

**JUST TRUST ME: MODERATORS OF THE TRUST - BEHAVIOR RELATIONSHIP
AND EFFECTS ON PERFORMANCE**

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ABSTRACT

It is believed that firms within successful supply chains have a great deal of trust in one another. However, little is known about the effects of trust on firm performance in supply chain relationships. I draw on social exchange theory to devise a model linking trust between partners with two types of displayed behaviors: constructive and opportunistic. Constructive behaviors are those behaviors that strengthen the supply chain relationship whereas opportunistic behaviors are those behaviors that weaken the supply chain relationship. I then investigate several moderators to the trust-behavior relationship. Finally, I explore the effects of constructive and opportunistic behaviors on firm performance.

TRUST IN SUPPLY CHAINS

Trust is the mutual confidence that no party to an exchange will exploit another's vulnerabilities (Barney & Hansen, 1994). Trust is an important factor of success within business relationships. In a positive sense, trust has been referred to as the cornerstone of strategic relationships (Sherman, 1992) as it provides assurance that one firm's investments are safe from appropriation by its partners and that those partners will invest at a level that is equally appropriate. However, trust has also been referred to as "the biggest stumbling block to the success of alliances" (Sherman, 1992, p. 78). The absence of trust is so detrimental to business relationships that a third of all business relationships fail simply because they lack sufficient trust (Ireland, Hitt, & Vaidyanath, 2002; Sherman, 1992).

In an exchange relationship, firms often must extend trust to receive trust. Unfortunately, the first party to act in good faith and extend trust puts itself at risk because there is no guarantee that the partner will reciprocate (Gilliland & Bello, 2002). Partners that choose not to reciprocate are often placing their own firm's goals above the mutual goals of the relationship (Ketchen & Giunipero, 2004). In extreme cases, devious partners may take advantage of a firm's trust and exploit it to their own advantage. For example, Mitsubishi licensed some of its proprietary technology to rival Hyundai so that Hyundai could build a better car on behalf of Mitsubishi. Hyundai, in turn, not only used this technology to build Mitsubishi cars but to improve their own cars and surpass Mitsubishi in many key markets (Updike & Nakarmi, 1995).

Although tightly integrated relationships have many risks and frequent casualties, they are becoming increasingly common (Glaister & Buckley, 1999). This might indicate that

relationships are becoming increasingly important to firm survival but it does not suggest that managers are completely comfortable with these relationships. While trust facilitates cooperation, commitment, and cost reduction (Wicks, Berman, & Jones, 1999), it is possible to over or under invest in trust (Erdem, 2003). Over investing occurs when offering trust in excess of a relationship's potential value and under investing occurs when offering trust below the relationship's potential value. The desired outcome is optimal trust, or "knowing whom to trust, how much to trust them, and with respect to what matters" (Wicks et al., 1999, p. 102). Optimal trust is a mixture of trust and distrust. Managers might wonder if extending trust to a partner actually leads to performance gains. At the same time, managers may wonder if a lack of trust hinders firm performance or puts their firm at risk. This research question is then, how does trust within exchange relationships affect partner behavior and performance?

I investigate trust between firms from the perspective of social exchange theory (Blau, 1964; Gouldner, 1960) and in doing so I broaden the scope of the theory. To date, social exchange theory has been limited to interactions between employees and managers, and employees and their organizations (Cropanzano, Prehar, & Chen, 2002; Wayne, Shore, & Liden, 1997). Social exchanges involve unspecified obligations in which one person does a favor for another person. There is an expectation of some future reciprocation, although the time and form are often unclear (Gouldner, 1960). The person extending the favor has some degree of trust that the recipient will return in kind. I suggest that as individuals interact, so do firms. Obtaining a tightly integrated exchange relationship requires some degree of trust and interaction between partners (Kwon & Suh, 2004).

