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Co-evolution of trust and dependence in customer–supplier relationships

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Abstract

The relational and dynamic aspects of interfirm trust and dependence produce a crucial, but insufficiently addressed, challenge for successful relationship coordination. In this paper we concentrate on this issue by examining how trust and dependence co-evolve in customer–supplier relationships. Building on a case study, we develop propositions and a model that illustrates how interorganizational trust and dependence co-evolve through the different phases of customer–supplier relationships and how we may distinguish cooperative and trustworthy actors from those who will behave opportunistically. Theoretical and practical implications are offered.

Keywords: Customer–supplier relationships; Trust; Dependence; Dynamic evolution

1. Introduction

Trust and dependence are elementary qualities in customer–supplier relationships of networked organizations. Some level of trust is a necessary condition for all repeated interorganizational transactions (Das & Teng, 1998a; Ring & Van de Ven, 1992), and as a relationship develops further the interdependence between the partners is likely to increase (Pfeffer & Salancik, 1978). However, the increasing dependence may contribute the fear of partner's opportunistic behavior, the magnitude of expected coordination costs, and the difficulties of the relationship coordination (Gulati & Singh, 1998; Krishnan, Martin, & Noorderhaven, 2006). Indeed, due to the bounded rationality and uncertainty, it may be difficult to distinguish cooperative and trustworthy actors from those who will behave opportunistically (Williamson, 1985). In the worst case, the deepening of the relationship may end up to the self interest seeking of the partner firm causing the termination of the relationship if proper development of interfirm trust is not ensured. Thus, the complex relationship between trust and dependence produces a crucial challenge for successful relationship coordination and ultimately firm performance.

Earlier research focused on interfirm relationships (see e.g. Das & Teng, 2000; Dyer & Singh, 1998; Krishnan et al., 2006; Ring & Van de Ven, 1992) is unanimous of the importance of trust in interfirm relationships in the increasingly complex and knowledge intensive business environment (Adler, 2001; Smith, Carroll, & Ashford, 1995). However, the relational and dynamic aspects of this construct, the relationship between trust and dependence in particular, have not received sufficient attention (cf. Doz, 1996; Inkpen & Currall, 2004; Ring & Van de Ven, 1994).

Therefore, the aim of this paper is to address this research gap by examining how interfirm trust and dependence co-evolve in customer–supplier relationships. Building on a case study and earlier literature, we suggest a model that illustrates how interorganizational trust and dependence are interlinked and co-evolve through the different phases of customer–supplier relationships. The proper understanding of the qualities of different evolutionary phases of an interfirm relationship provides us better possibilities to avoid the opportunistic behavior of the partner and to distinguish cooperative firms from the opportunistic ones. Thus, in addition to the theoretical contribution the model has direct implications for practice.

Comparing with earlier relationship literature, such as interorganizational relations in marketing and distribution channels (cf. Reve & Stern, 1979; Stern & Reve, 1980), strategic alliance formation (cf. Das & Teng, 1998b; Doz, 1996;

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Parkhe, 1993), and joint venture arrangements (cf. Hennart, 1988; Inkpen & Currall, 2004; Pfeffer & Nowak, 1976), this research focuses on industrial supplier relationships. Valuable research in the field of network relationships has been carried out, for instance, by Uppsala school for several years (see Håkansson & Snehota, 1989). In this study we partially exploit these theories, but still recognize the importance of transaction cost approach (see e.g. Williamson, 1979, 1985) for industrial organizations. In contrast to earlier literature, we position this study between network and transaction cost approach to extensively understand the dynamics between trust and dependence.

The rest of paper is organized as follows: In the second section we describe the conceptual background of the study and elaborate the specific research questions. The research design and data are illustrated in the third section. In the fourth section we present the empirical evidence of the case study, identify the evolutionary dynamisms of trust and dependence in customer–supplier relationships, and develop a cyclical development model. Finally, we discuss about the contributions, limitations and managerial implications of the paper.

