as an organization, outsourced the health insurance activities to CZ. Based on this view, they acted like they could dictate how to work. At CZ, the dominant view was that they bought the health insurance portfolio from DLG. This view reflected the actual deal between the two organizations. The main observation is that, as long as there are differing views of governance, the corresponding behavior will most probably differ as well.

Within several IORs there was also tension on an operational level that could be attributed to regular issues between a supplier and its customer. All cooperating organizations were not only owners of the IORs that were analyzed as part of this research, they also were its customers. The focus of this research was on the governance of the cooperation between the FIs in their role as owner and not on the supplier–customer relationship. That is why these kinds of tensions are not described in this section.

If we look at the conceptual model that was used, we can determine the following:

• The level of detail of formal control mechanisms that were being used within the FSI is highly governed by legislation. Therefore, the various case studies showed very little differences in this level of control. This made this feature of the formal control mechanisms that were used less interesting to study than was anticipated in advance of this research; and

• The same applied to the type of formal control that was used by the IORs that were part of the case studies. They all used both output control and behavior control, but not because legislation required it; rather, it is simply best practice to include both types of formal control.

In future studies, it would be more interesting to choose features that would vary more across the case studies, e.g., characteristics of the decision makers, like their earlier experiences with the governance of IORs or their risk appetite.

When the observations from the case studies were compared to the literature on this specific relationship between formal control mechanisms and behavior, two angles were particularly interesting. One angle researchers focused on was the
impact of formal control mechanisms and another stressed the objective of governance mechanisms, like formal control mechanisms. An example of the first angle is Adler and Borys (1996), who distinguished two types of formalization, enabbling and coercive. They were inspired by research on the design of equipment technology to differentiate two generic types of formalization — formalization designed to enable employees to master their tasks, and formalization designed to coerce effort and compliance from employees. As Adler and Borys (1996) stated, the attitudinal outcomes are likely very different and the coercive function of bureaucracy is highlighted if one assumes that all organizations are essentially coercive simply because organization entails an abrogation of individual autonomy.

The other angle that was interesting when comparing the outcomes of this research with existing literature stemmed from the reasons why partners in an IOR draw up governance mechanisms. According to several studies (Mellewigt, Madhok, & Weibel, 2007; Vlaar et al., 2007), there are two main reasons for using governance mechanisms: control and coordination. Mellewigt et al. (2007) conceptualized control as “a process to bring about adherence to a desired outcome through the exercise of authority or power mechanisms, the purpose being to minimize idiosyncratic and deviant behavior and to hold parties to articulated policy” (p. 834). They regarded coordination as an enabling process to attain a desired outcome, the purpose being to provide the appropriate linkages between two different and interdependent task units. This distinction in the two roles of control is slightly different than that shared in Section 1.3.1 between appropriation concerns and coordination requirements. The coordinating role is the same, but the other varies.

In their research, Sánchez, Vélez, and Álvarez-Dardet (2013) combined both angles. Through a longitudinal case study, they examined the evolution of the twofold function of formal governance mechanisms, for control and coordination, as an interorganizational relationship evolves. They referred to control and coordination as interorganizational formal governance (IFG) mechanisms. Sánchez et al. (2013) studied the distribution channel of a supplier that had externalized its distribution functions, offering partners a consignment contract, a geographical area, and a client portfolio. Next to the balance between coordination and control over time within this IOR, they looked at its enabling versus coercive taxonomy. One of their findings was that control and coordination presented more coercive characteristics in the initial stages of a relationship and subsequently evolved toward a more enabling nature. According to Mellewigt et al. (2007), IFGs serve more of a safeguarding function in the initial stages of an IOR, and subsequently a coordinating function emerges. In contrast, the findings of Sánchez et al. (2013) showed that the control function maintains its importance over time, giving the supplier increasingly reliable and timely
information to control its partners and the end market. Enlarging prior studies that defend a positive association between coordination and competitive advantages (Mellewigt et al., 2007), their results showed that the combination of tools (with different enabling and coercive characteristics) used by both parties for control and coordination purposes created a dynamic “style” they maintained over time.

When comparing the assessments done in the IORs that we studied, regarding this specific relationship between the perceived use of formal control and behavior by decision makers, with the findings of the studies that were discussed in the literature review in Section 1.3.4, several observations can be highlighted. First, the research by Aulakh et al. (1996) showed that the use of output control by the focal firm to monitor the foreign partner was negatively related to the market performance of the partnership. Aulakh et al. (1996) assumed that the reason for this negative impact was that using specific goals would be counter-productive to partnership performance, as partners would start behaving in an opportunistic way, seeking immediate payoffs. This finding was not supported by the results of this research. The perceived use of formal control mechanisms, as found within several IORs, did not seem to result in opportunistic behavior by the partners. However, it is important to stress that the situation of both studies differed significantly. Aulakh et al. (1996) looked at cross-border partnerships, while this study focused on IORs within one country, The Netherlands. Another study that is interesting to reflect on is the research done by Jap and Ganesan (2000). Their hypothesis that the use of explicit contracts is negatively related to supplier commitment was supported by the findings of their study. Their explanation for this result was that explicit contracts would reduce flexibility and trust, and by this way reduce supplier commitment. The aspect of explicit contracts has similarities with the attribute of a perceived use of an extensive level of detail of formal control mechanisms, as applied in this study. Although there are various differences between the two studies, for example that I did not use the variable of commitment in my research, the explanation that Jap and Ganesan (2000) gave for their hypothesis could also apply to the IORs in this study. However, no evidence was found that the perceived use of an extensive level of detail of formal control mechanisms resulted in reduced flexibility and trust. On the contrary, in fact, indications were found that explicit contracts can build trust as long as the details concerned create clarity about who does what (coordination requirements), who gets what (attribution concerns), and, above all, why are we cooperating (rationale behind the IOR).

The answers to the questions within this research, focusing on the important role of information sharing between decision makers within the IORs, confirmed the importance of making a distinction between enabling and coercive formalization
and between control and coordination as objectives of formal control. Information sharing can be regarded as the result of enabling formalization. Furthermore, information sharing plays an important role in the coordination function of the governance mechanisms within IORs. In conclusion, these two angles would be very interesting to study in further research on the governance of IORs.

5.2 The relationship behavior vs perceived performance: information sharing is key

In this section, the findings regarding the relationship between decision makers’ behavior and their perceptions of the performance of the IORs is discussed. In Figure 64 this relationship is highlighted.

The corresponding question is:

How does the behavior of the decision makers impact their perception of the performance of the IOR?

Before beginning the data gathering process, the assumption was that the more formal this behavior is, the less potential for cooperation would be utilized. Formal

Figure 64: Relationship between behavior and perceived performance.
behavior is being regarded as behavior that is limited or governed by the formal behavior control mechanisms. What I assumed was that if the behavior was strictly demarcated/limited, then there would not be enough room for decision makers to think and act. This lack of room, the assumption was, would cause partners to not be able or stimulated to respond to changes in the context of the IOR. By this restricted behavior, not only the perception of performance, but also the actual performance would be less than optimal. This assumption focused on the behavior that was the result of formal behavior control. I had assumed that formal behavior control would limit behavior. The underlying assumption was that, as a result of bounded rationality, the cooperating partners would not be able to include a description of all possible situations in the control mechanisms that they were using.

As shown in Figure 65, within three of the five IORs the behavior of the decision makers assessed as part of this study had a mixed effect on their perception of the performance of the IOR.

At both Insurance Alliance and Insurance JV, a lack of clarity about the underlying rationale and governance of the IOR was an important reason for competitive behavior between the decision makers. An important difference was that at Insurance Alliance, decision makers on a strategic level made a clear choice about these aspects, but this view was not known to all key players that were involved in this partnership. At Insurance JV, however, no clear decision that reflected the changed context of the cooperation had been made. The actual cause for the competitive behavior, therefore, was different between these two case studies. The Banking JV case shows that too open information sharing can also lead to a negative perception of the performance of the IOR. This information sharing refers to the way information was shared between the strategic and tactical levels within one of the cooperating organizations. As stated earlier, this information sharing was not the result of decision makers’ perception of the use of formal control. It was the opposite, the information sharing was in conflict with the perception that decision makers had of the use of formal control.

Regarding the assumptions made beforehand, one insight was that formal behavior can have a positive impact on decision makers’ perceptions of the IOR. The actual impact depends on the focus of the control mechanisms. In all five case studies, decision makers’ perceptions of the agreements within the formal control mechanisms that stimulated information sharing had a positive impact on their perceptions about the IORs’ performance. These control mechanisms even involved behavior control. By making explicit agreements about the frequency of meetings and progress reports, partners stimulated open information sharing.
Open information sharing, in its turn, had a positive effect on the perception of the decision makers. So, as long as the formal control mechanisms are aimed at stimulating desired behavior, they appeared to have a positive effect on decision makers’ perceptions of the IOR’s performance.
Most decision makers (also) named process as explanation for their perception of the performance of the IOR in which they were involved. The process of cooperation, by definition, concerns the decision makers’ behavior. This suggests that there is a strong relationship between these two concepts. The various case studies confirm this. At Banking JV, too much information sharing by one of the non-executive board members resulted in a negative perception of the performance of the IOR, with process as the explanation. At Pensions JV, the open information sharing was a very important explanation for the positive perception the decision makers had about the performance of the IOR.

If we evaluate this specific part of the conceptual model based on these outcomes, one particular topic raises attention: the relationship between information sharing, as an example of behavior by decision makers within the IORs, and the explanation the decision makers gave regarding their perception of the performance of the IOR. For this concept, the distinction was made between structural agreements (i.e., the governance structure and contracts) or by the established processes (i.e., communication, collaboration, and joint problem solving). This relationship appeared to enable limited combinations because the definition of “process” implies that it is directly linked to information sharing behavior.

At the start of this research, there was very limited literature available about this relationship between behavior within and the performance of IORs. However, recently, a fascinating new view on the design of governance mechanisms from a TCE perspective was given by Foss and Weber (2016). They argued that the aspect of bounded rationality, one of the central transaction dimensions with TCE, deserves more focus in the discussion about the most optimal governance forms. According to their research, different hierarchical forms are associated with particular frames and social referents. Where most research has focused on opportunism, they stress the developments that have influenced bounded rationality. Foss and Weber (2016) referred to the distinction between the three interrelated dimensions of bounded rationality: (1) processing capacity, (2) cognitive economizing, and (3) cognitive biases. The first dimension has to do with the limited capacity of humans to interpret and process information. The second dimension stems from the fact that humans use heuristics like cognitive frames that allow us to make decisions in a complex world. The third dimension results from the fact that heuristics not only helps us to make decisions, they also lead to large systematic errors in judgment. These so-called cognitive biases unconsciously distort the information processed rather than impacting the amount of information processed (Foss & Weber, 2016). In particular, the aspect of frames is interesting with regard to this research. As Foss and Weber (2016) explained, frames and the verbal codes that arise from them act
as tools for interpreting information in exchanges. Both give meaning to expected and unexpected events in the exchange.

The examples that were found at the chosen IORs confirmed the need for more focus on the concept of bounded rationality, especially the impact that varying views of the objective and governance of the IORs had on decision makers’ perceptions of the performance of these IORs. The analysis regarding the cases of Insurance Alliance and Insurance JV made this apparent, where different decision makers had a different view of the features of the IOR. In particular, the element of cognitive biases would be interesting to study in more detail within the context of IORs.

When comparing the assessments done in the IORs that were studied, in particular regarding this specific relationship between behavior by decision makers and their perception of the IOR’s performance, with the findings of the studies that were discussed in the literature review in Section 1.3.3, a closer look at Mahama’s (2006) study is required. That research indicated an indirect relationship between information sharing and performance in the context of strategic supply relationships. Further analysis showed support for an indirect relationship via the dimension restrain of the use of power. Mahama (2006) reasoned that information sharing reduces information asymmetries and, by this, the likelihood of the exercise of power. As such, the behavior improves the performance of the relationship, according to this academic. Again, no evidence was found in this research that supports this finding. Our results seem to suggest a direct relationship between information sharing by decision makers and their perception of the performance of the IOR. Sharing information about the rationale of the IOR, the status of the IOR, and about the behavior that is desirable to meet the objectives of the IOR seems to facilitate joint sense making. By this joint sense making, the expectations of the decision makers appear to get aligned. When these expectations are being met, this appears to result in a positive perception of the IOR’s performance. Also, comparing this research with Mahama’s (2006), it needs to be stated that the context of both studies differed significantly. Mahama looked at a buyer–supplier relationship, with market as the governance mode, while this study looked at the hybrid governance mode of tightly coupled IORs.

The following section deals with the impact of the moderating concept of (dis) trust on the relationship between decision makers’ perception of the use of formal control and the behavior of decision makers.
5.3 The effect of (dis)trust: moderating the impact perceived formal control has on behavior

This section deals with the impact that (dis)trust between decision makers had as a moderating concept on the relationship between decision makers’ perception of the use of formal control and the behavior of the decision makers within the IOR (see Figure 66).

![Diagram](image)

The corresponding question is:

How does the presence of (dis)trust impact the relationship between decision makers’ perception of the use of formal control and the behavior of decision makers within the context of the IOR?

Beforehand, the assumption was that if trust was present between decision makers, the use of formal control mechanisms would be more or less irrelevant. That is, in cases where the persons who were cooperating with each other did not pay explicit attention to the content of contracts, the formal control mechanisms would not directly influence their behavior, it was assumed. In cases where they trusted each other, the assumption was that they did what they thought was good for the IOR, irrespective of the content of the formal agreements. What I assumed was that in cases of distrust, behavior would be governed by formal control mecha-
nisms. To put it another way, the assumption was that the behavior of the decision makers would be more directly and explicitly aligned with the clauses of the contracts in cases of distrust, leading to a rigid, inflexible relationship.

