Transaction costs, norms, and social networks: a preliminary study of cooperation in industrial buyer-seller relationships in the United States and Mexico

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Septiembre de 1993
TRANSACTION COSTS, NORMS, AND SOCIAL NETWORKS: A PRELIMINARY STUDY OF COOPERATION IN INDUSTRIAL BUYER-SELLER RELATIONSHIPS IN THE UNITED STATES AND MEXICO

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September 1992
Revised May 1993
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The present study explores a fundamental problem of business: why do economic organizations sometimes cooperate in a trusting and creative way which advances their mutual interests rather than in a narrow, self-regarding way which only promotes their individual interests? An economic perspective focuses on the role of self-interest in the decision to cooperate in a certain way or not. Williamson (1985) has gone further to point out the role of the nature of the transaction assets in this economic calculus. Sociologists have argued that industrial buyer-seller relations are embedded in a social and normative context which modifies economic activity in important ways (Granovetter, 1985; Etzioni, 1988). Unfortunately, this latter work fails to explain how social bonds and cultural norms specifically affect commercial relations. This study moves beyond that to explore how the norms and network ties which may have arisen originally in response to an economic calculus fundamentally alter the relation and the mode of cooperation.

To learn more about the impact of differing cultural norms on such cooperation, this study takes a qualitative approach to the problem by comparing specific buyer-seller relations in the United States and Mexico with the purpose of generating new theory, rather than testing hypotheses (Glaser and Strauss, 1967). Mexico provides a particularly unique and timely context within which to study buyer-seller relations. In 1989, Mexico was the United States' third largest trading partner supplying six percent of total U.S. imports and purchasing seven percent of total U.S. exports. Likewise in 1989, the United States was Mexico's largest trading partner, responsible for 70.8 percent of its imports and 71.6 percent of its exports (United States International Trade Commission, 1991). In addition, the recently negotiated North American Free Trade Agreement
makes mutual understanding of buyer-seller relationships even more important. Beyond its commercial importance, Mexico provides an interesting research site because of its distinctive business culture. Both academic and other astute observers have characterized the Mexican business climate as being of a very low-trust nature in comparison with the United States (De la Cerda Gastelum, 1985; Moran and Stripp, 1991). In a study of cooperation in industrial buyer-seller relations, this cultural difference is important if one wants to determine the impact of cultural norms on economic activity.

The research reported here differs in a number of ways from most contemporary work dealing with interorganizational cooperation. First, it is methodologically distinctive in that it takes a very close, qualitative look at specific relationships between business organizations. Most current interorganizational studies examine large numbers of relationships in order to apply sophisticated statistical methods of analysis (see Ring and Rands (1989) as an important exception). This paper's approach, however, provides a more nuanced understanding of interorganizational relationships. Second, this research fills a number of gaps in existing theory. At the level of specific interorganizational relationships, current theory has been too abstract. In addition, the compartmentalization of theory according to academic disciplines has led to an inadequate conception of human behavior in markets. By looking at the interactions between economic and sociological variables, this study generates new theory to explain interorganizational cooperation and contributes a hitherto missing link in our understanding of the institution of the market.

The paper proceeds in the following manner. The first section briefly reviews the literature on interorganizational cooperation. A three-way classification of cooperation is developed to describe the variation found in the United States and Mexico. Three perspectives which alternatively explain the development of cooperation in business relations in terms of transactions costs, shared norms, and social networks are then discussed. The second section reviews the methods used and the choice of the United States and Mexico as two countries which provide an interesting contrast in the study of
cooperation. The results are then discussed as they touch upon various theoretical points. Finally, the implications of the results are examined and conclusions regarding possible directions for future research are drawn.

THEORETICAL PERSPECTIVES ON INTERORGANIZATIONAL COOPERATION

Varieties of cooperation

The variation in cooperation in business relationships has been described as a continuum of high-trust and low-trust relations (Fox, 1974; Husted, 1990), relational and discrete contracts (Macneil, 1974) and of contracts and covenants (Walton, 1988). In terms of bargaining relationships, Raiffa (1983) proposes a useful three-way classification of cooperation: fully cooperative partners, cooperative antagonists, and strident antagonists. At the heart of these distinctions lies the concept of trust. Unfortunately, the definition of trust has been somewhat problematic due to the wide variety of approaches taken in the literature (see Husted, 1990). This paper begins with Barber (1983: 14) who defines trust as:

the expectation of technically competent role performance ... and expectations of fiduciary obligation and responsibility, that is, the expectation that some others in our social relationships have moral obligations and responsibility to demonstrate a special concern for other's interests above their own.

This approach to trust as "expectations of fiduciary obligation" has been nicely stated by Ring and Van de Ven (1992: 488) as "confidence in the other's goodwill." The focus of this definition is on the motivation of the actors in the trust relationship. However, this
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definition of trust is not easily operationalized in terms of observable behaviors. Thus this paper agrees with Zand (1972: 230) that trusting behavior consists of

actions that (a) increase one's vulnerability, (b) to another whose behavior is not under one’s control, (c) in a situation in which the penalty (disutility) one suffers if the other abuses that vulnerability is greater than the benefit (utility) one gains if the other does not abuse that vulnerability.

The problem with Zand's approach is that trust could be reduced to an economic calculus—a question of economic self-interest when the likelihood of abuse is low. For this reason, these behaviors must be based on a motivation akin to Ring and Van de Ven's "confidence in the other's good will." What kinds of behaviors might one expect in commercial relationships which indicate an increase in vulnerability? Some of the possible indications of trust might relate to the nature of the commitments made between the parties, their reaction to unanticipated problems, their recourse to contractual remedies, and their style of dispute resolution. Associated with each of these behaviors is a specific motivation which is captured by the orientation regarding self-interest. Let us compare each of these behaviors by letting cooperation vary according to Raiffa's (1983) trichotomy.