This paper is set in the context of supply chains, or networks of firms that transition goods from raw materials into finished goods (Handfield & Nichols, 2002). The field of strategic management seeks, as its primary goal, to understand firm performance (Meyer, 1991) and one component of firm performance is the performance of supply chain relationships (Croxtton, Garcia-Dastugue, Lambert, & Rogers, 2001). Supply chains often rely on trust. Because contractual enforcement of partner obligations is more costly and less efficient than informal enforcement (Dyer & Singh 1998), supply chain partners rely to a great extent on trust and informal enforcement. As firms increasingly rely on integrated supply chain relationships, this context seems appropriate for studying the effects of trust on behavior and performance.

This study contributes to the extension of theory in several ways. First, the study shows that trust affects the choice of social enforcement method. Second, the study helps understand the implications of positive and negative social enforcement behaviors.

In this paper I examine trust within supply chains and the effects on behaviors leading to firm performance. In doing so, I first review relevant literature of social exchange theory and its implications to trust and supply chain relationships. I then present the model and related propositions. Finally, I discuss the managerial implications and future research.

TRUST AND FIRM PERFORMANCE

Effective management of relationships is a critical factor of success and requires a high level of trust (Ireland et al., 2002). Trust indicates one party's confidence in an exchange partner's

reliability and integrity (Morgan & Hunt, 1994). Trust has been defined as both a behavior and a belief system (Kramer & Tyler, 1996). I take the view that trust is a belief system that leads to certain expressed behaviors and apply it at the inter-organizational level. The result of trust is a firm's belief that its partner will perform actions that result in positive outcomes for the firm and avoid actions that result in negative outcomes (Anderson & Narus, 1990). Trust greatly improves the chance that business relationships will perform well. High levels of trust between partners have many benefits including low levels of uncertainty in partner behavior, greater information sharing (Kwon & Suh, 2004), less opportunistic behavior (Geyskens, Steenkamp, & Kumar, 1998), and greater risk taking (Beccerra & Gupta, 1999).

Research has identified four antecedents to trust (Chu & Fang, 2006). First, if a partnership is supportive and at the same time bears the opportunity for satisfactory outcome through mutual sharing, then the level of trust in such relationship will be increased (Anderson & Narus, 1990; Batt, 2003). Second, reputation has an extremely large influence on trust. Supply chain partners that enjoy high credibility in the market, are more trusted by their partners (Kwon & Suh, 2004). Also, because the cost of preventing opportunism is very high, those firms that are regarded as trustworthy become attractive as partners to other firms (Houston & Johnson, 2000). Third, conflict causes frustration for both parties (buyer and seller) and in turn influences the distrust among partners (Anderson & Narus, 1990). When partners perceive a conflict, it damages the trust-building process and lowers the level of trust. Finally, close communication affects the quality of bilateral relation in that it enables both parties share information, best practices, and process improvements (Anderson & Narus, 1990; Lee & Kim, 1999).

Trust to Behavior

The management of supply chain relationships requires a great deal of trust and coordination because the respective relationships often involve a high degree of interdependency (La Londe, 2002). Often, firms resist the notion to place greater trust in a partner because of fear that the partner will not reciprocate. The first party to act in good faith is open to exploitation. To protect against exploitation, there are two common enforcement options available to protect a party when extending trust to a partner: contractual and social (Gilliland & Bello, 2002).

Contractual enforcement is the legal form of mandating a desired behavior. Contracts are a way of forcing compliance between parties as firms are legally bound to behave in certain ways (Poppo & Zenger, 2002). Social enforcement, on the other hand, involves the presence of behavioral norms to ensure the parties of a relationship act in coordination with each other (Gilliland & Bello, 2002). For social enforcement to be effective, firms must have faith that payoffs are divided fairly, monitoring costs are minimal, agreements can be adjusted "on the fly," and there is no time limitation to the agreement (Dyer & Singh, 1998). This suggests that social enforcement relies greatly on trust. I therefore focus on the social enforcement measures because these require that partners observe each other's behaviors, gauge them as trustworthy or not, and respond accordingly.

