Management control systems as inter-organizational trust builders in evolving relationships: Evidence from a longitudinal case study

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Abstract

Research on inter-organizational relationships argues that at mature stages, when trust has reached a high level, it will be damaged by new management control systems (MCSs). This longitudinal case study provides evidence to the contrary: in an open-ended and evolving relationship, even when trust is well established, MCSs can build it. High trust provides a platform where success encourages the partners to cooperate further, demanding, in turn, more MCSs and greater levels of trust to support cooperation. By providing evidence with a greater appearance of objectivity than informal controls can yield, action and result controls improve partners’ perception of each other’s trustworthiness, and build competence and goodwill-based trust. MCSs are used not only to supervise but also to coordinate, and this second, more salient function avoids possible suspicions that could damage trust.

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One key for maintaining an inter-organizational relationship (IOR), or preventing its failure, is that partners have adequate confidence in each other’s cooperation (Das & Teng, 1998). In IORs, as collaborative arrangements to gain competitive advantages (Coletti, Sedatole, & Towry, 2005), firms tend to have greater confidence when they perceive a suitable level of control over their partners (Sohn, 1994) and when they trust each other (Das & Teng, 2001; Ring & Van de Ven, 1992). But the relationship between management control systems (MCSs) and trust is complex and open to debate (Coletti et al., 2005; Dekker, 2004; Tomkins, 2001; Van der Meer-Kooistra & Vosselman, 2006).
As Knights, Noble, Vurdubakis, and Willmott (2001) pointed out, there is a long tradition that conceptualises MCSs and trust as alternatives. In opposition to this idea, Das and Teng (1998) maintained that the introduction of an MCS does not necessarily suppose a lowering of trust. Tomkins (2001) argued that conceptualising MCSs and trust as either substitutive or complementary reflects a static analysis that ignores the dynamic process of building trust. He maintained that the influence of MCSs on trust is not uniform, and is likely to be characterised over the life cycle of a relationship by an inverted U-shape. Thus, only in the IOR’s early stages do MCSs have a positive association with trust. In the later stages, when trust has reached a higher level, the introduction of new MCSs can cause harm.

When the IOR’s duration is limited to one specific project or venture, it is probably true to say that as trust intensity becomes established at higher levels the successful development of the associated activity needs less control to sustain that relationship, as Tomkins (2001, p. 170) claimed. However, in open-ended IORs, the stability of mature stages could provide a platform for continuous evolution (Halinen, Salmi, & Havila, 1999). When the IOR’s feedback loops are positive (Ariño & de la Torre, 1998), trust will encourage the partners to enlarge the collaboration (Inkpen & Curral, 2004). Encouraged by favourable results, the parties may expand the scope or complexity of their activities (Doz, 1996), involving more resources and time, and in turn increasing their interdependence. This evolution could affect the information needed for control of the IOR and the perceived trust.

The aim of our paper is to increase knowledge on the effect of MCSs development on already established trust in mature stages, taking into consideration the evolving nature of an open-ended IOR. To grasp the complexity and dynamism of IORs (Ariño & de la Torre, 1998; Dekker, 2004), we adopted a longitudinal case study approach (Yin, 1984). We chose the long-standing and successful relationship between a manufacturing firm called CMD (a pseudonym) and its distribution channel. Between 1997 and 2004, CMD, as a part of its strategy to extend and control its degree of externalisation, gradually introduced, to the entire channel, various MCS tools that now make up a management control system shared between CMD and the channel. We study this process from both perspectives, that of the manufacturer and that of the distribution channel, and analyse a series of events that occurred during the course of the IOR, in order to explain the impact that MCS development had on trust.

Our paper makes several contributions to the existing literature in order to offer a new point of view on the complex association between MCSs and trust. First, advancing on Tomkins thesis, we observe the association between MCSs and trust in a mature and open-ended IOR and address the evolving nature of IORs. This case study provides evidence that, even when trust is well established, MCSs foster conditions that favour and build trust. The constant evolution of the IOR in interdependence, scope, and complexity requires greater confidence in cooperation and, in turn, demands new MCSs and greater levels of trust. Second, given Sako’s (1992) proposal that competence-based and goodwill-based trust will be created and maintained in different ways, we analyse whether action, result, and personnel-cultural controls (Merchant & Van der Stede, 2003) have different effects on trust. Whereas Das and Teng (2001) and Inkpen and Curral (2004) argued that only informal controls can build trust, our findings suggest that action and result controls also build trust, by providing evidence with a greater appearance of objectivity. Formal MCSs do not necessarily cause inflexibility; instead, such systems can improve agents’ independence and increase their opportunities to demonstrate their competences inside the established limits. Furthermore, because both parties work with the same system, formal MCSs improve their perception of each other as trustworthy. Third, in contrast to most studies (Andaleeb, 1995; Inkpen & Curral, 2004; Ring & Van de Ven, 1994), which focus on the monitoring function of MCS, even to the extent of confusing it with the whole function (e.g., see Coletti et al., 2005), we include the less-studied coordination function of MCSs (Dekker, 2004; Tomkins, 2001). Our findings show that both parties use MCSs to coordinate the new com-
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