



Trust and reciprocity in building inter-personal and inter-organizational commitment in small business co-operatives

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ARTICLE INFO

Article history:

Received 5 March 2013

Received in revised form 10 October 2013

Accepted 15 October 2013

Keywords:

Co-opetition

Co-operation

Trust

Reciprocity

Commitment

ABSTRACT

Local co-operative networks are autonomous volunteer united entities that perform a number of economic and social functions in order to sustain. Many of these functions are volunteer efforts such as preparing logotypes, shared marketing, joint sales, and building competencies that a member cannot offer independently. A number of theoretical constructs explain co-operative members' likelihood to overcome the dilemma of having to focus on short-term, immediate survival and at the same time pursue longer-term, shared objectives. Trust and reciprocity are typically present with differing degrees of intensity in co-operative arrangements. Trust is the ability to respond to perceived uncertainties in order to cope with risk while reciprocity is the norm of give and take in exchanges. With these concepts in mind, the objective of this paper is to examine inter-personal and inter-organizational commitment in the context of small business co-operatives, underscoring the roles of trust and reciprocity as precursors to commitment, as well as ultimate guarantors of inter-firm co-operation in a small-business co-operative environment. The proposed theoretical model is tested using structural equation modeling on a sample of small businesses from the tourist industry. The findings provide implications regarding the roles of trust and reciprocity in building inter-firm relational commitment.

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1. Introduction

Co-operative networks perform multiple functions (Novkovic & Holm, 2012) that support social and economic sustainability (Crona & Hubacek, 2010). Such activity is often controlled and governed by an autonomous association that depends on a network of individuals in organizations that offer different contributions. Economic activity in small businesses has relatively fewer resources (e.g., employees, revenues, or financial assets) than that of larger organizations in the same sector. The opportunity to overcome limited resources thus motivates small businesses to develop co-operative agreements (Felzensztein, Gimmon, & Carter, 2010; Jussila, Goel, & Tuominen, 2012a; Mazzarol, Limnios, & Reboud, 2013).

While co-operative arrangements can provide advantages, there is evidence that many perform poorly and estimates suggest that more than half eventually fail (Dacin, Hitt, & Levitas, 1997;

Huggins, 2000). Similarly, the related approach of joint ventures also experiences high failure rates because partners often exhibit different motivations (Park & Russo, 1996). Commitment is one characteristic that is related to sustaining relationships (Morgan & Hunt, 1994) and is typically considered a proxy of success in relationships. Yet, relationships are not maintained by precise relationship contracts but differ depending on the situation, thus explaining the high failure rate (Dacin et al., 1997).

Many co-operative efforts involve performing short-term functions such as shared marketing, joint sales, reputation building, and infrastructure maintenance that support members or facilitate relationship continuity (Hingley, 2010). At times, short-term shared projects overshadow long-term co-operation and neglect maintenance of relationships. But activities that support a willingness to invest more time and/or resources to develop shared interests must be pursued. Such norm-based reciprocity is not necessarily directly one-to-one, but a situation in which one reciprocated activity is likely to stimulate others to help yet a third person (i.e., shared interests).

Thus, continuous investment is needed in factors leading to inter-firm commitment. For example, mutually beneficial relationships must produce tangible gains, but they do not necessarily

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need to be accrued in the short-term. Indeed partner commitment to the co-operative manifested in a continued effort to build inter-personal and inter-organizational relationships ultimately sustains the co-operative and guarantees its success, thus ensuring that long-term benefits are accrued through inter-firm co-operation. In the light of the above, trust, reciprocity, and a commitment to relationship building are likely to be anchors of any successful co-operative arrangement, and in particular one whose membership is small business organizations that are short on resources and high on mutual dependency. The development of mutual trust should thus be the aim of constituent members of any strategic alliance, and more so in the case of inter-firm relationships in small business co-operative environments.

A stronger emphasis on mutual commitment and inter-firm relationship building manifests itself particularly in the context of small businesses operating in a co-operative environment in markets characterized by high levels of uncertainty and risk. Examples from game theory of authentic situations demonstrate that partners collaborating under formal co-operative agreements often expect results too soon, resulting in these arrangements being dissolved prematurely before tangible benefits accrue to partner members (Pesämaa, Hair, & Eriksson, 2008). Thus, taking a relationship building perspective that treats co-operative arrangements as an ongoing concern can help overcome these challenges and enable partners to survive typical early stage problems (Pesämaa & Eriksson, 2010).

Balancing short-term objectives, namely short-term profits against long-term value creation, is difficult in strategic alliances as well as for co-operative arrangements. In reconciling short and long term objectives, firms in co-operatives often have conflicting assumptions about the attitudes of partners – individualism, self-interest, and competition vs. collectivism, reciprocal altruism, and co-operation (Pesämaa et al., 2008).