As shown in Figure 67, at all five case studies, the presence of (dis)trust had a different impact on the relationship between decision makers’ perception of the use of formal control and behavior between decision makers.

The Insurance Consortium case indicated that the presence of trust had a positive effect on the relationship between decision makers’ perception of the use of formal control and behavior. The content of the formal control mechanism stimulated open information sharing and cooperative problem solving. More precisely, the clear rationale behind the IOR stimulated open information sharing. This impact is mostly the result of the rationale itself. However, this positive effect was strengthened by incorporating the rationale in the formal control mechanisms and by frequently referring to it during the meetings that were stipulated in the contract. The essence of this rationale is that all partnering organizations benefit from cooperating based on trust. This strong and clear rationale, known to all decision makers, made the formal control mechanisms irrelevant.

The cases of Banking JV and Pensions JV showed the impact of the combination of goodwill and competence trust along with goodwill distrust on the relationship between the same formal control and behavior situation (extensive output and behavior control related to open information sharing combined with cooperative problem solving). However, the impact of this (dis)trust combination was different. At the Banking JV case, this impact was mixed, both positive and negative. At the Pensions JV case, this impact was positive. An explanation for this difference is that at Banking JV, distrust was directed towards individual decision makers. At the Pensions JV case, the goodwill distrust was directed towards trust in the motives of organizations.

At Insurance JV, the presence of distrust dominated the impact on the relationship between decision makers’ perception of the use of formal control and the behavior of decision makers. Due to this distrust, decision makers started to study the content of the formal control mechanisms again. These clauses governed their behavior, limiting the information they chose to share with their partners. In this IOR, the decision makers trusted both the goodwill and competence of their fellow decision makers on an individual level. However, they distrusted the motives of their partners on an organizational level. This distrust was based on fundamental changes in the context of the IOR, as explained earlier in Chapter 3.
Figure 67: Outcome of case studies; impact of (dis)trust on relationship formal control – behavior.
Comparing these outcomes of the case studies with the conceptual model, the following can be concluded. Next to the impact (dis)trust between decision makers had as a moderating concept on the relationship between decision makers’ perception of the use of formal control and behavior by decision makers, the impact that the behavior by decision makers had on the presence of (dis)trust was even more important.

Competence-based (dis)trust appeared not to be a relevant feature of (dis)trust. In all five case studies, having the right competences was one of the preconditions for organizations and individuals to be part of the IOR. For example, several of the non-executive board members of the cases studies said that if the executive board members/managers weren’t competent, they would replace them.

A lot has been written about the role of trust within IORs. Over the last couple of years this relationship between trust and control has been studied in more detail, creating more insights into how exactly they interact and in what circumstances certain kinds of governance mechanisms are the most effective. For example, Arranz and de Arroyabe (2012) examined the effect of formal contract, relational norms, and trust on the performance of exploration and exploitation joint research and development projects. They defined exploitation projects as “projects with the objective to position a product in the market” (Arranz & de Arroyabe, 2012, p. 578). Exploration projects include, according to both authors, all activities needed until the product development has begun. Their analysis suggested that contracts are more effective in exploitation projects, and relational norms and trust are more powerful in improving the performance of exploitation projects (Arranz & de Arroyabe, 2012).

Cao and Lumineau (2015) gained more insights into the actual interaction between contractual and relational governance. They divided relational governance into trust and relational norms. By performing a qualitative review and meta-analysis of existing literature, they found that contracts, trust, and relational norms jointly improve satisfaction and relationship performance and jointly reduce opportunism. Additionally, they found that the mutual relationships between contractual and relational governance are moderated by the institutional environments, the interorganizational relationship type and length, and the construct measurement of contracts.

Interesting insights have been gained by researchers that focused on management control systems (MCS). For example, Vélez, Sánchez, and Álvarez-Dardet (2008) showed, in their longitudinal case study, that in an open-ended and evolving relationships, even when trust is well established, MCSs can still build trust. As they explained:
High trust provides a platform where success encourages the partners to cooperate further, demanding, in turn, more MCSs and greater levels of trust to support cooperation. By providing evidence with a greater appearance of objectivity than informal controls can yield, action and result controls improve partners’ perceptions of each other’s trustworthiness, and build competence and goodwill-based trust. MCSs are used not only to supervise but also to coordinate, and this second, more salient function avoids possible suspicions that could damage trust. (Vélez et al., 2008, p. 968)

This and other similar research has showed how the views of academics have changed since the beginning of the 00’s, when, for example, Das and Teng (2001) and Inkpen and Curral (2004) argued that only informal control could build trust.

Over the last couple of years, research has also provided more insights into how trust and distrust jointly influence the process of IOR contracting. For some years, literature has suggested that trust and distrust function as separate but related constructs, such that lack of trust does not necessarily signify distrust. Connelly, Miller, and Devers (2012) tested a model wherein trust, based on partner reliability, is constrained to the IOR exchange context where it develops and does not generalize to other contexts. So this trust only applies to that specific situation. Distrust, rooted in incongruence between a focal organization’s values and those of its partner, more readily generalize across exchange contexts (Connelly, Miller, & Devers, 2012). Their results supported these predictions. This means that the moment distrust arises between partners in a specific context, it will impact their relationship in other situations as well.

5.4 Combined relationships: information sharing as a linking pin

In this section, the combined relationships that were captured in the conceptual model (see Figure 68) are discussed.

The corresponding question is the research question:

*How do decision makers’ perceptions of the use of formal control impact, via their own behavior resulting from this perception, their perception of the performance of interorganizational relationships in the operations domain of financial institutions, and how does (dis)trust between decision makers moderate this relationship?*
Previous to this study, the expectation was that decision makers’ perceptions of the use of formal control, especially behavior control, would have a negative impact on decision makers’ perceptions of the performance of these kinds of IORs. Furthermore, the assumption was that formal control and trust were substitutes. I assumed that more formal control equaled less trust and vice versa.

Figure 69 shows the visual summary of all case studies, showing what was found at the various IORs in the study. This overview illustrates a number of observations that were made during this research. First of all, the findings reject the assumption that the perception of the use of an extensive level of detail of formal control limits information sharing between cooperating partners. IORs Banking JV, Insurance Alliance, and Pensions JV all show a combination of a perception of the use of an extensive level of detail of formal control and open information sharing. Insurance Consortium shows the combination of a perception of the use of a limited level of detail of formal control and open information sharing. One of the assumptions that was shared in Section 1.5 was that the use of extensive formal control mechanisms would limit the behavior of decision makers within an IOR. The findings of this research do not support this assumption.

A second finding that Figure 69 illustrates is that the outcome of this research supports the assumption that the combination of open information sharing and cooperative behavior when solving problems help to give decision makers a pos-
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<table>
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<tr>
<th>Concept</th>
<th>Variable</th>
<th>Attribute</th>
<th>Banking JV</th>
<th>Insurance Alliance</th>
<th>Insurance Consortium</th>
<th>Pensions JV</th>
<th>Insurance JV</th>
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<td>Decision maker’s perception of use of formal control in IOR</td>
<td>Level of detail of formal control</td>
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<td>Decision maker’s perception of use of formal control in IOR</td>
<td>Type of formal control</td>
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<td>Behavior by decision makers</td>
<td>Information sharing</td>
<td>Open</td>
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<td>Behavior by decision makers</td>
<td>Joint problem solving</td>
<td>Cooperative behavior</td>
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<td>(Dis)trust between decision makers</td>
<td>Presence of (dis) trust</td>
<td>Coop-trust</td>
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<td>(Dis)trust between decision makers</td>
<td>Type of trust</td>
<td>Goodwill (dis)trust</td>
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<td>Decision makers’ perception of performance of IOR</td>
<td>Decision makers’ perception of performance of IOR</td>
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<td>Decision makers’ explanation for their perception of performance of IOR</td>
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<td>Decision makers’ perception of performance of IOR</td>
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Figure 69: Visual summary of all case studies.
itive perception of the performance of the IOR. Both Insurance Alliance, Insurance Consortium, and Insurance JV show this combination. The reason why open information sharing resulted in a negative perception of the performance of the IOR Banking JV was explained earlier. This was due to information sharing that did not align with the objectives of the IOR. The combination that was found at Alliance JV, which can be regarded as a deviant case compared to the other IORs, can be explained by the varying perceptions of decision makers at a tactical level and at a strategic level. This difference shows that the perception of the performance of an IOR can vary significantly per level in an organization. Insurance Alliance showed a similar situation, where decision makers at a strategic level had a more positive perception of the performance of the IOR than the decision makers at a tactical level.

The case studies showed that the way decision makers’ perceptions of the use of formal control impact decision makers’ perceptions of the performance of IORs is, to a large extent, being determined by the way they stimulate information sharing between the cooperating decision makers. In cases where the formal control mechanisms are used to create clarity and to stimulate information sharing between the decision makers, such mechanisms have a positive impact on decision makers’ perceptions of the IOR’s performance. In the case studies where there was no shared perception about the rationale and the governance of the IOR, the interviewed decision makers created their own perception. These perceptions that they created themselves were regularly not in line with the shared goals of the cooperating organizations. These unilateral perceptions where often negative about the performance or approach of the IOR.

The Insurance JV case and the Insurance Alliance case are good examples of IORs where distrust arises when the rationale and governance of the IOR are unclear. Several persons interviewed for these two case studies explicitly made a connection between formal control and (dis)trust.

The Insurance Consortium case shows how decision makers’ perceptions of performance becomes positive the moment the rationale of the IOR is clear to everyone, that is, assuming that each decision maker has a positive view about this rationale. Knowing the rationale alone is not enough to have a positive perception; the content of the rationale obviously does matter as well. Even if one has clarity about a rationale for a goal they do not support as a decision maker, one will probably not have a positive perception of the performance of the IOR. But because the organizations that cooperate in an IOR decided to do so because of a shared or complementary goal, it would be safe to assume that the decision makers on a strategic level have a positive perception about the underlying rationale, at least
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the decision makers that started the IOR. Several case studies showed examples of decision makers on a strategic level that questioned the rationale behind an IOR they were participating in. This concerned examples where the original decision makers, who initiated the IOR, left the organization. This stressed the importance of making the rationale and objectives of an IOR as explicit as possible in the formal control mechanisms that are used. This makes it easier for future decision makers to get an understanding of these important elements of cooperation.

The case studies supported the view that formal control and trust are complementary. Formal control mechanisms can stimulate information sharing between decision makers. This kind of behavior, as long as information sharing is aligned with the objectives of the IOR, increases the level of trust between partners. This finding partly corresponds with existing literature. If the outcome of this research is being compared with the findings included in the literature research discussed in Section 1.3.4, the main analogy seems to be the level of detail of the formal control mechanisms. This feature has been used by various other researchers, albeit using different words. Jap and Ganesan (2000) looked at the use of explicit contracts, Luo (2002) focused on term specificity, and Murray and Kotabe (2005) included the level of formalization in their conceptual model. The findings of Jap and Ganesan (2000) indicated that the impact of the use of explicit contracts on supplier commitment depends on the phase the relationship is in. Luo’s (2002) study illustrated that the higher the term specificity, the stronger the relationship between cooperation and performance of IJVs. The research done by Murray and Kotabe (2005) appeared to show that the impact of the level of formalization depends on the governance mode. The findings of this research do not seem to support this, however.

In the previous sections, all relationships from the conceptual model were discussed. In next section, the academic contribution and managerial implications of our results will be explained.

5.5 Contribution and implications

This research makes several contributions to the study of interorganizational relationships governance. First of all, this study adds detailed insights to the existing knowledge about the relationship between perceived use of control and perceived performance of IORs. Prior studies on the interplay between these concepts mostly used surveys as their data gathering method (Aulakh et al., 1996; Fryxell et al., 2002; Jap & Ganesan, 2000; Luo, 2002; Mahama, 2006; Murray & Kotabe, 2005), resulting in outcomes on a higher level. It is hard to imagine that a quantitative
approach like a survey would have allowed me to get such a detailed understanding of the dynamics between the perceptions that have been studied. For example, the complex situation at Insurance JV, with its two different services, a pricing model that did not align with the needs of its shareholders, and by acting in a changing context that removed the rationale behind the cooperation, would have been difficult to grasp via a questionnaire. Using case studies that gathered perceptions from all partners within the IOR, complemented with two series of update interviews and two sessions with practitioners from the IORs, much more precise insights were gained into the messy reality of behavior and perceptions within the context of IORs. As described in Chapter 3, in most cases a mix of perceptions were discovered, including combinations of both positive and negative perceptions of the performance of the IOR and blends of both trust and distrust, depending on the level within the IOR. This illustrated that real life in an IOR setting is rarely very straightforward and therefore not easy to document via a survey.

Secondly, this research opened up a world that, to the best of my knowledge, has never been studied before in this way. Most studies on the relationship between control and the performance of IORs used samples from the United States of America, China, or Australia (Aulakh et al., 1996; Fryxell et al., 2002; Jap & Ganesan, 2000; Luo, 2002; Mahama, 2006; Murray & Kotabe, 2005). Studies focusing on Europe, specifically on the relationship between control and performance of IORs, are rare. Furthermore, the literature review that was done for this research did not show studies focusing on the financial services industry and, in particular, the operations domain of financial institutions.

This study also has various managerial implications. Firstly, my results confirm the enabling role of formal control mechanisms, as already recognized by Adler and Borys (1996). The results of the case studies illustrate how the perceived use of formal control can impact information sharing between decision makers within IORs. This way, acting as positive control mechanisms, formal control can be used by managers to create clarity for the partners involved and to stimulate joint sense making. This can help to create shared expectations, increasing the likelihood of positive perceptions of the performance of the IOR by decision makers.

