

Dynamics of trust in customer-supplier relationships

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Abstract

The purpose

We investigate origins and reasons of incidents that impair trust in business relationships, reactions of the parties and consequences, with the aim to get insight in the dynamics of trust in customer supplier relationships.

Methodology

Empirically we rely on cases of incidents in 14 business relationships.

Findings

We found that at the origin of incidents that impair trust between parties to business relationships are perceived 'misbehaviors' of the counterpart but also various contextual factors. We also found that efforts to repair trust are asymmetric and that incidents are mitigated or exacerbated by external events which makes the process of repairing unpredictable.

Originality

We argue that the concept of trust in business relationships is more faceted than usually assumed, broader than individual perceptions of trustworthiness of the counterpart. Implications of our findings for 'managing trust' are discussed.

Key-words: trust, customer-supplier relationships, trustworthiness

THEORETICAL BACKGROUND

Our understanding of trust in business relationships is that it can take various forms and can be understood, interpreted and perceived differently by the parties, depending on the relational context, attitudes, behaviors, expectations, roles, perception of uncertainty and position of the interacting parties within the relationship. Most studies of trust in business relationships apparently tend to focus on “static, cross-sectional and variable-focused correlational type of explanations ...” (Huang & Wilkinson, 2013), while it has been argued that trust should be approached as a ‘dynamic process’ (Möllering, 2013). The actual dynamics of trust in business relationships have been studied but the picture is less rich.

Two streams of research addressed the conceptualization of dynamics of trust in business relationships. The first stream of research links trust to the relationship's life cycle. The second stream of research related to dynamics of trust turns the attention to the interaction of parties in a relationship, noting that trust changes through the sequence of actions and reactions of the interacting parties. As the development of the relationship is non-linear, trust does not always increase or strengthen with subsequent interactions. Assuming trust to be linked to interactions, it is to be considered as constantly challenged, repaired and changed (Kim et al., 2009; Schoorman et al., 2007).

Trust is impaired (or lost), when one of the relationship's parties sees that the partner does not comply with the previously established norms and principles, does not meet expectations, and therefore cannot be relied on. Then, distrust can emerge, leading to a gradual deterioration of the relationship as suspicion and negative emotions surface (anger, fear or insult), and to change in the nature of the relationship (Solomon & Flores, 2001). There are studies arguing that the loss of trust may take place much faster than what was required to build it (Hempel et al., 2009), because events that damage trust are more noticeable than positive ones that contribute to build trust (Kramer, 1999). Such events also have a stronger impact on trust than positive events (Slovic, 1998).

When trust is impaired, question arises about the process of rebuilding trust and how it can be managed. Attempts to restore trust meet a number of complications. However, the process of repairing trust appears more difficult than building trust at the beginning of the relationship and tends to require different strategies (Kim et al., 2006). Actions to restore trust in customer supplier organizations, can have different time horizons and involve different people.

Empirical research on dynamics of trust tended to focus on actions, at various stages of the relationship, aiming at strengthening trust. However, mechanisms and processes that impair trust that exists or lead to the emergence of distrust are not equally examined. Reflections on what actions to take in situations when trust is threatened or lost, are rare (Ekici, 2013). While the importance of affection in trust building has been noted (McAllister, 1995), research suggests that it is difficult to completely grasp the full concept of trust that encompasses both conscious and unconscious elements affecting the interaction behaviors in business relationships (van Zeeland & Henseler, 2018).

Given the (evidently) elusive nature of trust concept that affect our current understanding of its essential role in cooperative behaviors we will approach the topic empirically focusing on incidents perceived by individuals as affecting negatively the trust in a relationship with a business partner and are set to explore the origin of these incidents, reactions of the parties and the consequences for the interorganizational business relationship.

METHODOLOGICAL NOTE

As our aim is to provide a deeper insight into what happens to trust in relationships over time we chose to undertake an exploratory study, following a qualitative, interpretational approach which has been used in research concerning trust in business-to-business relationships (e.g. Ekici, 2013; Finch, Wagner & Hynes, 2010). Since impairment and rebuilding of trust is a contextual and multifaceted, we seek the history of relationships in which trust had changed. We use the critical incident technique to identify the events that lead to impairment in trust and following reactions of parties to the incident and consequences for relationship development. Semi-structured interviews were used to collect accounts of incidents perceived as endangering and impairing trust in business relationships.

Since explorative research usually involves a small number of entities having rich knowledge about explored issues, we used purposive sampling to select people who were involved on supplier side in management of relationship with key business customer for at least two years. Data was gathered in Poland and Switzerland in 2017. Thirteen managers participated in in-depth interviews, talking about their histories of incidents. All the respondents manage customer relationships on daily basis.

