Study on the Inter-organizational Relationship and Its Evolution*

LI Huanrong  
School of Management Guangdong University of Business Studies, Guangzhou, Guangdong, P.R.China, 510320

Abstract: From the perspective of system, the paper studies and analyzes the connotations and features of inter-organizational relationships. From dynamics, opens out the rules within its evolution. It is provided the bases for studying on the inter-organizational relationships embedded in the enterprise and directing the enterprise to managing the inter-organizational relationships.

Keywords: Inter-organizational Relationships, Connotations, Characteristics, The process of evolution

1 Introduction

“Any organization’s activities can’t live without relationships with the surrounding environment. Its survival and performance depend on the relationships with other organizations”[1]. So modern enterprises attach more and more importance to the inter-organizational relationships, and the management. Recognizing, analyzing and promoting the inter-organizational relationships are prerequisite and key for enterprises to gain the knowledge, resources and continuous competitive advantages they needed[2]. Scholars have applied economics, sociology, strategic, Game Theory and Organizational Behavior to comprehend and study the inter-organizational relationships embedded in the enterprise[3]. The connotations of relationships are various, and they refer to economics, culture, emotion, psychology and behavior, so there’s no uniform definition of relationship by now[4]. Studying systematically on the connotations, characteristics and evolution of inter-organizational relationships embedded in the enterprise, is the basic of inter-organizational relationships, but also a prerequisite for the effective management of business relationships.

2 Connotations and Features of inter-organizational relationships

According to the Comparison of the typical definition of inter-organizational relationships in present literatures, the inter-organizational relationships’ definition are different, there are same key words such as interaction, transaction, social relations, persistence, and more than two organizations in it.

So, inter-organizational relationships embedded in the enterprise is defined to be the repeated interaction and exchange process between enterprises and other organizations, and a set of a series of sustained social connections in business. By the definition, the Connotations of inter-organizational relationships are rich.

2.1 Connotations of inter-organizational relationships

1) Inter-organizational relationships are essentially contracts relations. There’s formal type of contract, such as the normal transactions (supplier networks, production network), Strategic Alliance (telecommunications business alliance network), cooperative research (production-learning-research cooperation network). There’s also informal type of contracts, including emotional (Chinese enterprise network), the blood (Family Business network) and geographical (Silicon Valley and high-tech industry cluster), and so on.

2) Inter-organizational relationships are historical dependence. Inter-organizational relationships are associated with the existing and future interaction. Because of that, organizations interact. With the sustained interaction, they will become more interdependent.

3) The structure of inter-organizational relationships is multiplicity. From the integrated structure, relationships include the main variety, which constitute a network through interaction; From the

---

* This paper supported by The Guangdong Natural Science Foundation (Grant NO. 04011765)
economic structure, actors, which implement various activities, interconnect and interact in the value network to complete Value Network activities and form commercial network; From the social structure, different organizations are involved, so emotion, cognizance, culture, Language and other social phenomenon link to form a social network.

4) There’s not only explicit form, but also tacit form in inter-organizational relationships. explicit form is the formal contract for the transaction, such as supply contracts, sell contracts, licensing and commissioned research; tacit form reflects emotional, cultural, friendship, genetic, geographical and other relations, such as the personal relationship between entrepreneurs, family relationships, hometown ties and so on. But these relations are inimitable, path-dependent and valuable. They are the embodiment of strategic resources.

5) Inter-organizational relationship is a continuing process. If the relationship is not continuation, the network will lose the distinguishing characteristics of the market. Time is a relational factor. Both the past and future expectations related to inter-organizational relationships influence the present state[5]. Process nature means that time is needed for the training of an effective relationship. In aspect of time nature, relationship is continual. Relationship is the basic unit of network, and the role lies in establishing long-time sustainable relations. Especially for tacit relationship, such as feelings, friendship and confidence, is the test of time.