Building upon the above reasoning, I suggest that relationships are managed by a series of displayed behaviors between firms. A firm will manage a relationship through a series of intended actions and reactions toward a partner. Some interaction will be proactive, the firm's

planned behavior, and some interactions will be reactive, as in response to a partner's behavior. In either case, it is through behaviors that the firms interact and convey their sense of trust toward each other. I recognize two types of behaviors toward partners, constructive and opportunistic. Constructive behavior involves actions taken to pursue mutual interests, whereas opportunistic behavior involves actions taken to pursue a firm's own interests at the expense of others (Das & Teng, 2000).

A model of trust and social enforcement is displayed in Figure 1. According to the model, trust within supply chain relationships is related to two forms of social enforcement behaviors, constructive and opportunistic. These behaviors partially mediate the relationship between trust and relationship performance. Behaviors stemming from high levels of trust contribute to the success of the relationship, whereas behaviors stemming from low levels of trust contribute to the deterioration of the relationship.

Restricting the model to the setting of supply chains allows the assumption that the participants are familiar with one another and that the relationship at issue has moved beyond the level of simple transactions. The supply chain partners are actively trying to create efficiencies and remove costs from the business model.

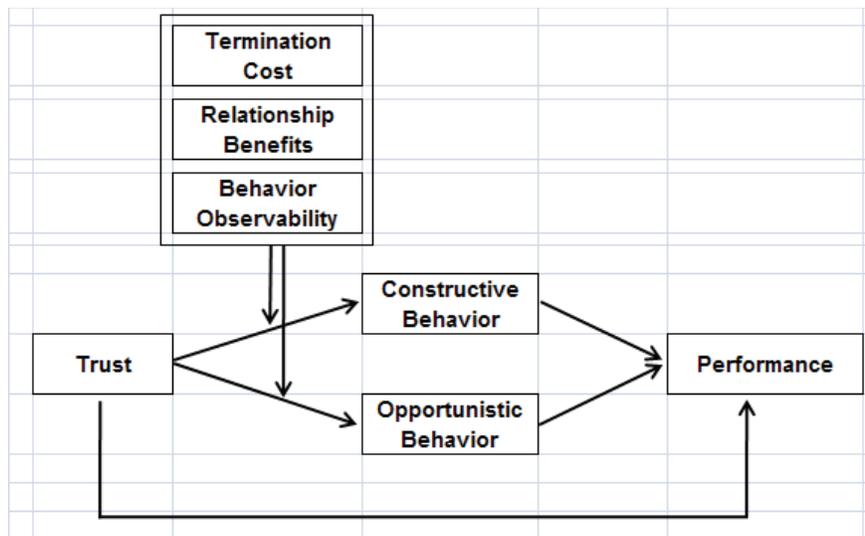


FIGURE 1. HYPOTHESIZED MODEL OF TRUST LEADING TO FIRM PERFORMANCE

The central argument is that behaviors affect relationship performance and that constructive and opportunistic behaviors are not two extremes of the same scale. Although a negative relationship likely exists between the two, it is quite possible for a firm to be high in both constructive and opportunistic behavior. For example, a research intensive firm may trust certain partners but still be unwilling to share proprietary information, an opportunistic behavior, because the information has a critical value to the firm. Thus, in this model, constructive and opportunistic behaviors are displayed as independent mediators of the trust-performance relationship.

Constructive Behavior

Constructive behavior, also referred to as cooperative behavior, involves the pursuit of mutual interests between firms through relationship-building actions (Das & Teng, 2000) such as information sharing, idea exchange, and willingness to make sacrifices for the partner. When trust is high, firms are more likely to focus on the relationship's success rather than on monitoring each other's actions (Gounaris, 2005). Constructive behaviors include long term thinking, a willingness to share information (Kalleberg & Reve, 1992), and greater acceptance of risk (Beccerra & Gupta, 1999). Constructive behavior allows firms to focus on core competencies and contributions that add value to the relationship. For example, in a helpful effort to reduce costs and improve efficiency of their supply chain, IBM offloaded the assembly of its personal computers to some of its partner distributors (O'Heir, 1997).