In high-trust cooperation or the fully cooperative partnership, commitments tend to be long-term, indefinite, and diffuse (Fox, 1974: 72). As problems arise, they are treated as a normal part of the relationship, and not as the result of willful neglect or dishonesty (Macneil, 1974: 804-5). Contractual penalties are neither threatened nor invoked and the relationship is not terminated when problems arise. Dispute resolution is characterized by a process of joint problem-solving or "integrative bargaining." Instead of negotiating the allocation of a given resource, the parties search for alternative solutions, study their consequences, and select a mutually satisfactory solution. At best,
the self-interest orientation corresponds to Williamson's (1985: 49) concept of obedience or "stewardship of an extreme kind in which self-interestedness vanishes." Minimally, it is a mutual orientation which develops between the parties in which they seek to promote their interests jointly (Perrow, 1986).

Low-trust cooperation is very similar to Raiffa's (1983) category of cooperative antagonist. As Raiffa (1983: 18) explains: "They do not have malevolent intentions, but neither are they altruistically inclined. They are slightly distrustful of one another; each expects the others to try to make a good case for their own side and to indulge in strategic posturing." With respect to the nature of the commitments between the parties in low-trust relationships, reciprocity is short-term, instrumental, provisional, and very specific (Fox, 1974: 72). Second, problems are not anticipated by the parties except for those specifically treated in the contract (Macneil, 1974: 804). When unanticipated problems do occur, they are attributed to the negligence or bad faith of the other party (Fox, 1974: 28). A third and closely related feature of low-trust cooperation concerns the tendency of the parties to appeal to contractual remedies in the event of a breach of contract. With respect to dispute resolution, the parties resolve problems by negotiating a settlement, splitting the benefits and losses between the parties. Sometimes this type of bargaining is referred to as "distributive bargaining" (Walton and McKersie, 1965:10). With respect to the self-interest orientation, the parties are dedicated to promoting their own interests. This assumption corresponds to Williamson's (1985) notion of "simple self-interest seeking."

Finally, one must take into account the possibility of a "zero-trust" or opportunistic relationship which corresponds to Raiffa's category of "strident antagonist." According to Raiffa (1983: 18), "Their promises are suspect, they are frequently double-crossers and they exploit their power to the fullest." With respect to the nature of the commitments of the parties, commitments are nonexistent. Cash-on-delivery is the common way of handling business in these cases. Problems are anticipated
because of the expected bad faith of the other party. Remedies tend to be extra-contractual in nature (self-help repossession, for example). The bargaining literature does not specifically refer to the kind of dispute resolution which takes place. Perhaps we can build on what Raiffa says and describe this kind of dispute resolution as essentially "exploitative bargaining." Finally, this kind of relationship approximates Williamson's (1985: 47) concept of opportunism or self-interest seeking with guile as "calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse." Table 1 summarizes the elements of this three-way classification of cooperation and distinguishes their principal characteristics.

Theoretical Explanations of Interfirm Cooperation

Three competing perspectives are frequently advanced as explanations of different degrees of interorganizational cooperation. Each perspective focuses on different features of business relationships. The first is a rational choice model of interorganizational relationships informed largely by transaction-cost economics. A second explanation argues that the development of cooperation in an interorganizational relationship depends primarily upon the shared norms and values of the parties. Lastly, a network-structural approach holds that the structure of social relations is the key to understanding how cooperation develops. The unit of analysis is slightly different in these explanations. In the first, the unit is the transaction, while in the latter two, the unit is the entire relationship between the individual representatives of each organization. Let's briefly review each perspective in turn.
Transaction-cost economics maintains that asset specificity is the most critical dimension for determining the nature of cooperation in an economic transaction (Williamson, 1985: 30). Asset specificity refers to a condition where the resources invested to support a particular transaction cannot be easily redeployed to alternative uses without a significant loss in value. Transaction-cost economics matches certain degrees of asset specificity to particular governance structures—contracting practices or other arrangements which protect or "govern" the transaction. Typically, Williamson (1985) distinguishes among three degrees of asset specificity. Nonspecific assets, such as commodity items, represent a low level of asset specificity and are easily redeployed to other uses. Idiosyncratic assets, on the other hand, are unique to a situation and cannot be redeployed. An example would be an investment in a factory building which could not be used for alternative purposes. Mixed assets stand in an intermediate position between these two extremes. Such transactions may involve the purchase of customized material or equipment which may have alternative uses, but at a significant loss in value to the owner.

Williamson has discovered certain cost efficient matches between specific governance structures and various levels of asset specificity and frequency of transaction. According to Williamson, recurrent transactions involving idiosyncratic assets are best governed through an ownership relation (vertical integration). Where recurrent transactions are characterized by mixed or intermediate levels of asset specificity, it becomes economically rational for actors to maintain harmonious, long-term business relations (bilateral governance in Williamson's nomenclature). Contractually, bilateral governance may occur in the form of franchises, licensing agreements, and joint ventures. In the absence of asset specificity, transactional difficulties are better resolved by switching business partners in the market than by forbearance. Consequently, high-trust cooperation between two independent organizations is merely the result of an intermediate level of asset specificity which creates an incentive to continue the
relationship and govern it through a form of social control which might be called "trust," but which is actually a condition of bilateral dependence (Perrow, 1986: 240).

A normative perspective holds that high-trust cooperation arises from the internalization by the participants of shared norms and values. The argument is based on homophily theory which refers to "the tendency for similar actors to be drawn to one another" (Lincoln and McBride, 1985: 4). When boundary spanners share norms, either because of the similar cultures of the organizations they represent or because of similar values, due possibly to their common professional training, religious background, or national culture, high-trust business relationships are more likely to emerge. For example, Landa (1981) and Light (1972) have shown how common ethnic heritage has promoted high-trust commercial cooperation and thus fostered the economic advancement of certain ethnic communities. Two organizations with similar corporate cultures also appear to be able to engage more easily in high-trust kinds of cooperation than organizations with less similar cultures (Ring and Rands, 1989).

