

## **LIMITATIONS OF TRUST CONCEPT IN DESCRIPTION OF COOPERATION TERMS**

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**Abstract:** The intensification of competition, and difficulties concerning achievement of competitive advantage through development of technology affected the importance of quick delivery of products to customers. Therefore, the concept of integrated cooperation in supply chain was developed. In an effort to improve efficiency, the interest in cooperation with specialized service providers increased. Typologies of forms of cooperation and different types of relationships between cooperating parties presented in the literature show, that widening scope of cooperation and the related tightening of relationships between parties are increasingly important to convince both sides of cooperation, that the actions of partner lead to agreed, common objectives. Such a conviction may change over time, which affects the ability to achieve expected benefits of cooperation. The purpose of this article is to present determinants of trust in cooperation, together with restrictions on the use of trust in description and analysis of relationships between cooperating parties.

### **1 Introduction**

Under the conditions of significant competition and difficulties of technological differentiation of products, the importance of fast response to needs of customers and low delivery times increased. As a consequence, the concept to integrate the cooperation in supply chains was developed. In an effort to improve efficiency, the interest in cooperation with specialized service providers increased.

Typologies of collaboration and types of relationships between cooperating parties, presented in literature indicate, that together with widening scope of cooperation and the associated strengthening of relations between companies the conviction of each party, that actions undertaken by partner are going to meet common expectations is becoming increasingly important. Under the influence of actions undertaken, such conviction between cooperating units may become stronger over time. In case of unfavorable actions such conviction can be reduced or even eliminated.

The purpose of this article is to present determinants of trust in cooperation, together with restrictions on the use of trust in description and analysis of relationships between cooperating parties. (*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 The sense of trust in cooperation**

The increasing interest in the issue of trust in business and cooperation is influenced by contemporary conditions of activity of individuals and all organizations [12]:

- the need to cooperate with individuals who act on behalf of someone – in the context of market activity, it may concern distributors (wholesalers and retailers) who provide the manufacturer's products (representing the manufacturer) to the customers, it concerns also

cooperation with supplier of specialized services, acting on behalf of principal,

- growing interdependence in socio-economic life – it includes the need for closer cooperation to increase the scale of business and ability to adapt to changing market expectations,

- increased number of new threats and dangers – in response the size of organizational structures is reduced, the scope of cooperation with specialized units increases,

- increasing range of business opportunities in today's world – businesses are involved in raising funds, investing in different types of businesses, it facilitates the development of risk sharing in joint investments,

- limited transparency of operating conditions, related to the complexity of institutional, organizational and technical systems – companies cooperating in supply chains, as well as specialized service providers facilitate the acquisition of the expertise needed by each party to cooperate, but also co-create another complex organizational system,

- increasing anonymity of people involved in business activities – in terms of direct contacts between long-term partners, representatives of partners know each other, in broader cooperation, involving more representatives of different companies the contacts of all the representatives with each other can be difficult,

- increasing need to get in touch with new people – in business cooperation this can be related to the frequent rotation of employees, who are responsible for relationships between companies.

Presented, contemporary determinants of activity in socio-economic life can be regarded as the most important factors influencing the trust, particularly in business relationships.

Taking into consideration the issue of trust in relationships between cooperating parties it should be

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stated, that trust is closely related to risk and uncertainty of future events. In general, there are several approaches to risk and uncertainty [13]:

- hope – passive, indeterminate, unexplainable premise, that future events will follow as expected,
- conviction – a sense of hope combined with certainty, does not take into account active involvement, only passive observation of events,
- trust – the assumption made about the uncertain future actions of other people, it consists of beliefs and their expression in the form of actions of the person who trusts.

While belief can be treated as feeling based on a stronger expectation for the development of events in the future than in hope, according to presented views both the hope and the conviction are accompanied by passive observation. Therefore, the use of trust seems to be useful to describe relationships between cooperating companies.

The interest in the issue of trust in the relationship between suppliers and recipients is primarily related to the development of theory and practical experience of relational marketing, as well as to growing interest in long-term marketing relationships with customers [3]. Nowadays, trust is treated as a component of the quality of relationship [2], [6]. Therefore, the issue of trust is often undertaken in the study of relationships between parties to cooperation [1], [6], [9].

On the basis of proposals to define the trust in the relationships between suppliers and recipients presented in the literature, several main features of trust included in definitions can be highlighted (*Summary of proposed definition of trust, proper for conditions of cooperation of companies, along with methods for measurement of trust shown in [6]*):

- belief of one party, that its needs will be met by the actions taken by the other party,
- belief, that partner will behave in a manner, that will serve the needs of client, even, if the client is not able to monitor the behavior of partner,
- belief of one party of the reliability, benevolence, honesty and fairness of the other party,
- belief, that other party will avoid opportunistic behavior and will not take unexpected action, that may have negative influence on the partner,
- expectation of one party, that partner will work in the interest of the relationship.

Examples of definitions, that take into account these features influencing the quality of cooperation are presented in the table (Table 1).

In addition to mentioned features, the use of trust in the joint review and supplementation of the contract (contract) is also emphasized. Due to regulations on reciprocal obligations and rights of parties, the contract is usually incomplete. There are shortages of information (resulted with bounded rationality) and uncertainty related to future conditions in the environment of cooperation .