Secondly, my results reveal the importance of adjusting the content of the formal control mechanisms to changes in the context of the IOR. Especially, the Insurance JV case showed what can happen if the perceived use of formal control longer aligns with the needs of the cooperating partners. The match between the content of the formal control mechanisms and the context of the partners seems to have a significant impact on decision makers’ perception of the performance of the IOR.
Thirdly, the findings of this research inform managers about the differences that can occur in the perceptions of the performance of an IOR at the various levels within the partnering organizations. In most case studies, perceptions differ significantly between the strategic and tactical levels. In several instances, this appeared to be the result of joint sense making that was limited to the strategic level of the IOR. Combining these three implications, the findings of this research illustrate the opportunity of using formal control mechanisms as enabling tools for recurring joint sense making and adjusting to changing circumstances across the levels of the IOR and the cooperating partners.

5.6 Limitations: focus on specific IORs and part of the puzzle

The objective of this section is to recognize and reflect on the limitations of this research. The main limitations of this research are:

1. IORs not selected on their level of success;
2. No observations were used; and
3. Antecedents were not included in the conceptual model.

In the rest of this section, these limitations will not only be explained, but suggestions will also be presented for how such limitations could be overcome in the future.

Ad 1. IORs not selected on their level of success
The case studies that were analyzed were not selected based on the level of their success. As described in Section 2.2.2, the cases were selected based on other criteria: they needed to be IORs within the FSI and focusing on the operations domain within FIs. At the beginning of this research, an overview was made of IORs that fit this profile. At that moment, only ten IORs were eligible to be included in this study. Of those IORs, it was not clear from a distance which ones were successful and which were not. Adding their level of success as an extra criterion would have made the number of eligible IORs too small. As a result, their level of success, being included in the conceptual model as decision makers’ perceptions of IORs performance, only became clear once the interviews started. It turned out, as shared in Chapter 3, that in four out of the five case studies, decision makers had mainly a positive perception about the IOR’s performance. As a result, the relationships between the concept that are part of the conceptual model of this research were mainly assessed within IORs with the same, positive perception of performance. This focus on successful IORs, that is, IORs with positive perceptions,
results in a consequence that the findings apply only to the same kind of IORs. In future research, the external validity can be increased by including both IORs with a positive perception of performance and IORs with a negative perception of performance.

**Ad 2. No observation used.**

Before the start of this research, the plan was to use observation as technique to gather information about the phenomenon that was to be studied in order to increase construct validity. Observation would be the third technique during the case studies, next to semi-structured interviews and studying documents. However, while engaging with the IORs that wanted to participate in this research, it appeared that observing the behavior of decision makers, for example during a board meeting, was not possible. With the low number of eligible IORs in mind, we decided to drop observation as a required technique. Otherwise, the number of IORs that wanted to participate would have become too low. This limitation was mitigated by turning this study into a dynamic research process involving various extra practitioners during several sessions.

**Ad 3. Antecedents not included in the conceptual model.**

For reason of focus, the antecedents of the concept of decision makers’ perceptions of the use of formal control was not included in the conceptual model. This means that aspects like the risk appetite or earlier experiences of the decision makers were not taken into account. As a consequence, the perception of the decision makers cannot be related to other concepts that might be relevant. A possible solution for this is to include a limited number of antecedents in the conceptual model. These concepts can be selected based on the outcome of earlier research.

### 5.7 Revised conceptual model: include features that vary more

In the previous sections, the following observations were shared regarding the conceptual model used during this research:

- The lack of variety between the level of control and the type of control found at the various IORs made these variables less interesting to study than was anticipated in advance.
- In the future, it would be interesting to choose features of formal control that would vary more across the case studies. For example, the objective of the formal control mechanisms. Here, the types of formalization used by Adler and Borys (1996), being enabling and coercive, could be very interesting features
to study. Another interesting angle would be the focus of the formal control mechanisms. Here, the often used distinction between control and coordination (Vlaar et al., 2007) can be used.

- Competence based (dis)trust, as a type of (dis)trust, appeared to be a feature of (dis)trust that did not vary across the IORs that were studied. This type of trust was regarded, by the decision makers that were interviewed, as a precondition for cooperation.
- Information sharing is, by far, the most important aspect of behavior by decision makers within IORs. The other themes that were originally included in the model appeared to play a minimal role with the cases that were studied.
- Information sharing impacts the level of (dis)trust between decision makers. Therefore, it would be interesting to study in more detail the relationship between these two concepts.

Based on the discussion of the outcome of this research, a revised conceptual model was made (see Figure 70, the changes are shown in italics).

A follow up study should be conducted to study different features of formal control, specifically, features that would vary more than the level of control and the type of control. Furthermore, given the importance of information sharing, that type of behavior of decision makers deserves even more focus, and the two-way
interaction (vice versa) between (dis)trust and information sharing should also be studied. That means that in the revised conceptual model, (dis)trust would no longer be a moderating concept, but an independent concept. Finally, it would add value to look at the role of bounded rationality in the way decision makers’ perceptions are being created. An interesting addition would be to experiment with the tools and techniques, like data analysis, that are currently present to enable decision makers to process much more data than they could decades ago. These increased possibilities have made the rationality of decision makers much less bounded than when TCE thinking arose in the previous century.

5.8 Summary

Figure 71 shows the same questions as listed in the beginning of this chapter, but now with the corresponding answers.

This chapter ends the scientific part of this thesis. In the beginning of this document, the reasoning for the what and who and why was explained. Chapter 1 showed that this study focused on the governance of interorganizational relationships between FIs. More specifically, this research analyzed the impact that decision maker’s perceptions of the use of formal control has on their behavior in the context of that IOR, taking into account the level and type of (dis)trust between them. It looked at how this behavior influenced their perception of the performance of the IOR. The reason for this theme was the belief that cooperation in the FSI has a lot more potential than currently is being used. Chapter 2 described how this research was carried out. It explained that data gathering was executed by doing five case studies into existing IORs. This chapter also showed that several other steps were taken both before and after these case studies in order to turn this research into a dynamic, iterative process with validation from different angles. Chapter 3 gave an overview of what was found in the studied IORs. By “peeling” the conceptual model for every case, insights were gained about how the various concepts interact. As described in Chapter 4, this analysis showed that information sharing, as a specific kind of decision maker behavior within the IORs, in particular influences the way the perceived use of formal control impacts the perception of the performance of the IOR. As reflected in Chapter 5, these findings differed from the assumptions held before the start of this research. By zooming into the different aspects and functions that formal control mechanisms have, it became clear that especially their coordinating role can have a positive effect on the perception of the performance of IORs, especially when used as an enabling, instead of a coercive, mechanism. This is how the formal control mechanisms deal
<table>
<thead>
<tr>
<th>Chapter / sections</th>
<th>Corresponding questions</th>
<th>Main answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Discussion</td>
<td>How do the results relate to the assumptions beforehand and to existing literature?</td>
<td>Formal control can have a much more positive role than was anticipated beforehand, by enabling coordination.</td>
</tr>
<tr>
<td>5.1 Formal control vs behavior</td>
<td>What insights has been gained concerning the way these concepts interact?</td>
<td>Formal control can stimulate information sharing in an enabling way.</td>
</tr>
<tr>
<td>5.2 Behavior vs performance</td>
<td>Idem</td>
<td>Information sharing that aligns with the objectives of the IOR has a positive impact on decision makers’ perceptions.</td>
</tr>
<tr>
<td>5.3 The effect of (dis)trust</td>
<td>Idem</td>
<td>In case of distrust, the impact that decision makers’ perception of the use of formal control has on their behavior is stronger than in case of trust.</td>
</tr>
<tr>
<td>5.4 Combined relationships</td>
<td>What insights has been gained concerning the way all concepts interact?</td>
<td>The way decision makers’ perception of the use of formal control impacts their perception of the performance of IORs is to a large extent being determined by the way it stimulates information sharing.</td>
</tr>
<tr>
<td>5.5 Contribution and implications</td>
<td>What is the added value of the results for both academics and practitioners?</td>
<td>The findings add detailed insights about how formal control can be used as enabling tool for joint sense making.</td>
</tr>
<tr>
<td>5.6 Limitations</td>
<td>What are the limitations of this research?</td>
<td>Mostly successful IORs have been studied and the antecedents of the decision makers have not been studied.</td>
</tr>
<tr>
<td>5.7 Revised conceptual model</td>
<td>How should the conceptual model be revised?</td>
<td>The conceptual model should contain more concepts that could vary more.</td>
</tr>
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</table>

Figure 71: Summary of Chapter 5.
with the coordination requirements (“who does what”) that are specific to IORs, as it involves by definition several autonomous organizations.

This document ends with two chapters that translate the findings of this research into practice. As stated in the beginning, it is very important to me that theory and practice reinforce each other, so that’s why the application of the insights that were gained has an important role in this document. As these two chapters are an addition to the academic part of this document, the style of writing differs slightly compared to the text in the previous chapters. For example, several non-academic sources are used and fewer references and definitions have been included. First of all, in next chapter, the strategic relevance of this research is elaborated and will answer the question of why the outcomes of this research matter.
If you compare the findings of your research with what was already studied and found by other researchers, what does that teach you?

Me
That's a very interesting question, Aunt Jane! I learned that the outcomes of my research align very well with the findings of researchers that have made a distinction between two different roles that contracts and procedures can have. On the one hand they can be used to coerce certain behavior to force people to do certain things. On the other hand, contracts and procedures can be used to enable people to do things that will help to achieve a goal. Information sharing, what appeared to have most impact on the way decision makers feel about the performance of the cooperation, fits the enabling role of contracts. Doing my research helped me to understand the various roles contracts and procedures can have and to better grasp the true impact they have.

I see, and say you would have to do your research all over again, what would you do differently?

Me
I guess the main thing I would do differently would be to take even more time to determine the data analysis approach. In the beginning of my research, I was too focused to start gathering data. By taking more time to think though what I will be doing with this data, and what kind of insights I will gain by this, I probably would have needed less time for data analysis.

What if you would have had the opportunity to continue with your research? What topic would you choose?

Me
I would do something with the exiting developments that are going on in the financial services industry, like blockchain, smart contracts and Big Data, that have something to do with information sharing and cooperation. It would be very interesting to study how these kind of developments could help to make the enabling role of contracts and procedures more effective.

Wow, wait a minute! Now you are using a lot of words I do not know, like blockchain and Big Data. I guess I am too old for that. I think this is something for the new generation, like my grandchild Sophie. She spends her entire day by ‘information sharing’ with her friends via all kinds of social media. I will send your next chapter to her and will ask her to send you some questions about it.

WhatsApp conversation 6: Reflection on discussion.
Chapter 6

Strategic relevance: need and opportunity to improve governance of IORs
The objective of this chapter is to demonstrate the relevance of the findings of this research. It will be addressed why it is important for FIs to optimize the governance of IORs. This is done in two ways, from the perspective of both the needs and opportunities that FIs are facing, as shown in Figure 72.

### 6.1 The need for change: more cooperation with FinTech players and more formal control

This section demonstrates the need for change. Two main arguments for this need are: (1) the fact that FIs need to cooperate more, as a result of the increase of new entrants and the unbundling of the value chain, and (2) the increasing importance of control in the FSI.

#### 6.1.1 More cooperation needed

The first reason why FIs should make the governance of their IORs as optimal as possible is because the importance of cooperation is increasing. FIs need to cooperate more and more with other organizations. This is not only the result of an increase by FIs of outsourcing activities to external vendors, but also the result of the large number of new players that has entered, and are still entering, the FSI. The last couple of years have shown a substantial increase in new firms joining the
market. Increasingly, very specialized firms are taking over specific steps within these value chains, increasing the number of interorganizational relationships that FIs need to manage. Many of these specialist firms, that are unbundling the value chains of FIs, are being characterized as FinTech.

FinTech is an economic industry composed of companies that use technology to make financial systems more efficient. This group not only consists of relatively small, young companies like Adyen, a provider of payments solutions, and Lending Club, the world’s largest online credit lending marketplace, but also giants like Google and Apple. These huge companies entered the FSI some time ago, however, by introducing mobile payment and digital wallet services, i.e., Google Wallet and Apple Pay. FinTech firms concentrate on a specific task with a specific technology and then excel in that area. To give a better idea about FinTech applications, Figure 73 gives an overview of the sectoral FinTech initiatives and the sector-transcending initiatives that enable these developments within the FSI. Furthermore, Text box 7 includes more information about the background of FinTech.

![Figure 73: Sectoral and sector-transcending FinTech initiatives (DNB, 2016).](image-url)
Porter (1979) stated years ago that the possibility of new entrants has a significant part to play in developing and changing the competitive dynamics of any industry. According to his famous “Five Forces” model, this threat of new entrants changes the competitive environment and directly impacts the profitability of an existing firm. If there is a higher threat of new entrants, this means that there are

FinTech: causes & consequences

According to a study by De Nederlandsche Bank (2016), there are four broader societal developments behind the rise of technological innovation in the financial sector. First, consumers are better informed and more articulate in relation to the products and services that they buy and use. This is due in part to the increasing importance of social media, comparison websites and other platforms. Second, the high levels of market concentration and uniformity in, for example, the Dutch banking sector leaves room to market participants to offer more specialised services. Legislation and regulations also influence the use of innovation in financial services, for example by removing entrance barriers to new market participants. Finally, technology itself makes innovation in the financial sector possible; better connectivity and the growing capabilities of computers, smartphones and tablets enhance the trend whereby products and services are increasingly being sold through digital rather than branch networks.

The dominant opinion is that FinTech will have significant consequences for the FSI. Not only consulting firms think that FinTech will have an enormous impact on the industry, but also impartial institutions like the World Economic Forum (WEF), the Autoriteit Financiële Markten (AFM, 2016), De Nederlandsche Bank (DNB, 2016) and the European Central Bank (2017). Based on a study performed in 2015, the WEF expects that the disruption caused by FinTech will not be a one-time event, rather a continuous pressure to innovate that will shape customer behaviours, business models, and the long-term structure of the financial services industry. Both AFM and DNB have performed studies into the impact of FinTech on their way of supervising the industry. As Deutsche Bank (2016) states, collaboration between incumbents and new players will be essential to fully comprehend the effects (both positive and negative) of technological developments on the industry's risk profile.

