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Recognizing the Links between Power and Trust in Managing Supply Chain Relationships

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Abstract— In order to manage supply chain relationships effectively both aspects - the need to align the actions in order to coordinate the network and the alignment of interests of cooperating actors – are important. Therefore, the coexistence of both co-operative and competitive constructs should be recognized, where power coexists alongside with trust. Many scientific works have been written on power and trust as constructs of business-to-business relationships separately. However, most of the existing relationship marketing literature studies power and trust in relation to conflict or satisfaction, and the link between power and trust in the supply chain context appears to be largely ignored as a research topic. Some scientists assert that power negates cooperation and call power to be the antithesis of trust. Others argue that most social relationships are based on a mixture of both power and trust, that power and trust by no means exclude each other but occur in combination and that they should both be seen as alternative mechanisms for coordinating supply chain relationships. In order to understand the links between these two constructs one needs to be specific on their nature and origin. Based on the literature review we present ideas on how power and trust in supply chain relationships are related.

Keywords— Power, Trust, Supply Chain Relationships.

I. INTRODUCTION

According to Lazzarini et al. (2001) and Omta et al. (2001) 'supply chain networks are commonly characterized as firms that are embedded within a complex network of horizontal (i.e. strategic alliances, joint ventures) and vertical (buyer and supplier) relationships' (Ng et al., 2003). Such a supply chain network also could be defined as a strategic network (Hanf et al., 2004). According to Burr (1999) strategic network has a focal company coordinating the network firms in a hierarchical style. In such networks the

coexistence of both competitive and co-operative constructs is observable, where power of the focal company coordinating the network coexists alongside with trust being the basis for cooperation in the network.

Many scientific works have been written about power and trust as constructs of business-to-business relationships separately. However, most of the existing literature studies power and trust in relation to conflict or satisfaction, and the links between power and trust and their role in supply chain networks appear to be largely ignored as a research topic. Some scientists view the concept of power as alien to the effective workings of exchange relationships and success and state that power negates co-operation (Doney & Cannon, 1997; Bretherton and Carswell, 2002). Naudé and Buttle (2000) express the common view of it to be a negative influence and not helpful in the building of relationship quality; where the most important attributes of a good supply chain relationship are cited as being trust, integration, mutual understanding of needs, profit and satisfaction. Kumar et al. (1998) also view power as the antithesis of trust. On the other hand, French and Raven (1959) claim that the actual effect of power will depend on the different sources of power, which essentially define the resources available to influence decisions about the relationship. Kumar (2005) asserts that power is hardly the antithesis of trust and that one needs to be specific on the nature of the power structure and its conduct.

So the question of how power and trust relate to each other and whether they can have a stimulating effect upon each other and be used interchangeably or in a combination appears to be an important one. Using a literature review we present ideas about how these two constructs are related to each other and about how these links can possibly be used as mechanisms for achieving successful management

within supply chain networks with special attention to coordination and cooperation issues.

II. POWER

Applied to economic context power is defined as “the ability of one firm to influence the intentions and actions of another firm” Emerson (1962). There are also a number of others who agree that power can be seen as an ability to influence or to control the behaviors, decisions, intentions or actions of others in the pursuit of one’s own interests (Dahl, 1957; El-Ansary and Stern, 1972; Hu and Sheu, 2003).

French and Raven (1959) identified five types of power, each based on its source or origin: coercive, reward, expert, legitimate, and referent power. Coercive power enables an individual to punish others. In the supply chain network context it reflects the fear of a network member to be punished if he fails to comply with the requirements of the focal company. Reward power depends on the ability of the power holder to offer rewards to others. If a focal company can mediate rewards due to the access to resources which are valuable for other network actors, it can make them perform in a desired way. Expert power is derived from the skills or special knowledge in a specific subject. In case with a supply chain network the expert power of a focal company can be achieved if the network actors believe that it possesses a special knowledge valuable for them. Legitimate power stems from a legitimate right to influence and an obligation to accept this influence. A focal company in this case should be recognized in the eyes of the network members as having a “right” to make specific decisions and expect compliance with these decisions. Referent power depends on an ability to be attractive to others and depends on the charisma and interpersonal skills of the power holder. In the supply chain context this power is observed when network actors want to join a network.

III. TRUST

It is verified that trust forms an essential part of the intangible investments in time and energy that are necessary to build links between parties in relationships (Zucker, 1986). Additionally, it is an

aspect of interest-driven and goal-oriented behaviour (Coleman, 1990) and a rational belief about the character of probable behaviour of another person (Dasgupta, 1988). According to Moorman et al. (1992) trust is “the willingness to rely on an exchange partner in whom one has confidence”. In other words trust is a readiness to rely on another actor and the confidence that a partner will fulfil his promises and will work with integrity rather than with self-interest.

