THE TRIANGLE: ROLES OF THE GO-BETWEEN

by

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Abstract

Social capital is seen here as part of the overall resource base of a firm. One part of social capital is positional advantage in a network. It is established on the basis of relational competence. Third parties can help in the development of social capital by offering their relational competence, in playing one or more of six roles: the roles of the go-between. Transaction cost economics recognizes that in an inter-firm relation the inclusion of a third party can economize on the setting up and operation of a governance mechanism ("trilateral governance"). The third party acts as a go-between in monitoring and controlling compliance to agreements, thus eliminating the need of intricate and costly forms of "bilateral governance". A second role of the go-between is to serve as a repository of hostages. A third role is to help in the judgement of the value that partners have for each other, i.e. to solve the "revelation problem". A fourth is to serve as a filter against spill-over. A fifth is to mediate in the building of trust. A sixth is to act as a boundary spanner: to offer a link between an established network and outside sources of innovation, while maintaining the integrity of the network. These roles are especially important in relations that are aimed at innovation. By performing these roles, the third party also increases the flexibility of networks of firms. In sum, third parties may form an important part of the social capital that supports networks of firms. The analysis opens opportunities, or new perspectives for fulfillment of their roles, to governmental agencies, such as innovation transfer agencies, municipalities or provinces, and market agencies, such as banks, and suggests that a new market is opening up for professional go-betweens.
1. Introduction

In studies of inter-organizational relations (IOR's), there is a tendency to look at dyads of firms, and to consider networks as aggregates of such dyads. But there are several roles for a third party; a go-between. This chapter looks at a go-between not in the sense of a middleman who intermediates in existing production or trade, such as an agent, wholesaler, retailer, and not in the sense of an entrepreneur who intermediates in the realization of new potential in connecting supply and demand. It looks at a go-between in the sense of a relationship counsellor for the development and maintenance of social capital; providing support in setting up, adapting and ending cooperative relations between others. Or, in yet different terms: to help in the embedding of relations, in Granovetter's (1985) sense (Uzzi 1997). Such roles may be performed by middlemen or entrepreneurs, but also by specialized agents who do not play a direct role in linking stages in a chain of production and distribution, as middlemen and entrepreneurs typically do. Indeed, some of the roles require an independence that is served by not having a direct stake in the relations that need to be developed.

I propose that the analysis yields a perspective for looking at the roles of trade and industry associations in European business systems, and of banks and trading houses in Japanese enterprise groups (Kigyo Shudan). Some of the roles are played by the Innovation Centres that were instituted in the Netherlands to act as intermediaries in the transfer of technology to small firms, without actually serving as suppliers of technology. More importantly, perhaps, I propose that there is an emerging market for the specialized services of the go-between. Some of the most important roles of the go-between are associated with problems of information, knowledge and learning. These are particularly important in IOR's that are aimed at innovation; at the development of products, processes and competencies.

One theoretical perspective employed in this chapter is transaction cost economics (TCE). I grant that transaction cost economics (TCE) lacks a perspective on innovation and learning and fails to deal with trust next to opportunism, and more generally fails to deal with embeddedness of transactions. But in my view a more encompassing theory can be developed which retains what is valid and useful in TCE and incorporates notions from social exchange theory. I have attempted to contribute to such development (Nooteboom 1992, Berger et. al. 1995, Nooteboom 1996, Nooteboom et. al. 1997). Especially the "resource" or "competence" view in present non-mainstream economics (Foss 1993, Foss & Knudsen 1996) is well suited for such integration of perspectives. In the spirit of this endevour I will try to position the notion of social capital in the framework of the resource perspective.

TCE retains the assumption from mainstream economics that technology is accessible to all, and this conflicts with the competence view that competencies are embodied in people, teams, procedures, organization and organizational culture, need to be built up, and enable as well as restrict the cognitive and technical repertoire of the firm. TCE also does not incorporate issues of spill-over. When competence is
associated with tacit knowledge and is embedded in the firm, risk of spill-over may be limited. Nevertheless such risk often remains to a greater or lesser extent, and spill-over control is another aspect of the governance of IOR's that must be taken into account.