Partners in a relationship act upon each other's level of trust. Social exchange theory argues that trust evolves from past and current experiences and is continuously changing (Hutt, Stafford, Walker, & Reingen, 2000). A firm reacts to the level of trust displayed by its partners and modifies its own behavior to display the level of trust it has in respective partners. High levels of trust causes a firm to behave in a constructive manner because it has confidence that its partners share the same values and will act in its best interest. Thus, the firm can behave without fear of opportunism. For example, a firm might freely share information, dedicate resources to the relationship, make concessions for partners that they would not make for others, and take greater risks. Thus:

Proposition 1: *Trust is positively related to the display of constructive behavior in a supply chain relationship.*

Opportunistic Behavior

Opportunistic behavior occurs when a firm pursues its own interests at the expense of its partners (Das & Teng, 2000). Opportunistic behavior does not imply that a firm is in direct competition with its partners; rather it implies that a firm is not acting in a manner that strengthens the relationship. A firm that engages in opportunistic behavior seeks to gain more from a relationship than it contributes. For example, in 2002 General Motors used its industry power to demand price cuts of four to six percent from its supplier partners even though it had received similar reductions in price the previous year (General Motors demand..., 2002). To minimize loss due to a partner's opportunistic behavior, firms incur increased costs to monitor and scrutinize partner behaviors (Gounaris, 2005; Kwon & Suh, 2004). As a result, productivity suffers and the desired efficiency and effectiveness are not realized and ultimately performance is affected.

I argue that when trust is low, firms will behave opportunistically because they lack assurance that partners will reciprocate trustful behaviors. Firm fearing opportunism will tend to close them off from partners thereby decreasing the effectiveness of relationships. Supply chain relationships might continue, but not as effectively as they could at high levels of trust. Additionally, when trust is low, firms may actively search for alternative partners (Kumar, Stern, & Achrol, 1992) and therefore limit their exposure in current relationships. For example, a firm

might limit the amount of information shared, withhold resources from the relationship, monitor partners closely, and avoid risks. The actions suggest that the firms are more concerned with their own priorities than with the priorities of the supply chain. Thus,

Proposition 2: *Trust is negatively related to the display of opportunistic behavior in supply chain relationships.*

Relationship Termination Costs

Although supply chain relationships have the potential to produce various efficiencies and effectiveness (e.g. Petersen, Ragatz, & Monczka, 2005; Rajendran & Ziegler, 2001), there are times when firms must terminate certain relationships. Unfortunately, there are costs to termination, some of which may be very high as in the case that idiosyncratic investments have been made (Heide & John 1988). Termination costs differ from the more widely acknowledged switching costs (Porter, 1980) in that it is possible that no "switch" occurs after the relationship ends. For example, upon termination of a supplier, a firm may choose to discontinue the use of the product or service that the supplier provided thereby alleviating the need to find a new supplier. Although it is possible that no switching costs are incurred, the firm does realize costs of termination. Termination costs include all expected losses from termination such as the lack of a comparable alternative partner, relationship dissolution expenses, and/or switching costs (Morgan & Hunt, 1994). Because termination involves costs, it may be very expensive for firms to end relationships frequently (Morgan & Hunt, 1994). To avoid termination costs, firms become somewhat dependent upon their current set of partner relationships (Heide & John, 1988; Jackson, 1985) and increase their interest in maintaining quality relationships (Dwyer, Schurr, & Oh, 1987). Therefore, as termination costs increase, firms display more commitment to a relationship and this is likely displayed through constructive behaviors. Thus:

Proposition 3: *Termination costs moderate the relationship between trust and constructive behavior in supply chain relationships; the relationship is more positive when termination costs are high.*

Opportunistic behaviors tend to benefit firms in the short run at the risk of partnership stability in the long run (Ellram & Cooper, 1990). Because opportunistic behaviors may eventually cause a supply chain relationship to end, firms engaging in these types of behaviors are more likely to incur termination costs. Therefore firms must weigh the short term benefits of opportunism against the long term costs of relationship termination. In a simple cost-benefit analysis, firms would only want to engage in opportunistic behavior if the value of the opportunistic behavior is higher than the termination costs. This suggests that as termination costs increase, firms are less likely to display opportunistic behaviors and instead seek to behave in ways that maintain their current relationships.

