

# INDUSTRIAL NETWORKS TRUST BONDS: A SOCIOLOGICAL PERSPECTIVE

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*The core question that supports this paper aims to identify the role of trust bonds in a subcontracting/cooperation network. The empirical research relies on a case study of an industrial network, developed in the north of Portugal (Águeda and nearby), within the bicycles' subsector, covering about 25 enterprises. We identified patterns of relationships amongst the subcontracting and subcontracted companies. Once the relationships amongst the companies in the network were understood, it became important to place trust in business relationships. Afterwards how, and to what extent, trust interferes in these business relationships was examined.*

## 1. INTRODUCTION

The terms networks, virtual enterprises, collaborative networked organisations and clusters have become the fashionable terms to describe contemporary organisations. In fact, the theme of cooperation among enterprises has inspired the literature and generated an extended debate in the social sciences. The eighties and nineties were characterised by apparently contradictory tendencies in industrial organisation. One of those refers to the dimension of the entrepreneurial structure, indicating that the majority of new jobs are created by small enterprises. On the other hand, one reads almost every day about a new merger between two or more giant corporations. The number of divisions and acquisitions in the industrialised world has taken place at an unprecedented rhythm over the last few years. Some authors (for example, Sengenberger *et al.*, 1990) identified the tendency of the crisis of the large enterprises and the flexibility of the small and medium enterprises as innovation agents and sources of job creation. But there is no agreement on this subject. For Harrison (1994), according to his analysis based on data obtained in the USA, Western Europe and Japan, large enterprises still concentrate a growing proportion of their capital and markets on the main economies: "production decentralisation does not lead to a corresponding power decentralisation – whereas large enterprises reorganise their various productive activities, the control of those units remains centralised." (Harrison, 1994 Cf. Powell and Smith-Doerr, 1994: 382).

The fast industrial development in Japan and in Italy in the seventies and eighties supported the idea that economic development is made easier when inter organisational relationships are based on trust. The trust game is played in network. The core question that supports this paper<sup>1</sup> aims to identify the role of trust bonds in a subcontracting/cooperation network.

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<sup>1</sup> This paper is based on the work developed for the author's PhD thesis in Economic Sociology and Sociology of Organisations, in the Institute of Economics and Business Administration, Technical University of Lisbon, 2005.

## 2. THEORETICAL VIEWS ON TRUST

The study of trust was the target of special attention in the nineties (Sako, 1991, 1992; Dyer, 1996) and, emerging particularly strongly in literature about business relationships, it became a study theme within the framework of horizontal relationships amongst enterprises (*joint ventures*, forms of cooperation) and of vertical relationships between suppliers and clients (Humphrey, 1998). Therefore, in understanding trust within the restrict framework of inter organisational relationships, several different categories are identified (Cousins, 2001). Trust can be taken: (a) as an isolated concept (trust and power, trust and risk), (b) within an interactive model (focusing on relationship model) or (c) within an industrial context, which is the one that most interests us in this case. With regards to this, the concept of the three attributes developed by Sako (1992) has been particularly mentioned by scholars, because it was thought of within the specific context of the relationship producer – supplier and also because it deconstructs the notion of its various attributes: contractual, skills and "good will".

Dyer and Chun (1997) declare that there are several authors that consider that trust in the relationship supplier – client (a) reduces transaction costs and allows greater flexibility to respond to market changes (Dore, 1983; Sako, 1991; Barney and Hansen, 1994; Dyer, 1996), (b) leads to the optimisation of information sharing routines, which improve coordination in the sense that they minimise inefficiency (Clark and Fujimoto, 1991; Nishiguchi, 1994) and (c) makes it easier to invest in the transaction and in technologies that increase productivity (Asanuma, 1989; Lorenz, 1988; Dyer, 1996).

