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Trust and relational embeddedness: Exploring a paradox of trust pattern development in key supplier relationships

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ABSTRACT

This paper explores the role of trust as an enabler *and* constraint between buyers and suppliers engaged in long-term relationships. According to the relational view, cooperative strategies require trust-based mutual commitments to co-create value. However, complete pictures of the positive and negative outcomes from trust development have yet to be fully developed. In particular, trust as an originator of path dependent constraints resulting from over embeddedness is yet to be integrated into the relational view. We use a case-based methodology to explore whether trust is an optimizing phenomenon in key supplier relationships. Two cases where trust development processes demonstrate a paradox of trust-building behaviors cultivate different outcomes constraining value co-creation.

1. Introduction

Trust is identified within the resource-based view as a key antecedent of building relational capital with suppliers (Barney & Hansen, 1994; Chen, Daugherty, & Landry, 2009). Trust shapes inter-firm relational embeddedness, which Lawson, Tyler, and Cousins (2008) characterize as a range of integration activities reflecting close working practices between buyers and suppliers. Trust comprises the intangible attributes built over time to deal with the shared vulnerabilities in buyer/supplier relationships (Fawcett, Magnan, & Williams, 2004; Moorman, Deshpande, & Zaltman, 1993). By building relational embeddedness from mutually perceived trustworthy interactions, buyers and suppliers rely on one another despite an ever-present potential for opportunistic behavior (Handfield & Bechtel, 2002).

High-trust relationships yield vital benefits for supply chain partners, including increased relationship satisfaction and enhanced firm performance (Johnston, McCutcheon, Stuart, & Kerwood, 2004), increased inter-firm learning (Dodgson, 1993; Fawcett, Jones, & Fawcett, 2012), lower governance costs (Dyer, 1997; Dyer & Chu, 2003), reduced relational conflict (Zaheer, McEvily, & Perrone, 1998), and an overall improvement in cooperation (Palmatier, Dant, & Grewal, 2007). This positions trust at the heart of relational governance (Poppo & Zenger, 2002) because of its ability to enhance performance regardless of governance mode (Gulati & Nickerson, 2008). Trust is therefore a core construct in the relational view (RV), is at the nexus of intra- and inter-organizational processes and exchanges, and gives insight into building future relational capital (Lavie, 2006; Lorenzoni & Lipparini, 1999; Madhok, 2002). Accumulated relational embeddedness is productive of, and governed by, trust, as well as norms of mutual gain and reciprocity (Granovetter, 1985; Larson, 1992).

Absent a foundation of trust, collaborative supply chain alliances do not emerge and relational advantage is foregone (Gulati & Singh, 1998). Central to the trust-development challenge is the acceptance of vulnerability as firms seek to build collaborative relationships (Ring & Ven de Ven, 1992; Rousseau, Sitkin, Burt, & Camerer, 1998; Sako, 1998; Zaheer et al., 1998). Because decision-makers are strongly averse to being vulnerable (McCarter & Northcraft, 2007) and opportunistic behavior is a perpetual risk in collaborative relationships (Hansen, Hoskisson, & Barney, 2008), building high levels of trust and relational embeddedness are costly and difficult to achieve.

Although the positive outcomes from trust building within the RV are often articulated, research has only begun to explore the negative outcomes, which may result from such interconnectedness (e.g. Gargiulo & Ertug, 2006; Villena, Revilla, & Choi, 2011). Specifically, inappropriate bonds built from trust may reduce efforts of both buyer and supplier to

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1) stay vigilant against malfeasance, 2) capitalize on opportunities for leveraging existing relationships, and 3) monitor competing resource deployment options (Rowley, Behrens, & Krackhardt, 2000). Relationships exhibiting inappropriate trust may suffer from constraints on governance choices beyond what is optimal (Bendoly & Swink, 2007; Gargiulo & Benassi, 2000; Uzzi, 1997). These realities suggest that trust in relationships is a careful balance, making it important to understand how this trade-off is addressed over time so strategies can be developed to optimize supply chain interactions (Grayson & Ambler, 1999). A re-assessment of trust in the RV therefore needs to account for the risks of embeddedness when modeling inter-firm value creation (c.f. Lavie, 2006).

Despite acknowledging the theoretical importance of trust and embeddedness, and the more general volume of work supporting the relational view (e.g. Chatain, 2010; Cousins, Handfield, Lawson, & Petersen, 2006; Leiblein & Miller, 2003), we find no studies detailing the benefits and risks of trust-enabled embeddedness. Indeed, Lawson et al. (2008) and Gulati and Sytch (2007) identify the need to extend our understanding of the conceptual inter-relationship between trust and embeddedness, and the consequent implications for relational capital. It could be assumed that greater degrees of trust and resulting embeddedness are wholly positive for the performance of relationships. However, a more balanced role for trust bonds needs to discern more systematically which features of interaction might enable or constrain key supplier relationships over their lifecycle. This requires re-conceptualizing trust as a construct shaped by local and broader relational norms, rather than ignoring its socially embedded nature (Wicks, Berman, & Jones, 1999). It also requires research in this under developed branch of the relational view to position the multi-faceted role of trust and embeddedness, which prompts us to consider the use of qualitative methods to achieve a richer case-based exploration of the 'black box' of pivotal processes over time.