A network-structural approach stresses the importance of networks of social bonds or ties in creating trust in business relationships (Granovetter, 1985). The basic argument is that the structure of relationships affects how cooperation in those relationships will develop. Two particularly interesting aspects of network structure are multiplexity and density (Mitchell, 1969 1976). A multiplex relation is one in which more than one kind of tie links two actors. For example, two alumni of the same university who transact business with one another share a multiplex relationship. In a study of the stability of joint ventures, Kogut (1989) found that joint ventures have a greater chance of surviving when they occur within a wider set of commercial relationships between the two firms than when the only tie between them is the joint venture. The present study is particularly interested in the multiplexity of social bonds between organizational actors rather than in the multiplexity of commercial ties between two organizations. Another relevant network property is density. This concept refers to
the number of actual ties as a percentage of potential ties between the parties (Mitchell [1969] 1976). In each case, the network approach argues that the denser or more multiplex a relationship, the more likely high-trust cooperation should develop (Walton and McKersie, 1965).

Table 2 summarizes the relationships suggested between each of the independent variables (asset specificity, homophily, multiplexity, and density) and the dependent variable (degree of cooperation). The variation in the independent variables is only defined in terms of the extreme cases of high-trust and opportunistic cooperation, leaving the intermediate or low-trust cases to be determined in relation to the extremes.

METHODS

Selection of Research Sites

Why choose Mexico as a research site? In other words, what does Mexico contribute to an understanding of the problem at hand--the problem of cooperation? The management styles in Mexico and the United States have been compared numerous times. In a comprehensive review of U.S. studies of Mexican management, De la Cerda Gastélum (1985) found that Mexican managerial values differed significantly from those of the United States. In a comparison of the findings of several studies with respect to horizontal relations between employees and their colleagues, he observed that Mexican managers within an enterprise tend to mistrust and suspect the motives and abilities of their peers. On the other hand, in the United States, horizontal relations were found to
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be characterized by greater trust and confidence. One might describe Mexico as a low-trust society with pockets of high-trust relations found within families and relations of compadrazgo--the relations between parents and godparents. By comparison, the United States is a place where there is considerably greater trust between mere acquaintances. These cultural differences suggest that Mexico and the United States are appropriate settings in which to examine the impact of differing cultural norms regarding trust relations on the emergence of cooperation in industrial buyer-seller relationships.

Research Design

The ideas developed in this paper emerged from an empirical study of cooperation in nineteen business relationships conducted in the San Francisco Bay Area during the Spring and Summer of 1989 and of fifteen business relationships in the Mexican states of Nuevo Leon and Michoacan in the Winter and Spring of 1991. Each relationship was studied as a network of ties between individuals in each organization. In addition, relationships involving "higher levels of trust" were matched to cases involving "lower levels of trust." The descriptions offered by respondents of the different kinds of trust relations in which they were involved were then categorized according to the previously mentioned three-way classification of cooperative relationships. By comparing polar cases, one can learn more about the processes which distinguish these different types of interorganizational relationships (Eisenhardt, 1989: 537).

In both countries, companies willing to participate as the foci of the study were identified through personal and institutional contacts. The main criteria for selection of a company as a focus of the study was that it be large enough to provide a variety of polar cases of cooperative relationships. In the United States, the focal companies included the Washington Company, a household products manufacturer with about 4,800 employees and sales of $1.3 billion in 1988 and the Lincoln Company, a pharmaceutical company
with about 9,000 employees and $1.1 billion in sales in 1987. In Mexico, the focal companies were, Cardenas Equipment Company, an original equipment manufacturer with 1,565 employees and approximately $50 million in sales in 1990, and Obregon Steel Company, a steel company with 1989 sales of $312 million and 8,484 employees.

After obtaining the support of the focal companies, specific purchasing or customer relationships were selected for further study. These relationships were chosen so that transactions involving both intermediate and low levels of asset specificity were represented. Semi-structured interviews were then conducted with representatives of each of the thirty-four business relationships studied. Interviews in Mexico were conducted in Spanish. Where possible a representative of both the buying and selling companies were interviewed for each relationship. Forty-six interviews of an average length of ninety minutes were conducted.

The interviews specifically investigated how the parties resolved problems when their interests diverged. The nature of the transaction was described. The level of physical asset specificity was determined by asking the respondents whether the transaction involved the purchase or sale of a customized or standard item which corresponds to Williamson's intermediate and low levels of asset specificity. The frequency of the transaction was measured by asking how often the buyer initiated the process for purchasing a good. The climate of cooperation was discussed. Specific behaviors indicating the type of cooperation were described. The respondent was asked to identify the other people involved in the relationship and the frequency and nature of the interaction of these people. With the respondent's assistance, a sociogram illustrating the actual communication links between the various actors was drawn. Any shared characteristics with members of the other organization's group such as professional or educational background which might be related to business norms were identified. Finally, the interviews examined problems and conflicts which arose in the business relationship, focusing on specific, recent episodes. The concept of trust was not directly
Variation in cooperation

The variation in business cooperation differed in both countries. In the U.S. cases, it was very easy for the agents of the focal companies to identify behaviors associated with high-trust characteristics as described in this paper. Washington Household Products Company, for example, purchased from Adams Container under an agreement in which Washington had the power to unilaterally set the price of the product according to a previously agreed upon weighting of the price of three other Washington suppliers of the same material in the same region. With one bottle manufacturer, Washington was engaged in a number of projects in the development of new bottle designs. There seemed to be a great deal of innovative and creative thinking in both of these relationships. Jefferson Pharmaceutical Company's relationship with the Madison Office Equipment Company involved extensive sharing of sensitive strategic and technological information as the Madison Company integrated many stand-alone office equipment units into a single system. With the McKinley Research Supply Company, Jefferson was involved in developing a new just-in-time inventory control system which required considerable collaboration between the two companies. In each case, there was evidence that the parties increased their vulnerability to other organizations not under their control in situations where the penalty in case of abuse was greater than the benefit for not abusing vulnerability.
raised in the U.S. interviews, although it was frequently discussed at the initiative of the respondents. The Mexican respondents were specifically asked to identify behaviors they believed were related to the concept.

