

ASSUMPTIONS OF TRUST IN LOGISTICS COOPERATION

Tomasz Małkus

Department of Management Process, Cracow University of Economics, Rakowicka 27, 31-510 Cracow, Poland,
malkust@uek.krakow.pl

Keywords: cooperation, outsourcing, supply chain, trust, reliance on partner of exchange, dependence on partner of exchange

Abstract: As a result of the need to shorten delivery time and meet customer expectations quickly the interest in supply chain cooperation, as well as the interest in cooperation with providers of specialized logistics service increased. Cooperation in the supply chain is usually of a long-term nature. Assumptions of cooperation with providers of complex logistics service also concern longer period of time. This increases the importance of trust, that the other party will work in the interest of cooperation even if the conditions in environment change and the agreement does not contain detailed provisions concerning such changes. The purpose of this article is to present determinants of trust in logistics cooperation, together with description of the role of trust in development and achievement of expected benefits in logistics cooperation.

1 Introduction

As a result of the need to shorten delivery time and meet customer expectations quickly, the interest in supply chain cooperation, as well as the interest in cooperation with providers of specialized logistics service increased.

Cooperation in the supply chain is usually of a long-term nature and requires frequent adjustments to changing needs of customers. Assumptions of cooperation with providers of complex logistics service also concern longer period of time. This increases the importance of trust, that the other party will work in the interest of cooperation even if the conditions in environment change and the agreement does not contain detailed provisions concerning such changes. Under the influence of the actions undertaken, trust between cooperating units may develop over time. In case of unfavorable, opportunistic actions the trust can be reduced or even eliminated.

The purpose of this article is to present determinants of trust in logistics cooperation, together with description of the role of trust in development and achievement of expected benefits in logistics cooperation (*The publication was financed from the resources allocated to the Management Faculty of Cracow University of Economics, under the grant for the maintenance of the research potential*).

2 Types of relationships in logistics cooperation

Distinguishing relationships in logistic cooperation, exchange of information, scope of cooperation and the attitude of each party to the organizational culture of partner can be highlighted, as general criteria of differentiation. Using these criteria following types of relationship can be distinguished [7]:

- adversarial – based on individual transactions, parties to cooperation share the small scope information, required in each transaction, there is a wide range of cooperation with the competitors of partner, parties are characterized by separate, different organizational cultures,

- informal cooperation – the way of linking parties is difficult to determine, the scope of information exchanged is small (it concerns transactions and occasional cooperative support in activities beyond the scope of cooperation), the range of cooperation with competitors of partner is wide, organizational cultures of partners separate.

- contractual – based on a medium-term contract, the scope of information provided by partners is broader, limited cooperation with competitors of partner (eg. to meet sudden increase of demand in a short period of time),

- formal alliance – long-term contracts between parties, greater scope of information shared, scope of cooperation with the competitors of partner is small, organizational cultures of parties to contract are similar,

- minority investment – based on long-term contracts, on the basis of such contracts one party to contract undertakes minority investment in cooperation, the scope of information shared is higher, than in previous types of relationships, further reduction of cooperation with the competitors of partner, organizational cultures similar,

- joint venture – based on long-term contracts, including mutual involvement of capital, risk and benefit sharing, wide range of information shared, according to requirements of ventures, the scale of cooperation with competitors of partners small (considered in situations of emergency), common organizational culture,

- vertical integration – also based on long-term contracts, full reciprocal access to information held by partner, limited extent of cooperation with the competitors of partner, common organizational culture common.

Concerning selected types of relationships it should be noted, that it is very difficult to indicate the exact boundaries, concerning occurrence of features represented by mentioned criteria. Presented approach can be treated rather as description of way, how features represented by criteria can change, along with the development of cooperation.

ASSUMPTIONS OF TRUST IN LOGISTICS COOPERATION

Tomasz Małkus

From the point of view of the need to describe and analyze the relationship between the principal and the specialized logistics service provider, the above distinction can be supplemented by the proposal of outsourcing typology. In this typology, the scope of outsourced services and the need to delegate decision-making powers, concerning implementation and improvement of outsourced tasks to the provider are basic criteria for distinguishing types of cooperation [6]:

- individual outsourcing (outsourcing tasks within a single, specialized workplace where the client needs a knowledge in the unknown area for a certain period of time),
- functional outsourcing (outsourcing a specific functional activity of organization that is costly for principal),
- competence outsourcing (ensuring competent decision-making powers of the service provider for the implementation and improvement of outsourced tasks).

Individual outsourcing may concern specific forwarding service. An example of functional outsourcing may be the cooperation with distribution service provider. The example of competence outsourcing, complex order processing and delivery to customers can be described. As the scope of outsourced service and the acquisition of decision-making competence by the provider increases, the importance of trust in such an entity is emphasized.