Reconciling the need to produce quick tangible results to satisfy each partner's immediate benefits with a longer-term relational perspective that requires commitment founded on mutual trust and reciprocity is a difficult task. If parties perceive their purpose in co-operating as producing immediate tangible returns, then there is a serious risk that partners in the co-operative will lose their focus and simply decide to abandon it in the light of uncertainty and risk. As co-operatives are beginning it is crucial that a genuine atmosphere of reciprocity is present, with a give and take of efforts that is reconcilable with individual long-term value maximization behavior. This, however, is in itself not enough, and in order to ensure the viability of inter-firm co-operative arrangements as going concerns into the future, constituent members of the co-operative must be patient and acknowledge that a sacrifice of potential short-term gains is justified by the promise of long-term results. Moreover, partners must trust that co-operative members will remain committed and continue to invest in the co-operative (Dickson, 1996; Novkovic & Holm, 2012). Therefore, co-operative members must build relationships and exhibit cues that lead to mutual trust and reciprocity, as well as make a permanent commitment to relationship building with a view to maintaining the *raison d'être* of small businesses who enter into co-operative agreements.

Commitment to relationship building enables co-operative members to mutually benefit from shared resources and competencies, and in this way enhances their combined market and economic potential. The purpose of this paper, therefore, is to examine inter-personal and inter-organizational commitment in the context of small business co-operatives, underscoring the roles of trust and reciprocity as precursors to commitment, as well as ultimate guarantors of inter-firm co-operation in a small-business co-operative environment.

2. Theory and hypotheses

The role of trust in inter-firm co-operative behavior is made salient by studies that describe this construct as that of generalized feelings held among individuals in organizations; feelings that shape the formation and development of mutual relationships and behaviors (Dickson, 1996; Hooghe & Marien, 2010). At the same time, commitment to relationship building between individuals in small business organizations is developed based on the idea that social norms of trust and reciprocity prompt co-operative behaviors, which in turn foster the accumulation of durable ties (Fehr, 2009). De Waal (in Ostrom & Walker, 2003) alludes to placing trust in others to behave in co-operative and non-exploitative ways and calls attention to the deep evolutionary roots of trust and reciprocity as intrinsic characteristics of relationships. Moreover, empirical studies show that trust and reciprocity are prevalent but vary in co-operative networks (Dickson, 1996).

The links between trust, conflict and co-operative behavior and the expectation of reciprocity in inter-firm behavior have been examined in the literature (Sanders & Schyns, 2006). Trust, reciprocity and mutual favoring are dealt with by recourse to trust games, with players exchanging private information and exhibiting trust only if it is expected to be reciprocated either immediately or in the future. Co-operation is thus viewed as similar to a favor expected to be reciprocated and a key to building trust in relationships (Bagwell & Abdulkadrouglu, 2005). The authors describe the development of a hybrid relationship, in which players begin with a honeymoon period and then either proceed to a favor-exchange process or permanently monitor the relationship by operating a symmetric punishment scheme.

Several other studies have addressed the issues surrounding collaboration. Meeker (1984) alludes to conflict and the effect of co-operative orientation on co-operative behavior, with the development of trust and positive reciprocity as key to inter-firm relationship building. Van der Krogt, Jerker, and Viggo (2007) in a study of the 15 largest European Union dairy firms, state that co-operatives' choice of interfirm consolidation and collaboration strategies can be explained by two attributes inherent to this form of governance, namely, "risk aversion and equity capital constraints" (p. 453). Madhok and Talman (1998) alluded to the distinction between potential and actual realized value of inter-firm collaborative relationships when they noted that "partner firms tend to not recognize ex ante the nature and extent of transaction-specific investment that is required in the collaborative relationship to attain these synergies." (p. 326). Finally, in a study of farmers' satisfaction and intention to continue membership in agricultural marketing co-operatives, Hernández-Espallardo et al. (2011) conclude that agricultural marketing co-operative survival depends on the satisfaction and maintenance of a stable base of farmer members. They surveyed members of marketing co-operatives specializing in fresh fruits and vegetables and their results showed that the price paid to farmers is important for their satisfaction with the co-operative. But farmers' perceptions of transaction costs were even more important. Overall, there is widespread acknowledgment of the importance of commitment to relationship-building in ensuring the long-term survival of co-operative arrangements, but satisfaction of short-term, transaction-specific characterizations of these relationships is paramount in guaranteeing the survival of these co-operatives and ensuring their permanence as ongoing concerns. In short, if partners fail to see what is in it for them, their collective enthusiasm tends to diminish.

2.1. Time orientation and the level of unity

Co-operatives face the challenge of pursuing long-term goals while providing short-term benefits (Goel, 2013; Jussila, Goel, &

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