One might say that by introducing the competence perspective, innovation/learning, spill-over, trust and the social embedding of transaction relations TCE is transformed beyond recognition, and that its core assumptions are cut out, so that it is misleading to call it transaction cost theory. But the point is that although trust is made part of the theory, opportunism also remains part of the theory, next to trust: trustworthiness restricts opportunism, but opportunism also puts a limit to trustworthiness. Even the most loyal partners may succumb to pressures of survival or golden opportunities. Repeated cheating quite rightly leads to a loss of trust (see also Uzzi 1997). The core idea from TCE that dedicated investments, combined with uncertainty concerning environmental conditions (market and technology) create dependence and a potential hazard of hold-up, is retained. When it works, trust can serve as a substitute for legal contracting, and thereby yields a form of governance with lower costs, greater speed, more flexibility, less of a straightjacket for innovation and a better basis for exchange of ideas and learning. But arms-length legal contracting still is an instrument of governance that may fit the conditions and the type of exchange. Other instruments from TCE also retain their potential use: relational contracting on the basis of balanced ownership of dedicated investments, exchange of hostages or mutual dependence; trilateral governance. Indeed: the notion of trilateral governance yields the first role for the go-between.

2. Social capital as a resource

Social capital is defined as social structural arrangements which facilitate the attainment of goals (Coleman 1990, Gabbay and Leenders in this volume). I would like to elaborate on this notion, and to embed it in the wider notion of "resources" available to firms.

The "resource" or "competence" view of the firm (Prahalad & Hamel 1990, Foss 1993, Foss and Knudsen 1996) goes back to the work of Penrose (1959). According to this view the main cause of a firm's profit is its unique competencies, embedded in the firm. This view complements the "positioning" view from Industrial Organization that a firm's profit is due to market conditions: market concentration, oligopoly, collusion, entry barriers (Porter 1985). The two views meet in their joint recognition of the importance of product differentiation to evade pure price competition, and the need to protect one's differentiated product by basing it on competencies that are at least temporarily unique and inimitable. The competence view implies the rejection of any notion of the "representative firm": the essence of markets is precisely the heterogeneity of firms; firms seek to be different, as the main source of profit. Competencies are cumulative and path dependent, and that is why they cannot always be identically copied (Cf. Nooteboom 1992). In particular, the focus of the present paper is on the development of competencies: on learning and
innovation, and the role thereby of IOR's.

Following Stoelhorst (1997), I take resources as a general concept that can be classified into assets, competencies and positional advantages. Assets are characterized by the fact that they are subject to legal ownership and contracts. Competencies and positional advantages are not easily subject to property rights. Resources cannot all be instantly copied by other firms because they are to some extent inscrutable or subject to "causal ambiguity" (Lippman & Rumelt 1982): even if a would-be imitator can observe activities, that does not yet imply that he can understand them, let alone implement them. Resources, and especially competencies, can be difficult to understand and imitate, because the knowledge involved is to a greater or lesser extent tacit (not documented) and embodied in the heads and hands of people, and embedded in teams, organizational structure and procedures, and organizational culture.

Competencies can reside on the personal level, in the form of knowledge, skill and relational competence, but related to the latter I would also include motivation and morality. "Morality" includes norms and values of conduct that the individual holds, his degree of commitment to them and susceptibility to ethical appeals (concerning loyalty, justice, truthfulness). On the aggregate, interpersonal level of "communities of practice" (Brown & Duguid 1991) within an organization, entire organizations and even networks of organizations there are assets and positional advantages, but also competencies. Competencies on the level of an organization or network would include institutions and patterns of knowledge exchange and transformation. Institutions are defined as environments and arrangements which limit and guide conduct (North 1990, North & Thomas 1973). They include practices, procedures, rules, technical standards as well as cultural entities such as prevailing norms and values of conduct, goals, role models, rituals. Among other things, they may serve to guide relations with other organizations, and are then part of firm-level relational competence. Organizational competencies in the form of "patterns of knowledge exchange and conversion" refer to the way in which knowledge is converted from tacit to documented knowledge, absorbed from documented into tacit knowledge, transmitted, pooled, shared and recombined in novel combinations (cf. Nonaka & Takeuchi 1995). Relational competencies on the individual level enhance learning. Relational competences on the individual level, supported and guided by relational competences on the organizational level in the form of guiding institutions, yield positional advantage in the form of efficient access to resources of other organizations. Positional advantages further include product-technology-market combinations, access to materials, distribution channels, political acceptance, brand loyalty and reputation.

In this framework, social capital, according to the wide definition of "social structural arrangements which facilitate the attainment of goals", would include positional advantages achieved in networks, as well as structures of communication, knowledge conversion and learning within the firm. It this framework it is seen as the product of relational competencies on both the individual and the firm level. The central point of this chapter now is that third parties can contribute relational competence in the building of social capital in the
form of positional advantages.