2. Theoretical background

Interest in key supplier management derives from its potential to enable a firm to draw together complementary capabilities residing across the supply chain (Peteraf & Barney, 2003; Verdin & Williamson, 1994). Cao and Zhang (2010) observe that, unlike studies acknowledging the role of both private and common benefits, the RV emphasizes co-created synergetic benefits accruing to partners which cannot be generated independently. The RV is therefore an appropriate theoretical lens for evaluating how trust enhances key supplier management and thereby competitiveness.

The RV builds on the resource-based view of the firm (RVB), which characterizes a firm as "a collection of productive resources" (Penrose, 1959; Wenerfelt, 1984). Firms possessing key resources—that is, valuable, inimitable, rare, and non-substitutable—will outperform their rivals (Barney, 1991; Dierickx & Cool, 1989). From an RV perspective, relational advantage accrues to firms best able to invest in key relationships to enhance partner capabilities through inter-firm learning. The effective governance of relationships is vital in achieving benefits from relational exchange, and forms the essence of key supplier management.

Importantly, inter-firm resource access, development, and integration are dependent on a firm's ability to cultivate high levels of inter-organizational trust (Bradach & Eccles, 1989; Heide, 1994). Doney and Cannon (1997: 35) identify trust as a critical governing mechanism since it enables supply partners to "focus on the long-term benefits of the relationship, ultimately enhancing competitiveness and reducing transaction costs." This is supported by empirical evidence in a study of seller–distributor relationships where trust plays a key moderating role between relational norms and firm performance (Palmatier et al., 2007). In summing up the pivotal role for trust as a feature of the RV, Gulati and Nickerson (2008) argue that it functions as both a complement and substitute to contractual governance arrangements.

2.1. Trust development and positive relational outcomes

Because trust underlies the development of relational capital, integrating conceptions of trust across the fields of social psychology, sociology, and economics is appropriate. Table 1 presents representative definitions of trust pertinent to the RV, showing trust primarily as a function of credibility and benevolence. Trust is the confidence that each party in a relationship will perform as promised and genuinely take each other's welfare into consideration as each makes decisions. Trust is promoted by strategic orientation, and inculcated via day-to-day behavior (Doney & Cannon, 1997).

The behavioral foundations of trust are consistent with the desire to use trust to develop relational capital. Specifically, trust defines both how partners will perform as well as how they will treat each other (Lui & Ngo, 2004; Sako, 1998). Similarly, the confidence that a partner will not act opportunistically and exploit the firm's weaknesses engenders mutual commitment and the willingness to take risks—that is, partners are willing to be vulnerable (Dyer & Chu, 2003; Humphrey, 1998; Sako, 1998). The confidence to act decisively and the willingness to take risks promote the openness that helps a network sense and communicate opportunities and threats.

As trust facilitates key supplier management and enables the creation of relational capital, it is built on a history of direct interactions between actors and indirect reputational connections through third parties (Laaksonen, Pajunen, & Kulmala, 2008). Doney and Cannon (1997) disaggregate five interrelated processes (calculation, prediction, capability assessment, intentionality and transference) influencing trust development in business relationships. This reflects what Zucker (1986) describes as 'process-based trust' built as a singularly positive function in a relationship. None of these processes, as practiced by most firms may predominate. These processes also rely heavily on estimation and past experience (Dirks, 2000; McAllister, 1995). They also focus more on avoiding risk rather than cultivating opportunity (Williamson, 1991). The greater the evidence of trustworthy behavior across these five processes, the more likely it is for trust to develop from a basis of ever-increasing richness in relational antecedents such as working together, promise keeping, and avoidance of cheating. Such behavior signals both the intent of a partner to perform at the highest levels as well as the partner's confidence in its ability to do so (Jones, Fawcett, Fawcett, & Wallin, 2010; Perrone, Zaheer, & McEvily, 2003).

A key element of Doney and Cannon's (1997) calculative assessment of trust is the development of information sharing through the development of transparent processes and systems. Consistent policies likewise make it easier for suppliers to gauge buyer capabilities and to attribute buyer intentions (Whitener, Brodt, Korsgaard, & Werner, 1998). Thus, buyers can facilitate a trust prediction process by publishing past promises and performance statistics, making it easier and less costly for suppliers to accurately predict the buying firm's future behavior. By broadcasting that they are worthy of trust, buying organizations reduce supplier assessment risks and promote trust building (Colquitt, Scott, & LePine, 2007). Indeed, to the extent that buying firms can demonstrate trustworthy behavior permeating their company culture, systems, and processes, they can cultivate greater levels of supplier trust, doing so more quickly than less transparent rivals (Zaheer et al., 1998).

2.2. Inappropriate trust and negative relational outcomes

Paradoxically, high levels of trust-enabled relational embeddedness may also constrain relational advantage. For instance, Uzzi (1997) notes that partners can become blinded to existing opportunities as embeddedness narrows their purview of wider network capabilities. This process is analogous to Leonard-Barton's (1992) description of a core rigidity at the inter-firm level where co-developed institutionalized embeddedness gets reinforced by "blind" trust and unquestioned