Considering detailed guidance on the suitability of these types of relationships in supply chain cooperation it can be stated, that business-to-business relationships should be based on a partnership, understood as creation of relationships based on trust, sharing risks and benefits, resulting in additional, synergic effects and competitive advantage [9]. In detail, the following features of such partnerships in the supply chain can be distinguished [8]:

- collaboration - informal agreements for strategic alliances, common information-sharing links to ensure transparency and understanding of activities undertaken, usually associated with formal contracts, enabling management of inventories by suppliers, joint planning, forecasting and replenishment,
- confidence in partners – concerning quality of delivered goods, delivery skills, delivery times, delivery capacity, financial security, capacity, quality of performance, risk management and risk mitigation,
- visibility of activities and effects across all partners in the chain – information exchange, concerning inventory levels, demand, seasonality, promotions, new product development, conditions of supply and distribution to recipients, production and supply schedules, performance, risk, unpredictable events, lost sales, ensuring immediate flow of current information when new risk factors occur is also important, this allows to adjust the action to new risks and to reduce risks,
- process convergence – it concerns the need to adapt the processes implemented by partners in the chain to common standards, which become accepted as a daily

mode of work over time, the example is adaptation of enterprises in supply chain to Just In Time concept, as well as implementation of overall quality management and joint risk management,

- high velocity – it refers to the time when goods move from the first suppliers to the final customer, closely related to the reduction of storage time, time of waiting for production, time for movement of materials, semi-finished products between the manufacturing stages, dependence on the level of integration of the partners is important.

Features presented can be seen as the most important from the point of view of organization and cooperation in the supply chain. Among these features trust (confidence) in partners is considered. From the point of view of the essence of trust and the foundations of cooperation, the use of trust as a condition influencing cooperation has its own limitations.

3 The importance of trust in logistics cooperation

On the basis of presented typology of relationships it can be stated, that together with the integration of cooperation the importance of mutual trust of individuals representing cooperating enterprises increases. Because the cooperation on the market is related to the rational choice of the partner, in description of relationship between companies also the reliance on partner should be taken into consideration. Reliance, closely related to trust can be described as a positive expectation of one party, that its specific needs will be met by the partner, taking into account its proven capabilities or existing, proven standards of exchange. Such reliance on partner is derived from the belief and desire to remain in the relationship (*Wide range of features distinguishing the concept of reliance on partner of exchange from trust between the representatives of partners is outlined in: [2]*).

In the area of outsourcing of single, uncomplicated types of work and recipient's focus on detailed control of performance of supplier, trust may play a negligible role. This applies in particular to contract aspect of trust, as well as to trust in the goodwill of suppliers. If particular control of vendor concerns also the performance and results of activity it can be concluded, that trust in the supplier's competence is low. If the recipient of goods and service extends the scope of outsourced service, period of cooperation is longer and the access of the provider to principal's own information increases it can be said, that the recipient relies on his supplier, trust in competence and goodwill of supplier increases.

The ability to create climate for mutual reliance concerns also establishing the relationship, that is based primarily on dependence on the other side of cooperation. The concept of dependence on other party involves the need to enter into a relationship with such entity, due to the lack of other possibilities [1], [2]. However, the basic condition for changing the approach of dependent party

ASSUMPTIONS OF TRUST IN LOGISTICS COOPERATION

Tomasz Małkus

(from dependence to reliance) may be the behavior of the supplier avoiding the use of its advantage on dependent party.

Taking into account the classification of outsourcing types, presented in this article it should be noted, that there is assumption for each of these types of cooperation, that the principal uses the service of a specialized company. Therefore, principal should be able to rely on service provider. Considering the trust between cooperating parties it is important to add, that it is emphasized in competence outsourcing. Although there should be mutual trust in all its dimensions in competence outsourcing, from the point of view of the ability to achieve the assumed effects of cooperation, contractual trust and competence trust in service provider should already exist in individual outsourcing and functional outsourcing.

Beside presented types of relationships, there may also be other situations with positive expectations, regarding the ability of partner to achieve results of cooperation. This can be accompanied by contractual trust, confidence in goodwill, and competence trust. It is related to aforementioned rationality of partner selection, often based on a thorough recognition of the experience and achievements in cooperation with existing principals. Taking into account the current importance of logistics in achieving and maintaining competitive advantage, the recognition of the current history of achievements of considered partner and ability to cut the time needed to ensure reciprocal reliance on parties, as well as trust between employees representing those parties is of particular importance.