Text box 7: Background of FinTech.

Porter (1979) stated years ago that the possibility of new entrants has a significant part to play in developing and changing the competitive dynamics of any industry. According to his famous “Five Forces” model, this threat of new entrants changes the competitive environment and directly impacts the profitability of an existing firm. If there is a higher threat of new entrants, this means that there are
low barriers to entry and there is high possibility that the industry profit potential will decrease as a whole, since more competitors will fight for the same amount of business. Sales and market shares will be redistributed and there may be an effect on price and product quality (Porter, 1979).

As noted by audit firm PWC (2016), most incumbent financial institutions have responded to the FinTech challenge in one of three ways. According to PWC (2016), the first group adopted a wait-and-see approach, conserving their resources until clear technology winners emerged. They risked being caught unprepared when the threat to their business becomes more imminent. The second group acquired FinTech firms to gain access to new technologies, but they often had trouble with integration. And then there were the companies investing significant time and money in fixing their own existing IT landscape, which was typically fragmented and complicated by legacy systems that are hard to maintain, upgrade, and improve. All these three responses seem to be inadequate. Therefore, an entirely new way of looking at this development is needed, especially considering the other development – how the dynamics between control and trust are evolving in the FSI.

6.1.2 More formal control used
The second reason why it is important for FIs to use formal control as optimal as possible is that the role of this type of control has increased. As a result of the incidents and scandals that preceded the last economic crisis, the level of trust in the FSI dropped significantly. Globally, the FSI was the industry that people trusted the least in 2017, as is illustrated by Figure 74. This figure shows the outcome of a survey where respondents were asked to indicate how much they trusted businesses in the listed industries to do what is right. As the figure shows, only 54% of the people that were interviewed responded that they trusted the FSI, which positions the industry at the bottom.

Partly as a result of the decreasing level of trust society has in FIs, the level of formal control increased over the last couple of years, at least in the perception of a lot of decision makers within the FSI. This became apparent during the dozens of interviews I had the last couple of years with decision makers within the industry. They perceived a significant growth in the rules and regulations that apply to FIs.

Increasing the level of control as such isn’t a problem per se, as long as it is effective. An ineffective use of control mechanisms has several undesirable side effects. For example, it increases transaction costs. In the end, these costs will be paid by the FIs’ clients. These increased costs will be take into account by FIs when considering the option of starting new IORs and continuing existing ones. Therefore,
these costs of control most probably have an indirect impact on the extent to which the potential of cooperation is being used by FIs.

This section argued that FIs need to optimize their use of formal control in the governance of cooperation with other organizations for two reasons: (1) FIs need to cooperate more and more with other organizations, in particular with FinTech companies, and (2) the increase of formal control in the industry. Put simply, FIs need to remain competitive in an environment where the level of cooperation and required formal control will only increase. This increases the need to use the formal control mechanisms as effectively as possible. In the next section, the strategic relevance of the findings of this research are framed from another angle. Two developments that create opportunities for FIs are accentuated: technical and organizational innovations that have occurred over the last couple of years. These evolutions are opening up possibilities for FIs to evolve how they govern IORs.
6.2 Opportunities for change: technical and organizational innovations

Threats are certainly not the only changes that stimulate FIs to innovate how they govern IORs. There are also many opportunities for change. The last couple of years have shown several developments that created positive incentives for FIs to change the way they cooperate. In this section, two topics are highlighted: technical innovations and organizational innovations.

6.2.1 Technical innovations

As shown in this research, information sharing is one of the most important elements of behavior by decision makers that determine their perceived performance of interorganizational relationships. In recent years, several developments have occurred that created interesting opportunities for information sharing. Not only did the intensity of data sharing increase significantly, but so did the possibilities for interpreting this data, and so processing it into information expanded quite a bit. Applications like Big Data and machine learning opened up new worlds of possibilities to improve the governance of IORs by increased information sharing. The term Big Data often refers to the use of predictive analytics, user behavior analytics, or certain other advanced data analytics methods that extract value from data. Machine learning is the subfield of computer science that gives computers the ability to learn without being explicitly programmed. Having evolved from the study of pattern recognition and computational learning theory in artificial intelligence, machine learning explores the study and construction of algorithms that can learn from and make predictions based on data.

One very interesting development regarding the way information is shared is the blockchain. This is a concept that can give bounded rationality, one of the key elements within transaction cost economics, a totally different meaning. See Text box 8 for more explanation.

Say the blockchain technology can be applied to the governance of IORs. How would this increase the potential that cooperation has to offer? In particular, how would it facilitate the role of information sharing as an important aspect within the governance of IORs. That would be interesting to combine with the other opportunity for change, as clarified in the rest of this section.

6.2.2 Organizational innovations

The last couple of years have shown a shift in both theory and practice of organizational design. Our views on what the most efficient and effective way is
Blockchain: “trustless transactions”

A very relevant development from the perspective of governing cooperation is the blockchain. Blockchain is a public ledger that is “distributed” or shared among many different parties. It can only be updated by consensus of a majority of the participants in the system, and, once entered, information can never be erased. The best known blockchain implementation is the bitcoin blockchain. Bitcoin is digital cash. It is a digital currency and online payment system in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, independently of a central bank. The bitcoin blockchain contains a certain and verifiable record of every single bitcoin transaction ever made. The most interesting fact of the blockchain is that it removes the trusted third party, like FIs, from the transaction. The guarantee that safeguards the transaction is the design. That’s why the blockchain is referred to as facilitating “trustless transactions”.

That this development is more than the latest fad has been shown by how FIs are looking with great interest to this development. Several global FIs have taken initiatives to benefit from this innovation. A good example is R3, a consortium of dozens of financial companies in research and development of blockchain usage in the financial system. At the start, 11 member banks of this consortium connected on the centralized Ethereum-based blockchain network. During the pilot test, banks connected to the R3 blockchain network used the peer-to-peer technology to process and settle international transactions within the network. Another relevant example is the B3i project. B3i is short for Blockchain Insurance Industry Initiative. This project was launched in October 2016 by a group of insurance companies, like Allianz and Swiss Re. In a collaborative effort, members of the B3i initiative will explore the ability of distributed ledger technologies to increase efficiencies in the exchange of data between reinsurance and insurance companies. In 2017, the Dutch insurance companies Achmea and Aegon joined this initiative (Betlem & Groot, 2017).

As explained in Section 1.1, cooperation, trust, and control are the fundament of the FSI. The blockchain could have a fundamental impact on these features, making cooperation much easier and giving the concepts of trust and control an entirely different meaning.
of organizing activities have evolved significantly over time, especially regarding professional services firms like FIs. The times of Taylor’s scientific management are long gone. After years of focusing on size, efficiency, and control, building large hierarchical pyramids, we have shifted to focusing on agility, effectiveness, and autonomy. Enabled by technical developments, like the decreasing costs of information technology and communication, our organization structures are increasingly turning into collaborative ecosystems, as illustrated by Figure 75. This figure illustrates how organizations used to be large pyramids, then smaller pyramids consisting of business units. Next, they evolved into networks. First, the focal organization coordinated all communication, but that changed into communication between all partners in the network. Then, ecosystems arose. Initially, these ecosystems were created around specific focal organizations, with still a central role for this organization. This evolved into ecosystems with a greater diversity of organizations and relationships between these organizations.

![Figure 75: The development from pyramids into ecosystems (Roobeek, 2004, Nyenrode, 2015).](image)

Moore (1993) is being widely acknowledge as the first person to use the term ecosystem in a business context. He used the analogy from biological ecosystems in the natural environment. Moore (1996) defined the business ecosystem as:

An economic community supported by a foundation of interacting organizations and individuals – the organisms of the business world. This economic community produces goods and services of value to customers, who are them-
selves members of the ecosystem. The member organism also include suppliers, lead producers, competitors, and other stakeholders. Over time, they coevolve their capabilities and roles, and tend to align themselves with the direction set by one or more central companies. Those companies holding leadership roles may change over time, but the function of ecosystem leader is valued by the community because it enables members to move toward shared visions to align their investments, and to find mutually supportive roles. (p. 26)

More recently, Rong and Shi (2015) defined business ecosystems as “a community consisting of different levels of interdependent organizations, which generates co-evolution between partners and their business environment.” Deloitte (2015) defined ecosystems as “dynamic and co-evolving communities of diverse actors who create and capture new value through both collaboration and competition” (p. 4). Adner (2017) made a distinction between ecosystem as an affiliation and ecosystem as a structure. Where the ecosystem as an affiliation approach takes the actors as the starting point, the ecosystem as a structure perspective starts with the value proposition, then looks for the actors that are needed for the proposition to come about (Adner, 2017, p. 41). According to Adner (2017), “The ecosystem is defined by the alignment structure of the multilateral set of partners that need to interact in order for a focal value proposition to materialize” (p. 42).

Given the definition as stated in Section 1.3.1, business ecosystems can also be regarded as IORs, but business ecosystems are essentially different than the IORs that were studied as part of this research. So what are the main differences, and why do these business ecosystems create opportunities for FIs? The first question, about the differences between ecosystems and the IOR that were studied in this research, will be answered based on the components of the definition of ecosystems given by Adner (2017). As Adner (2017) stated, these elements are helpful in determining when the ecosystem construct is relevant. These components are:

1. Alignment structure;
2. Multilateral;
3. Set of partners; and
4. For a focal value proposition to materialize.

Before these features can be discussed, it helps to briefly explain the four basic elements that underlie Adner’s (2017) structuralist approach. These elements are: 1) activities, 2) actors, 3) positions, and 4) links. Activities can be regarded as obvious. Actors are the entities that undertake the activities. Positions refers to where in the flow of activities actors are located and make clear who hands off to whom. Finally, links specify transfers across actors. The content of these links can vary from ma-
terials to information, funds and influence. Now that these elements have been introduced, the components that make Adner’s (2017) definition of ecosystems will be discussed.

“Alignment structure” refers to the system that is present for the actors to reach mutual agreement regarding their position and flows of activities between them. Adner (2017) stated that in situations where other actors do not need to be aligned, there is no particular value to invoking an ecosystem logic. Alignment also was an important topic in the context of the IORs that were studied as part of this research. This aspect is related to the importance of information sharing, especially given the role of sensemaking, as referred to in Section 3.6. Information sharing can be regarded as an important element of alignment structure. It also helps partners to get the same understanding of the alignment between them.

“Multilateral” not only means that several actors are involved, but also that a set of relationships that are not decomposable to several bilateral interactions are involved. This aspect clearly does not apply to the IORs of this research. For example, Banking JV started off as an IOR between two financial institutions. On the other hand, the IORs with more than two partners could not be decomposed into bilateral interactions without damaging the rationale behind the cooperation. For example, the added value of both Insurance JV and Insurance Alliance resided in the fact that the IORs consisted of multilateral relationships. Decomposing these IORs into bilateral interactions would destroy their added value.

“Set of partners” means that membership of an ecosystem is defined rather than open-ended. It does not mean that the actors cannot change along the way, but it refers to the fact that the participating actors have a common goal to create value. Adner (2017) stated that to be a partner within an ecosystem, the actors need to be “actors on whose participation the value proposition depends, regardless of whether or not they have direct links to the focal firm” (p. 43). The IORs studied all involved companies that had a common goal. The difference with this element of Adner’s (2017) definition of ecosystem is that all relationships were direct. The indirect links, for example with suppliers, were not regarded as part of the IORs that we studied. That does not mean that some of the IORs weren’t part of ecosystems, for example, ecosystems with one of the participating FIs as focal firm. However, this dimension was not taken into account during this research.

“For a focal value proposition to materialize” determines which actors can be regarded as part of the ecosystem. Only when interaction, links in all kinds of forms, between the actors is needed can the construct be regarded as an ecosystem. So,
actors need to create a value proposition together in order to be an ecosystem. This implies that companies that are simply connected by means of friendly relationships cannot be regarded as an ecosystem. They need, according to Adner (2017), to create a value proposition together. This feature also applies to the IORs that were studied as part of this research. The various actors were linked to each other via the IORs.

Table 12 gives an overview of the main differences between ecosystems and the IORs studied herein, according to Adner’s (2017) definition.

**Table 12: Differences between ecosystems and IORs of this research**

<table>
<thead>
<tr>
<th>Features</th>
<th>Ecosystems according to Adner (2017)</th>
<th>IORs of this study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of relationships between actors</td>
<td>Multilateral</td>
<td>Bilateral and multilateral</td>
</tr>
<tr>
<td>Aspect that determines the boundary of the partnership</td>
<td>The actor’s contribution to value proposition</td>
<td>Legal entity</td>
</tr>
<tr>
<td>Dynamics of relationships</td>
<td>Relatively dynamic</td>
<td>Relatively static</td>
</tr>
</tbody>
</table>

This comparison between Adner’s definition of ecosystems and the IORs we studied shows that the main difference has consequences for the complexity of the links between the cooperating actors. Ecosystems involve, per definition, more links than between two partners, whereas IORs can also apply to a cooperation between two actors, like the Banking JV case that was part of this research. Furthermore, the boundary of an ecosystem, as defined by Adner (2017), is less rigid than the boundary of the IORs studied. As a consequence, the dynamics or the relationships between the actors within an ecosystem can be more dynamic than between partners within the IORs. Positions and links between actors can change more often within the context of an ecosystem. As a consequence, the importance of information sharing, as an important part of the alignment structure, is even bigger within the construct of an ecosystem. As this research has indicated, the perceived use of formal control mechanisms mainly impacts the perceived performance of IORs via information sharing between decision makers. This information sharing has a significant impact on joint sense making between partners. The importance of joint sense making is bigger in a situation where roles, positions and links between actors vary more often, like in a context of ecosystems. As a result, decision makers could especially use the findings of this research in situations where they are part of an ecosystem.
Another relevant feature of ecosystems in view of this research is the part of the definition used by Deloitte that refers to the way they create new value: “through both collaboration and competition” (Deloitte, 2015). As stated by de Ritter (2016), this aspect of combining collaboration and competition is a particular challenge for people and companies that are part of ecosystems. In her paper, she focuses on ecosystems that consist of entrepreneurs that want to achieve sustainable system change. De Ritter (2016) explained that an entrepreneur in an ecosystem setting needs to look at the other members in two different ways: as potential innovation enablers and collaborators and as competitor. This, according to de Ritter (2016), may enhance a potential risk associated with sharing knowledge, technologies, and assets with other members in the ecosystem. Therefore, an entrepreneur needs to continuously adapt the new venture’s approach towards its partners to optimize the opportunities to collaborate but also to compete effectively with them inside the ecosystem and perhaps outside as well. This ambiguity requires the use of formal control mechanisms that is totally different than in a traditional setting. In the next chapter, several recommendations regarding this new kind of governance are included.