3. Systems of competence

From the perspectives of competence and dynamics, a basic hypothesis underlying this chapter is that under present conditions firms need other firms in order to cope with the need and opportunity to innovate and differentiate products. The need follows from increased competition, due to globalization, and the opportunity follows from increased prosperity, yielding more differentiated needs and wishes of consumers, technologies of flexible production and information-and communication technology (ICT). But this differentiation, innovation and technical development yield great complexity and variability of opportunities and threats. For a single firm, a full grasp of the detailed and fast changing stock of knowledge concerning market and technological opportunities and full command of all relevant competencies is not "sustainable", as Zuscovitch (1994) put it. One needs partner firms that are close to specific markets, and partner firms close to specific sources, who specialize in the required knowledge and make it profitable by sharing it with partners, in networks of partial cooperation.

Elsewhere, this has been called "cross-firm economy of learning" and "external economy of cognitive scope" (Nooteboom 1992). In a constructivist theory of knowledge, knowledge, including perception, understanding and evaluation, is based on categories that have been formed in interaction with the physical and social environment. Having different categories, different people are able to see, interpret and evaluate different things. The underlying categories make knowledge tacit to a greater or lesser extent, and the fact that categories are formed in past experience makes knowledge cumulative and path-dependent. While such theories of cognition apply to individuals rather than firms, firms have similar properties because of the alignment of perception, interpretation and evaluation between people in the firm, established in the firm's procedures and its culture. The implications for transaction costs theory, going beyond "classical" TCE (Williamson 1985), are as follows. First, an additional reason for cooperating with others is that one lacks the requisite categories, and cannot simply buy and install them. You cannot buy understanding, for example. Second, to perceive and understand opportunities and threats, one may need a diversity of external sources with sufficient variety of categories to grasp them, to the extent that conditions are complex and changing.

This cognitive view stands in contrast with the view of Teece (1986, 1988) and Chesbrough and Teece (1996) that, particularly in the case of "systemic" innovations, integration into a single firm is required to deal with connections between elements of the system, to control spill-over and to ensure appropriability of profits from the innovation. That perspective does not deal with cognitive issues of understanding and learning. I have argued that there is an argument for integration only under the following limited conditions: the innovation is indeed systemic, innovation is not radical but incremental, and it has not yet progressed so far as to generate standards across the interfaces between
elements of the system (Nooteboom 1999). In all other conditions, but particularly when innovation is radical, a
disintegrated structure is better, to ensure sufficient flexibility of novel combinations and sufficient variety of
elements to make novel combinations of.

The view of firms as not only rivals, but also potential collaborators in development, distinguishes European and
Japanese enterprise systems from Anglo-American ones. The former have been called "voice" systems, with corporate social
capital in the form of networks or other groups of firms, versus the Anglo-American "exit" system, with more autonomous
and more integrated firms (Gelauff en den Broeder 1996, Groenewegen 1997, Nooteboom 1997a). The characteristics of the
two types of capitalist systems are summarized in table 1 (adapted from the comparison between the Anglo-American and the
German system proposed by Gelauff and den Broeder 1996).

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Table 1 about here
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4. Trust

There is an important difference between competence trust and intentional trust. The first pertains to someone's ability to
perform, and the second to his intentions to do so. Their breach has different implications for action. When trust in
ability is breached an appropriate response is to help to improve the partner's performance. When trust in intentions is
breached repeatedly, the response is more likely to be retaliation or the breaking of the relation. But it is not easy
te determine which of the two is the case. When the breach is intentional, one can claim force majeure, i.e. a freak break of
competence, to prevent retaliation. Most discussions in the literature focus on intentional trust, because that is the most
difficult to deal with.

Intentional trust is a slippery notion, and this is the cause of dangerous misunderstandings. A key question is whether
trust is based on coercion and self-interest or goes beyond it. A wide definition of trust is that one expects that no harm
will occur. But this may be due to the fact that contractually the partner has no opportunity to do harm, or that it is not in
his material interest to do so. According to a much narrower definition, trust means that one expects that the partner will
do no harm even though he has both the opportunity and the incentive to do so (Nooteboom 1996, 1998). If someone says that
you can trust him, which is meant? If people say they trust each other and one means the one and the other means the other,
unpleasant surprises are likely to occur.