Even though trust appears as a critical theme in various social science fields, it is the economic perspective that appears to have considerably more weight in this case. In any case, this is clearly stated in the synthesis elaborated by Sako (1992), an author of reference on this subject. Sako (1992) turned some of the possible approaches to the problem into a system as follows: 1) Trust can be seen from the point of view of a preference (perceptible in behaviour) or as a meta-preference (based on beliefs or values) (Hirschman, 1984). Trust will be more meta-preference than a simple preference, meaning that there is a motivational force, a commitment to the normative value content (Etzioni, 1988). Trust, particularly the "good will" type, as a cultural predisposition, fits into this interpretation. 2) Trust can alternatively be treated as a scarce source, but present to different degrees, depending on the country. Therefore, in a country such as England where there is less trust than in Japan, businesses tend to lean on institutional motivation environments and standards, where very little relevance is given to trust. In the absence of trust, institutional controls are available to control abundant opportunistic behaviour. 3) As opposed to this, trust can be seen as a renewable resource (Hirschman, 1984; Gambetta, 1988). The prevailing idea is that trust grows with use; it has to be used in order to thrive. When it is not used, it has a tendency to waste away. This explains why relationships of trust are usually long lasting. 4) Trust building may be bilateral and specific of a particular relationship. Within this context, trust is an intangible capital, an asset held jointly by both sides. What is peculiar as far as trust is concerned, when compared to other assets, is the fact that it

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can be built upon slowly and quickly destroyed. 5) Trust in bilateral relationships can also be taken into account in the reputation game. To damage reputation means the loss of future business opportunities. This assumes that the "reputation effects" are effective to impose sanctions on opportunists. An efficient way to show the market that one is worthy of trust is to perform a set of reputable behavioural principles, even if those may not be in one's own interest in the short term. 6) Finally, trust can be dealt with as an input, for which there are no markets. According to this point of view, trust cannot be immediately bought or sold, in as much as the direction of the instrumental exchange destroys the foundation of trust (of good will in particular). It is this non instrumental aspect that, in part, motivates people to perform over and above the minimal level of necessary effort. In short, in terms of the concept of trust, there remains a complex commitment between an asset in which somebody invests for their own interest, and a social standard.

Sako has dedicated her work to the study of trust in the context of the relationship between assemblers and suppliers in Japan. In her work *Price, Quality and Trust: inter-firm relations in Britain and Japan*, the author makes a comparative analysis between Japan and England. "What is it that has weight in the competitiveness of the Japanese industry?" Is the basic query that accompanies the study (which includes three assembling companies and 36 suppliers in the electronics industry). Research clearly shows that the relationships between suppliers and clients have a strong effect on industrial results in terms of price, quantity and quality. And there seems to be a good reason to think that the model "obligation contractual relation" (OCR) can contribute to a better performance as opposed to the "arm's-length contractual relation" (ACR), where a contract is set up before the business, and if unpredictable problems arise, they are sorted out according to legal directives. OCR, on the other hand, presumes an economic contract which fits into specific social relationships between commercial partners who develop a sort of mutual trust. Even if each partner's tasks are negotiated, agreed and clearly stated in contracts before the business relationship starts, there is some incentive to do more than is expected by the business partner. Such an incentive is the result of expectations that the act of good will leads to a similar response by the partner and that in times of unexpected crisis, the good nature of the partner can be called upon in order to allow the non fulfillment of some previous agreements within the terms of the contract.

The essential normative values that give shape to ACR and OCR behaviours are based on the presence or absence of trust in the three types conceptualised by Sako. Contractual trust (mutual anticipation that promises made are kept) and trusting capability (trust in the capability of a partner to develop a certain activity) exist to a larger or smaller extent both in ACR and in OCR. It is good will that is found in OCR but not in ACR. Sako (1992) concludes that the Japanese electronics industry seems to have more OCR characteristics than the equivalent English industry (even though the latter has been carrying out changes towards OCR). Amongst suppliers, there are large variations between companies. But the range of relationships in the Japanese industry seems to be more OCR than the range of English relationships. The author adds that trust relationships can be necessary but not enough to reach competitiveness. High quality and competitive costs are achieved in Japan, by cultivating OCR type trust, but also rivalry amongst the known core of Japanese suppliers who are placed to compete according to their capabilities.

This work also makes it clear that ACR and OCR are fundamentally based on different business values and attitudes. The desire to enter into dependent relationships, or to invest in building trust by means of face-to-face communication, both leading to OCR, is present to different degrees both in Japan and in England.

Dore (1983, Cf. Gerlach and Lincoln, 1995: 495) mentions that "it is tangible relationship rather than impersonal market processes that explains the Japanese industrial organization."