Proposition 4: *Termination costs moderate the relationship between trust and opportunistic behavior in supply chain relationships; the relationship is more negative when termination costs are high.*

Relationship Benefits

Competition requires that firms continually seek out products, processes, and technologies that add value to their own offerings (Porter, 1980). This suggests that partner selection may be critical to a firm's competitive strategy. In fact, supply chain relationships, and specifically the role of procurement, may be the most important factor in delivering superior value to customers (Webster, 1992). Those partners that deliver superior benefits will be highly valued. Firms then likely commit to establishing, developing, and maintaining relationships with such valued partners. Therefore, firms that receive superior benefits from a partnership, such as profitability, customer satisfaction, and product are likely to be committed to the relationship. Thus, I suggest:

Proposition 5: *Relationship benefits moderate the relationship between trust and constructive behavior in supply chain relationships; the relationship is more positive when relationship benefits are high.*

Opportunistic behaviors tend to put the priorities of a firm above the priorities of the relationship (Das & Teng, 2000). Firms that behave opportunistically are more likely to forgo the benefits of the relationship and concentrate on the benefits of their own actions. Opportunistic behavior will cause partners to withhold their commitment to the relationship, thereby decreasing the potential relationship benefits. Extreme opportunism may even eliminate any relationship benefits, effectively destroying value. Therefore, for firms to behave opportunistically, the opportunism benefits must outweigh the relationship benefits. As the relationship benefits increase, the hurdle for value creation through opportunism increases. Thus, I suggest:

Proposition 6: *Relationship benefits moderate the relationship between trust and opportunistic behavior in supply chain relationships; the relationship is more negative when relationship benefits are high.*

Behavior Observability

A critical factor of firm behavior is the extent to which the behavior is observable to outside parties (Greve, 2008). Research in the field of competitive dynamics indicates that in highly collusive situations, firms will tend to honor collusion, or tacit agreements, when their actions are perfectly observable (Bernheim & Whinston, 1990). Under perfectly observable conditions, firms that defect from collusion are always detected and punished. However, when behaviors are imperfectly observable, there may be an incentive to defect from collusion because firms may act opportunistically without detection. I assert that behavior observability may not only affect a firm's behavior toward its competitors but also toward its partners.

When actions are imperfectly observable, constructive behavior is not affected. Partners that trust one another will continue to display constructive actions whether the actions are observable or not. However, when actions are imperfectly observable, opportunistic behavior is affected. Void of detection, firms that are intent on acting opportunistically will do so when they have the opportunity. An interesting twist is that the firms that act opportunistically in some respects may continue to act constructively in other respects. Consider the stereotypical con artist. This person displays a great amount of constructive behavior that allows him to gain the trust of the victim.

Meanwhile, the con artist is acquiring resources (i.e. money or commitment) from the person without that person's knowledge. I argue that firms which are likely to engage in opportunistic behavior will also engage in constructive behavior. One reason may be that the firm seeks to continue the relationship as long as possible to continue to reap the benefits of its opportunistic behavior. Based on arguments that behavior observability only affects opportunistic behavior, I propose:

Proposition 7: *Behavior observability moderates the relationship between trust and opportunistic behavior in supply chain relationships; the relationship is more negative when behavior observability is high.*

Behavior and Performance

Constructive behaviors communicate a sense of trust to partners who in turn reciprocate the trust allowing the relationship to strengthen. This positive interaction allows firms to coordinate their effort and act in synchronization thereby creating efficiencies which lead to performance gains. An example of constructive behavior is the sharing of information, which has been labeled as the most important factor in successful supply chain relationships (Handfield, Krause, Scannell, & Monczka, 2000; La Londe 2002). Information sharing serves to reduce the level of uncertainty in supply chains as in optimizing inventory levels. Information sharing allows partners to plan based on the same set of data, thereby synchronizing their approach to issues and realizing cost reductions. Similarly, other types of constructive behaviors have positive effects on performance. Willingness to dedicate sufficient resources to a relationship helps to ensure that initiatives continue forward and performance goals are met. Offering concessions to a partner, when necessary, minimizes the likelihood of confrontations and allows the relationship to continue in a positive manner. Thus,