We were particularly focused on identifying of interpretations of the nature and origin of incidents that endangered or damaged trust, trustor reactions to the incidents, the way of handling those incidents by trustee and finally the consequences for their relationship.

FINDINGS

Analyzing our 14 incidents impairing trust in business relationships we can observe a variety of factors that are at their origin. We can distinguish factors that appear 'internal' to the business relationship and factors 'external' to the relationship. In most cases trust impairing incidents appear to originate in factors internal to the relationship. For these we can further distinguish incidents triggered by personal behaviors of individuals and incidents that have origin in organizational factors (policies).

Parties in the relationship react to the incidents in different ways. In some of the incidents both the trustor (the disappointed) and the trustee put considerable effort in restoring the impaired trust. These reactions, attempts to solve the problem, fall in two different categories: The first is to intensify communication with the counterpart, often face-to-face. The second is to take also organizational measures to mitigate the tensions. Our incidents suggest that trust play at two levels; it may relate to the role of the trustee as individual, or it can be related to the trustee as organization. This explains why repairing of trust in a relationship has gone through an 'organizational solution' such as the 'removal' of the less-trusted person (following the incident). It appears easier to handle and repair trust when a specific person is at the origin of the incident than when the responsibility is attributed to the company or other contextual conditions.

In most cases, however, the reactions on the incident and efforts to re-establish trust have been asymmetric. There are cases when either the trustor or the trustee do not take action to handle the incident and to eventually restore the trust. The reactions of trustors are influenced by contextual events and the trustors in these cases tend to take some measures to secure one's interests, mostly formal contracting to specify mutual obligations. The business relationship then goes on in a 'new way' with lower levels of mutual trust.

In none of the cases there is a planned strategy for how to handle the incident. Some actions aiming at repairing the trust after the incident are taken spontaneously on individual level

without consulting superiors or colleagues. In other cases, the organization has reacted, and organizational solutions were involved.

All the incidents have led to substantial change in the relationships atmosphere. In four cases the incident has led to discontinuing the business, while in all other cases the business relationship between the parties continues. In several cases the change is that the relationship became more adversarial in various dimensions and typically the relationship goes on with a certain tension. In four cases trust has been re-established or even strengthened as a consequence of measures taken by the parties to repair the event.

In the full version of the paper all incidents are presented in details, including quotes. Table 1 summarizes main findings in relation to three interlinked elements: 1) origins of (factors that trigger) the trust impairing incident; 2) ways of handling the incident and, 3) consequences for the relationship development.

CONCLUSIONS AND IMPLICATIONS

A first broad consideration we are bound to draw is the elusive and yet essential role of trust in business relationships. Perceptions of trust are important for parties but these are activated principally when counterpart's behaviour is not meeting expectations. The expectation can regard both individual behaviours but also ways to conduct the business. It is then difficult to establish a norm as the expectations are more emergent than given. The initial trust is general and generalized, quite boundless. The presence of trust and its importance in a relationship appears to emerge 'in hindsight' and it only emerges 'in negative', that is when it is perceived inadequate as individual or business conduct. Trust is enmeshed with other relational factors, such as competence, exploiting opportunities, personal and business ethics and thus it is difficult to isolate. Trust in a business relationship can be impaired for reasons related to various facets of the relationship, mostly outcome of past interactions, but also for reasons that are external to the focal relationship. The trust is thus continuously enacted and confirmed but mostly tacit, and we would endeavour to claim that trust in business relationships is 'spontaneous', taken for granted. Expectancy of trustful behaviours and disconfirmation of trust are subject to different factors and processes. This is in line with studies of trust that stress the need for a more or less generalized leap of faith (Möllering, 2013; Weick, 2008) which is a reflection of trustworthiness of the counterpart, but even more than that, an effect of the 'propensity to trust' of the trustor and how it makes sense of the situations (van Zeeland & Henseler, 2018). It also confirms the emotional factors involved in perception of behaviours impairing the trust in a relationship (McAllister, 1995).

Our study raises the issue of the 'trust repair behaviours'. We found no generalized actions to be used to build or enhance trust. Impulsive behaviours (admission of mistakes and offering compensations) are not sufficient to 'repair' the situation. Effective trust repair behaviours appear rather mutual / joint behaviours that can address the factors that triggered the incidents. Effective handling of trust impairment incidents requires solving the issues of concern that are at the origin of the incident. This suggests the importance of 'rational/cognitive' rather than emotional factors in trust repair behaviours. 'Solving the problem' involves interactive communication but also organizational solutions are involved. Interorganizational and interpersonal trust are not two isolated levels, rather they are entwined in trust repair. Judgements regarding the individuals' trustworthiness are less related to personality than to the role expectations with respect to the individual. While there can be instances of 'pure interpersonal' factors, these are less common in business relationships. Our study raises this issue of entwinement of emotional and personal trust with cognitive and organizational role

related trust, which has been noticed and pointed out in prior research but not addressed (Weick, 2008). How trust (lack of trust) is interpreted is, in our cases, related to the roles the counterparts have in the relationship and in the own organizations.

