



The effect of unethical behavior on trust in a buyer–supplier relationship: The mediating role of psychological contract violation

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ABSTRACT

Research on trust in buyer–supplier relationships has tended to focus on the performance outcomes of a trusting relationship, as well as the processes that serve to build trust. Largely absent from the buyer–supplier literature is an in-depth examination of activities that break down trust, and the resulting effect on supplier trust in the buyer. The authors propose and test a model that evaluates psychological contract violations between a buyer and a supplier as a mediating variable of the effect of unethical activities on trust within a partnership. Survey data was collected from 110 tier one suppliers of major corporations in the state of Ohio. Our results show how a supplier's perception of a violation of the psychological contract either partially mediates or fully mediates the relationship between the buyers unethical activity and the suppliers trust in that buyer. We discuss how suppliers may demonstrate bounded ethicality when they overlook perceived unethical behaviors by the buyer.

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1. Introduction

Toyota surpassed General Motors (GM) as the world-wide leader in automotive sales in the first quarter of 2007. The struggles of American automobile manufacturers to stay ahead of their Japanese counterparts is partially attributable to numerous flaws in the former's manufacturing and management principles, including shortcomings in supply chain management efforts. The philosophies of these companies vary substantially, particularly with regard to supply chain relationships. Japanese automobile companies manage suppliers as extensions of their own firm, working closely with them to reduce unit costs by developing their skills. Meanwhile, American automobile

companies are notorious for unilaterally demanding cost reductions from the supplier, utilizing adversarial and potentially unethical techniques which consequentially optimize on short-term performance. For example, GM writes contracts that allow it to shift to a less expensive supplier at a moment's notice (Liker and Choi, 2004). The result of this myopic stance is predictable, often devolving into spiraling distrust between buyer and supplier.

Grave challenges face managers regarding their ability to manage relationships and coordinate activities across multiple independent players, as legal documentation is unable to anticipate the many cooperative activities and intense flexibility required for meaningful integration. One manifestation of these new buyer–supplier relationships is the emphasis on trust in lieu of formal contracts. A recent study (Johnston et al., 2004) indicates that higher levels of inter-organizational cooperative behaviors, such as shared planning and flexibility, were strongly linked to the supplier's trust in the buyer firm. Alternatively, unethical business practices can possibly undercut the development of trusting, long-term business relationships. Unethical

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behavior can lead to negative publicity, substantial fines, and ultimately decreased sales and profits (McGuire et al., 1988). DuPont agreed to pay nearly \$11 million to a group of commercial growers because they allegedly withheld critical scientific test data and other evidence regarding the company's Benlate DF fungicide that farmers claimed damaged their crops (Geyelin, 1999). When supplier's trust in a buyer erodes due to the partners unethical behaviors, the supplier has the option to seek alternative business opportunities. The supplier may also communicate negative information with other potential suppliers of the buying firm, possibly causing the buyer to lose some influence over its suppliers. Dunfee (1991) acknowledges that punishment extolled through negative word of mouth need not be administered through a party holding power in the relationship; the power is derived from the community.

Building strategic relationships that transcend organizational boundaries has proven a formidable struggle for many managers. This is evidenced in a 2004 Computer Sciences Corporation survey of supply chain progress in which respondent firms note the most underdeveloped area of their supply chain involves developing long-term relationships with suppliers and customers, and consequently this area was in need of the most work going forward. This reveals that beyond basic logistic and infrastructural problems requisite of a firm's time and attention, such as transportation, warehousing, and inventory management, lie equally pressing issues of a "softer" nature, including ethics, trust, and the psychological contract. These represent key aspects of relationship management, and form the basis of the current study.

Research that examines the cognitive and psychological aspects of managing the buyer–supplier relationship is sparse. Also largely absent from the buyer–supplier literature is an in-depth examination of activities that break down trust. This paper adds to this emerging research stream by evaluating psychological contract violations between a supplier and buyer as a

mediating variable of the effect of unethical activities on trust within a partnership. We define trust here as a firm's reliance upon other entities with which it is engaged to voluntarily recognize and protect its rights and interests (Hosmer, 1995). As such, the governing mechanism of much relationship behavior is an implied obligation of reciprocity (Rousseau, 1989). This suggests a psychological contract exists between the supplier and buyer, defined as a participant's subjective, idiosyncratic perceptions regarding obligations due (Morrison and Robinson, 1997; Ho, 2005). A perceived violation of the psychological contract may occur through subtle or blatant unethical acts that fail to protect the rights and interests of others. From the supplier's perspective, unethical behaviors by the buyer occur as exogenous variables outside the realm of control of the supplier, and may lead the supplier to experience decreased levels of trust in that buyer. Our research investigates this phenomenon, and seeks to determine the role of psychological contract violation within the ethics–trust relationship.

This paper proceeds as follows. First, in Section 2 we survey the academic literature surrounding each of the constructs depicted in our conceptual model, accompanied by the hypotheses to be explored in this paper. In Section 3, we outline our research design. In Section 4, we present our data analysis and in Section 5 discuss our results. Concluding insights for practicing managers, contributions to theory, and directions for future research are provided in Section 6.

2. Literature review, model, and research hypotheses

The three constructs examined in this research are the psychological contract, unethical behaviors, and trust within the context of a buyer–supplier relationship. We view these constructs from the perspective of the supplier. The resulting model, shown in Fig. 1, depicts unethical behavior as an antecedent to a decline in trust, as mediated by the experience of a psychological contract violation.

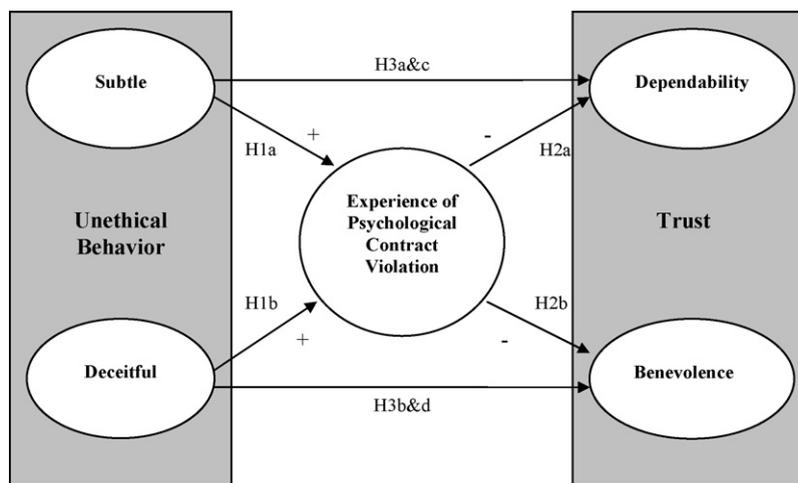


Fig. 1. Model of hypothesized relationships.

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