### 3. CASE STUDY ON A PORTUGUESE INDUSTRIAL NETWORK

#### 3.1 Methodological note

As far as methodology is concerned, we used the case study method, in its wider sense, to analyse the industrial network in the Municipality of Águeda (and surrounding districts), in the bicycle sub-sector. We identified patterns of relationships amongst the subcontracting and subcontracted companies. Once the relationships amongst the companies in the network were understood, it became important to place trust in business relationships. In order to understand broadly this web of relationships, we decided that a qualitative, in depth research strategy would be appropriate to the nature of the subject being studied, also taking into account the dimension of the circumscribed network. Therefore, it is important to underline that we are referring to a case that includes 25 companies, 21 within the network and four outside - company A<sup>2</sup> and 11 suppliers (A1 to A11) and company B and 8 suppliers (B1 to B8) – but collecting information also included interviews to Associations and privileged informants, namely entrepreneurs in the region with a vast knowledge of the sector (OE1 to OE4).

#### 3.2. Trust

##### From rhetoric...

Trust is, as predicted, a concept full of variations that refers to practical aspects linked to business relationships. In other words, the idea of trust is gaining shape in association to price, quality, delivery times and the duration of the business relationship. "*Usually, trust is fundamental. People slowly gain trust.*" (financial director of company A4) Entrepreneur B1 declares that "*there are several factors [that interfere with choice], one of those is price. Even though price is not everything. There is also the problem of quality.*" When a supplier is selected, we can talk of objective criteria: the capability of responding in terms of quality, price and delivery times. These are the factors that are more related to trust.

From what interviewees say, it is clear that this value needs to be recalled as a fundamental reference of their business relationships, and is often introduced into the interview by the entrepreneurs themselves. But it is also clear from their declarations that the feeling of mistrust has been gaining ground in the field of entrepreneurial negotiations. This feeling of loss seems to lead the interviewees to

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<sup>2</sup> Core companies (designated here as A and B).

reinforce the idea that this principle is still an element of differentiation in business practices. *"When we don't know what we are buying we say, 'I'll buy from that guy, I know he is a person who won't cheat on me'. It is fundamental to work with a regular supplier who you trust."* (entrepreneur A6)

The entrepreneurs reveal their concern in explaining that in their business there is no space for mistrust and mistakes. These words are mentioned but almost always by reference to others, they do not include themselves in that context, giving the idea that less transparent business practices exist, but are promoted by other entrepreneurs.

One of the entrepreneurs remembers that: *"It has to be a supplier who we trust completely because our clients analyse the parts and we cannot run the risk of selling them one thing for another."* (...) *Trusting is the same thing as having a signed contract. I trust as much a sale to company B without a contract as I would selling to some others with whom there should be a contract.*" (Entrepreneur B1) This sentence explains well that trust, even though subjective, emerges here as an equivalent to the written contract that usually establishes the agreements of negotiation. The informal relationship based on trust is thus reinforced. The entrepreneur also notes the difference between "trustworthy" companies and the other companies where the business relationship should be regulated by formal contracts that work as a guarantee in case of condemnable actions.

The feeling of mistrust is often associated to the more recent assemblers, since the majority of them do not own physical property. These companies do not generally have their own facilities and due to the work they carry out (only assembly) they do not invest a lot on technology. The provisional way they set up their installations means they are looked upon by suppliers as companies that do not offer any guarantees. It is also important to stress that these assembling companies have been functioning as an alternative for the components companies, as in lately they have witnessed the closure of their once important clients. But, as we have seen, there is a shared sense of mistrust in relation to most assemblers, including some reasonably large assemblers, but also some small assemblers designated as "basement" assemblers. Gambetta (1988) reminds us that trust means there is a strong probability that we are considering getting involved in some form of cooperation. In this case, the link with the assemblers raises many doubts, since it is not possible to predict anything. Even if the manufacturers maintain these relationships and feel they have to invest in them, that does not mean that a relationship of trust is being cultivated. On the contrary, the business is based on strong feelings of mistrust.

#### ... To the facts

##### *Price*

The idea of trust emerges very much linked to price. To the question *"What does it mean to trust a supplier?"* entrepreneur A6 answers *"it means that we are convinced that he is selling the product to us at the best price."* For another entrepreneur, trust in a supplier is linked to the fact that he explains price variations for a certain product, in order to avoid business losses.