So why would participating in ecosystems create opportunities for FIs? One of the main advantages of being part of an ecosystem is that it accelerates learning and innovation (Deloitte, 2015). As a result of the diversity of actors and interaction, organizations are enabled to learn and innovate more and faster. A second advantage of an ecosystem is the impact the members can make together, not only because of the large number of entities that are cooperating, but also as a result of the various angles those actors are representing. For example, ecosystems that combine entities from both the public and the private sectors can have more opportunities to implement breakthrough innovations. A third advantage is that companies and individuals need fewer fixed assets. After all, the assets that are required in an entire value chain can be divided over all partners within the ecosystem (Deloitte, 2015).

An interesting development that combines the evolution of ecosystems with the potential of new technologies is the coming into existence of so-called decentralized autonomous organizations. Text box 9 includes more information about this new way of governing cooperation.
Decentralised Autonomous Organizations & Smart Contracts

A decentralized autonomous organization (DAO) is a business organization that is run through rules encoded as computer programs called smart contracts. Smart contracts are computer protocols that facilitate, verify, or enforce the negotiation or performance of a contract, or that make a contractual clause unnecessary. Smart contracts usually also have a user interface and often emulate the logic of contractual clauses. Proponents of smart contracts claim that many kinds of contractual clauses may thus be made partially or fully self-executing, self-enforcing, or both. Smart contracts aim to provide security superior to traditional contract law and to reduce other transaction costs associated with contracting.

A relevant example was The DAO, the world’s first decentralised investment fund, founded in April 2016. Unlike a traditional company that has a designated managerial structure, The DAO operated through collective voting and was owned by everyone who had purchased a DAO token. On top of that structure was a group of so-called Curators that could be elected or removed by DAO token holders. The DAO’s objective was to support sharing economy projects delivered by “contractors” by allocating ETH, a sort of Bitcoin, raised during its creation phase. The project has raised $51.1m worth of ETH by selling tokens — or voting rights — in exchange for ETH or other returns. Already in June 2016 The DAO appeared to be very vulnerable. Users exploited a weakness in the DAO code to enable them to siphon off one third of The DAO’s funds to a subsidiary account. In the end, this resulted in the collapse of The DAO, which was delisted from trading on major exchanges in late 2016.

An interesting question for further research is how smart contracts can support cooperating partners with joint sense making. Because of the fact that using smart contracts makes information sharing less visible, sense making could be an attention point in such situations. To really understand this impact, further research is needed.
6.3 Summary

Figure 76 shows the structure of this chapter, as shown in the beginning, but now with the answers to the main questions.
This chapter stated why changing the governance of IORs between FIs is important. It showed both the need to change and the opportunities that lie ahead when FIs are able to govern their IORs in a more flexible way. The next chapter presents the recommendations resulting from the research, both for academics and practitioners.
Sophie
Hi Petrosjan! I have read your chapter about the importance of the outcome of your research. Did I understand it correctly that you’re saying that your findings are relevant for financial institutions because they will cooperate more and more with other organizations and because the role of things like contracts and procedures will only increase?

Me
You’re totally right Sophie! That is what I was trying to say in my last chapter. There is both a need and an opportunity for financial institutions to make the way they cooperate as effective as possible. Not only banks, but also other kinds of organizations, are increasingly part of ecosystems of all kinds of organizations, small and huge, old and young, organizations of all sorts. So cooperating with other organizations is becoming the rule instead of the exception. At the same time, the number of rules and regulations, also about the way organizations cooperate, will only increase. Therefore it is very important that the use of these rules, contracts, etc. becomes as effective as possible.

Sophie
What do you mean by ecosystems? I thought you only have ecosystems in nature. That’s what I learned in school.

Me
Good point. Those biological ecosystems are exactly the example for the networks that are being created by businesses. Both kinds of ecosystems are complex networks of interconnecting members.

Sophie
Oh, that sounds like me and my friends, but then in more difficult words.

Me
Ha, ha, you’re right! And I guess that information sharing, sending messages to each other so everyone knows what you are doing, is also very important to your group of friends, isn’t it?

Sophie
It sure is. So that’s what you meant by information sharing. I go crazy when I don’t have any Wifi for more than 30 minutes! Maybe I am missing some good stuff! I guess that all those fancy banks have great Wifi and are communicating the entire day, aren’t they?

Me
Not really. They sure have internet, but the level of information sharing is much less than with you and your friends. But you’re making a great remark. I see all kinds of opportunities to make cooperation between organizations more effective by applying the tools, like apps and social media, that you and your friends are using to communicate.

Sophie
Then I am curious to read in your next chapter what you are recommending!

WhatsApp conversation 7: Reflection on strategic relevance.
Chapter 7

Recommendations:
reliance approach for positive, enabling formal control
Chapter 7: Recommendations

The objective of this chapter is to clarify the recommendations. Two kinds of recommendations are shared, as illustrated in Figure 77.

<table>
<thead>
<tr>
<th>Chapter / sections</th>
<th>Questions that are answered</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Recommendations</td>
<td>What should both academics and practitioners do (differently) as a result of this research?</td>
</tr>
<tr>
<td>7.1 Suggestions for further research</td>
<td>What are interesting topics for academics to study?</td>
</tr>
<tr>
<td>7.2 Applied recommendations</td>
<td>What is the best way for practitioners to use formal control mechanisms in order to increase perceived performance of IORs?</td>
</tr>
</tbody>
</table>

Figure 77: Structure of Chapter 7.

First, this chapter presents a number of suggestions for further research (Section 7.1). Second, several applied recommendations are discussed in Section 7.2. In this section, a plea is made to shift the focus from the current compliance approach to a new approach referred to as reliance (Section 7.2.1). After explaining the main changes this system advocates (Section 7.2.2), a framework is introduced for implementing the advised changes (Section 7.2.3).

7.1 Suggestions for further research: take features of decision makers into account

The suggestions for further research are threefold. First of all, as mentioned in section 5.6 (“Limitations”), it would be very interesting to take into account the personal characteristics of the decision makers within the IOR, i.e., their prior experiences, their risk profile, their image of man. In what way do features like these determine their behavior within a cooperation? What is the impact of those characteristics on the way these decision makers design and interpret the formal control mechanisms? Would there be any impact expected on the findings when the decision makers are a mix of male and female and not just males, like in this research?
Second, it would be worthwhile to perform a similar study of IORs in the front office of FIs, in particular IORs that are aimed at innovations. Do these different objectives have consequences for the design and impact of the formal control mechanisms within the IOR? Is the level of formal control different? Or the type of formal control? The IORs within this study were originally mainly aimed at achieving cost reductions and improving existing services. The majority of the IORs also focused on back office activities. It would be interesting to see whether or not the dynamics between the concepts that were studied are different in such a context.

The third and final suggestion for further research concerns the development as described in Chapter 6 – blockchain. An interesting angle for new research would be to investigate the possibilities or using this technology to make the governance of cooperation more effective. What if a “behavior ledger” was created to record all actions of all actors within the IOR? Imagine that this data was analyzed using new technologies, like machine learning, in a way that behavior could be predicted. Would these kinds of applications make the concept of trust irrelevant? Would the concept of “bounded rationality,” one of the pillars of transaction costs economics, still matter? These are all fascinating questions for further research.

7.2 Applied recommendations: shift focus of formal control

The management goal of this research was to enable practitioners to use formal control mechanisms in a way that increases perceived performance. This section gives a number of applied recommendations to achieve this. These recommendations are not only inspired by the insights that I gained during this research, but also by my experiences during the consulting projects I have done over the last couple of years. That way, I am combining theory and practice in the way I referred to in the beginning of this document. Combined, these recommendations can be regarded as a new way of looking at governing behavior in the context of cooperation between organizations and/or individuals. This approach is referred to as “reliance,” as explained in Section 7.2.1.

7.2.1 From compliance to reliance

My recommendation is to shift the focus of governance mechanisms in order to benefit from the full potential of cooperation. These proposed shifts can be summarized by the concept of reliance, which is based on the verb “to rely on.” This is an approach where control mechanisms are used in a way that stimulates information sharing and that creates “room to think and act” for decision makers and
other professionals that want to cooperate. The people involved in the cooperation rely on the various implemented control mechanisms, and by this create the conditions to leave room for unplanned behavior. These control mechanisms focus on stimulating desirable situations instead of preventing undesirable situations, as currently often happens. This interpretation combines the idea of positive control mechanisms, as explained in Section 1.3.1, with the concepts of reliance, as used earlier by Mouzas et al. (2007), and confidence, as advocated by Das and Teng (1998), as clarified in Section 1.3.3.

The reliance approach, as advocated here, is aimed at internalizing the responsibility to make sound decisions that benefit the purpose of the cooperation, and by that, all partners involved. By internalizing decision making, and by this empowering individuals, it is assumed that the flexibility of groups of people increases. It’s no longer a distant, abstract entity (the organization) that needs to decide, but rather the individual. This new view on the use of formal control mechanisms aligns with the features of business ecosystems, as explained in the previous chapter. The diversity of actors and interactions requires a more flexible way to stimulate desired behavior than traditional control mechanisms have offered.

For reasons of clarity, the opposite of the envisioned system of reliance is referred to as a system of compliance. This concept, compliance, reflects the way in which professionals in the FSI currently cooperate all too often. The expression “to comply with” refers to the position of the drivers of our behavior outside of ourselves. That is, in this system of compliance, we agree to comply with rules and regulations drafted by somebody else. The concept compliance is being used to illustrate the current practice of the governance of cooperation and is not referring to the compliance function or profession. That would ignore the way the compliance function has evolved over the last two decades.

Table 13: Comparison of Compliance versus Reliance

<table>
<thead>
<tr>
<th>Aspect</th>
<th>System of Compliance</th>
<th>System of Reliance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective</strong></td>
<td>Complying with rules &amp; regulations</td>
<td>Stimulating self-thinking ability &amp; taking responsibility</td>
</tr>
<tr>
<td><strong>Focus</strong></td>
<td>Cost &amp; risk reduction</td>
<td>Value creation</td>
</tr>
<tr>
<td><strong>Perspective</strong></td>
<td>Somebody else determines what’s right or wrong</td>
<td>It is my responsibility to determine what’s right or wrong</td>
</tr>
<tr>
<td><strong>Governance mechanism</strong></td>
<td>Coercive &amp; negative control, sanctions (extrinsically)</td>
<td>Enabling &amp; positive control, shared values (intrinsically)</td>
</tr>
<tr>
<td><strong>Governance activity</strong></td>
<td>Supervising and sanctioning</td>
<td>Information sharing, creating clarity and stimulating dialogue</td>
</tr>
</tbody>
</table>
Table 13 shows the most important differences between the advocated system of reliance and the current practices referred to as compliance:

7.2.2 What do we need to change?
The essence of the proposed shifts can be summarized in three key points:

1. Start thinking in synthesis, not dilemmas: In my view, in practice, trust and control are often regarded as a dilemma: you need to choose control or trust. But a governance system that is purely based on one of the extremes, control or trust, isn’t possible and certainly is not the most productive. Therefore, it is advised to regard these concepts as a paradox, an apparent contradiction. Control and trust can be complementary, if they are used in the right way. This research has shown this again.

2. Focus on stimulating what is desirable instead on preventing what is undesirable: Another observation from this research is that most formal control mechanisms were aimed at preventing undesirable situations. The clauses in contracts focused on the potential negative consequences of the cooperation and the sanctions that would apply in those cases. As stated earlier, this kind of control is referred to as negative control by Schaan (1983). This focus often led to a switch in the dynamics between partners. From an initial phase of trust between two or more visionaries with a matching objective, the dynamics turned it into an atmosphere of distrust the moment the lawyers, auditors, etc. took over. Apparently, the focus of these professionals who thrive on control had a negative impact on group dynamics. The nature of these professions asks them to focus on preventing risks. That’s how they add value to society, by creating an infrastructure that allows us to do business. These roles create trust on a macro level. However, on a micro level, in the relationship between persons and organizations, they regularly are tempering the energy that evolves in the initial phase of cooperation. Examples outside the case studies from this research show that this shift in dynamics can be prevented by focusing the formal control mechanism on desirable behavior, i.e., behavior that contributes to achieving the objectives of the cooperation. This is what Schaan (1983) called positive control. This focus can be achieved by, for example, having a clear vision of the end state/objectives. Another way is to agree on shared norms and values that clearly describe the desirable behavior.