INTERVIEW RESULTS

Variation in cooperation

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The Mexican cases differed markedly. For neither Cardenas Equipment nor Obregon Steel did any of the relationships with Mexican suppliers involve the kinds of activities associated with the high-trust relations found in the U. S. cases. Business activities in each relationship were limited to those contemplated by the terms of the contract. As a result of the lack of high-trust activities, the respondents were asked what characterized a good business relationship involving trust with a supplier. They generally responded that a good supplier was one who fulfilled the terms of the contract. There were no instances where one party approached another party with a new idea for a better way of doing business.

The main difference between the more cooperative and less cooperative cases in Mexico dealt with the credibility of the parties. For example, in the relation between Cardenas Equipment and Hurtado Steel Fabrication, if Cardenas asked for an item which was not in stock, the Hurtado representative would tell the truth and say that the item was not available. In the case of Cardenas and Echeverria Steel Fabrication, the supplier would very often say that the item was in stock and then try to obtain it from other sources, often creating tremendous delays for Cardenas. Echeverria's concern with increasing sales did not promote the interests of Cardenas. When Echeverria delivered articles slowly, Cardenas complained and Echeverria reacted defensively. Neither side attempted to understand the problem from the viewpoint of the other. The relationship between Cardenas Equipment and Calles Electronic Supply was even worse. Calles supplied a customized keyboard for bottle-making equipment manufactured by Cardenas. The purchasing agent at Cardenas described Calles as being "crafty" and even "deceitful." One technician at Cardenas loathed the sales agent at Calles. When deliveries arrived late, both sides pointed to the other as the cause of the delay. There was no mutual orientation toward problem-solving among the parties.

In the United States, the relationships examined in this study fit well into the categories of fully cooperative partners or high-trust relations and cooperative antagonists
or low-trust relations. In Mexico, it is much more difficult to find even interpersonal relationships, let alone interorganizational relationships, of the fully cooperative kind (Gonzalez Pineda, 1972). The only Mexican cases of high-trust relationships involved U.S. companies. A purchasing manager responsible for new technology acquisitions at Madero Steel Company indicated that the only company with whom they enjoyed this kind of exchange was a large U.S. electronics manufacturer. Similarly, Cardenas purchased from Adams Container, a U.S. firm with whom they had enjoyed a very long-term and highly collaborative relationship. On the other hand, the more cooperative Mexican supplier relationships seemed to approximate better the low-trust category, while the less cooperative Mexican supplier relationships seemed to approximate the opportunistic category of cooperation.

This range of relationships in Mexico accords with the literature which indicates that horizontal business relationships in Mexico, at least between people, are characterized by greater mistrust and suspicion than in the United States (De la Cerda Gastelum, 1985). Yet it would be wrong to characterize all supplier relationships as involving either a perfunctory contractual performance or active mistrust. Nuncio (1982: 34), in an unsympathetic treatment of the industrial groups of Monterrey, compares the groups to the zaibatsu of Japan because of the great amount of social interaction and trust among the members of the industrial group. The Monterrey groups were founded principally on family relations and compadrazgo. Within these tightly knit groups there do appear to exist horizontal relations characterized by the trust found in fully cooperative partnerships. The family and compadrazgo relations create multiplex ties which serve as a means of social control and thus protect the integrity of transactions and communication between participants in these groups. Nevertheless, these cases must be seen as relatively rare safe harbors in generally treacherous commercial waters.
Economic and Social Bases of Buyer-Seller Cooperation

Let us now examine some of the variation in the independent variables of asset specificity, homophily, multiplexity, and density in relation to the degree of cooperation in the U.S. and Mexican industrial buyer-seller relationships.

**Asset specificity.** As previously mentioned, asset specificity refers to the difficulty of redeploying assets to their next best alternative use without a significant sacrifice in value. In the United States, investments in transaction-specific assets are often made only after a certain level of trust is developed between the parties. There are many cases in this study where the condition of physical asset specificity depends upon the nature of the supporting social structure of network relations and norms. For example, the relationship between Madison Equipment Company and Jefferson Pharmaceutical illustrates that investment in customized office equipment systems could not occur, despite economic pressures to do so, until the level of trust between the parties had been sufficiently developed through the strengthening of social bonds.

Madison Equipment supplies Jefferson Pharmaceutical with copiers, fax machines, laser printers and typewriters. These are commodity-type pieces of equipment which require routine maintenance. However, the equipment is now integrated into a system customized to the unique needs of Jefferson. Several respondents noted that five years earlier, the relationship between Madison Equipment and Jefferson Pharmaceutical was strictly "at arm's length." The change to the current trusting relationship might have been a case of what Williamson (1985: 61) refers to as the fundamental transformation. What originally starts as a large numbers bidding condition, becomes a small numbers condition as the two parties become accustomed to doing business with one another and adapt to each other's systems. But this characterization of the development of the relationship would not be accurate. Jefferson Pharmaceutical and Madison Equipment
have been in business for about eighteen years. During the early period of the relationship, Madison was known as a fast start-up, high-tech company. They were viewed as only being interested in increasing sales and not in developing customer relationships. Five years ago, they realized that the possibilities for expanding the market were diminishing, so they changed focus and started to emphasize customer service. Despite the change in economic incentives due to a rapidly maturing market, the fundamental transformation from a large numbers to a small numbers condition did not occur until much later. Only as trust developed, did Jefferson decide to allow the fundamental transformation to take place. As a result, Jefferson has only recently become dependent or vulnerable on Madison's equipment and systems.