I agree with Williamson (1993) that if the notion of (intentional) trust is to yield any added value in theory, it
must go beyond the calculative self-interest that is already covered in established economic theory. For instance, it must
go beyond fear of punishment by the law. It must go beyond loyalty based on the fact that it is in one's material interest
to maintain the relation, taking into account the "shadow of the future": the discounted value of future rewards in an
ongoing relationship that one would obtain by remaining loyal.
It would need to go beyond reputation if that is based on calculation of potential rewards in future relationships with others than the present partner. I also agree with Williamson that trust should not be and rarely is blind. But I disagree with Williamson that if trust is not to be blind it must be calculative. Trust can be based on routine, or habituation: after a while, if things go well, actions and procedures may be taken for granted; behavioral risks may no longer be part of "focal knowledge" (Michael Polanyi), as long as conditions and observed actions stay within some range of tolerance. Only unexpected events trigger awareness and attention to possible opportunism. As explained by Herbert Simon, such routinization is rational, given boundedness of rationality. When a certain pattern of action goes well, it is conducive to survival to routinize that behaviour, and focus limited capacity of rationality on new challenges. Thus routine can be non-calculative and yet have a rational basis, in the sense of being conducive to survival, and in that sense it is not blind. Uzzi (1997) made the interesting proposal of using the notion of a "heuristic" in this context: some quick, efficient method of assessment that is neither calculative nor blind. I suspect that it comes close to my notion of routine: the heuristic has arisen from its survival value in the past.

Furthermore, trust can go beyond self-interest, in the realm of decency, loyalty, solidarity or self-respect. Here we are dealing with trust in the narrow sense: the expectation that the partner will not utilize opportunities for opportunism, even though it is in his material interest to do so (Nooteboom 1996, 1998). Trustworthiness in that sense can be based on an intrinsic valuation of reputation, i.e. not as an instrument of utility, or on self-respect, or on moral or social obligation. These can be related to friend- or kinship. When related to membership of a social group it is in place prior to the transaction. When it is not already present, it has to be built up in a relationship. Habituation then plays a double role: in developing shared values and norms, and in the sheer decay of awareness of what might go wrong, when things have consistently been going right (Nooteboom 1996, Nooteboom et. al. 1997).

But I accept that trust should not be blind, because trustworthiness has its limits: it may be breached by a "golden opportunity", and some people are more resistant to such temptation than others. Here I retain some of the perspective of TCE. But the conclusion of the analysis is that no governance is needed when the advantage of defection, or opportunism, does not exceed the resistance to temptation. And here I go beyond TCE.

Trust between organizations can be based on inter-personal relations between staff of those firms (see Pennings, this volume). In the resource view set up before: relational competencies and competencies of motivation and morality. Motivation may be based on personal friendship, kinship, empathy, habituation, shared norms and values. Firm-level relational competencies can be found in institutions (rules, habits, role models) that guide contact with other firms. Inter-organizational trust may further be based on reputation and on survival conditions. When an organization is under great pressure to survive, its loyalty
may come under stress.

5. Trilateral governance

Already in classical TCE the possibility was indicated of using a third party, in "trilateral governance", as an alternative to integration of the activity within the firm or bilateral governance between firms, for solving the hold-up problem that arises in the case of dedicated investments. This is recommended when the transactions involved are infrequent, so that the volume of transactions does not warrant the cost of setting up bilateral governance, while there are significant advantages of not integrating the activity within the user firm. Thus the argument for trilateral governance is one of efficiency: it is cheaper. Only limited explicit agreements between the partners are made, and the most important one is procedural: If disagreement arises, the third party will be called on to arbitrate. An important part of this role is to help the partners to set realistic goals with balanced advantages and risks. A classic example is the role of an architect as third party in transactions between a builder and a supplier of building materials.

Clearly, a condition is that the third party must be trusted by both partners, in both the competence and the intentional sense. He must be knowledgeable on the technologies, markets and strategies involved, and he must be fair in judgement and adjudication. The basis for this trust may be self-interest: the third party has an interest in ongoing relations with both partners, and therefore has an interest in doing his best and being fair, in order to maintain his reputation. The basis may also be more intrinsic, stemming from desire, self-esteem or moral or social obligation. The question then arises: if there is such a basis for trust in the go-between, why does it not also arise between the partners themselves, so that the go-between is superfluous? The answer is that between the partners there is the temptation to defect, because it yields advantage, while for the go-between there is no such temptation. But note that the go-between is not needed if between the partners the advantage of defection does not exceed their resistance to temptation.

6. Hostage keeping

Another instrument of governance, recognized by TCE, is the exchange of hostages, in order to guarantee that agreements are kept. The characteristic of a hostage is its asymmetry in value: it has value for the giver but not for the taker. This condition serves to keep the taker from the temptation of keeping the hostage permanently, even if the other side has kept his end of the bargain.