3. Change our language: During this research it became apparent that the association many professionals within the FSI have with the concepts of control and trust does not help to synthesize them. Control has too negative a connotation and trust is often being regarded as a naïve way of looking at the world. To enable the practice of cooperation to progress, additional concepts are introduced that reflect the conditions required to unleash the full potential of cooperation.
The first new, or actually re-used, concept that was introduced earlier is that of reliance, defined as a combination of control mechanisms and room to think and act. In the next section, more new language is introduced as part of the recommended Reliance Framework.

In this section, the design principles of reliance were shared and discussed. In the next section, these principles are converted into a framework that can be used by practitioners to optimize the governance of cooperation.

7.2.3 Reliance Framework
In order to help practitioners to get the full potential from their IORs, the Reliance Framework is introduced. First, the models that were used as inspiration will be described.

7.2.3.1 Sources of inspiration
The Reliance Framework was inspired by the so-called 4R-model (Figure 78), developed by Paul Schnabel (Sociaal en Cultureel Planbureau, 2001). He made this model in 2001 when he was the director of The Netherlands Institute for Social Research (Sociaal en Cultureel Planbureau). This model describes his view on how the central government should ideally behave. According to Schnabel (2001), the government should create reference points and make room for its citizens to achieve results and, in the end, government should recognize the interests of its citizens, as shown in Figure 78. This recognition was mainly meant as explaining to its citizens what results the government has achieved.

![4R-model of Schnabel](image-url)
According to Schnabel (2001), this accountability towards its citizens was an important means for the national government to gain more trust, to govern better, and to get better results. He introduced this model after several incidents occurred that decreased the level of trust citizens had in their government. The fireworks disaster in Enschede and the fire in a bar in Volendam, for example, showed that the government cannot control everything that happens. This context shows similarities with the situation the FSI is in at the moment. The industry needs to regain trust of society and needs to recognize the interests of the various stakeholders, as it is already doing more than compared to the situation before the last financial crisis.

More recently, this 4R-model was extended into the 5R analysis model. Where the 4R model focused on cooperation on a macro level, the 5R model concentrates on the micro level and is aimed at the relationship between managers and employees within the context of the central government (van der Stoep, 2014).

Figure 79: 5R analysis model
As shown in Figure 79, “Relationship” was added to the 4R-model. The lay-out of this 5R analysis model reflects the vision that manager and employee are constantly talking about the work, results, and responsibilities. According to this model, the manager is primarily responsible for providing reference points and giving room to think and act to the employee. The employee is, according to the model, primarily responsible for achieving results and to account for it to the manager. The starting point for the 5R analysis model is an adult relationship between the manager and his employee. An adult relationship is characterized, by the people behind this model, by mutual trust, respect, and an obligation to put forth effort.

The 4R-model focusses on the macro-level, the role of the government towards its citizens, and the 5R-model on the micro-level, the relationship between an employer and an employee. The Reliance model, consisting of 7 Rs, focusses on the meso-level, on interorganizational relationships.

7.2.4 The framework explained

Figure 80 shows the Reliance Framework, visualized as a lemniscate.

![Reliance Framework](image)

The format of this framework, visualized as a figure-eight shape, aligns with the idea of the cycles (virtuous or vicious) explained in Section 3.6. The model is meant to stimulate a dynamic process between the cooperating partners, where the enabling role of formal control mechanisms is being used for joint sense making.

The main design principles of the Reliance Framework are:

1. *Linking structure with process*: This research showed that it is crucial in IORs to align structural elements, like contracts, with process mechanisms. “Process” was mentioned most often by decision makers as the explanation for their perception...
of the performance of the IOR. The Insurance Consortium case showed, however, what happens in a case where structural aspects, like the rationale of the cooperation, were not clear. Both types of elements are important and should align with each other. By linking these two dimensions into the framework, the objective is to combine the strengths of both formal control and social control.

2. **Cooperation as a continuous process**: Cooperation is a journey, not a destination. That is why the framework was visualised as a lemniscate. It is essential to frequently revaluate both the structural and procedural elements of the cooperation in order to make sure that they still fit the objectives and context of the cooperation.

3. **Different language**: The framework does not contain the words control and trust. The reason for this was explained earlier. The various element of this framework are explained in the rest of this section.

4. **Results as core/in the middle**: It is no coincidence that the element “results” is included in the middle of the framework. This reflects the view that the success of an IOR is the “proof of the pudding” of the effectiveness of the other aspects of the model. If a cooperation is not successful, the governance model should be reassessed. All elements of the Reliance Framework should therefore being (re)aligned periodically based on the results. This belief was also the reason that decision makers’ perception of the performance of the IOR was the dependent concept in the conceptual model that was used for this research.

In the rest of this section, a short explanation is given of every single element of the Reliance Framework:

*Reference points* includes everything that gives direction to the behavior within the cooperation, like the rationale, the structure, and process of governance, i.e., all aspects that create clarity for the people involved. What do we want to achieve? What is being expected from me? What kind of behavior is desirable? The case of the Insurance Consortium illustrated the importance of this aspect. These reference points can facilitate joint sense making by the cooperating partners. By applying one of the design principles of the Reliance Framework, to focus on stimulating what is desirable instead of on preventing what is undesirable, these reference points can be used as enabling, positive formal control mechanisms. This way, this element of creating reference points mainly addresses the coordination requirements of cooperation, and to a lesser extent the appropriation concerns (de Man & Roijakkers, 2009). These reference points can answer both questions of who does what and who gets what. This first aspect of the model not only results from this research but also from findings by other researchers regarding the importance of creating clarity by means of complete, explicit contracts (Jap &
Ganesan, 2000; Luo, 2002; Murray & Kotabe, 2005), as explained in the literature review in Section 1.3.4. Stressing the importance of these reference points also results from my belief that the way we construct perceptions by means of shared reference points can significantly impact behavior.

**Room to think & act** needs to make sure that partners experience sufficient autonomy to take decisions by themselves, to enable them to take ownership and responsibility and to internalize this responsibility. The clearer the direction of the cooperation, the more room there is to think and act in my opinion. The fact that organizations are transforming from traditional command and control pyramids into business ecosystems requires more autonomy for decision making by individual professionals. The context of organizations and the governance of business ecosystems is way too complex to define rules for all possible situations. Both individuals and organizations should be allowed to use professionals’ judgment for exceptional situations that can occur. A specific example of this was given by the ‘good professionals’ rule in Text box 9.

**Recognition** has a twofold meaning, as explained in Section 7.2.3.1. On the one hand, it is about holding the stakeholders accountable for the results they achieve. On the other hand, it is about recognizing the role of all stakeholders and informing them about the status and progress of the cooperation. This aspect is closely linked to the type of behavior that appeared to have the most impact on decision makers’ perceptions of performance in the IORs that were studied, specifically, information sharing.

**Rhythm** concerns the frequency of the contact between the cooperating parties. It is the cadence of the cooperation, a steady and intensive rhythm that stimulates open information sharing. Furthermore, it helps to get a real relationship between the partners. Several of the case studies of this research showed the importance of this element. The link to formal control mechanisms is that, for example, contracts can help partners to agree on the frequency of their meetings and reporting. By using these mechanisms in such a way, they will have a positive impact on decision makers’ perception of the performance of the IOR.

**Relationship** is more the outcome of the rhythm of the cooperation. It refers to relational governance, as explained in Section 1.3.1. How well do you really know the other stakeholders within the cooperation? What is the depth of this relationship? Does the relationship result in relational governance, as explained in Section 1.3.1? It is fair to assume that, the stronger the relationship, the more effective informal control mechanisms can be.
Reflection is taking the time to discuss and evaluate from a certain distance how the cooperation is going. It means evaluating what is going according to plan, what is going even better, and what could be improved. In current, busy times, this element is too often being regarded as a luxury. But it is crucial in order to get the full potential out of a cooperation.

Text box 10 gives an example of how the reliance approach can be used within the FSI. This explanation about the advocated system of reliance finalizes not only this chapter but also this entire document.

“Good professionalism” as an example

A specific, practical example of the reliance approach is the principle of “good professionalism.” This principle is based on the principle of “good seamanship” as used in the nautical world in The Netherlands. The interesting thing is that it is an official concept that is recorded in formal regulations (in the “Binnenvaart Politie Regelement”). This principle says that a skipper should deviate from the rules when the circumstances require this. Literally it says: “the skipper must, in the interest of the safety or good order of the shipping industry, to the extent that the particular circumstances in which the ship is being used, in accordance with good seamanship derogate from the provisions of these regulations.”

At first, this seems quite a contradictory principle: a generic rule that you have to deviate from the rules if the specific situation so requires. However, it is a very logical way to put the responsibility for decision making where it belongs. Only the skipper who is present is able to assess what needs to be done given the specific situation under the given circumstances. With this principle, the regulations are still a very important means to create clarity about the desired behavior. But these same regulations oblige the skipper to use his common sense and to adjust his behavior accordingly. This principle would also be useful to benefit fully from the professionalism of people working in the FSI. This could be accomplished by introducing a ‘good professionalism’ rule within IORs that says professionals should use their sound judgment in case situations occur that have not been described in the formal control mechanisms.

1 http://wetten.overheid.nl/BWBR0003628/2017-01-01

Text box 10: Example of reliance approach.
7.1 Suggestions for further research
What should both academics and practitioners do (differently) as a result of this research?

7.2 Applied recommendations
What are interesting topics for academics to study?

Academics are advised to look at variables that vary more and practitioners are recommended to shift from a Compliance approach to an Reliance view.

Personal characteristics of the decision makers, various types of IORs and the potential role of the blockchain.

By using a Reliance approach, where formal control is aimed at stimulating desired behavior, using different language.

Figure 81: Summary of Chapter 7.
Sophie
So Petrosjan, what do you exactly mean with reliance? I do not get it exactly.

Me
Maybe I can explain it with an example of a type of cooperation that you know, playing field hockey with your team. To be successful, you need to have a clear goal and everyone needs to know what her role is. At the same time, it helps if each individual player can decide for herself what kind of moves she will do to, for example, score a goal. Furthermore, the team becomes more effective if every player is aware of the other players and their position and if you know that your team captain wants to discuss your performance now and then.

Sophie
Ah, I get it. Those are the items you refer to as ‘structure’ in your chapter!

Me
Very smart. It also helps when you’re having a fixed frequency of discussing the performance of the team with each other. Next to that, if you really know each other well, you are more willing to do the utmost best for each other. Finally, it is important to look at the way you are playing together from a bit of a distance. For example by, in case of your hockey team, to go on a training camp.

Sophie
I got it, those are the process items you are referring to. But isn’t playing hockey something totally different than banks that are cooperating? For example, we aren’t using any contracts or something.

Me
Don’t you have all kinds of rules of the game? And a fixed size of the field, the goal, the hockey sticks you are allowed to use, the uniforms you need to wear? You call them something different, but in a way all these things can be regarded as control mechanisms that enable you to cooperate, not only with your own team, but also with the opposing team. Without all those rules and agreements your hockey games would become chaos.

Sophie
You’re right, especially with my team. So in a way there is no difference between playing sports and organizations doing business together?

Me
Of course there are some differences, but there are more similarities. Maybe my reliance approach can help your hockey team to win your next game!

Sophie
Who knows, I will discuss it with my trainer. Thanks for your ideas Petrosjan!

WhatsApp conversation 8: Reflection on recommendations.
Chapter 8

Abstract
The background of this research is the financial services industry (FSI), an industry where trust, control and cooperation have a special meaning. Trust is the “lubricant” of the industry, and control is the safeguard that this trust will not be misused. Cooperation between financial institutions (FIs) is a precondition for them to function. FIs need each other to fulfil their joint role as the financial infrastructure for the rest of society. For example, getting money from an ATM at another bank would not be possible if your bank wasn’t cooperating with that other FI. Next to these functions on an macro level, the concepts at hand play an important role on a meso level. Academics consider trust and control to be the main mechanisms for governing cooperation between organizations. These modes of cooperation, like joint ventures (JVs) and strategic alliances are called interorganizational relationships (IORs) in academic literature. Over the last decades, extensive research has been done into the dynamics between trust and control in the context of IORs. Also, the impact of these governance mechanisms on the performance of IORs has been studied before. However, most of the research on this specific relationship has been done through surveys, reflecting only a specific moment in time of the partnerships being studied. This resulted in rather high level insights. This study adds a richer voice to this growing body of literature by analyzing these dynamics in much more detail over a longer period of time.

This research focuses on how the perception of a specific type of control, called formal control, impacts the behavior of decision makers within IORs between FIs and, via this behavior, their perception of the performance of the IOR. Formal control focuses on formal rules, procedures, and policies to monitor and reward desired performance. The behavior of the decision makers within the IORs was assessed using an operationalization method proposed by Mahama (2006), who identified different dimensions of behavior to include information sharing, joint problem solving, willingness to adapt to changes, and restraint from the use of power. During the research it was decided to focus on the information sharing and joint problem solving dimensions, because these dimensions appeared to be most relevant. This research analyzed how these elements of decision makers’ behavior within IORs mediated the relationship between the perceived use of formal control and decision makers’ perception of the performance of the IOR. A distinction was made between behavior that appeared to be linked to decision makers’ perceptions of the formal control mechanisms within the IOR and the behavior that had other origins. As part of the dynamics that were studied, special attention was paid to how trust and/or distrust between the decision makers within the IOR moderated the impact their perceptions of the formal control mechanisms had on their behavior. These dynamics were studied specifically within the operations domain, or the back office, of FIs. The main reason for this focus was that several devel-
opments, like automation and process standardization, have enabled further cooperation between FIs over the last couple of years. However, cooperation across the borders of organizations appeared to remain challenging, requiring a better understanding of the governance of such modes of operation.