The transformation was not something which occurred automatically according to some sort of economic determinism. Rather, the nature of the interpersonal relationships developed in such a way that Madison and Jefferson felt confident in sharing systems which they would not have shared if the relationship had remained at arm's length. The Madison sales representative explained that although they tried to pursue this same strategy of integrating equipment into a customized system with other large customers, the majority of such attempts failed because the necessary trust never developed.

The relationship between Washington Household Products and Quincy Flavor Company, on the other hand, indicates that even though asset-specific investments had been made in the business relationship, reduced trust due to a radical change in the nature of the social relationships between the individual organizational actors can result in a reduction of the level of cooperation in the transaction. When the predecessor to Quincy with whom Washington enjoyed a high-trust relationship was acquired by a large food products company, most of its representatives to Washington changed. Several problems subsequently occurred in which Quincy took unilateral actions without consulting Washington according to their prior custom. The eventual result was a
decision by Washington to invest further resources in a second supplier in order to
reduce its dependence on Quincy—until then, sole supplier of a customized product.

Surely physical asset specificity is not always epiphenomenal, but it does appear
that where transaction-specific investments are optional as in the Madison-Jefferson case,
decisions regarding investments in supplier relationships may depend largely on the
nature of the social structure which may or may not foster trust between the parties. In
cases like the Washington-Quincy case where transaction-specific investments are not
optional, we see that the degree of cooperation is not determined by asset specificity, but
rather by the social and normative structure of the relationship.

Proposition 1: Given that investment in transaction-specific assets is optional,
physical asset specificity is the consequence of the level of cooperation in a business
relationship rather than its cause.

Proposition 2: The degree of cooperation in a business relationship is the
consequence of the social and normative structure of the relationship.

The contrast in the Mexican cases is significant. Cardenas purchased customized
keyboards from two companies which each had the capacity to produce the item
according to its specifications. Although these transactions involved an intermediate level
of asset specificity, the cooperation between Cardenas and Huerta Electronic Supply was
of a low-trust kind—one of cooperative antagonists rather than of fully cooperating
partners as would be expected in the U.S. cases. The Huerta respondent noted that
Cardenas ought to have been more open and willing to develop the relationship, yet
failed to do so. Cardenas also purchased from Calles Electronic Supply which was
mentioned earlier as an opportunistic supplier. It is difficult to understand why Cardenas
continued to purchase from Calles when it could have purchased its entire supply from
Huerta while developing a new supplier. Part of this reluctance to switch suppliers may
have in fact been due to a transaction-cost logic—a likely loss in value of transaction assets upon redeployment. But neither was there any evidence of trust-like behavior in either relationship. Clearly, high-trust cooperation cannot be reduced to a condition of bilateral dependency due to the level of asset specificity in the transaction.

Interestingly, the reluctance to switch suppliers was also evident in transactions involving very low levels of asset specificity where Williamson (1985: 59) would have predicted greater flexibility: "Specifically, an increase in parametric uncertainty is a matter of little consequence for transactions that are nonspecific. Since new trading arrangements are easily arranged, continuity has little value." For example, Obregon Steel purchased commodity aluminum exclusively from Ortiz Aluminum. Ortiz had at least eight competitors in the aluminum market. Yet despite considerable mistrust, the parties continued to do business with each other. Cardenas had a very problematic relationship with a commodity supplier, Echeverria Steel Fabrication, and it would have been a very simple matter for it to change suppliers. Yet, they continued to do business due to the same concerns about uncertainty. The "glue" that held this relationship together was the fact that high level executives at Cardenas knew the General Manager at Echeverria. These anamolies merit further consideration.

A phrase which came up often in these discussions may explain the persistence of the business relationship despite poor personal relationships between Cardenas and Calles staff and between Obregon and Ortiz personnel. Several purchasing agents enunciated an important business norm in Mexico: "Mas vale malo conocido que bueno por conocer" (The known, however bad it may be, is better than the unknown, however good). The idea is that the Mexican purchasing agents prefer to work with others from whom they know what to expect than with those who may surprise them with the unexpected. At the heart of this saying is a high tendency to avoid uncertainty.

Hofstede (1980: 140) describes the uncertainty avoidance norm as an attitude in which "[t]he uncertainty inherent in life is felt as a continuous threat that must be
fought." In Hofstede's (1980) study of forty countries, Mexico scored sixth highest and the United States scored the fourth lowest on the dimension of uncertainty avoidance when the age of the respondents was taken into account. Its manifestations include a fear of failure and less risk-taking. Among employees, the norm creates a tendency to stay with the same employer rather than switch, despite economic incentives to do so. The reduction of uncertainty can also be facilitated by continuity in supplier relationships. As a result, Cardenas and Obregon continued to do business with Calles, Ortiz, and Echeverria. Although asset specificity did not create an interest in the continuity of the relationship, the uncertainty avoidance norm did just that.

Proposition 3: The uncertainty avoidance norm creates strong incentives for the continuity of cooperative relationships, even of an opportunistic kind.

Clearly, asset specificity does not appear to be entirely driving the business relationships in either the U.S. or Mexican cases. In the United States, asset specificity is sometimes determined by the degree of cooperation which exists between the parties. This cooperation, in turn, is the product of the normative and social structure in which the parties are embedded. In Mexico, the degree of cooperation is divorced from the level of asset specificity because of the strong uncertainty avoidance norm which exists. In both countries, we see how economic activity is modified in important ways by the social and normative context in which it occurs.