In relations between firms, people could be hostages: in intermarriage between family businesses or the detachment to each other of key executives. It can also take the form of cross-participation between firms, or pieces of technology or knowledge that are sensitive to competition. The use of cross-participation as hostage taking is admitted by the Japanese Agency for Economic Planning in a document in 1992 (Scher 1996: 17).
In hostage taking there is a well-known riddle. Suppose a king must supply a hostage to another king with whom he is concluding a treaty, and must choose between a charming, attractive daughter and a nasty, unattractive one, whom he both loves dearly. The standard answer is: the latter, because that better satisfies the condition of asymmetric value. The more attractive daughter could more easily assume value for the hostage taker, and thereby tempt him never to return her. But what if the first king does not really intend to honour the treaty? Then it would be better to give the attractive daughter, because then he has the greatest chance that the hostage taker will not sacrifice her, in spite of the breaking of the treaty. But the second king might see through this, and become suspicious when the attractive daughter is offered. But the first king might trump this by signalling that he does not really love his unattractive daughter, and the second king might therefore demand the attractive daughter, because the unattractive one would not be an effective hostage, and thereby he would fall into the trap of the first king.

Such problems can be reduced by having a third party keep the hostages. This solution is antique; it was used in treaties between medieval rulers (de Laat 1996). It works only if the third party is less tempted to retain the hostages after completion of the agreement than the party in whose interest the hostage is taken. But note that the third party would jeopardize his relation with both partners by not keeping the agreement, and is thus likely to be disciplined by this double jeopardy. There would no longer be the temptation to play the game discussed above. If the hostage giver supplied his attractive daughter with the aim of breaking the treaty, and then did break the treaty, his partner in the treaty would demand from the go-between to sacrifice her. The ploy would no longer work.

7. Revelation

Particularly when firms cooperate for innovation, the knowledge they are pooling will tend to be tacit, and to exchange tacit knowledge one must set up intensive interaction, in which mutual understanding must be built up. Note also that the setting up of such interaction and mutual understanding constitutes a dedicated investment. How do you judge whether such investment is worth while before you commit it? This is the revelation problem: how can value of knowledge or competence be revealed before it is transmitted? Here we are dealing with Arrow's paradox: if you give information that is sufficient to judge the value of the information, then little may be left to trade or hold back. Here lies a third role for the go-between. Having ongoing relations with both partners, it has already made investments in ability to understand and judge competence. Thus it can act as judge of value and relevance for both partners before they invest in their relationship. Having the trust of both partners, and knowing them well enough to assess both on the value and relevance to each other, it can inform them on that without actually supplying the underlying information.
8. Spill-over control

Closely related to this is the role of the go-between in spill-over control. Partners do not only want to have an indication of value before they commit dedicated investments. They also face the problem that by giving information about their knowledge they reveal at least part of that knowledge, and that may spill over to competitors. The fourth role of the go-between is to serve as a screening device: the go-between does not make the knowledge available to the partner, but assesses it for him. Next, when the partners proceed to pool and exchange knowledge the go-between can perform or monitor spill-over control. Spill-over control might otherwise require mutual in-house monitoring of streams of information by the partners themselves, to check that it does not leak to competitors, but such mutual monitoring may increase rather than control information exchange, and hence aggravate rather than relieve the spill-over problem. Especially at the beginning of the relationship such in-house monitoring is likely to be unacceptable to the partners. Both the risk of spill-over and the unwillingness to grant monitoring to guard against it will be greater to the extent that the partners are actual or potential competitors, or have intimate linkages with competitors.

Note that the whole issue of spill-over is relevant only under certain conditions. The first is that the nature of the knowledge involved indeed enables spill-over. This is not the case to the extent that the knowledge is tacit or embedded in the organization. When knowledge is tacit, its transfer requires intensive mutual interaction, or a buy-out of the people in whom the knowledge is embodied, and even that may not be effective, to the extent that the performance of those people is contingent upon supporting knowledge, procedures or organization that stays behind. The second condition for the problem of spill-over is that the partner is himself a potential competitor, or has connections with competitors. The third is that development is not so fast that spill-over no longer matters. If change is so fast that by the time a competitor has imitated it, the knowledge or technology has already changed, then the problem of spill-over simply disappears (Nooteboom 1997b).