2.2 The feature of inter-organizational relationships

1) Mutuality[5]: It’s the intrinsical characteristic of inter-organizational relationships. Relationships may continue despite a low degree of mutuality because of different kinds of bonds between business actors ---that is, technical, economic, planning, social, knowledge, and legal bonds. The bonds lead to the different correlations of inter-organizations, but the relationships are continual. Mutuality between the partners may be expressed with concepts such as trust and commitment. Conflicts and the solving of these are also a part of relationships. The natures of relationships affect the occurrence and handling of conflicts and vice versa.

2) Long-term character[5]. This is an essential feature of inter-organizational relationships. Continuation reflects the strength of using learning effects and built-in skills for mutual benefits. It needs continual exchange and the test of time. Continuation is related to necessary investments which make it costly to switch counterparts. The frequent lack of alternative partners also adds to switching costs. Continuation is enhanced through commitment among interacting actors.

3) Interaction. It’s a core feature of inter-organizational relationships. It means that the behavior changes of either relationship can affect the entire network, which will further affect the relation behavior of other organizations. Inter-organizational relationships are functional relationships to each other. Any changes in the relationship is not only a function of their own ability, but also the function of other organizational relationships[5]. Through interaction, inter-organizational relationships can develop, maintain or end. Interaction is the resource of evolution of inter-organizational relationships. It includes dynamics, exchange, adaptability, adjustment and value.

4) Embeddedness. It’s the most basic feature of inter-organizational relationships. Embeddedness relates to the fact that economic action and outcomes, like all social action and outcomes, are affected by the actors’ dyadic relations and by the overall structure of network relations[6]. Relationships are embedded in a network and connected to other relationships in that particular network. Relationships are therefore highly context bound, i.e. their features are highly dependent on their particular setting. Embeddedness means that organizations not only has two elements, but the existence of their relations with third parties, which forms a network of interconnected.

Embeddedness in the main roles: (1) Information transmission; (2) culture nurtured; (3) collective will; (4) reputation formation mechanism[5]. Embeddedness is vitally important for the establishment and development of inter-organizational relationships, on the other hand, it can promote coordination of inter-organizational relationships; On the other hand, it can use implicit social contracts, and plays an affective role in the functioning of the mechanism of relations.

3 The evolutionary process of inter-organizational relationships
Analysis from the features of inter-organizational relationships, We can see that inter-organizational relationship is a constantly evolving process. Because the evolution forces of different stages are different, the author divides the evolutionary process into three phases from the perspective of dynamic evolution: Deterrence-based evolutionary stage, Knowledge-based stage and Trust based stage.

3.1 Deterrence based stage

This is the early stage of evolution of inter-organizational relationships. It means that this kind of behavior when inter-organizational relationships happen, opportunistic behavior will result in much higher cost than their income. Then the party transactions worry about losing the opportunity or reputation, so they take the behavior of trust. Deterrence-based evolution of inter-organizational relationships relates to the threat of punishment. It’s grounded not only in the fear of punishment for violating the trust but also into rewards to be derived from preserving it.

At the beginning of the trade relations, no one is familiar with incomplete information, so the threat of punishment is likely to be a more significant motivator than the promise of reward. At this time, the evolution force of inter-organizational relationships is deterrent. Therefore, the stage is named deterrence-based inter-organizational relationships. It’s the basis of evolution of inter-organizational relationships.

Enterprises fear punishment for violating the trust, and their rewards are derived from preserving it. Calculus-based trust is often ensured by both the reward of being trust and by the “threat” that if trust is violated where one’s reputation can be hurt through the trading partner’s network, the other is a disreputable individual. Deterrence-based trust emphasizes utilitarian considerations that may also lead to believing that a trading partner will behave in a trustworthy manner.

3.2 Knowledge-based evolutionary stage

This is the developing stage of evolution of inter-organizational relationships. It means that in past transactions, enterprises fully understand with each other and have a relationship of mutual trust. It is grounded in the knowledge of the other trading partner which allows the trustee to understand and predict the behavior of the trustee. The key factor is the information derived out of a relationship overtime that allows one trading partner to predict the behavior of another trading partner.

As this stage, inter-organizational relationships’ evolution depends on knowledge and understanding. It’s called knowledge-based evolutionary stage of inter-organizational relationships. It’s the key of evolution of inter-organizational relationships.