Homophily. According to homophily theory, representatives of companies sharing the same national culture should be able to more easily achieve a fully cooperative partnership than those from different cultures. Surprisingly, Cardenas Equipment, Madero Steel and Obregon Steel had an easier time developing fully cooperative partnerships with U.S. companies than with other Mexican companies. This
finding flies in the face of our cultural explanation of cooperation. One would expect shared cultural norms to enhance the development of a mutual orientation between the parties. Why do we find this unexpected result? Quite possibly, corporate or professional culture should be taken into consideration as well as national culture. Five years ago the large majority of buyers at Cardenas Equipment were former factory workers. U.S. firms had a very difficult time taking their poorly educated Mexican counterparts seriously. Since then, great attention has been placed on the professionalization of the purchasing function. The levels of education of the Mexican buyers are now comparable to that of their U.S. counterparts. The high-trust relationships or fully cooperative partnerships being cultivated in the United States become feasible with similarly situated Mexican firms.

Among Mexican firms, educational differences became more marked over time. The educational level of the focal Mexican firms of the study was similar to that of their U.S. counterparts while the sales representatives of their Mexican suppliers tended to be much less educated. The process by which fully cooperative partnerships seem to develop is one of normative isomorphism as discussed by DiMaggio and Powell (1983: 152). They explain that normative pressures arise primarily from professionalization. They hypothesize: "the greater the reliance on academic credentials in choosing managerial and staff personnel, the greater the extent to which an organization will become like other organizations in its field" (1983: 155). This similarity, following the principle of homophily, provides the basis for greater trust and cooperation. In a study of a cooperative relationship between 3M and NASA, Ring and Rands (1989) found evidence of greater trust arising between the two organizations because of professional norms shared by key representatives of each company. Thus what we may be seeing in these fully cooperative partnerships or high-trust relationships is normative similarity due to the educational background of the boundary spanners. This shared professional culture seems to be more important than shared national culture in promoting such cooperation.
in relationships involving Mexican companies. This observation must be limited to countries like Mexico where low-trust relations prevail. In contrast to the Mexican case, Landa (1981) has shown how common ethnic heritage fostered high-trust relations among Chinese middlemen across national boundaries.

Obviously, shared professional norms are not a sufficient condition for the development of fully cooperative partnerships. In cases involving both fully cooperative partners and cooperative antagonists, we find instances where the parties shared similar professional and cultural norms. However, where the organizational actors on both sides of the relation did not share a similar level of professional development, there were no cases of high-trust cooperation. Thus, professionalization appears to serve as a necessary condition which permits the development of fully cooperative partnerships in the absence of other possible supporting factors such as multiplexity or density.

Proposition 4: Shared professional norms are more closely related to the kind of cooperation that will evolve in industrial buyer-seller relationships than shared norms of national culture in countries where low-trust relations prevail.

Multiplexity refers to the number of ties of different contents between two actors. In the U.S. cases, multiplexity seemed to increase the likelihood that high-trust relationships or fully cooperative partnerships would arise between the parties. Cooperation was generally facilitated by parties who could bring resources related to one kind of tie to another context. For example, in the relationship between Washington Household Products and Jackson Discount House, the president of Jackson had a casual social relationship with a high-level sales executive of Washington. They and their wives would go out socially several times a year. In addition, the sales executive had helped the president's wife in her work for a local club. A major conflict arose between the two companies when Washington convinced Jackson to participate in a particular promotional
campaign to sell its charcoal at $5.00 a bag. On the day the merchandising campaign was to begin, a competitor of Jackson sold the same item below cost at $4.19 a bag. The Jackson buyers were angry and felt that they had been double-crossed. They had purchased extra inventory for the program and ended up selling less than expected because of the competitor's preemptive action. As a result, several Jackson buyers wanted to terminate business with Washington. Due to the multiplex relationship with the president of Jackson, however, the Washington manager was able to speak credibly when he said that they had nothing to do with the competitor's action and that eventually the competitor would have to return to the market price. His explanation was accepted by the Jackson president and the business relationship continued without interruption. These results regarding social ties between organizational actors support Kogut's (1989: 197) related finding that "cooperation prospers in the context of a wider set of transactional agreements between two firms."

In contrast, none of the Mexican relationships studied were as multiplex as the U.S. cases. There were almost no instances of non-business social relationships or contacts in any of the cases studied. There seemed to be no outside connections between the boundary spanners such as university or local church affiliation. There was one case where the sales agent at Hurtado Steel Fabrication did occasionally play ball with buyers at Cardenas Equipment. In the case of Cardenas Equipment and Echeverria Steel Fabrication, informal social relationships only existed between high-level executives at Cardenas and the General Manager at Echeverria. No multiplex relationships were found at the level of the corporate purchasing and sales departments. Likewise, in the case of Obregon Steel, no non-business social relationships existed between buyers and sales representatives or employees from other companies.

That Mexican relationships were less multiplex than U.S. business relationships is somewhat surprising in light of the reputation the Mexican has as being a warmer, more effusive character than his or her U.S. counterpart (Riding, 1984). One would have
expected Mexican buyer-seller relationships to be infused with a significant non-commercial aspect. Several purchasing agents noted that the state of interfirm relations between large Mexican firms and their suppliers contrasted sharply with the experience of buyers in small businesses. In small companies, it was believed that family and friendship relations played a very large role in facilitating cooperation at that level. Unfortunately, no such cases were directly observed in this study.