9. Building and maintaining trust

Related to the previous roles, there is a fifth role in the building of trust. This was recognized also by Uzzi (1997), who described the role of a go-between in creating the embeddedness of partnerships. It was also recognized in mechanisms in the transmission of trust discussed by Deutsch (1973). One aspect of this is the transitivity of trust: If X trusts Y and Y trusts Z, then X can be disposed to trust Z. Here Y is the go-between. One often initiates relations with partners who are trusted partners of one's own trusted partners. If X and Z both trust Y, then they may be disposed to also trust each other. Here Y again is the go-between. Such bringing together of partners in a disposition towards trust is only a beginning. Next, intermediation may help to set up initial small steps of cooperation, and to ensure that they are successful and do not raise misunderstanding which might antagonize or raise
suspicion. This is important in the building of both competence trust and intentional trust. It was noted before that breach of competence trust calls for very different action from breach of intentional trust. In the first case one might help to improve competence, but that would not help in the second case, where it might be more appropriate to signal a warning or even retaliate. But can be difficult to tell which of the two is the case. The third party can act as an independent observer, with access to inside information. He can eliminate misunderstandings that might otherwise destabilize the relation. This role is particularly important where trust is not pre-existent, as part of a group culture or set of norms and values and has to be built up in the relationship.

The beginning of relationships tends to get most attention, but the ending of relationships is at least as important, and often more difficult (Nooteboom 1996). When in an existing relationship one partner runs into a more attractive alternative, there is substantial risk of fierce antagonism, whereby the other partner tries to evade loss by keeping the first partner from cutting loose, and the first partner retaliates with nasty behaviour to badger the second partner to let go. In expectation of this, the first partner may keep his wish to exit secret, and prepare his defection in silence. But this makes the problem worse for the second partner, because he has less time to adapt, and may react all the more fiercely in trying to tie the first partner down. One can observe this in both firm relationships and marriages. The better road may be for the first partner to announce his intentions at an early stage, but stay on for the time being to help the second partner to find an acceptable way out. But such an announcement breaks trust, and the destructive spiral of mutual antagonism is difficult to prevent. Careful counselling by a trusted third party may be needed to guide and control this process.

An alternative is for the first partner to give the relationship another chance, and help the second partner to increase its attractiveness. But this entails that the second partner further increases its relation-specific investments, while a threat has appeared that the relation may break. Here also, trusted counselling may be needed.

10. Boundary spanning

An argument against embedded, voice based network systems is that the relations between firms, oriented towards the longer term, and based on relation-specific investments and trust, create exit barriers and entry barriers and thereby limit the efficiency, flexibility and adaptiveness of the system. Uzzi (1997) called this the "paradox of embeddedness". This leads to a sixth role for the go-between: to act as a boundary spanner between an existing network and potential outside sources of innovation. It may be threatening for partners who are active in ongoing exchange relations to maintain outside exploratory relations for scanning novel opportunities. In fact, one of the most threatening and potentially destabilizing events in a trust relationship is the appearance on the stage of a new player who might present a more attractive substitute for one of the partners involved. The fear of this may create a taboo
of outside scanning in order to maintain the integrity of the network, and this can be disastrous for innovation on the basis of outside sources. The problem of losing positional advantage to an outsider, and being left with idle dedicated assets, is aggravated by spill-over risk: one may also lose part of one's core competence. A go-between who does not himself participate in exchange can perform outside scanning under less suspicion, since it is not in his own direct interest to defect to more promising outsiders, while it is in his interest to maintain his reputation for confidentiality and fair dealing. Summing up: outside scanning is less threatening when done by a go-between without a direct stake in exchange, and this opens the network up to potential novelty from outside.

In fact, this role is related to some of the previous ones: the role of revelation, spill-over control and the management of trust. One can bring in judgements of the potential of outside novelty while maintaining confidentiality of its content and of its source, without which one would not have obtained that information. And conversely: one can give an assessment of the value of what the network could offer to outsiders without giving it away and without specifying the precise source in the network (which may tempt the outsider to pry that loose from the network). When novel opportunities for redesigning the network have thus been identified and assessed, the go-between can next help in the fasing out of the "losers" in the old network, by providing ways out, in exit to another network, or helping them to break up and redistribute their resources. The go-between might even administer some insurance developed by the network to deal with such contingencies.

11. Increasing flexibility

When translated to specific aspects and outcomes of governance of inter-firm relations (Nootboom 1996), the differences between the exit based and voice based systems of table 1 are as summarized in table 2.

