Untangling the trust-control nexus in international buyer-supplier exchange relationships: An investigation of the changing world regarding relationship length

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ARTICLE INFO

Article history:
Received 30 December 2015
Received in revised form
22 June 2016
Accepted 16 September 2016
Available online xxx

Keywords:
Control
Trust
Performance
Relationship length
Textile value chain

ABSTRACT

Control and trust are the primary governance mechanisms buying organizations rely upon to organize and maintain their collaborative exchange relationships with foreign suppliers. But the question of how control and trust interrelate and should be pursued seems entangled and practical advice remains largely elusive. Based on empirical data on 212 recently- and long-established buyer-supplier exchange relationships in the textile industry, we test the relationship between three practices of interorganizational control (output, process, and normative controls), two dimensions of interorganizational trust (competence and goodwill trust), and relationship performance. Using structural equation modelling, we demonstrate the value of controls for building and validating trust to depend as much on the specific control practice deployed and dimension of trust observed, as on the temporal stage of the exchange relationship. Moreover, we reveal distinct performance effects of the different control practices and dimensions of trust. Herewith, this study allows for a comprehensive understanding of the trust-control nexus in collaborative exchange relationships between buyers and their foreign suppliers. Addressing managers, we reveal how normative controls can be used to build trust and promote performance at the start of the relationship, whereas output controls need time to reach their full potential. Process controls, in turn, are found to have adverse effects.

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1. Introduction

Across industries, organizations have responded to the challenges imposed by rapidly changing environments and fierce competition by building international and world-spanning collaborative relationships with foreign suppliers (Gereffi & Memedovic, 2003). Such collaborative relationships are characterized by relational forms of exchange and a long-term focus of the parties involved (Srinivasan, Mukherjee, & Gaur, 2011). In fact, competition no longer only concerns the individual organization but, rather, involves buyer-supplier dyads (Doney & Cannon, 1997). As a potential downside, interdependencies between buyers and their foreign suppliers are a natural cause of collaboration and both parties incur significant risks, such as coordination failures or opportunism by the exchange partner (Palmatier, Dant, & Grewal, 2007). In fact, organizations who realize that their foreign supplier cheats on them might overnight find their very existence challenged (Bachmann, 2001). Faced with such risk, buyers frequently rely on two governance mechanisms to facilitate collaboration and secure performance: interorganizational control and trust (Das & Teng, 2001). As controlling for every detail and contingency that may arise within the buyer-supplier relationship seems nearly impossible, buyers are forced to rely on trust (Malmotra & Murnighan, 2002; Williamson, 1996). However, trust may not completely eliminate the need for control as the risk of misplaced trust and foreign supplier opportunism may be too high for the buyer to accept (Das & Teng, 2001). Hence, interorganizational relationships frequently rely on both governance mechanisms. Yet, the question of how control and trust interrelate and should be pursued by organizations in long-term collaborative relationships appears entangled. As Bachmann (2001) notes, “while...
there are numerous examples in the literature where control chases out trust, there are equally as many examples of trust and control being complementary, or going hand in hand” (p. 5). This apparent lack of clarity seems especially troublesome, given the challenges associated with exerting control or building trust in buyer-supplier relationships across national, cultural, and institutional boarders (Aulakh, Kotabe, & Sahay, 1996).

A prime example can be found in the textile industry between Western buyers and their foreign suppliers. Facing high competition, volatile demand, and short product life-cycles albeit long production and distribution lead times, textile buyers are largely inflexible in changing supply sources at short notice and thus highly dependent on their existing suppliers (De Brito, Carbone & Blanquart, 2008; Chen & Fung, 2013). Recent industry scandals such as the collapse of the Rana Plaza factory building in Bangladesh, a supplier for Irish Primark and German C&A, or the dumping of toxic wastewater in Indonesia by suppliers for US apparel retailers Gap, Banana Republic, and Old Navy, have demonstrated an apparent lack of control of Western buyers over their foreign suppliers, deteriorated trust in buyer-supplier relationships, and led to calls for rigorous regulation (Stevens, MacDuffie, & Helper, 2015). Hence we focus on the collaborative exchange relationships between textile buyers and their foreign suppliers in order to untangle the trust-control nexus. However, as several industries exhibit similar structures (e.g., garments, footwear, toys, handicrafts, and consumer electronics; Gereffi & Memedovic, 2003), we believe our study to be of even wider relevance.

