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Trust and outsourcing: Do perceptions of trust influence the retention of outsourcing providers in the hospitality industry?

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ABSTRACT

The global trend toward outsourcing necessitates unprecedented symbiosis between client-based organizations—purchasers of these services—and their multiple suppliers. Building on existing empirical work that suggests that the level of trust that exists between a purchaser and a supplier is fundamental in determining the strength of such a dyadic relationship, we examine how an organization's outsourcing efforts can be influenced by trust, and how perceptions of trust influence buyer retention of outsourcing providers. The resulting causal model suggests that communication, benevolence, and trust are vital to developing and maintaining productive, enduring relationships between purchasers and suppliers.

1. Introduction

Many companies increasingly choose outsourcing – utilizing external rather than internal suppliers and service providers – to reduce costs. Experts estimate that worldwide spending on outsourced goods and services continues to grow, having already exceeded $1 trillion by 2000 (Linder et al., 2002). Moreover, Byrne (2002) estimated that 78% of North American companies, 79% of Western European companies, and 58% of Asia Pacific companies would be utilizing outsourcing solutions by 2004.

Analyzing outsourcing decisions has traditionally involved examining several models: make-or-buy, vertical integration, transaction cost minimization, or core competency maximization (Maltz and Ellram, 1999). Other research has considered how outsourcing affects competitiveness in large organizations (Gilley et al., 2004) without explaining the factors that influence outsourcing decisions. Outsourcing scholarship has grown sufficiently to allow us to paint a more complex picture that includes some intermediate advantages that help explain outsourcing's success.

Among these intermediate advantages are mutually beneficial, sustainable purchaser–supplier relationships. In this regard, the notion that trust fosters positive and long-term business relationships has received considerable attention (Barney & Hansen, 1995; Benson, 1993; Handy, 1995). The concept of partnership is most critical in situations involving vendor–buyer relationships. Such relationships appear to involve several factors, including perceptions of operational competence, the quality of communications, and even operational benevolence, defined as a vendor's desire to operate responsibly independently of profiting (Brownell & Reynolds, 2002; Bell et al., 2002). Sirdeshmukh et al. (2002) illustrate this and suggest a three-dimensional view of trustworthiness that includes operational competence, operational benevolence, and problem-solving, providing evidence that contingent asymmetric relationships affect consumer trust.

The purpose of this study, then, is to assess empirically whether perceptions of operational competence, high-quality communication, operational benevolence, and trust serve as antecedents to an organization's commitment to an outsourcing relationship. The study also considers whether these dimensions and outcomes vary by hospitality industry segment. Do purchasers in, for example, luxury-lodging operations and casinos evaluate such relationships differently?

2. Background

Outsourcing is the utilization by a firm of outside companies to perform duties that have typically been performed internally. Outsourcing can provide such essential core competencies as marketing and manufacturing or more specialized support functions such as foodservice, maintenance, information services, and accounting (Gilley et al., 2004).

The recent trend is for outsourcing relationships to function more as partnerships (Elmuti, 2003), and current research indicates that outsourcing relationships will broaden in the coming years (Hormozi et al., 2003). Outsourcing is quickly evolving from the simple reengineering of support processes into partnerships that lead to sustainable and improved performance. Furthermore,

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while some executives still see outsourcing primarily as an opportunity to pass on non-core activities and reduce costs, many others have taken a much more sophisticated approach focused on accessing competitive skills, improved levels of service, and more agile response to changing business needs (Linder et al., 2002).

Its advocates argue that outsourcing improves efficiency, saves money, offers access to professional expertise, and allows companies to focus on their core competencies (Elmuti, 2003; Gilley et al., 2004; Hormozi et al., 2003). By simplifying and streamlining processes, lowering inventory-carrying costs, trimming staffing, and reducing the need for capital assets, flexibility and response times improve, investment costs fall, and new economies of scale are created. Furthermore, by outsourcing, companies not only shift aggravations to third parties; they potentially improve quality overall because outsourced services are performed by vendors that dedicate their knowledge and resources—their core competencies—to specific outsourced functions.

More than anything else, the outsourcing of business processes has driven the strategic evolution of outsourcing beyond its original purpose of saving costs by moving nonessential functionality off site. By expanding outsourcing to include business processes, organizations are able to invest more time and resources into those core competencies that define and optimize their operations (Hormozi et al., 2003). Adopting the core-competency outsourcing concept can help organizations focus on key strategic measures through which they can maintain their special areas of expertise (Heikkilä, 2002). Organizations can thereby succeed in markets that they otherwise would have difficulty entering or within which they would otherwise not be able to operate efficiently so long as they can maintain the strength and continuity of these purchaser–supplier relationships (Elmuti, 2003).