Considering the nature of the relationship and the place of trust between companies in the supply chain, the essence of this form of cooperation should be taken as a starting point. As a result of integration of partners' activities, often combined with far-reaching commitment to the core business of suppliers and customers, reliance on partner, as well as ensuring trust in all dimensions between individuals representing parties in the supply chain are key factors of success of cooperation. The fulfillment of these conditions is considered as the basis for ensuring the stability of relations between partners (*Taking into account the trust between employees representing parties to contract and the reliance on partner as main dimensions of the relationship, together with presented, stable relationship, one can also distinguish: personal relationship (high trust and low reliance on partner), unstable relationship (low trust and low reliance on partner) and ad hoc relationship (low trust and high reliance on partner)*) [5]).

The need to develop trust in all dimensions is confirmed by results of research presented in sources of literature on the importance of trust in interorganizational management (*Wide range of results of research on the role of trust in inter-organizational management is presented in: [3], [4]*). These studies concerned primarily alliances. Taking into account the characteristics of relationships in supply

chains, as well as the characteristics of long-term, bilateral cooperation with suppliers of complex logistics services, the mentioned results may also be considered in logistics cooperation. According to these results, confidence in a partner's goodwill is more important in the sharing of material resources, while competence trust plays a greater role in the sharing of intangible assets. Developing trust in all dimensions between partners as well as sharing mechanisms (tangible and intangible) increases the likelihood of meeting the objectives of cooperation. Trust between organizations is positively influenced by interpersonal trust. Trust between organizations has a positive impact on engagement, knowledge sharing and specific investment in relationships. On the other hand, opportunistic behavior (of suppliers) have a negative influence on inter-organizational trust [4].

There are also companies with unique resources which might potentially have a tendency to influence excessively on dependent parties in the supply chain. However, the specificity of cooperation in the supply chain requires a significant mutual alignment between partners. As a result, the tendency of companies with unique resources to influence other partners can be significantly reduced. The limitation for such units may be the cost of resigning from cooperation in the supply chain, acquiring new customers and adapting to its requirements.

It is also important to take into consideration relationships with logistic service providers, along with relationships between companies, that are main partners in supply chain. The entire chain can be managed by the company, acting as Supply Chain Management operator. Such operator can influence all activities in the chain, as well as all dyadic relationships.

4 Conclusions

The content of the article has been developed to a great extent on the study of literature sources. Presented considerations are of preliminary character. From the point of view of the need for analysis and assessment of existing relationship, an attempt should be made to identify coherent set of criteria allowing to assess levels of trust of employees, that represent collaborating companies, the reliance of each party on the partner and possible dependence on partner. It may also be interesting to isolate the key criteria particularly useful in assessment of the relationship between companies cooperating in logistics area and determining the influence of trust between individuals representing partners to ensure the stability of the relationship between these partners. Mutual influence of bilateral relations, shaping the supply chain is also important.

References

- [1] BENDAPUDI, N, BERRY, L. L.: Customers Motivations for Maintaining Relationships With

ASSUMPTIONS OF TRUST IN LOGISTICS COOPERATION

Tomasz Małkus

- Service providers, *Journal of Retailing*, Vol. 73, No. 1, p. 15-37, 1997.
- [2] JIANG, Z., SHIU, E., HENNEBERG, S. C., NAUDE, P.: Operationalizing Trust, Reliance, and Dependence in Business relationships: Responding to the Ongoing Naming and Cross-Level Problems, *Journal of Business-to-Business Marketing*, Vol. 20, p. 123-225, 2013.
- [3] LEWICKA, D., KROT, K., KSIĄŻEK, D.: Methodological aspects of trust study in management science, *Zeszyty Naukowe Uniwersytetu Ekonomicznego w Krakowie*, No. 7 (955), 2016. (Original in Polish).
- [4] LEWICKA, D., ZAKRZEWSKA-BIELAWSKA, A.: *The role of trust in relational enterprise orientation*, in: Meanders of management theory and practice, G. Osbert-Pociecha, S. Nowosielski (ed.), Uniwersytet Ekonomiczny we Wrocławiu, Wrocław, 2016. (Original in Polish)
- [5] MOUZAS, S., HENNEBERG, S. C., NAUDE, P.: Trust and Reliance in Business Relationships, *European Journal of Marketing*, Vol. 41, No. 9/10, p. 1016-1032, 2007.
- [6] POWER, M.J., DESOUZA, K.C., BONFAZI, C.: *Outsourcing. Book of good practice*, MT Biznes Sp. z o.o., Warszawa, 2010. (Original in Polish)
- [7] WATERS, D.: *Supply Chain Management. An Introduction to Logistics*, Second Edition, Palgrave Macmillan, New York, 2009.
- [8] WATERS, D.: *Supply Chain Risk Management. Vulnerability and Resilience in Logistics*, Second Edition, Kogan Page, London, Philadelphia, New Dehli, 2011.
- [9] WITKOWSKI, J.: *Supply chain management*, Polskie Wydawnictwo Ekonomiczne, Warszawa, 2003. (Original in Polish)

Review process

Single-blind peer reviewed process by two reviewers.