We aim to reconcile conflicting findings on the interrelationship of control and trust, which we believe largely trace back to research that has investigated different pieces of a broader puzzle. First, prior research has mostly focused on select practices of control, suggesting that differences in empirical findings may relate to a diverging nature of the specific aspects of control examined (Weibel, Den Hartog, Gillespie, Searle, Six, & Skinner, 2016). In particular, studies have predominantly investigated formal controls such as performance appraisals, close monitoring or binding contracts (e.g., Poppo & Zenger, 2002), while neglecting more informal approaches and social institutions (Bachmann, 2001). Second, even though conceptual and empirical research has repeatedly demonstrated trust to be multidimensional, a majority of studies has narrowly focused on one sub dimension or overlooked its distinctions altogether (Malhotra & Lumineau, 2011; Puranam & Vanneste, 2009). Third, prior research has largely taken a static view on interorganizational control and trust (Fulmer & Gelfand, 2012; Nooteboom, Berger, & Noorderhaven, 1997). From social exchange theory, however, we know that the value of controls in terms of building trust depends on the temporal stage of the buyer-supplier relationship. In sum, a limited scope of analysis regarding the different practices of control, dimensions of trust, and temporal stages may be the cause for seemingly conflicting findings (Bachmann, Gillespie, & Priem, 2015; Möller, 2013).

Hence, we aim to extend prior research and untangle the effects of controls on trust by (1) distinguishing between the different practices of interorganizational control (output, process, and normative controls), (2) distinguishing between the different dimensions of interorganizational trust (competence and goodwill), and (3) evaluating these relationships by contrasting two points in time (recently versus long-established buyer-supplier relationships). We argue that this nuanced approach is needed to provide a comprehensive assessment of the effects of controls on trust in an interorganizational setting.

Furthermore, even though we look back at decades of research, the effective performance contribution of interorganizational trust and control is far from clear (Das, 2006). This raises the practical questions if and when, which type of control buyers should emphasize in order to build and validate trust in their foreign suppliers and maximize the exchange relationship’s return. Acknowledging that research on this matter has largely failed to provide concrete advice (Thorgren & Wincent, 2011), we further extend the scope of our study to include the effects of control and trust on buyer-supplier relationship performance.

We derive our findings from empirical data on 212 interorganizational relationships, using structural equation modelling. In sum, our study demonstrates marked differences in the three control practices’ effects on competence and goodwill trust and between recently and long-established relationships. Moreover, we reveal distinct performance effects of the different control practices and trust dimensions. Our study thus contributes to management literature and practice in several ways: First, our study is the first to offer a fine-grained analysis of interorganizational control and trust. As such, it contains nuanced insights on which control practices effectively build buyer trust in the foreign supplier and which are detrimental to trust. Second, we draw from social exchange theory in order to investigate temporal distinctions in the interplay of control and trust over repeated exchange, characterized by relationship length. Combined, these findings allow us to untangle the trust-control nexus in recently and long-established buyer-supplier exchange relationships. Finally, our results reveal disparate performance effects for the different control practices and dimensions of trust, allowing us to give concrete advice to management on which governance mechanisms to emphasize.

2. Theoretical background

2.1. Control and trust

Social exchange theory aims at explaining how social structures, built in the context of repeated exchanges, serve to both constrain and enable actors in exchange relationships (Cook, Cheshire, Rice, & Nakagawa, 2013; Emerson, 1976). A history of successful exchanges between buyer and supplier may lead to high-quality relationships between the parties involved (Cropanzano & Mitchell, 2005; Srinivasan et al., 2011). Our study analyses buyer-supplier relationships in the textile industry. Here, as in many similar industries, buyers depend on foreign suppliers to fulfill important parts of the production process (Chen & Fung, 2013; Nooteboom et al., 1997). In this light, textile buyers tend to place greater confidence in the exchange relationship when they perceive an adequate level of control over their foreign supplier and/or trust the supplier (Das & Teng, 2001). Both, control and trust, operate on a similar principle of influencing the foreign supplier in its selection of behavioural alternatives. However, whereas control is aimed at preventing negative supplier behaviour via rewards and sanctions (Dekker, 2004), trust works on the basis of positive assumptions regarding the supplier’s actions (Bachmann, 2001). Not surprisingly, the question of how control and trust interrelate and should thus be pursued by buying organizations has been subject to an extensive debate amongst scholars. Specifically, control and trust have been argued to act as substitutes as well as complements (Dekker, 2004). Historically, research has favoured the substitution perspective, advocating for an inverse relationship between control and trust (e.g., Argyris, 1952; Ghoshal & Moran, 1996; Thompson & Warhurst, 1998). However, the limitations of either governance mechanism have been found to cause most interorganizational relationships to rely on a mixture of control and trust (Bachmann,
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