The lack of multiplexity in Mexican relationships may account in part for the generally lower levels of cooperation found in Mexico. The cooperative antagonist category was the more common "higher-trust" category in the Mexican context. In both U.S. and Mexican cases, these relationships were found to be of a simplex nature. Thus the absence of multiplex ties in the Mexican context does not prove the absence of a correlation between multiplexity and the nature of cooperation. It may be that multiplexity, if it were found between Mexican companies, would also promote fully cooperative partnerships in Mexico.

It is interesting to consider the Cardenas-Echeverria case—an opportunistic relationship in which Echeverria's sales representatives routinely misrepresented their capacity to deliver goods in a timely manner. It is also one of the few Mexican cases which was multiplex—not at the buyer-seller level, but at the senior executive level. It appears that this multiplexity reduced the uncertainty sufficiently to create a strong incentive to continue the buyer-seller relation, despite the antagonism present between the two companies at lower levels. In this case, multiplexity sustained what otherwise would be a failed relationship. It thus plays an important role in reducing uncertainty which Mexican culture attempts to avoid.

Proposition 5: High-trust cooperation is more likely to occur within the context of multiplex interpersonal relationships between organizational representatives than in the absence of such relationships.
Proposition 6: Multiplex relationships serve as an uncertainty reducing mechanism which helps to sustain market relationships.

**Density.** A final characteristic of networks which does seem to show variation according to the nature of cooperation is density or the ratio of actual ties between two organizations to the total number of potential links. To illustrate this concept better, the communications networks in both more and less cooperative cases in the United States and Mexico are compared in Figures 1 and 2 below.

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Insert Figure 1 About Here

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Insert Figure 2 About Here

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In the U.S. cases, for relationships involving more than fifteen potential ties between people in the two companies, the average density of fully cooperative partnerships was 0.56, while the average density for cooperative antagonists was 0.46. In the Mexican cases, the average density for the more cooperative cases was 0.72, while the average density for the less cooperative cases was 0.43. Although this observation accords with Walton and McKersie's (1965) comment that denser networks should lead to more integrative bargaining solutions, the evidence is only suggestive at best. We may tentatively conclude:
Proposition 7: The denser the communication networks, the more likely that high-trust cooperation will arise between the parties.

CONCLUSIONS AND FUTURE DIRECTIONS FOR RESEARCH

Instead of analyzing business cooperation as the efficient solution to an economic problem, this paper begins to show that social structure can be central to understanding how a mutual orientation develops within commercial relationships. By looking at cases in both the United States and Mexico, this paper varies the cultural norms regarding trust within which two companies can engage in business. The economic logic is attenuated and a mutual orientation develops as the social structure promotes greater trust either because of shared professional norms or dense ties between the parties. The same result is produced by multiplex ties in the United States, but evidence is lacking in Mexico. In short, this study begins to operationalize the concept of embeddedness in terms of shared norms, multiplexity and density of networks.

In light of this study's preliminary nature, a number of avenues for future research present themselves. More cases of cooperative relationships need to be examined in order to determine whether the multiplexity and density of communication links are significantly related to the kind of cooperation found in interorganizational relationships. The paper has suggested an association between the process of professionalization in Mexico and high-trust relationships. A longitudinal study of buyer-seller relationships would be very useful in determining if this correlation extends through time. Such a study might also permit an examination of the issue of causality and help to determine if indeed norms, multiplex and dense ties cause greater cooperation or vice versa.
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The dysfunctions of cooperation also need to be discussed. The concept of "honor among thieves" illustrates that corruption, often present in buyer-seller relationships, can be the negative result of cooperation. Its causes and prevention need to be examined more carefully. An almost extreme fear of corruption seems to be lurking behind a very conservative set of purchasing practices, such as prohibiting the acceptance of token gifts from sales people, often found among both large U.S. and Mexican companies.

More research needs to be done into the issue of cooperation among small and medium-sized businesses in Mexico. Such a study would provide a deeper understanding of the relationship between cooperation and multiplex relationships. The informal character of business in many small firms should be more conducive to multiplex relationships with suppliers than in large firms which have a more impersonal way of doing business. These cases will allow us to observe the development of cooperation in a more nuanced way which takes into account the interaction of the transaction costs, norms, and social bonds which are present in any given business situation.

One of the most tantalizing findings of this study is the proposition that the independent variables (asset specificity, shared norms, density, and multiplexity) may be interrelated. We know very little about the conditions which give rise to various levels of asset specificity. Certainly, their origins may at times be due to the economic factors involved. This study also suggests that there are times when asset specificity is a product of the social structure in which the transaction is embedded. More work needs to be done to specify the relationships between these independent variables.

The research undertaken in this study ties together a number of theoretical strands in order to understand better the social and economic mechanisms which together sustain the integrity of market relationships. Clearly it is only a beginning, but it calls researchers to question commonly accepted propositions within transaction-cost economics regarding the role of such concepts as asset specificity. By giving empirical content to the concept of embeddedness through its discussion of homophily,
multiplexity, and density, the paper generates new theory to explain interorganizational cooperation and contributes a missing link in our understanding of the market.