Proposition 8: *Constructive behavior is positively related to firm performance in supply chain relationships.*

Conversely, opportunistic behavior communicates a lack of trust to partners who in turn reciprocate in a similar manner. Opportunistic behaviors hinder coordination among firms and act to prevent performance gains from the relationship (Kumar et al., 1992). For example, a firm might limit the amount of information that it shares with partners. This promotes uncertainty within the relationship and leads to delays in progress. Firms are less likely to interact with the same enthusiasm in the presence of uncertain partner behaviors. Similarly, other types of opportunistic behavior have negative effects on performance. Withholding resources from the relationship causes progress to slow and threatens the attainment of performance goals. Monitoring partners by scrutinizing and verifying every transaction is time consuming and expensive, both of which affect performance (Kwon & Suh, 2004). Ultimately opportunistic behavior negatively affects performance of the relationship; however, it may increase the performance for the opportunistic firm.

Although opportunistic behavior may detract from supply chain relationships, firms that act opportunistically may make performance gains themselves in several ways. For example, firms that make small price adjustments or changes in quality may improve their profitability at the

expense of their supply chain partners. If these changes are subtle, firms may be able to gain in performance and not face retaliations from others (Greve, 2008). Firms could also target a small set of partners thereby limiting the impact of their opportunistic behavior and subsequently limiting retaliation. This might also limit the risk to the firm's image in the case of detection. Finally, actions that are difficult to observe or have ambiguous interpretations are less likely to draw a response (Chen & Hambrick, 1995) and therefore more likely to provide performance gains. In summary, those firms that chisel away at partner benefits in favor of themselves and at the expense of partners may be able to gain in performance. While firm performance increases, the performance of the supply chain decreases. Thus,

Proposition 9: *Opportunistic behavior is negatively related to firm performance in supply chain relationships.*

Trust on Performance

Lastly, I suggest that trust has a direct effect on performance. Trust, in the presence of neutral behavior will still increase the performance of the relationship. This happens when behaviors are not extreme enough in and of themselves to affect the relationship performance. Trust during periods of status quo allows firms to conduct business without incurring the expense of opportunistic behavior such as continuous price shopping as a means of monitoring the current supplier. It is also expected that trust will help alleviate hardships in the relationship and allow parties to overcome misinterpretation of displayed behaviors. Thus,

Proposition 10: *Trust is positively related to firm performance in supply chain relationships.*

DISCUSSION

To the best of this paper's knowledge, no study has focused on the effects of trust on relationship performance and the mediating effects of behaviors. This study taps relationships between buyers and suppliers and assesses the success of the relationship based on the level of trust and expressed behaviors. One general implication is that varying levels of trust can serve as a key ingredient in the determination of displayed behaviors in the supply chain between buyers and suppliers. High levels of trust lead to greater constructive behaviors such as information sharing (Kwon & Suh, 2004), and lower levels of opportunistic behaviors such as opportunistic behavior (Geyskens et al., 1998).

The effects of trust on behavior, however, are moderated by three critical factors: termination costs, relationship benefits, and behavior observability. While higher termination costs and relationship benefits both promote greater constructive behavior and less opportunistic behavior, the effects of behavior observability differ. Termination costs and relationship benefits are economic factors and I can expect rational outcomes in terms of firm behavior. However, behavior observability is a social factor and such rationality cannot be assumed.

Behavior observability is a benefit when firms seek to behave constructively. Firms are able to display their commitment to the relationship and gain reassurance that their partners are also committed to the relationship. Opportunistic behavior, on the other hand, becomes a bit more

complex when considering behavior observability. When observability is low, firms can behave opportunistically without much risk of being detected or punished. This might occur when there are information asymmetries. For example, if a supplier holds proprietary information about the true value of a product or service, it may be able to charge a price to the buyer that is above the fair price.