The objective of this research was to gain insights into the relationship between decision makers’ perceptions of the use of formal control mechanisms and decision makers’ perceptions of the performance of the IORs within the operations domain of FIs. The deliverables of this study were insights that practitioners within the operations domain of FIs can use to benefit from the full potential of cooperation. To reach this objective and its deliverables, the following research question was posed:

*How do decision makers’ perceptions of the use of formal control mechanisms impact, via their own behavior resulting from this perception, their perception of the performance of interorganizational relationships in the operations domain of financial institutions, and how does (dis)trust between decision makers moderate this relationship?*

This research was organized as a dynamic, collaborative learning process involving a considerable group of practitioners during the data gathering phase and during the problem analysis phase. Next to the literature review, the research question was based on tens of interviews with practitioners and various round table sessions that were organized in the exploratory phase of this research. In a period of about two years, four sessions were organized to validate the research topic with a group of decision makers within the operations domain of FIs, mainly chief operations officers and operations managers of banks and insurance companies.

Data was gathered by performing five case studies on existing IORs between FIs. They differed from a JV between banks to a foundation between insurance companies. What all IORs had in common was that their activities focused on the operations domain within FIs. Semi-structured interviews were performed with the decision makers described above and by studying secondary data, like contracts and procedures. The analysis of the data was done by first coding all the data and then conducting a cross-case synthesis using construct tables. The five case studies were completed in two groups: three IORs first and then two additional IORs about six months later. This phased approach enabled various iterations between gathering data and analyzing the data. During the two series of case studies, two different students helped with the research. This ensured that the data was studied from various angles, strengthening the robustness of the research. Both students
coded and analyzed the interviews they were involved in themselves, using the outcomes to write their own theses. All combined data was coded and analyzed again using these students’ findings to reflect on the results.

Following the main series of interviews, several additional steps were taken to validate and enrich the patterns that were found. These steps were meant to make this research an iterative process that used the power of collective learning. This was carried out by organizing two sessions with practitioners who were involved in the IORs in the study. During one session, the preliminary findings were presented to the auditors of the IORs – relevant stakeholders given the subject of this research. During the other session, the provisional conclusions were shared with a group of decision makers of the IORs. Finally, the findings of the case studies were compared to the situation three and five years after the initial data gathering by means of a series of interviews with the, sometimes new, operational managers of the IORs. These two rounds of interviews allowed for reflection on the preliminary data insights.

The conclusions of this research focus on the role of information sharing. The five cases that were studied showed that decision makers’ perceptions of the use of formal control mechanisms mainly impacted how they shared information within the IOR. All decision makers referred to clauses in the underlying contracts about how information needed to be shared between cooperating partners. This mainly concerned operational information about the performance of the IOR. Studying the answers that were given by the decision makers interviewed showed that their perception of the performance of the IOR mainly depended on the way in which they shared information with each other. Open, pro-active information sharing had a positive impact on decision makers’ perceptions of the performance of the IOR. This not only concerned operational information, but also tactical and strategic information about the vision and strategy of the cooperating partners. A precondition for this impact to occur was that the information sharing had to align with the objectives of the IOR. If it did not align, then information sharing appeared to be counterproductive. That means that in those situations, information sharing resulted in a more negative perceived performance by decision makers. This showed that the mediating effect of decision makers’ behavior between the independent concept of the perceived use of formal control and the dependent concept of decision makers’ perceptions of the performance of the IOR appeared to work mainly via information sharing. This information sharing facilitated joint sense making by decision makers. Analyzing the moderating effect of (dis)trust between decision makers resulted in additional insights. In cases where trust was present between the decision makers of the IOR, the way information was shared
between decision makers depended less on the perceptions they had of the use of formal control mechanisms. They, the decision makers, shared information they assessed as being of added value to the partner(s) and/or the IOR, irrespective of if that information sharing was required by the formal control mechanisms that were used. In other words, it was not the rules that determined their behavior, but rather their own professional judgment. Whenever distrust was present, decision makers were focusing more on the exact content of the formal control mechanisms, like the contracts. In those instances, the moderating effect of distrust on the relationship between decision makers’ perceptions of the impact of the use of formal control mechanisms and their own behavior resulting from those perceptions was stronger than in cases where trust was present. The managerial implications to be drawn from this research refer to the opportunity to use formal control mechanisms as enabling tools for recurring joint sense making across the levels of the IOR and the cooperating partners. By creating perceptions of the use of formal control that stimulate information sharing between decision makers that is aligned with the objectives of the IOR, managers can use formal control mechanisms in a way that appears to have a positive impact on the perceived performance of the IOR.

The strategic relevance of the findings of this research is illustrated from two perspectives: both the need and the opportunity for change. The need results from two developments: (1) the increasing importance of formal control in the FSI, and (2) the increasing importance of cooperation as a result of new entrants into the FSI. The FSI is currently being confronted with more formal control mechanisms, like rules and regulations. An important reason for this increase in formal control mechanisms seems to be society’s decrease in trust in the FSI. This expansion of formal control appears to result in increased transaction costs that ultimately need to be paid by the FIs. The increase of new entrants mainly concerns FinTech players, who have changed the competitive environment by creating pressure on the profit margins of incumbent FIs. At the same time, these new entrants have created opportunities for new ways of cooperating, especially when combined with both technical and organizational innovations. The developments of the last decade regarding the technical possibilities of information sharing and data analysis (e.g., Big Data) create a chance to benefit more from new organizational models like ecosystems. These two elements combined can lead to new forms like decentralized autonomous organizations, using the power of information sharing to benefit from the full potential of cooperation.

Based on this research, a shift is recommended for the focus of the formal control mechanisms from trying to prevent negative behavior to trying to stimulate de-
desired behavior. To stress their role as enabling and positive instead of coercive and negative mechanisms, the focus should be on stimulating information sharing. This applies in particular to the coordination task of formal control mechanisms. Furthermore, the debate about the most optimal use of governance mechanisms would benefit from introducing different language, i.e., finding alternatives for the terms control and trust will help both theory and practice to make progress. In line with this, the final recommendation is to use a reliance approach instead of a compliance view to come to more effective governance. This reliance view advocates a governance approach that links structure with process by combining the structural elements of reference points (like the rationale of the cooperation), room to think and act, and recognition of both achievements and stakeholders with the process features of rhythm, relationships, and reflection. The nexus between these perspectives are the results that the partners achieve together. This new vocabulary that combines the structural view with the relational view will help to reframe this debate and utilize more potential from formal governance mechanisms to increase the perceived performance of IORs. As shown in this research, a focus on the enabling, positive application of formal control mechanisms by stressing the role of information sharing will have a positive impact on the perceived perception of the performance of IORs.
FORMAL CONTROL: FROM BRAKE TO BOOST IN THE FINANCIAL SERVICES INDUSTRY

SHIFT FROM COMPLIANCE TO RELIANCE TO CREATE ROOM FOR “GOOD PROFESSIONALISM”

PATRICK JENKINS AND PILITA CLARK

Formal control and cooperation are two important topics within the financial services industry (FSI). Formal control mechanisms, like rules and regulations, have played an increasingly bigger role in the industry since the last financial crisis. Cooperation, already one of the preconditions for financial institutions to function, will only become more important, given the increase of new entrants to the industry, especially FinTech players like Adyen and Lending Club.

Part-time PhD researcher Petrosjan Damen of Nyenrode Business Universiteit in The Netherlands combined these two topics by doing research into the impact of the perceived use of formal control mechanisms on the perceived performance of so-called interorganizational relationships, cooperation, between financial institutions. He studied five existing types of cooperation between banks, insurance companies and pensions providers. In particular, he analyzed the impact that perceived use of governance mechanisms like contracts had on the way decision makers perceived the performance of these alliances. His objective was to gain insights that could be applied to make the use of governance mechanisms as effectively as possible.

What he found was that the way formal control mechanisms stimulate information sharing between cooperating partners has the most impact on the perceived performance of the alliance’s performance. As long as this communication aligns with the objectives of the cooperation, it has a positive impact on perceived performance. The moment information sharing is at odds with the goals of the cooperating partners, it has a negative impact on the perception of the performance of the alliance.

During his research, Petrosjan, who has been working as a management consultant within the industry since 2000, noticed the counterproductive impact formal control had on a lot of professionals within financial institutions. By academics, formal control is most often defined as a means to ensure desired behavior. In practice however, the focus of formal control mechanisms is very often on preventing undesirable behavior. This frequently results in a paralyzing effect on the sound judgment of professionals, Petrosjan observed.

He found, during the hundreds of interviews he had about this topic, that it isn’t the means that has a negative impact, but rather the way the formal control mechanisms are being perceived. Often, this results in formal control acting like a kind of brake on people that are cooperating. Based on the findings of the case studies he did, he proposes to shift the focus of formal control from a compliance mind-set to a reliance approach. Whereas a compliance approach stimulates compliance with the rules of others, a reliance approach advocates to use good professionalism as a guideline.

This new approach is aimed at stimulating desired behavior instead of preventing undesirable behavior. The reliance approach aligns structural elements with process features. Next to that, Petrosjan advises to use different language. For example, he suggests using the word “direction” instead of “control” and “room to think and act” instead of “trust.” This way, formal control can transform from being a brake on cooperation into a boost to benefit from the full potential of interorganizational relationships.

NEWSPAPER ARTICLE

“What will be the headline of the article that will be published in the newspapers after you have finished your research?” asked one of my colleagues years ago. He, who had a PhD already, wanted to help me to get to the essence of what I was planning to study. Not only did it help me to structure and test my thinking then, but now, after finishing my research, it is a good check to see what the crux is of my findings, conclusions, and recommendations. That is why I am ending this document with a short, fictitious newspaper article about my research.

FINANCIAL TIMES

Business

FORMAL CONTROL: FROM BRAKE TO BOOST IN THE FINANCIAL SERVICES INDUSTRY

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Chapter 9

Addendum: References Appendices
References


• De Nederlandsche Bank (2016). *Technological innovation and the Dutch financial sector: Opportunities and risks for financial institutions, new market participants and supervision*. Amsterdam: De Nederlandsche Bank.


• European Central Bank (2017). *Digital nat(ive)? Fintechs and the future of banking* [Statement by Sabine Lautenschläger, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB]. Retrieved from https://www.ecb.europa.eu/press/key/date/2017/html/sp170327_1.en.html


Chapter 9: Addendum


• PWC. (2016). *2016 financial services trends: Incumbents must create new business ecosystems*.


Chapter 9: Addendum

Appendices

10.1 Appendix A: The code book

<table>
<thead>
<tr>
<th>Code</th>
<th>Description / definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formal control</strong></td>
<td>The establishment and utilization of formal rules, procedures, and policies to monitor and reward desired performance (Das &amp; Teng, 2001, p. 259).</td>
</tr>
<tr>
<td><strong>Output control</strong></td>
<td>A type of control where the object of control is the output of a process and or behavior, for example a service or a product. The type of control was assessed as output control in cases where the decision maker referred to mechanisms that focused on what needed to be the result of the behavior that was being controlled. An example of this type of control is a focus on the deliverables of the IOR.</td>
</tr>
<tr>
<td><strong>Behavior control</strong></td>
<td>A type of control where the object of control is the behavior that results in certain output. For example the way activities are being done. The attribute behavior control was chosen in cases where the interviewee mentioned mechanisms that focused on how this result needed to be achieved. For example, in cases where the decision maker referred to process descriptions that one of the parent companies prescribed or to the communication structure, as part of a formal control mechanism, that was assessed as behavior control.</td>
</tr>
<tr>
<td><strong>Limited control</strong></td>
<td>Control mechanisms, like contracts and procedures, with only very few or general clauses. In cases where the decision makers only mentioned very few or general clauses, the level of control was classified as limited.</td>
</tr>
<tr>
<td><strong>Extensive control</strong></td>
<td>Control mechanisms, like contracts and procedures, with clauses that specified performance monitoring, behavior-monitoring, task division and information flows. When the interviewees referred to clauses that specified performance monitoring, behavior-monitoring, task division, and information flows, the level of control was classified as extensive.</td>
</tr>
<tr>
<td><strong>Information sharing</strong></td>
<td>The willingness of participants to exchange important, possibly proprietary, information about their relationship among themselves. This may entail engaging each other in product design, open book arrangements, sharing of cost data, and the discussion of future plans.</td>
</tr>
<tr>
<td><strong>Restricted information sharing</strong></td>
<td>The assessment restricted was used in cases where the decision makers only referred to information sharing that resulted from the formal agreements between the cooperating partners. An example of restricted information sharing is a situation when decision makers refer to the content of the contract as a reason for not sharing specific information that is requested by their partner.</td>
</tr>
<tr>
<td><strong>Open information sharing</strong></td>
<td>Information sharing between partners was qualified as open when decision makers shared everything that they assessed as being helpful to achieve the joint objectives of the IOR. Indicators of open information sharing were when interviewees mentioned that they contacted fellow decision makers also outside the regular meetings, especially when the formal control mechanisms did not even require them to do that.</td>
</tr>
<tr>
<td><strong>Joint problem solving</strong></td>
<td>Partners dealing with problems and issues that have to do with the IOR.</td>
</tr>
</tbody>
</table>
**Appendix A: Continued**