3. Theoretical orientation

A substantial body of research has identified trust as a determining factor in business relations and social interaction. Such findings suggest that relationship strength is a function of trust and that relationship commitment influences the outcomes of strategic decisions (Hausman, 2001). In addition, culture, integrated with values, trust, and commitment, is vital to success in business-to-business dealings and provides companies with potential advantages that can be useful in maintaining and developing relationships (Zabkar and Brencic, 2004).

Trust is an important factor in client relationships. Among the key factors that have been identified as influencing trust are competence, benevolence, integrity, and effective communication (Wintoro, 2005). Marketing strategy and a long-term orientation are also positively correlated with customer commitment and trust, and relationship benefits are positively correlated with customer commitment (Adamson et al., 2003). These associations have been attributed to the disposition of individuals to attach a primarily emotional value to social relationships that affect trust and to establish relationships for potential gain or risk avoidance (van de Bunt et al., 2005). Simons and Peterson (2000) suggest, similarly that trust moderates the relationship between task conflict and relationship conflict, concluding that trust is an important element in the process of realizing the benefits of task conflict without enduring the costs of relationship conflict. Zineldin and Jonsson (2000) argue that trust and commitment result from a successful relationship that features effective communication, willingness to adapt, mutually embraced cooperation, and high levels of satisfaction. Positive actions support maintaining and improving collaborative relationships and motivating partners to work at preserving their relationship investments through cooperation.

What, however, is trust in its own right? Positioning trust in a causal system in which it is affected by various factors and in turn serves as a factor in producing various outcomes does not tell us what trust is in itself. Even knowing its economic value, which is most accurately estimated by regarding it as a form of social capital insofar as self-interest and opportunism are insufficient incentives for cooperation, is not the same thing as understanding what trust is (Butler, 1999). Classical views suggest that trust is the generalized expectation held by an individual or organization that another individual or organization can be relied on (Zineldin and Jonsson, 2000). And while trust involves an expectation of reliance on another party, Das and Teng (2004) observe that trust is a matter of probabilities and trusting someone does not mean there is 100% confidence in that person for any task under any circumstance. Trust is, nevertheless, an assessment of the probability that a given individual will perform as expected, and that is how we define trust for the purpose of this study.

Trust and commitment are cultivated as functions of several variables, not merely because a vendor offers good products at a satisfactory price. Thus, trust is a necessary condition for commitment, but commitment matters only if future dealings will occur. Trust and commitment develop only through a long-term cooperative relationship that diminishes the potential for either party to exploit the other. Trust and commitment lead directly to cooperative behaviors and trust is a major determinant of relationship commitment (Zineldin and Jonsson, 2000). Furthermore, trust influences relationship commitment and buyers make purchasing decisions with the vendor who is perceived to be the most trustworthy in a given market (Brownell and Reynolds, 2002).

Researchers exhibit a range of perspectives on commitment. In the sociological literature, commitment is utilized to evaluate behavior (Becker, 1960) and sociologists often view commitment as a descriptive concept denoting actions that are characteristic of specific individuals or groups. Alternatively, psychologists generally define commitment in terms of decisions or cognitions that connect an individual to a behavioral characteristic (Kiesler, 1971). Viewing the concept of commitment in terms of a relationship, such as in the context of marriage, a partnership, or a business endeavor, provides a construct within a psychosocial framework that distinguishes one's intent to continue such a relationship given certain variables (Mowday et al., 1982). From this perspective, commitment functions almost as an ancillary to an individual's level of intent to act in a particular way (Wong and Sohal, 2002).

Zineldin and Jonsson (2000) define relationship commitment as the condition that obtains when an exchange partner values an enduring collaborative relationship enough to dedicate maximal effort to sustain it. The committed party feels, in essence that the relationship is worth investing in so that it endures indefinitely; commitment to such a relationship can therefore be defined as the desire to maintain it indefinitely. Moorman et al. (1992) agree, defining commitment as an enduring desire to maintain a valued relationship, emphasizing the idea that commitment exists only when the relationship is thought to be significant. This suggests a greater level of obligation toward the success of such a relationship and a greater willingness to make it mutually beneficial (Morgan and Hunt, 1994). Individuals who believe that they extract positive value from a relationship should be willing, for the sake of past benefits received, to reciprocate with an effort that is equal to that put forth by the relationship partner (Mowday et al., 1982). If we apply these principles to an outsourcing situation, it is not difficult to see that, in an outsourcing relationship characterized by trust, vendor retention can be expected.

Dwyer et al. (1985) suggest that commitment in a buyer–seller relationship is an implicit or explicit promise of cooperation and continuity between exchange partners. In outsourcing interactions, commitment implies a willingness to be loyal to the relationship, again resulting in vendor retention. Trust, then, can be viewed as playing a key role in vendor retention insofar as it fosters