When we asked another entrepreneur if the fact that they have been buying from one supplier for a long time and the product has always fulfilled expectations was an element that set it apart from other suppliers, he answered *"Price is price."* With

regards to this, entrepreneur A3 explains, *"The fact that I know the manager of company B and the fact that I know the purchasing director of company A [does not mean] that if I do not have the right price they will buy from me."* This extract from the interview also shows that the value of trust is relative when faced with product price. *"All our clients would change supplier for a small price difference"*, reminds entrepreneur A6.

According to the initial talk with entrepreneur A10, the most important criteria to select a supplier are the following: *"Speed, good price and quality. Fast delivery, because, you see, we have a delivery on a certain day. (...) There is price, which is also important, but in many cases speed and product quality are the most important. Good presentation. We also cannot go for the cheapest."*

On reading the interviews, it becomes clear that proposals by other suppliers put pressure on the regular suppliers, which is a natural part of business relationships. The interviewees mention that the supplier almost always matches the prices presented by the competition. The entrepreneurs declare that if the prices given by the old suppliers do not come near those of the others, there is a strong probability that the business relationship will end, if not completely, at least, it will not be as regular as before.

There seems to be a preference for maintaining the regular supplier, but also to negotiate a lower price, as stated by entrepreneur A6: *"Because we warn them when there are suppliers that offer lower prices for similar products. We inform our supplier. If he can offer the same price for a similar product we prefer to keep them."* As mentioned by this entrepreneur, the regular supplier is preferred only in a situation where the prices are identical, otherwise the duration of the relationship becomes less important in relation to the price.

Negotiation implies a daily and strong pressure to reduce prices. The game is endless. In the end it has to stop, even running the risk of losing the business. Sometimes, businesses are agreed with very small margins, and payment conditions and schedules seem to compensate very little for the concessions made.

Still on the subject of the pressure exerted in relation to the price (or payment conditions) the financial director of company A tells us *"that a client who applies pressure, does so because he has the capability to come here or go elsewhere."* In this case, client pressure could be positive, in as much as the strength shown during the negotiation process demonstrates that the company has a market reputation, which means it has access to several suppliers. Entrepreneurs try to perceive the financial situation of the client trying to read different signals, so that they can protect themselves from prolonged debts or even from non payment due to bankruptcy processes.

*"If he can he makes, if he can't, he won't."* (Entrepreneur A2) The entrepreneur states that, with the necessary precautions, price is a relevant factor in supplier selection. However, past experience leads him to evaluate the proposals by new suppliers in a more rigorous manner. Entrepreneur A2 mentions some negative experiences due to changes in suppliers: *"We've learnt some lessons. The first time, the product was wonderful, the second time, so, so... If it is from a credible company to another credible company, I do not abandon them, such as today I buy a lot and tomorrow I don't buy at all."*

There is a mistrust component that slowly disappears as the supplier proves his credibility, this way reducing the margin of uncertainty, and therefore, risk. Trust is

built over several completed agreements. In other words, the history of the relationship means that predictions can be made which offer the entrepreneur security, meaning they, on the other hand, commit to other businesses. There is a chain reaction, so that it is essential that raw material or component suppliers fulfil their commitments so that the remainder of the business is not compromised.

The financial director of company B4 tells us: "*The competition tends to be not only in terms of price, but also in terms of better conditions.*" Payment conditions are mentioned again and again as a way to gain some business. "*We are not too demanding in terms of payment. Nowadays, people who buy want to pay as late as possible*" (entrepreneur A8) So, entrepreneurs play not only with the price, but also with the setting up of payment conditions. Payment difficulty is constantly mentioned in the interviews, as entrepreneurs use this factor, defining more favourable conditions that may give them an edge with regards to the suppliers. In other words, apart from the price itself, there are payment conditions that may not be frequently practiced by other companies.