When behavior observability is high, firms must weigh the economic benefits of opportunism. As mentioned above, actions that are perfectly observable are normally detected and met with punishment. Therefore, for a firm to behave opportunistically at high levels of observability there must be little risk of punishment. The previous example of Hyundai (Updike & Nakarmi, 1995) highlights how firms may defect and use knowledge gained from the partnership for its own use. By being the first one to defect, Hyundai gained an advantage and was able to exploit a technology without being punished. Hyundai, in essence, took advantage of the trust extended by Mitsubishi. Being the first one to break the trust, may give the firm a head start, much like a first mover. In doing so, the firm must ensure that the new position is defensible and not easily imitated (Lieberman & Montgomery, 1988). However, it is likely that by defecting, the firm loses any potential future benefit from the relationship. Further, defection that is observable may limit future partnership opportunities with other firms as the defecting firm may gain a reputation as an untrustworthy partner.

Behaviors, in turn, mediate the effects of trust on relationship performance. The mediating effects I predict indicate the belief that social enforcement of informal rules is often an effective means of protecting relationships (Hill, 1995). Use of social enforcement behaviors allows firms to react quickly to relationship issues. Enforcement can take place in the absence of lawyers, or in many cases, in the absence of high-level executives (Dyer & Singh, 1998) thus providing quick resolution to issues. Costs of enforcement are low and in most cases involve employees who are directly involved with the issue. The results also reinforce the belief that proper management of relationships can lead to competitive advantages (Ireland et al., 2002). Social enforcement can make relationships more effective and efficient and therefore, more difficult to imitate.

While both constructive behaviors and opportunistic behaviors positively affect performance, the question is raised as to which behavior a firm should engage in. This is likely a question of the value of the partnership opportunity, firm opportunity, and the cost of detection. Overlaying these is the ethical values of the firm. While I have highlighted that both constructive and opportunistic behaviors can be profitable in the short term future research should investigate the long term benefits as well. Perhaps opportunistic behaviors have a limit to which they can be effective. It seems reasonable that over time a firm would be labeled as opportunistic and then find it difficult to establish relationships with other firms. This would certainly affect long term performance.

There are several managerial implications that can be derived from these arguments. First, constructive and opportunistic behaviors should not be viewed in the same scale. They each indicate different actions and are not mutually exclusive. Also, the context in which behaviors occur should be taken into account by managers. It is possible that opportunistic behavior is affected by conditions external to the partner relationship. For example opportunistic behaviors

that occur during times of economic stress may be more related to firm survival than lack of trust in a partner. Also, it is likely that constructive behavior is affected by conditions within the relationship. Interpersonal relationships and strong corporate cultures may overshadow the effect of trust at the firm level.

Second, managers should be aware of signs of mistrust from partners. Addressing mistrust early on will avoid large altercations later. Managers would be wise to extend the optimal level of trust to a partner. Optimal trust is “knowing whom to trust, how much to trust them, and with respect to what matters” (Wicks et al., 1999, p. 102). By doing so, managers can limit their firms exposure to the risk of a partner going bad. Lastly, managers should consider trust when determining opportunities to pursue. Managers in an environment of high trust should discount risk to the degree that they believe the partner will alleviate the risk. Working trustfully on each firm’s strengths, managers can entertain opportunities that would otherwise be out of reach.

CONCLUSION

Because the effects of trust on performance within supply chain relationships is not fully understood, I have attempted to shed light on this relationship. The first step in this direction draws on social exchange theory and considers how the behaviors of firms, much like the behaviors of individuals, aids in building successful partner relationships. I suggest that firm behaviors display the level of trust that one firm has toward another. It is through the display of trusting behaviors that partner relationships succeed.

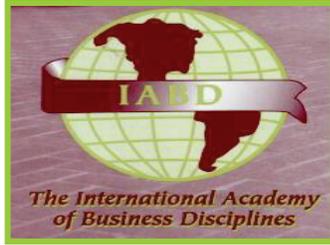
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