Repairing trust involves norms and expectations that tend to be asymmetric. What will be the consequences of an incident of trust impairment is difficult to foresee for several reasons. One reason is the asymmetry in reactions and the other is the time dimension of the reactions to the incident. While our study focused on the single incident and how it is handled and how it impacts the relationship trajectory, it is clear that the single incidents are but events in series of events through which relationships evolve. Asymmetry in reactions is related to different mutual interpretations of behaviours and thus different perspectives which includes the perception of roles. This processual nature of trust is present in all our cases. This finding lends support to the notion that trust is linked to interaction events through which trust is constantly challenged, repaired and changed (Kim et al., 2009; Schoorman et al., 2007). It also suggests that single events, incidents of trust impairment, stand out as transformational and turning points (Harmeling et al., 2015) as these affect the mutual relational expectations of the parties and the individual actors involved. Bound to lead to change in the development path of the relationship and its contents, such transformational turning points arise from an instance of significant negative disconfirmation of the relational expectations.

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Table 1. Incidents impairing trust: origin, repairing and effects

Respondent/ incident	Origin/reason of the incident	Attempted resolution by trustee (repairing trust)	Reaction of trustor	Effects for the relationship (development)
R1	Promised delivery date, not respected (for the lack of third party authorization).	Excuse by e-mail of customer service dept; Adver accepts to pay penalty	Request to pay a penalty. Stop talking to Adver	Relationship interrupted
R2	Informing the customer of starting business with customer's competitor	Meeting with client's top management: Prices raised for the competitor and some commissions granted to Beta New person in charge of the relationship	Critique voiced to Brush Open for discussion to clarify the situation,	Relationship repaired and strengthened competitor stopped buying from Brush
R3	An employee of Delta starts own business in competition with Delta (taking free samples)	Customer condemned the behaviour of its employee and changed internal procedures (more control)	Open discussion (understanding)	Relationship strengthened The employee at the origin of the incident left Delta the company
R4	Betrayal of an own employee (starting own business) with F as supplier in competition with Indsys. No communication from F	No attempt of F to repair the situation, considered 'business reasons'	Accept the new distributor but search for alternative supplier	Relationship damaged but continues because of third party's demand
R5	The distributor starts producing competing products using know how learned from Fire	No discussion raised by Gamma; takes for granted. Felt non-justified by Fire.	Fire preferential treatment of others than Gamma. Re-allocation of resources to other partners	Relationship 'on the hold', business relationship continues
R6	K in financial difficulty suspends payments (Breach of contract)	K takes no action taken to inform, clarify and explain the reasons	L irritated terminates the contract (by Leasing)	After 2 years of interruption business re-starts
R7	Products delivered not up to the required standard. Causes production problems in Delta	Chem tries to solve the technical problems with no success.	Collaborates to find a solution, even though deliveries secured from others	Relationship damaged but continues with less trusting the

		Economic compensations offered		technical competence of Chem. Business limited
R8	Third party's negative comments to C about the supplier	Repeated social contacts and meetings to clarify the origin of mistrust	Openness to discuss but customer commitment less strong	Relationship continues but with less positive development
R9	Third party dropping negative comments about the supplier personnel and its competences	A senior manager put in charge of the client; face-to-face meetings with the customer; staff motivated to work harder	Understanding of the 'interpersonal' difficulties Openness.	Relationship not affected, collateral benefit for Constr 2
R10	Tensions when parallel sales take place in the DIS market; Perceived as intentional	Understanding for the concern of the customer (DIS) and improving internal procedure	Open confrontation on the issue with top management of the supplier	Relationship fully repaired
R11	Perception of 'being taken for a fool' when the client does not respect 'gentlemen's agreement.	No attempt to repair or admit any wrongdoing	No attempt to repair the interpersonal relationship	Relationship continues but with some more formalized agreements
R12	The supplier accepts a counter offer of Uti that is 30% lower than the first Lomb's proposal Lombs' credibility is compromised	No attempt to repair	No attempt to repair	Relationship interrupted
R13	Wind laments limited attention from the legal advisor LF1 in dealing a dispute	No attempt to repair	No attempt to repair Attempts to damage LF1	Relationship interrupted
R14	The Primary of the Clinique does not turn up as promised at international symposiums. Bad image for ATN	Admission of fault, excuse and promise of future co-operation, maintained in the months to follow.	Addresses the openly the loss of trust in a face-to-face meeting	Relationship fully restored