When we compare the price factor with other factors, namely trust in the supplier, we realise that advantage is often preferred. Immediate gain is fundamental since the companies survive with great financial difficulties, which also pushes them to value the present in comparison to a future investment in relationships of trust. It is necessary to maintain the business, even if it means leaving behind other types of less immediate profit. Sako (1992) reminds us that to damage one's reputation means losing future business opportunities. To gain trust implies to fulfil a set of reputable behavioural principles even if they are not in our own interest in the short term. Now, the logic of trust does not invest in the short term, as opposed to the logic of many entrepreneurs.

In short, price is a factor that influences a lot the entrepreneur's decision to select the supplier. Even though in some cases the entrepreneurs give the same weight to other factors (especially quality), the price issue is always the most important. However, it is obvious that suppliers are increasingly evaluated more carefully, considering experiences where entrepreneurs felt they had been cheated, and businesses that seemed attractive but ended up in significant losses. It is worth noting that a lot of the stories about situations that reveal trust, refer to issues linked to the price or to payments in agreement with pre-established conditions. Trust in the price offered by the suppliers illustrates many of the examples in the interviews. But a qualitative difference is noticed in the talks, mainly when the strength of price comes up in relation to the other issues. In other words, the link between the words (ideas) trust and price, is broken, being substituted by declarations where price (immediate) wins over and trust (based on long lasting relationships) loses.

### *Quality*

Quality is also a factor largely associated to trust. A supplier is considered trustworthy if over time he guarantees that he always manufactures products of the same quality. Entrepreneur A8 agrees with this point of view, reminding us that trusting the supplier ...

... "*means product quality. We work on imported products and are concerned that we should not change clients in order to guarantee the same quality. If we work for two or three years with one supplier who gives neither us nor our clients any problems, we try to always have the same supplier and deliver*

*products of the same brand. And we've had clients who ask for products of that brand."*

These words refer clearly to the idea that relationships of trust are reinforced by means of a continuous realisation of quality expectations. In the end, it is a matter of reiterating trust through the quality of the product, which is tested in the different consignments.

What the entrepreneurs say suggests that quality prevails over price, which only changed when the quality of the products is similar. In these cases, the price would work as a differentiating factor, but only when it is possible to guarantee the usual parameters of product quality. This idea means that the importance of price becomes secondary.

In the end, it is important to distinguish, in the interviews, a discourse that tries, from the tales about practices, to relate what actually happens in negotiations to what is considered more correct in business relationships. On the one hand, the words of the entrepreneurs include the idea of a desirable business in terms of the priorities given to criteria, and on the other, the idea that business pressures often do not combine with this ideal which favours the quality criterion. It is a pressure that emerges, in the words of the entrepreneurs, as an external force, uncontrollable, and in many cases inevitable, to maintain the business.

Some entrepreneurs distinguish the suppliers they buy in function of the price, from those where this is not a defining factor. The joint development of some parts means that some suppliers gain importance due to that technical investment. This type of relationship strengthens the position of the supplier, gaining strength, in as much as a break in the relationship implies added costs. Along these lines, entrepreneur A/B says: *"It means there is a bidirectional trust so that we are guaranteed that they fulfil our requirements. When we need to increase or decrease output, they understand, since we work together. The contacts mean much more than a purely commercial contact. There is even a joint product development."*

The entrepreneurs also distinguish the suppliers between those who are trustworthy and those who are not. They develop a relationship of complicity with the companies they trust, which means it is possible to maintain a guaranteed supply platform, especially for the most important business for the company. Once this trust base is guaranteed, less important suppliers emerge around the core supplier. In short, the companies try to guarantee a core that ensures regular supply of essential products. These suppliers (generally more than one for each product) are the supply base of the company. Substituting them is usually a process that requires more attention. Usually, they are relationships where there has been investment in terms of trust and where the substitute company will have to maintain the existing standards in order to satisfy the demands of the clients. With regards with other marginal suppliers, easier to substitute, relationships are not necessarily based on trust links but mainly on factors that imply immediate advantages, namely the price.