Trust can be classified by origin as follows. Firstly, earlier to a relation, trust has an initial value what can be based on inclination or willingness to trust (Mayer et al. 1995). So in order to develop a trustful relationship, firms need the willingness to trust each other. Secondly, trust may be built on experience that has developed into routinized behaviour (Nooteboom, 1999), thus, it is named experience-based trust. For example, two network actors gain the experience of having a beneficial relationship with each other. Thirdly, trust may evolve from knowledge and inference of the partner’s abilities, traits, goals, norms, values, which is referred to as cognition-based trust (Woolthuis et al., 2002). It can originate from a company’s knowledge about consumers’ demand obtained through market research. The fourth origin of trust is loyalty, care, warmth, friendship or empathy for the other partner. This is called affect-based trust (McAllister 1995). A company’s good reputation could serve as an example of such type of trust. The fifth kind of trust is called calculus-based trust which is based on both the fear of punishment for violating trust, and the rewards for preserving it (Lewicki & Bunker, 1996). A supplier develops calculus-based trust by evaluating costs and benefits and by considering advantages of entering a trustful relationship with a focal company.

IV. POWER AND TRUST

Many scientists have emphasized the role of power in providing for effective coordination of the exchange relationship and for allowing relatively stable relationships to develop between cooperating actors (Blau, 1964; Frazier and Summers, 1986). However, most social relationships are based on a mixture of both power and trust (Bachmann, 2001). So usually a combination of both mechanisms is necessary for

achieving coordination and cooperation within a supply chain network in a satisfactory way.

Power may affect the expectations of the two parties of what commercial share should be returned to them and their willingness to invest in future collaborative activities, and, therefore, the willingness to trust. If a powerful retailer, no matter through which sources it gained its power, treats its partners fairly, more firms will want to cooperate with it. It seems that when power is not abused it always has the potential to influence the decision to cooperate and helps to develop trustful relationships among actors or it can even serve as the precondition of trust. However, an excessive use of power may reduce or undermine trust in a supply chain relationship.

A more elaborate look at different types of power and trust reveal that there are several kinds of them which stem from the same origin. Depending on which forms of power and trust are implied, they can have different effects on one another.

For example, a supplier calculating the costs and considering the advantages of entering a trustful relationship with a focal company takes into account possible troubles that await it if it does not choose to trust the focal company. At the same time troubles or punishments are instruments of coercive power used by the focal company in order to direct and coordinate the behavior of its suppliers. Therefore, in both cases punishments force the supplier to make a decision in regard to trust (in case with calculus-based trust) or to obedience (in case with power).

Rewards can also serve as an origin for both trust and power. If a focal company continuously uses reward power to give rewards to its suppliers who comply with its quality standards and deliver on time, it can promote cooperation and generate experience-based trust in this relationship.

The same can be true for the other kinds of power. As mentioned before, expert power is based on the knowledge in a given area. The same knowledge can also serve as a basis for cognition-based trust. Being an expert and possessing a special knowledge, a focal company will not only be able to exert power over the network actors, but it will also be trusted by them.

Legitimate power and goodwill trust are originally formed or established according to either norms or rules of a specific institutional environment.

Legitimate power of a focal company originates from its established position in the supply chain network, and goodwill trust is also initially based according to the general beliefs or good nature of the supplier.

Similar parallels regarding the origin can be drawn between referent power and affect-based trust. Positive image and reputation forming the basis for referent power is likely at the same time to develop affect-based trust among network actors and can attract other companies to join a supply chain network.

V. CONCLUSIONS

Supply chain relationships can be characterized by a coexistence of competitive and co-operative strategies, where power does not stand alone, but rather exists alongside with trust among network members. These two constructs can be used as mechanisms for managing supply chain relationships successfully. The proper use of power may act as a precondition of trust, whereas it can also reduce or destroy the latter if it is used abusively.

However, the links between these two constructs appear to be more complicated. Different types of power and trust may stem from the same origin and, depending on which forms of power and trust are implied, they can have different effects on one another. We have supposed that punishments may serve as the same origin for coercive power and calculus-based trust; rewards – for reward power and experience-based trust; knowledge – for expert power and cognition-based trust; initially established position – for legitimate power, initial willingness – for goodwill trust; reputation – for referent power and affect-based trust.

Therefore, we have differentiated power and trust by source and presented initial ideas about how these two constructs can be related in the context of supply chain relationships. For future research we intend to investigate the effects of different kinds of power and trust on one another and how these interconnections and mutual influences can be used to manage supply chain relationships with specific attention to coordination and cooperation issues.

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