<table>
<thead>
<tr>
<th>Code</th>
<th>Description / definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Competitive problem solving</strong></td>
<td>This variable is being assessed as competitive in case partners focus on their own interest, in case of problems within the context of the IOR.</td>
</tr>
<tr>
<td><strong>Cooperative problem solving</strong></td>
<td>Joint problem solving is being assessed as cooperative when decision makers explained, during the interviews, that problems are treated as joint responsibilities and that partners work collaboratively towards resolving those problems.</td>
</tr>
<tr>
<td><strong>Trust</strong></td>
<td>The willingness to accept vulnerability based on positive expectations about another’s intentions or behaviors.</td>
</tr>
<tr>
<td><strong>Distrust</strong></td>
<td>Confident negative expectations regarding another’s conduct (Lewicki et al., 1998, p. 439).</td>
</tr>
<tr>
<td><strong>Goodwill trust</strong></td>
<td>Goodwill trust is about good faith, good intentions, and integrity. It refers to a firm’s reputation for dealing fairly and caring about its partner’s welfare in the alliance.</td>
</tr>
<tr>
<td><strong>Competence trust</strong></td>
<td>Whether or not a partner can really deliver what they promise.</td>
</tr>
<tr>
<td><strong>Performance</strong></td>
<td>Both the degree of accomplishment of the partners’ goals, be they common or private, initial or emergent (outcome performance), and the extent to which their pattern of interactions is acceptable to the partners (Ariño, 2003, p. 76).</td>
</tr>
<tr>
<td><strong>Negative perception of performance</strong></td>
<td>The perception that the IOR did not meet the expectations.</td>
</tr>
<tr>
<td><strong>Positive perception of performance</strong></td>
<td>The perception that the IOR did meet the expectations.</td>
</tr>
<tr>
<td><strong>Process as explanation for perception of performance</strong></td>
<td>Communication, collaboration, and joint problem solving.</td>
</tr>
<tr>
<td><strong>Structure as explanation for perception of performance</strong></td>
<td>The governance structure and the contracts.</td>
</tr>
</tbody>
</table>
10.2 Appendix B: information of students that contributed to this research

The students who supported the case studies

<table>
<thead>
<tr>
<th>Information</th>
<th>Student 1</th>
<th>Student 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>Maartje Visser</td>
<td>Lotte Geurts</td>
</tr>
<tr>
<td>Group of cases studied</td>
<td>Group 1 (three case studies)</td>
<td>Group 2 (two case studies)</td>
</tr>
<tr>
<td>University</td>
<td>Vrije Universiteit Amsterdam</td>
<td>Tilburg University</td>
</tr>
<tr>
<td>Department</td>
<td>Strategy &amp; Organization</td>
<td>Organization and Strategy</td>
</tr>
<tr>
<td>Supervisor(s)</td>
<td>Dr. B.V. Tjemkes</td>
<td>Prof. dr. N. G. Noorderhaven W. A. Stienstra BSc.MSC</td>
</tr>
<tr>
<td>Title of thesis</td>
<td>“Trust and Control in Alliances: a Micro-level Perspective”</td>
<td>“A study of the relationship between control and trust within strategic alliances in the Dutch financial services industry”</td>
</tr>
<tr>
<td>Date on thesis</td>
<td>December 2010</td>
<td>June 11, 2012</td>
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The students that supported this research in different ways:

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<tr>
<th>Information</th>
<th>Student 3</th>
<th>Student 4</th>
</tr>
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<tbody>
<tr>
<td>Name</td>
<td>Naila Arsala</td>
<td>Maartje Steenvoorden</td>
</tr>
<tr>
<td>Year of support</td>
<td>2009</td>
<td>2010</td>
</tr>
<tr>
<td>University</td>
<td>Erasmus Universiteit Rotterdam</td>
<td>Universiteit van Amsterdam</td>
</tr>
<tr>
<td>Department</td>
<td>Strategic Management</td>
<td>Strategy and Organization</td>
</tr>
<tr>
<td>Supervisor(s)</td>
<td>Dr. S. Ansari</td>
<td>Msc. H.Y. Liu</td>
</tr>
<tr>
<td>Date on thesis</td>
<td>n.a.</td>
<td>November 8, 2010</td>
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# 10.3 Appendix C: interview and document codes

First group of case studies

## Interviews

<table>
<thead>
<tr>
<th>IOR</th>
<th>Organization</th>
<th>Function</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CZ-Ohra / Insurance alliance</strong></td>
<td>CZ</td>
<td>Member of Board of Directors</td>
<td>IA1</td>
</tr>
<tr>
<td></td>
<td>Delta Lloyd Group</td>
<td>Director Operations &amp; Life Insurances at Ohra</td>
<td>IA2</td>
</tr>
<tr>
<td></td>
<td>CZ</td>
<td>Member of Label Contact Center</td>
<td>IA3</td>
</tr>
<tr>
<td></td>
<td>CZ</td>
<td>Member of Label Contact Center</td>
<td>IA4</td>
</tr>
<tr>
<td></td>
<td>Delta Lloyd Group</td>
<td>Member of BCM department</td>
<td>IA5</td>
</tr>
<tr>
<td><strong>SEPS / Insurance consortium</strong></td>
<td>SEPS</td>
<td>General Manager</td>
<td>IC1</td>
</tr>
<tr>
<td></td>
<td>Aegon</td>
<td>Member of the Motor Committee of the Association of Insurers</td>
<td>IC2</td>
</tr>
<tr>
<td></td>
<td>Association of Insurers</td>
<td>Non-executive Board member SEPS</td>
<td>IC3</td>
</tr>
<tr>
<td></td>
<td>Allianz</td>
<td>Member of Sounding Board</td>
<td>IC4</td>
</tr>
<tr>
<td></td>
<td>SNS Reaal</td>
<td>Member of Sounding Board</td>
<td>IC5</td>
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<td><strong>Altajo / GSN / Banking JV</strong></td>
<td>Rabobank</td>
<td>Non-Executive Board Member</td>
<td>BJV1</td>
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<tr>
<td></td>
<td>Altajo</td>
<td>CEO Altajo</td>
<td>BJV2</td>
</tr>
<tr>
<td></td>
<td>ABN AMRO</td>
<td>Non-Executive Board Member</td>
<td>BJV3</td>
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## Documents

<table>
<thead>
<tr>
<th>IOR</th>
<th>Document</th>
<th>Reference</th>
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<tbody>
<tr>
<td><strong>CZ-Ohra / Insurance alliance</strong></td>
<td>Contract</td>
<td>IAD1</td>
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<td></td>
<td>Evaluation session outcomes</td>
<td>IAD2</td>
</tr>
<tr>
<td></td>
<td>News clips</td>
<td>IAD3</td>
</tr>
<tr>
<td><strong>SEPS / Insurance consortium</strong></td>
<td>Statutes</td>
<td>ICD1</td>
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<tr>
<td></td>
<td>Annual plan</td>
<td>ICD2</td>
</tr>
<tr>
<td></td>
<td>Participants regulations</td>
<td>ICD3</td>
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<tr>
<td><strong>Altajo / GSN / Banking JV</strong></td>
<td>Contract</td>
<td>BJVD1</td>
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<tr>
<td></td>
<td>Annual plan</td>
<td>BJVD2</td>
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### Second group of case studies

#### Interviews

<table>
<thead>
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<th>IOR</th>
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<th>Function</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Brand New Day PPI / Pensions JV</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Brand New Day PPI</td>
<td>Operational Director</td>
<td>PJV1</td>
</tr>
<tr>
<td></td>
<td>Brand New Day</td>
<td>Shareholder</td>
<td>PJV2</td>
</tr>
<tr>
<td></td>
<td>Brand New Day PPI</td>
<td>Director of Marketing, HR &amp; Sales</td>
<td>PJV3</td>
</tr>
<tr>
<td></td>
<td>a.s.r.</td>
<td>Shareholder</td>
<td>PJV4</td>
</tr>
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#### Documents

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10.4 Appendix D: Interview protocol and interview questions

*Interview protocol*

When planning the interview, make sure that:
- The person who will be interviewed has sufficient time available so that it is possible to continue the meeting for more than an hour.
- The secretary who schedules the meeting has sufficient information to adequately inform the decision maker who will be interviewed. This will ensure that he/she comes to the interview with the right expectations.
- A separate room is available for the interview so that there aren’t too many distractions.

At the start of the interview, take the following aspects into account:
- Repeat the background and objective of our research and of the interview in particular. Verify that the person who will be interviewed has received and read the hand-out about our research in advance. If not, give a summary of the content of that hand-out.
- Ask for permission to record the interview. Explain that the recordings will only be used for drafting minutes and for data analysis. Stress that the outcome will not be shared with the other decision makers being interviewed or third parties.

During the interview:
- Start with asking open-ended questions to allow the person being interviewed to give their own perceptions.
- Once the interviewed decision makers have had enough time to share their perceptions of the concepts involved, give more direction to the interview by asking specific questions (e.g., about variables of the concepts).
- Ask for specific examples of the assessment that they are giving of the concepts being discussed.

At the end of the interview:
- Thank the person who was interviewed for their time and input;
- Explain what the next steps will be and that we will communicate about these next steps via our contact person at the IOR.
Interview questions during first group of case studies

1. Control

1.1 How is the control managed within the collaboration?
1.2 Does the contract include a specific description of the objectives and performance management? Or are these clauses not that specific?
1.3 To what extent are the following items included in the contract?
   • Performance measurement mechanism (target dates) and behavior measurement mechanism (which activities, specification)
   • Load balancing (exclusive independent tasks or overlapping joint assignments)
   • Information flows (for example, meetings are recorded in the contract)

2. Trust

2.1 Do you feel that the parties in the board trust each other? Why or why not?
2.2 Does it feel that the parties in the board trust you? Why or why not?
2.3 Do you feel that the attitude of the board regarding trust changed during the collaboration?
2.4 Is this feeling based on the confidence that the partner/parent organization had sufficient resources and competences to fulfil their role within the cooperation? (Competence trust)
2.5 Or is this feeling based on the confidence that the partner/parent organization is prepared to act in the interest of the cooperation instead of in its own interest? (Goodwill trust)

3. Communication

3.1 Can you tell us something about how the communication is being experienced in the administration?
3.2 How is the information sharing between the partners involved? Does this happen in a structured or an unstructured way?

Features of information sharing to discuss: accuracy, quality, timeliness, reliability

3.3 Do you feel that partners are sharing relevant information with each other or that they keep it for themselves?
3.4 How are decisions and changes between the partners involved being communicated in the board?
3.5 To what extent does communication stimulate cooperation between the parties?

4. Cooperation

4.1 To what extent are parties open and transparent regarding interest, preferences, and goals for the collaboration?
4.2 How are issues addressed in the cooperation?
4.3 How are decisions and plans being made/adopted within the partnership?
4.4 Does it feel like the parties primarily pursue their own goals and interests, or those of the cooperation, when making decisions?

5. Performance partnership

5.1 How do you see the performance of the cooperation?
5.2 What would you mention if anyone asks why the collaboration is successful?

6. Results

6.1 To what extent have the objectives been achieved?
6.2 In what way achieved or not?
6.3 How would you explain this?

Structure: contract/agreement
Process: communication, decision making, information exchange
Can you give examples?
Interview questions during second group of case studies

1. Control

1.1 How is the control taken care of within the collaboration?

1.2 To what extent are the following items included in the contract?
   • Goals (How specifically are these defined)?
   • Performance measurement mechanism (target dates) and behavior measurement mechanism (which activities, specification)
   • Load balancing (exclusive independent tasks or overlapping joint assignments)
   • Information flows (for example, meetings are recorded in the contract)

2. Trust

2.1 Do you trust the other party? Is this particularly confidence in the company, or especially in a person?

2.2 Do you think the other party has confidence in you? Is that confidence in you as a particular person, or in your business?

2.3 Do you feel that the (mutual) trust changed during the collaboration?

2.4 There are two types of trust, trust based on competencies (competence trust) and trust that the partner is willing in the interest of cooperation instead of acting in their own interest (goodwill trust). Can you indicate what role plays both types of trust in the cooperation?

3. Behavior

Communication

3.1 Can you tell us something about the communication experience in the administration?

3.2 Do you feel that the parties share all relevant information with each other or that they keep it for themselves?

3.3 How are decisions and changes between the partners involved in the administration communicated with each other?

3.4 To what extent is the communication promoting cooperation between the parties?
Chapter 9: Addendum

Cooperation

3.5 To what extent are the parties open and transparent on interests, preferences, and goals for the collaboration?
3.6 How are decisions and plans within the consortium taken/made?
3.7 Does it feel as if the parties make decisions primarily to pursue their own goals and interests, or those of the collaboration?

Resolving disputes or conflicts

3.8 When there is a problem, how is this resolved?
3.9 Does the group mainly use a distributive (each party concentrates on its own direct interest) or integrative (the parties search for a solution that is optimal for both parties) solution style?

4. Performance

4.1 Does the collaboration meet your expectations? In what ways does it and in what ways not?
4.2 How would you explain these?

Structure: contract/agreement
Process: communication, decision making, information exchange

4.3 Can you give examples of both?
Trust, control, and cooperation have always had special meaning in the financial services industry (FSI). Trust is the "lubricant" of the industry, control is the safeguard that this trust will not be misused, and cooperation between banks is a precondition for them to function. Banks need each other to fulfil their joint role as the financial infrastructure of society. The importance of these concepts is only increasing, given various developments within the FSI. Cooperation that occurs across the boundaries of organizations, so-called interorganisational relationships (IORs), has become business as usual for many financial institutions (FIs). Sourcing models like outsourcing and alliances are common practices nowadays.

At the same time, the importance of formal control mechanisms like contracts, rules, and regulations has also appeared to increase in the FSI since the last financial crisis. Supervising authorities are very eager to prevent another collapse of the financial infrastructure, as happened during the crisis that started in 2007. Many decision makers within FIs feel that they are being confronted with an increasing amount of strict rules and regulations. Such dynamics have resulted in a recalibration of the use of trust and control as mechanisms to govern cooperation, not only within organizations but also across the boundaries of autonomous entities. This combination of an increase in both the importance of IORs and the importance of formal control mechanisms has made the following question more relevant: How can formal control mechanisms best be used to benefit fully from the potential of cooperation across the boundaries of organizations? Petrosjan Damen aimed to help practitioners answer this question by studying the governance of five IORs between FIs. The cases he studied focused on cooperation in the operations domain (back office) of FIs, which explains the title of this book. Based on not only the results of his research, but also on his extensive experience as a management consultant within the FSI, Petrosjan advises practitioners to shift their focus from a compliance view to a reliance approach, combining the strengths of contractual governance with the benefits of relational governance.