2. Theoretical framework

2.1. Interfirm trust

Trust has originally considered being an interpersonal phenomenon especially in social sciences (cf. Lewis & Weigert, 1985; Rotter, 1967), but several management scholars have recognized the role and importance of interfirm trust in industrial transactions (cf. Gulati, 1995; Sako & Helper, 1998; Zaheer, McEvily, & Perrone, 1998). In certain argumentation, it has been seen that only individuals or teams can trust (see Blois, 1999). Therefore, the main difference between interpersonal and interfirm trust is the object of trust (Zaheer et al., 1998). In interpersonal level, the object of trust is the member of the partner organization, but in the interfirm level the object is the partner organization itself. In this paper, we focus our examination of trust in interfirm level as it can provide more stability and continuity for the development of customer–supplier relationships than the interpersonal level of trust (Sako & Helper, 1998).

The emergence of interfirm trust is a sum of several exchange specific factors which may be difficult to directly observe (Nahapiet & Ghoshal, 1998; Sako & Helper, 1998). Thus, to evaluate the level of trust in interfirm relationships, a closer consideration of the nature of trust is required. Following Tomkins (2001, p. 165), we define trust as “a belief by one party in a relationship that the other party will not act against his or her interests, where this belief is held without undue doubt or suspicion and in the absence of detailed information about the actions of the other party”. This definition highlights the fact that in an interfirm relationship there is always a possibility for the opportunistic behavior of the other party and that all uncertainty can never be removed. However, for more precise investigation of the interfirm trust, we have to split the concept into more manageable pieces.

Building on the work of Sako (1992), we may distinguish three types of trust: contractual (rests on an assumption that the other party will carry out its oral and written agreements), competence (concerns partner’s ability to perform according to these agreements), and goodwill (focuses on partner’s intentions to perform in accordance with those agreements). All these forms of trust are usually at least to some extent present in an interfirm relationship, and they develop dynamically over time. As the mutual trust develops further, the probability of partner’s opportunistic behavior and goal conflict usually decreases and the predictability of partner’s behavior increases leading to lower transaction costs (Gulati, 1995; Zaheer et al., 1998). This is how trust can substitute formal control mechanisms and even generate competitive advantage for the partners (Dyer & Singh, 1998).

The more specific conditions found to be conducive to the emergence of interfirm trust are introduced in Table 1. Although trust is distinguished in three different types, these are closely related to each other. The effects of one trust building method do not limit, in practice, only in one type of trust at a time, but may affect all types of trust. Nevertheless, the effects to other types of trust are usually slighter or non-existent. Altogether, the described practices to enhance different types of trust can be seen as guidelines when evaluating the mutual trust of the relationship.

2.2. Interdependence

In addition to trust, also interdependence between partners occurs at least into some extent in all customer–supplier relationship. The main sources for the interfirm dependence include switching costs (see e.g. Williamson, 1979, 1985), valuable resources (see e.g. Das & Teng, 2000; Gulati et al., 2000), and monetary value of deliveries (see e.g. Frooman, 1999). The switching costs arise especially from the small numbers bargaining (see e.g. Jacobs, 1974) and the transaction specific investments of the relationship (Williamson, 1979, 1985).

Transaction specific investments lock both supplier and buyer into the transaction because the value of this capital in other uses is much smaller and without these investments alternative suppliers cannot produce the item as cost efficiently as the current supplier can. At the same time, transaction specific investments decrease the number of alternative suppliers or customers leading to the situation of small numbers bargaining. Yet, small numbers bargaining can also be a market specific factor (Johanson & Mattsson, 1987), for example, as a consequence of the high specialization or the relatively small size of the market.

Small numbers bargaining arise especially due to the concentration of the markets or transaction specific investments made by customer or/and supplier (Jacobs, 1974; Williamson, 1985). By transaction specific investments, building of trust, and mutual adaptation the parties can enhance the nonmobility and nonsubstitutability of the relationship specific resources (Dyer & Singh, 1998; Johanson & Mattsson, 1987; Peteraf, 1993). This is how these mutual commitments increase the interdependence between partners and enhance the valuable resources of the relationship.