3.3 Trust-based evolutionary stage

This is a mature and stable stage in the evolution of inter-organizational relationships. Trust-based evolution means each other trust, there are common views of value, common action of rules, and common understanding of moral and obligation within inter-organization. It’s the highest level in the process of inter-organizational relationships’ evolution. Because of the force of inter-organizational relationships’ evolution roots in identifying and trusting, Knowledge based evolutionary stage of inter-organizational relationships is named.

In the stage, understanding each needs and desires each other, pursuing the common views of value and goal, abiding by the common standards and criterions in the relational action, the actions of altruism are result in, and partners trust each other and voluntarily do for the other partners. It tends to form a community to gain common goals and interests.

In summary, the evolution of inter-organizational relationships begins with deterrence-based. At this time, the trading relationship is form, and is unstable, risk and volatility. Along with the development of relationships, mutual understanding and repeat transactions promote inter-organizational relationships evolution to the stage of knowledge-based evolution. With the development of inter-organizational relationships, forming common values and rules, and a cooperation community, inter-organizational relationships evolution rises to the highest level — Identification-based stage. It’s a maturity stage.

Inter-organizational relationships evolutionary process goes through three stages: early stage, development and maturity stage. Inter-organizational relationships in different stages have different features, and they can evolves from one level to another higher level. As shown in figure 1.

In short, the evolutionary process of inter-organizational relationships is summarized, as shown in Table 1. The evolutionary process in essence reflects the evolutionary process of relation network
embedded in enterprises. Knowing about the different stages of inter-organizational relationships evolutionary process, managers understand the characteristics of each stage, and take different strategies to ensure the establishment and development of inter-organizational relationships, and strengthen relations management.

Note: J₁: Some inter-organizational relationships develop to knowledge-based stage after Deterrence-based evolution; J₂: Few inter-organizational relationships further develop to Trust-based evolution from knowledge-based evolution.

**Figure 1** Inter-organizational evolutionary process

<table>
<thead>
<tr>
<th>evolutionary stage</th>
<th>evolutionary force</th>
<th>characteristics of inter-organizational relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td>early stage</td>
<td>deterrence</td>
<td>◆ At this time, inter-organizational relationship is a market-oriented economic calculations. ◆ The relation evolution originates in creation. The value of maintain is greater than the costs. ◆ Inter-organizational relationships are different, and they fluctuate a lot. ◆ Lack of shared knowledge.</td>
</tr>
<tr>
<td>Development stage</td>
<td>knowledge</td>
<td>◆ The development of inter-organizational relationships is based on sharing knowledge. In a period of interaction, benefits from sharing knowledge promote the deepening of relations. ◆ Inter-organizational relationships are similarity and consistency, and promote the sharing of knowledge. ◆ Allow each organization to predict others’ behavior. ◆ Reduce uncertainty.</td>
</tr>
<tr>
<td>Mature stage</td>
<td>trust</td>
<td>◆ With a high degree of mutual recognition of the wishes and objectives, maintain the stability of relationships. ◆ On interaction, each organization can perform and maintain altruism behavior. ◆ Each organization trusts each other, and the behavior is highly consistent, promoting relationships sublimating. ◆ There’re shared values and sublimation consistent standards.</td>
</tr>
</tbody>
</table>

**4 Conclusions**

114
In summary, inter-organizational relationship is a kind of strategic social capital, as well as the effective management mechanisms of enterprise management. Inter-organizational relationships management plays a key role in the success of the enterprise. To open out the rules within the evolution of inter-organizational relationships is one of the key issues of inter-organizational relationships management. Basing on studied the basic problems of inter-organizational relationships, such as its connotations and features, the author divides the evolutionary process into three phases from the perspective of dynamic evolution: Deterrence-based evolutionary stage, Knowledge-based stage and Trust based stage, and analyzes the characteristics of each stage. It is provided the bases for studying on the inter-organizational relationships embedded in the enterprise and directing the enterprise to establish, coordinate, develop, and consolidate the inter-organizational relationships.

References