Competition from Asian countries strongly worries entrepreneurs in Portugal, because some of these countries compete on the basis of price and have been improving their quality, which makes the competition scenario worse for the Portuguese companies. *"China and India are cheaper. (...) But at the moment, there are international companies for whom not even China is good enough and they are moving to Vietnam. (...) [China] It is a product that has to have a certain quality, even though it is lower than Taiwan products. These companies have some of their*



*technicians there. Products from Taiwan are good quality, and their price is already not too cheap."*

As a general rule, competition from Asian countries is quite strong. Even though some countries have made their mark through (lower) price, leaving some margin for manoeuvre in terms of product quality, now better quality is emerging which diminishes the distinction between companies. But these countries have been bringing their quality parameters in line with the Europeans. India is often mentioned as an example, as it has more qualified labour, meaning that important technical knowledge is also valued in terms of understanding the specifications of the work commissioned. Entrepreneur A8 says: *"In India, not only is it cheaper, but they make the parts according to our specifications. When it is a matter of specific products that we commission they make a commitment not to sell to anyone else in our country. In Taiwan we have a supplier, but we haven't bought anything from him. They are intermediaries. They buy and put the parts together in a container and send them here."*

In short, entrepreneurs distinguish between core suppliers and marginal suppliers. The former are those who cannot be substituted easily and, if it is necessary to do so, the break in the relationship is felt as a loss. There are investments and guarantees that will not be easy to replace. Marginal suppliers are those with whom there is a more superficial relationship, and, in some cases, who provide supplies more sporadically, in other cases, they manufacture more standard products, without great added value.

#### *Delivery times*

Another factor also linked to the trust concept is the fulfillment of delivery times. One of the entrepreneurs explains that *"[a trustworthy supplier] is a supplier who guarantees continuity and uninterrupted supplies. It is a supplier who, when we place an order with him for X date, he will not tell me 'I am missing such and such.'" (Entrepreneur A/B). Another entrepreneur tells us that you lose trust when...*

*... "The supplier does not deliver on the agreed date. I have to stop production and he did not deliver and in that case, I do not forgive. Nappa leather for example." (Entrepreneur A2)*

Still on this subject, entrepreneur A/B adds: *"If the supplier [is] trustworthy, he immediately warns us that he is going to have a problem, therefore we take action so that we do not have problems. That is almost a guarantee. A competent supplier does that because a supplier who is not competent is always hoping we don't notice that he is going to be missing something."*

In this case, they are dealing with guaranteed supplies in working time, or, in case that is impossible, with trust in the way they deal with supply problems. When asked what it means to have absolute trust in a supplier, entrepreneur A/B answers that he has to have a supplier who fits the bill and tells them *"yes, sir, it will be here within a week."* This factor gains importance when companies try to reduce stocks, especially within the framework of a *just-in-time* strategy.

Entrepreneurs try to reduce stocks as much as possible. Delivery speed gains importance as most orders are made giving little warning. Delivery times are reduced for all those who contribute to the chain and there is lower tolerance for non fulfilment. Naturally, the risk is greater, but advance investments are avoided.

The evidence provided by the entrepreneurs makes it very clear that it is necessary to avoid stocks, which naturally gives more importance to this criterion.

The products used in most parts are bought somewhat regularly, in as much as it is believed that there is no investment loss. More specific products used in fewer parts, are bought as needed, as there is no guarantee that they will be commissioned. The logic is to reduce risk and investment and obtain an almost immediate return. Once again, that logic is extended to the whole production chain, from the assemblers to the last suppliers. Usually, the more dependent suppliers, and those with least negotiating capability, are those who are the least capable of imposing rules.

The financial situation of the companies is also mentioned in relation to the trust given to the response capability of the suppliers. It is well known that some companies in the cycle industry (and two-wheel industry in general) have closed down (bankruptcy), which produces a generalised atmosphere of lack of trust. Entrepreneur A/B reminds us: *"I think that trust in the supplier is important: the supplier's trust in us and ours in him. May be we can explain our reasoning. If I buy an article from a company that I know is almost bankrupt, that supplier cannot give me any guarantees that he will supply me with the product on the date I want, so he will put my whole product manufacturing line in jeopardy. When we are dealing with products that have quite extensive technical lists, it is enough that a nut, or a screw, fail us, and the product cannot go out. The whole production chain is interrupted."*

Concerns for the financial situation of the suppliers (and the clients) is constant in the talks, because the stories of bankrupt companies, some of them at one time important companies, leave great worries as to what might be their own future.