REFERENCES


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REFERENCES


Table 1: The varieties of interorganizational cooperation

<table>
<thead>
<tr>
<th>Commitments</th>
<th>High-trust cooperation</th>
<th>Low-trust cooperation</th>
<th>Opportunistic cooperation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Long-term, indefinite, diffuse</td>
<td>Short-term, limited, specific</td>
<td>Very limited or nonexistent</td>
</tr>
<tr>
<td>Attitude toward problems</td>
<td>Expected as a normal part of doing business</td>
<td>Not anticipated, except within the contract terms. If it occurs, it is due to negligence</td>
<td>Expected bad faith</td>
</tr>
<tr>
<td>Recourse to formal contract penalties</td>
<td>No</td>
<td>Yes</td>
<td>Extra-contractual remedies, self-help</td>
</tr>
<tr>
<td>Dispute resolution</td>
<td>Integrative</td>
<td>Distributive</td>
<td>Exploitative</td>
</tr>
<tr>
<td>Self-interest orientation</td>
<td>Stewardship or mutual interest</td>
<td>Simple self-interest seeking</td>
<td>Self-interest seeking with guile</td>
</tr>
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Table 2: Relationship of independent variables to degree of cooperation

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>High-trust cooperation</th>
<th>Opportunistic cooperation</th>
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<tbody>
<tr>
<td>Asset specificity</td>
<td>Mixed assets</td>
<td>Nonspecific assets</td>
</tr>
<tr>
<td>Homophily</td>
<td>Shared norms and values</td>
<td>Disparate norms and values</td>
</tr>
<tr>
<td>Multiplexity</td>
<td>Multiplex relationship</td>
<td>Simplex relationship</td>
</tr>
<tr>
<td>Density</td>
<td>High density</td>
<td>Low density</td>
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</table>
Figure 1: Communication networks in two interorganizational relationships in the United States

**WASHINGTON-ARMSTRONG CHEMICAL**

<table>
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<tr>
<th></th>
<th>Washington</th>
<th>Armstrong Chemical</th>
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<td></td>
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<tr>
<td>CRD</td>
<td>X</td>
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<tr>
<td>BY1</td>
<td>X X X X X X</td>
<td></td>
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<tr>
<td>BY2</td>
<td>X X</td>
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<td>DOP</td>
<td>X X</td>
<td>X X X X</td>
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<tr>
<td>VPP</td>
<td>X X</td>
<td>X X</td>
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Density = actual ties = 0.60 potential ties

**WASHINGTON-ERIKSON CHEMICAL**

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<th></th>
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<tbody>
<tr>
<td></td>
<td>AR SR NAE DSM ZVP</td>
<td></td>
</tr>
<tr>
<td>BY1</td>
<td>X X</td>
<td></td>
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<tr>
<td>BY2</td>
<td>X</td>
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<tr>
<td>PM</td>
<td>X X</td>
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<td>VPP</td>
<td>X X X X X X</td>
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<tr>
<td>DOM</td>
<td>X X</td>
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</table>

Density = actual ties = 0.40 potential ties

Key to abbreviations:

- AE Account Executive
- AR Accounts Receivable
- BD Business Director
- BY Buyer
- CRD Coordinator for R&D
- DOM Director of Marketing
- DOP Director of Purchasing
- DSM District Sales Manager
- EVP Executive Vice President
- NAE National Account Executive
- PM Purchasing Manager
- SR Sales Representative
- VPG Vice President and General Manager
- VPP Vice President—Purchasing
- ZVP Zone Vice President

X An X is located at the intersection of the coordinates for each pair of boundary spanners where a communication tie is judged to exist.
Figure 2: Communication networks in two interorganizational relationships in Mexico

Cardenas Equipment-Hurtado Steel

Hurtado Steel

<table>
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<tr>
<th></th>
<th>GM</th>
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<th>SM</th>
<th>TS1</th>
<th>TS2</th>
<th>TS3</th>
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<tr>
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<td>X</td>
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<td>X</td>
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Density = \text{actual ties} = 1.0

potential ties

Cardenas Equipment-Echeverria Steel

Echeverria Steel

<table>
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<tr>
<th></th>
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<th>SM</th>
<th>AM</th>
<th>GM</th>
<th>TS</th>
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<tr>
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<td>X</td>
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<td>PM</td>
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<tr>
<td>DR</td>
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<tr>
<td>WM</td>
<td>X</td>
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</tbody>
</table>

Density = \text{actual ties} = 0.55

potential ties

Key to abbreviations:

AM    Administrative Manager
BY    Buyer
DR    Director
GM    General Manager
PM    Purchasing Manager
SM    Sales Manager
SR    Sales Representative
TS    Telephone Sales
WM    Warehouse Manager

X     An X is located at the intersection of the coordinates for each pair of boundary spanners where a communication tie is judged to exist.
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2 Ing. Manuel Sama, an independent management consultant in Monterrey extended this concept of horizontal mistrust to relationships with suppliers when he said, "For the Latin, the supplier is an enemy. We have the idea that the supplier wants to screw us."

3 Naturally one might wonder about trust in vertical relationships in Mexico. Unfortunately, no study directly looks at that subject. Studies of vertical relations between superior and subordinate in Mexico indicate that such relations are very paternalistic, while in the United States these relations tend to be more egalitarian (De la Cerda Gastélum, 1985).

4 The names of the companies have been disguised in order to protect the confidentiality of the information provided.

5 One notable exception to the typical notion of a "good" supplier relationship can be found in the relatively new, but increasingly important total quality control movement in Mexico. The quality control movement has had an impact, at least at a rhetorical level, on Mexican expectations for suppliers. Quality control in the context of buyer-seller relations requires "mutual trust and cooperation and the decision to live and let live based on the responsibilities that the firms have toward the public" (Ishikawa, 1986: 153). The

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relation described is very similar to the high-trust relationship and involves a mutual problem-solving orientation and open sharing of information.

A few firms are adopting the total quality orientation. The Federal Commission of Electricity (CFE) has a supplier development program in which suppliers are classified as reliable, conditionally reliable, and unreliable according to their ability to observe the norms of total quality (CAINTRA, 1990: 9). However, these cases are exceptions to the rule. Although the focal companies examined in this study can arguably be included among the most enlightened in Mexico, the respondents themselves admitted that they were still far from implementing systems for total quality control.

A test of the difference in means was conducted, but no statistical significance was found. This result was due to the very small number of relationships studied. Obviously, a larger study needs to follow which would focus more particularly on density as an independent variable.