INSEAD Knowledge

Cheat-Proof Your Partnerships

By Andrew Shipilov , INSEAD Associate Professor of Strategy

Even trusted partners can sometimes turn on you, as demonstrated in a recent case from New York's diamond trade.

A recent New York Times article describes a serious conflict between Lazare Kaplan International—the century old diamond cutting and polishing merchants of New York-- and their former business partner Antwerp Diamond Bank. Lazare alleges that the Diamond Bank helped a high flying Israeli dealer launder US$135 million from the illicit sale of Lazare's rough diamonds. An Antwerp prosecutor sides with the Diamond Bank and calls the Lazare's suit "defamatory".

There is nothing strange about one business partner suing another. What's unusual in this story is that diamond trade has been used as an example of an industry in which participants have almost blind trust in each other. A famous American sociologist James Coleman in the late 1980s marvelled at the fact that the traders frequently give each other bags of diamonds to inspect in private without any formal safeguards.

Copyright © INSEAD 2023. All rights reserved. This article first appeared on INSEAD Knowledge: https://knowledge.insead.edu

The reason, according to Coleman, was that these people are connected in dense social networks and these networks comprise their “social capital”. The diamond traders have high trust because they have known each other for a long time, they live in the same neighbourhoods, they worship together, their business associates all know one another, in short, they have a very dense social network. If one network member were to cheat another network member, this person risked ostracism from the community — the punishment that was worse than anything the courts could deliver.

A lot of academic research since then has shown that dense social networks indeed promote trust which lowers the costs of doing business for the network members.

What happened to the social capital in the diamond trade? Regardless of who is right and who is wrong in the Lazare-Antwerp dispute, the story does point to the fact that a particularly daring company (or an individual) can decide to cheat its partners, especially if there is a considerable degree of trust in the relationship. This can happen when "the cheat" doesn't feel that there is any value in continuing collaborating with its partners.

The broader lesson to firms forming partnerships and strategic alliances is this: even though you trust your current partner, you still need to periodically check whether you still have strong strategic and resource complementarities with it. If the answer is yes, you are likely to continue cooperating well in the future, if the answer is no, then you are at a risk of being cheated.

In the new book “Network Advantage: How to Unlock Value from Your Alliances and Partnerships” (**networkadvantage.org**) together with Henrich Greve and Tim Rowley, we develop a set of tools that can help you understand the risks and benefits of continuing to cooperate with your partners.

Based on over 40 years of collective research on the success of alliances and partnerships, we have developed a set of key questions to ask to determine whether you still have complementary strategy and resources with your partner.

Complementary strategies mean that collaboration continues to help both companies achieve their own long-term goals, but it should not make either firm a powerful competitor in the other firm’s markets in the long run.

Copyright © INSEAD 2023. All rights reserved. This article first appeared on INSEAD Knowledge: https://knowledge.insead.edu

Some specific questions to evaluate the extent of your strategic complementarities are:

- What are the current objectives of this alliance from the standpoint of each partner?

- What are the key performance indicators for this alliance from the standpoint of both partners?

- What are each partner's long-term objectives?

- Are the partners current competitors or are they likely to compete in the same product or geographic markets in the future?

- How might each partner cheat the other? What would each partner gain from each form of cheating?

Partners should also bring different resources to the table: human, financial, technological, market access, knowledge, intellectual property or brand. If your firm and its partners bring exactly the same resources, this begs the question, why did you decide to collaborate in the first place? Unless both firms want to pool their similar resources to achieve economies of scale in some markets, it's best when partners contribute complementary resources to the relationship. This way both partners can gain from the alliance by creating synergies.

You can evaluate resource complementarities between your firm and its partner by asking these questions:

- What resources does each partner contribute to the relationship? Are they similar or different?

- How do the resources contributed by each partner increase the value of the resources provided by the other partner?

- What return on the contributed resources does each partner plan to obtain? How will each partner evaluate this return?

- How will each partner's resource contributions change over time?

Thus, a good old dictum "trust but verify" is a very important lesson that diamond merchants, and members of other industries, ought not to forget. Even after you have worked together with a partner for a long time, it is still

Copyright © INSEAD 2023. All rights reserved. This article first appeared on INSEAD Knowledge: https://knowledge.insead.edu

important to periodically evaluate the extent to which there are complementarities in the relationship.

"Scrutiny Pries Open Insular Gem Trade" International New York Times November 26, 2013

Coleman, J. (1988). "Social capital in the creation of human capital." American Journal of Sociology Supplement 94: S95-S120.

Andrew Shipilov is a co-author of ***Network Advantage: How to Unlock Value from Your Alliances and Partnerships*** with Henrich Greve and Tim Rowley. The book's website is **networkadvantage.org**.

You can follow Andrew on **Twitter**. Join the conversation on *Network Advantage* with the hashtag #unlockvalue

Follow INSEAD Knowledge on **Facebook** and **Twitter**

Find article at

https://knowledge.insead.edu/strategy/cheat-proof-your-partnerships

---

About the author(s)

Andrew Shipilov is a Professor of Strategy and the John H Loudon Chair of International Management at INSEAD.

Download the free Knowledge App

Copyright © INSEAD 2023. All rights reserved. This article first appeared on INSEAD Knowledge: https://knowledge.insead.edu