If reference to delivery times is a recurrent factor in talks with entrepreneurs, again, concerns for this are not as strong as those for price and quality. Delivery times are not the most important element in supplier selection, even though it is a factor that entrepreneurs try to safeguard in business relationships. Entrepreneur A/B's declaration shows us the priority usually given to these criteria: *"[After price and quality] there are always other criteria we value: response capability, and proximity. We always favour those who are nearer us, as long as they are on an equal footing."*

APIFER's (Portuguese Association of Builders and Furniture Hardware Manufacturers) President concludes, generalising: *"Generally speaking, people subcontract from a company they already trust. Usually, the relationship between subcontractor and subcontracted is initially difficult as we have an entrepreneurial spirit that is not very clear. We promise everything for the next day and deliver a month later, which is not viable. People deal with somebody they trust in terms of delivery times."*

In conclusion, entrepreneur A/B stresses here the fact that the companies can reject the supplier based on the non fulfilment of delivery times in relation to other companies. The fact that they do not fulfil their commitments on a relatively regular basis means there is a behavioural pattern which is not in favour of the company being chosen as a supplier. In a small network like this one, exchange of information between companies is fast. The companies that are part of this circuit know that their actions mean they will have a positive or a negative reputation. In this case, and, to a certain extent, similar to the Japanese model, the non fulfilment by suppliers may mean they will not be able to be incorporated into our networks. A negative reputation is quickly spread and the (re)integration of the supplier strongly compromised. *"If they systematically fail, word goes round: you know, those guys*

*are not doing very well*". (Entrepreneur A2). If business takes place as predicted, a good reputation is spread around (and then you gain the trust of third parties). On the other hand, if companies do not comply with what was established, they lose the trust of the community.

#### 4. CONCLUDING REMARKS

The perception the entrepreneurs have of the meaning of trust in business refers precisely to the issues of price, quality and delivery times. In other words, to be able to trust a supplier, he has to prove himself in terms of those three factors. The designation "trust relationship" is favoured by long lasting links where there have been several opportunities to test that same trust. But what is peculiar to trust, when compared with other assets, is the fact that it is built slowly and that it can be quickly destroyed. (Sako, 1992).

The price (immediate advantage) superimposes all other factors, namely trust based on the history of a relationship, which stops being relevant when the companies have to choose between subcontracted companies with different prices. The usual supplier is then preferred only in a situation where the prices are similar. Taking this logic into the global scheme of things, the prices of local companies have to be advantageous in relation to the prices of Asian countries.

The background of the bicycle sub-sector also includes the more recent emergence of companies that are purely assemblers, many set up with Spanish capital. These companies acquire all the components from other local companies and some of them also import from Asian countries. In general, they do not possess property and are set up in rented facilities, as the equipment needed for assembling does not require large investments. These companies have been giving work to some component producers but do not seem to offer many guarantees, since their position in the market inspires strong feelings of mistrust. *"Today they are here. Tomorrow they are elsewhere."* In other words, a breakdown in personal relationships is linked to the disintegration of that industry. There is a feeling of lost sense of devotion connected to the loss of entrepreneurial heritage. These assemblers work as "oxygen tanks" for some companies. But the fact that they are "disposable" does not offer guarantees. But even then they are valued. Why? Because some component companies have high production levels, aimed almost exclusively at those companies.

Entrepreneurs often choose suppliers who they already know so that the results correspond to what they expect when they sign contracts with important clients/businesses. In these cases, it is important to guarantee that supplies are fulfilled according to agreements, minimizing risk. They play safe, as the demanding patterns of the client are well-known, selecting suppliers who are capable of fulfilling the requirements (even though sometimes it may mean a smaller profit margin). There seems to be a trust capital associated to certain suppliers. As this trust base is guaranteed, then other less important suppliers emerge around those. In the case of the more marginal suppliers, therefore more easily substituted, relationships are not necessarily based on trust but on factors that bring immediate advantage.

What we see nowadays is that this local productive system (Reis, 1992) has been extended to a global level. In other words, the group of industrial companies

strongly linked to each other has slowly expanded their relationships to a global level, whereas once they were mainly local. According to Lazerson and Lorenzoni (1999) (reporting on industrial districts) locally defined production systems are anachronistic in a global economy. The local productive system starts to wear off, resulting in the disappearance of many companies and the search for alternatives by others.

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