*Table 1 Description of trust reflecting terms of cooperation*

Feature	Examples of definition
Belief, that needs of one party will be met by activity of partner	<ul style="list-style-type: none"> <li>- trust is the belief of one party, that its needs will be fulfilled in the future by actions undertaken by the other party (Anderson and Weitz 1989),</li> <li>- trust is firm's belief, that another company will perform actions, that will result in positive outcomes for the firm, as well as not take unexpected actions, that would result in negative outcomes for the firm (Anderson and Narus 1990).</li> </ul>
belief, that partner will behave in a manner, that will serve the client needs, regardless of the ability to monitor the partner	<ul style="list-style-type: none"> <li>- trust refers to the manufacturer's expectation, that the supplier will act to benefit the manufacturer's interests, regardless of the manufacturer's ability to monitor such behavior (Joshi and Stump 1999),</li> <li>- trust concerns confidence in the predictability of each other's actions (Gulati and Singh 1998)</li> </ul>
Belief of reliability, benevolence, honesty and fairness of the other party	<ul style="list-style-type: none"> <li>- trust is conceptualized as partner's honesty, reliability and concern for the firm's welfare (Cullen et al. 1995),</li> <li>- trust is defined as one party's confidence, that the other party in the exchange relationship will not exploit its vulnerabilities, trust is characterised as a construct based on three components: reliability, fairness and goodwill (Dyer and Chu 2000)</li> </ul>
Belief, that other party will avoid opportunistic behavior and will not take unexpected action	<ul style="list-style-type: none"> <li>- confidence in the predictability of each other's actions (Gulati and Singh 1998)</li> <li>- trust is firm's belief, that another company will perform actions, that will result in positive outcomes for the firm, as well as not take unexpected actions, that would result in negative outcomes for the firm (Anderson and Narus 1990).</li> </ul>
Expectation of one party, that partner will work in the interest of the relationship	<ul style="list-style-type: none"> <li>- company trust is the belief, that the company will fulfill all its obligations, as understood by the buyer (Plank et al. 1999)</li> <li>- trust is confident belief, that a "trustee" will act beneficially because the trustee cares about the trustor's welfare (Saparito et al. 2004)</li> </ul>

Source: [6].

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It is important to highlight several dimensions of trust in cooperation relationships. The contractual dimension refers to the belief, that a partner will act in favor of mutual benefits, even, if some of the oral agreements have not been reflected in the contract. The dimension of competence trust is related to the expectation, that the exchange partner will meet the commitments made according to performance requirements. The third dimension concerns the confidence in goodwill of partner [6], [9] (*In contracting process the assumptions of the theory of incomplete contracts should be used [4]*). This issue was also taken into consideration

in the research on importance of trust in interorganizational management [7, 8].

Considering the use of trust in shaping and analysis of relationships between cooperating companies it should be noted, that trust is a mental, subjective relation of one entity to another [11]. It basically involves people's beliefs, their sentiments, intentions and may be more useful to describe and analyze personal relationships, than to relationships of economic nature (between enterprises) [10]. The argument for this approach is also the nature of organization. Organization itself has not emotions and attitudes. However there is a possibility to create certain atmosphere, that can provide context for emotions and behavior of members. Considering the issue of attitude it should be noted, that it is characteristic for a person treated individually, because it is the result of psychological processes, that take into account beliefs, influences and abilities [5].

### **3. Reliance and dependence in description and analysis of relationships between cooperating parties**

Taking into account the limitations of utilization of trust to describe and analyze relationships between suppliers and recipients, other proposals of conceptual ideas as reliance on partner and dependency on partner can be used [6], [10]. Describing the importance of reliance on the other party of exchange it should be emphasized, that it is primarily related to the rationality of the choice of partner and it is not associated with commitment of partner. Such commitment is characteristic for trust. Reliance on an exchange partner can be defined 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 (*Wide range of features distinguishing the concept of reliance on partner of exchange from trust between the representatives of partners is outlined in: [6]*). Reliance on partner to cooperation is derived from the belief and desire to remain in the relationship. Such an approach supports the development of trust between the parties [1]. It can be also confirmed by example of definition of trust in cooperation, that apply the concept of reliance on other party, proposed by Scheer and Stern (1992). According to mentioned

authors trust is the belief, that one's partner can be relied on to fulfill its future obligations and to behave in a manner, that will serve the firm's needs and long term interests [6].

It is worth to highlight here the difference between economic rationality (assuming, that it is often necessary to rely on a partner for long-term goals, as well as satisfying current needs) and predictive rationality (derived from positive expectations towards the partner, justified by his proven capabilities or applied and observed exchange standards) [6].

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], [6]. It can be treated as a result of small number of suppliers having resources, that are difficult to obtain by client but are important to run its own business. A party with such resources has the ability to influence the other side of the exchange (client, principal) and thus can adversely affect the trust between persons, representing the interests of parties to cooperation. However, if a supplier with unique resources makes these resources available and does not use a privileged position against dependent client, then client's involvement may grow over time, and the level of trust may increase [1].

### **4. Conclusions**

While the notion of trust is often used in literature to describe and analyze relationships between cooperating parties, it should be emphasized, that this may concern primarily the behavior and attitudes of individuals, representing cooperating companies. Relationships between cooperating companies do not always reflect individual attitudes of representatives. Despite efforts to agree on common principles and mutual benefits of cooperation, partners may have different interests in other fields of activity outside the cooperation. Also the conditions in the environment of cooperation can be much differentiated. Individual interests, as the answer to the environment of activity influence decisions of managers and relationships between cooperating parties. Even if there is trust between representatives of partners, reflected in decisions concerning terms of cooperation opportunistic actions of one party can eliminate such belief of other party. It is often impossible to restore the trust between parties again.

Presented considerations are of preliminary nature. Further research should address the suitability of trust in various conditions of cooperation, identification of criteria for assessing the level of trust between the cooperating parties and determining the effects of confidence in the long-term cooperation.

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