As already indicated, the main argument against the voice based network systems of capitalism is that the relations between firms, oriented towards the longer term, and based on relation-specific investments and trust, create exit barriers and limit the flexibility of the system, and thereby obstructs especially radical innovation. However, it should be noted that in the Anglo-American system due to lack of network structures between firms activities are more integrated within larger firms. That system must derive its flexibility from easy break-up of firms, which also has disadvantages: shorter contracts and assignments of labour, with less job security, yielding less willingness to engage in firm-specific learning, less scope for cooperation in teams, and a short term orientation which hinders innovation. However that may be, it cannot be denied that the flexibility of voice based systems could be
It then is important to make relations as flexible as possible, while still being consistent with the orientation towards mutual advantage and cooperation.

To make the voice-based system more flexible, relations between firms should be long enough to ensure pay-back of specific investments, but short enough to allow for sufficient flexibility of re-aligning relations. When trust is not already present, and has to built up within relations, this also takes time and creates a danger of rigidity. Set-up and maintenance costs of governance should be low enough to facilitate multiple and flexible relations. Spill-over control should not constrain the formation of multiple relations too much. The third party can help here, to offer trilateral governance, keeping of hostages, revelation, spill-over control, the building of trust and boundary spanning. In other words: The third party can help to make the system as flexible as possible. Thus the role of the go-between is part of the social capital of voice based systems, and helps to make it flexible.

12. Evidence

I propose that the roles of the go-between explain the important role of banks and trade and craft associations in European systems, and of banks and trading companies in Japanese enterprise systems (Kigyo Shudan, cf. Scher 1996).

There is evidence that in the Netherlands the recently instituted "Innovation Centres" play such roles. Not entirely consciously, and largely by trial and error. This evidence comes from my own experience in giving lectures along the lines of this article to the centres, and informally testing to what extent they play the roles indicated, by asking them to give specific instances. The role of trilateral governance was recognized clearly: the coaching of partners in lieu of contracts; particularly the setting of realistic goals, monitoring their achievement, eliminating misunderstandings and making adjustments along the way. This role was clearly integrated with the role of building and managing trust, as one might expect. The role of revelation was also clearly recognized: here lies the central mission of the centres. Hostage keeping and spill-over control were not recognized directly, but part of the experience was that the care and confidentiality with which information was treated was enhanced by the fact that the centre acted as a go-between. This could be interpreted as a hostage mechanism: players were careful with information received from their partner because sensitive information from themselves was held by the go-between. It could also be interpreted as a reputation mechanism: they want to maintain a good reputation with the centre, not to jeopardize future dealings and potential future partnerships. The role of the boundary spanner was not relevant here because the networks in which the centres operated had not yet reached the degree of consolidation in which such a role becomes relevant.

Evidence is also found in a longitudinal case study by Klein Woolthuis (1997) of cooperation between eleven firms, in various configurations, in the development of medical products, based on an initiative by an Innovation Centre and a Regional Development Centre (RDC) in the Dutch province of Overijssel.
Development projects were submitted for subsidy in the EU EFRO programme (when awarded, it yields a 50% subsidy of product development costs). The Centre and the RDC were particularly important in the start-up stage. An important factor for the firms was that they trusted the initiators, and hence also the partner firms that they brought together. Yet, "parties were reluctant to reveal information and were hesitant to engage in any relationship before it was completely clear what the other's motives were and what role they would fulfil... This made the start difficult and time consuming.... Therefore it was important that the Centre and the RDC took on a guiding role....they could ease the negotiations ....this included chairmanship at meetings, encouraging and guiding the first contacts". This gives evidence of the roles of the go-between in trilateral governance and the building of trust.

An external committee was instituted, with one member from the Ministry of Economic Affairs, and two managers from local hospitals, to help in the assessment of project proposals and to watch over fair distribution of work and subsidies from EFRO. It is noted that "It is very important that the committee should make fair evaluations. Parties should be able to trust the board ...The perception of equal treatment is therefore of crucial importance". The task of the "umbrella" of the go-betweens, consisting of the Centre, the RDC and the advisory council, was summarized as follows: "In the first stage the umbrella performed an important role because it provided firms with a platform to get to know the others. The umbrella became of decreasing importance when direct links between firms evolved .... firms started to know each other and envisage future potential for more dense relationships". This again indicates the role of trust building, and also suggests the role of revelation. There is no mention of the roles of hostage keeping and spill-over control. They may have been present but unnoticed by the researchers reporting the case.

It is interesting that the go-betweens who were the initiators (the Centre and the RDC) instituted a separate advisory council to guide the development of projects. This makes sense, for two reasons. First, it was noted that the go-between requires expertise to generate competence trust, and it may be too much to expect relevant and sufficiently deep expertise of a single agency in a wide variety of relations. With a separate council the go-between can seek specialized support that is tailored to the situation. That is why in this case hospitals were included. Second, by creating a special council, the go-between insulates itself to some extent from the risk of losing reputation when something goes wrong in the judgement and guidance of cooperation: then the advisory council takes the direct blame, and since it is unique to the situation, its loss of reputation is less serious.

13. Discussion

Six roles have been identified for the go-between: trilateral governance, keeping of hostages, revelation, spill-over control, trust building and maintenance, and boundary spanning. All roles except the first are especially important in the building of new relations in innovation. It is especially there that the use of complementary competencies is important, while
they are not always visible, and exchange of sensitive information is important. By playing these roles, the go-between can contribute to the flexibility of network systems of firms. Thus the go-between forms an important ingredient of the social capital on which the networks of the voice-based system of capitalism are based.

However, the roles of the go-between are not easy. They require thorough knowledge of the technologies involved in the firms involved, as well as the commercial interests and strategic interests and risks at stake. A sharp insight is required of the factors which play a role in relationships, instruments of governance and skill to handle them (Nooteboom 1996). Reputation, in the both competence and fairness, is crucial, is difficult to build up and easy to destroy. The demands and risks involved may be too much for any single agency. The go-between can solve this problem by using special committees or councils to guide specific relations, which are tailor-made in their expertise, to generate competence trust, while the go-between itself monitors intentional trust. In this way, the go-between also insulates itself to some extent from the risk of failing to perform all the balancing acts without a flaw: part of the blame is then taken by the committee, that can be modified or replaced while maintaining the position of the go-between himself.

The roles need not all be performed by a single agent, as the above analysis and the preceding case study show. They can be distributed over several agents. One reason for this can be to distribute risks of loss of reputation due to error. As I indicated from the start, the roles are not the traditional roles of middlemen or entrepreneurs, but that does not preclude that some of the roles are in fact played by parties who are directly involved in production and distribution. In any network or team, any participant may help to arbitrate, keep a hostage, reveal competence, control spill-over, build trust and act as a boundary spanner for other participants. Some of this is found in the notion of the "closure" of social structure (Coleman 1990). But some of the roles require some degree of independence; no direct involvement in exchange between the others.

The analysis indicates that there is an emerging market for go-betweens. The roles may be played by government or semi-government organizations: municipalities, provincial development associations, innovation or technology transfer centres, but also by banks, commercial consultants. Government agencies tend to be weak in generating competence trust but strong in generating intentional trust. Thus combinations of local semi-government agencies coordinating and monitoring professionals from business may yield the optimal form.

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**table 1: Exit and voice systems**

<table>
<thead>
<tr>
<th>Exit system</th>
<th>Voice system</th>
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<tbody>
<tr>
<td><strong>General characteristics</strong></td>
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<tr>
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<td>network orientation</td>
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<tr>
<td>short-term relations</td>
<td>long-term relations</td>
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<tr>
<td>rivalry</td>
<td>cooperation</td>
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<tr>
<td>autonomy of firms</td>
<td>embeddedness of firms</td>
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<tr>
<td><strong>culture/institutions</strong></td>
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<tr>
<td>individualistic</td>
<td>group oriented</td>
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<tr>
<td>legalistic</td>
<td>community oriented ethics</td>
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<tr>
<td><strong>Corporate governance</strong></td>
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<tr>
<td>important shareholders</td>
<td>individuals</td>
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<tr>
<td>corporate control</td>
<td>firms, banks</td>
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<tr>
<td>exit (sell shares)</td>
<td>voice</td>
</tr>
<tr>
<td>take-over</td>
<td>mutual interest</td>
</tr>
<tr>
<td>shares managers</td>
<td>many</td>
</tr>
<tr>
<td>creditor control</td>
<td>few</td>
</tr>
<tr>
<td>withdraw loan</td>
<td>co-owner, monitoring</td>
</tr>
<tr>
<td>supports markets</td>
<td>obstacles to trade in shares</td>
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<tr>
<td>banks not owners (US)</td>
<td>banks co-owners</td>
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<tr>
<td>no cross-participation</td>
<td>cross-participation</td>
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<tr>
<td><strong>Contractual governance</strong></td>
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<tr>
<td>relations</td>
<td>market, arm's length</td>
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<td>contracts</td>
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<td>courts</td>
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<td>reputation</td>
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<td></td>
<td>low</td>
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<td>worker councils</td>
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Adapted from Gelauff en den Broeder (1996).
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