The Role of Trust and Supply Chain Partnership to Improve Performance: Western versus Asian companies

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Abstract

Supply chains are becoming global, connecting companies from different countries. A strategic orientation in supply chain management is important to compete and trust has been pointed out as an asset for supply chain partnerships. However, there are still few studies comparing the level of trust existent on supply chain partnerships and how this relates to operational performance in different countries. This paper aims to investigate if the level of process based trust existent on supply chain partnerships relates to operational performance in two different groups of countries (Western and Asia). The study uses four constructs: Supply Chain Planning, Supply Chain Partnership, Supply Chain Trust and Operational Performance Competitive criteria is used to measure operational performance. The data collection uses a survey methodology from the ongoing international project High Performance Manufacturing. The sample has 317 processing plants from three different industries. We used confirmatory factor analysis (CFA) to verify validity and reliability. We tested the scales regarding reliability, unidimensionality and convergent validity. Two groups of countries are analyzed using a structural equation modeling (SEM): Western (Europe and the USA) and Asian countries (Japan, South Korea and China). We test three hypotheses based on constructs from the proposed theoretical model and a fourth hypothesis to test if the constructs are influenced by regional aspects. The four hypotheses are accepted and findings show that the supply chain management has a positive impact on supply chain partnership and trust on both groups of countries. However, Asian countries have a higher level of trust impacting on supply chain partnership and this impact positively on operational performance. On the other hand, Western countries also develop supply chain partnership but it has with less influence of trust. In addition, for the Western Countries, the supply chain partnership also impacts positively performance. Based on these findings, we can suggest that Western Countries develop supply chain partnerships searching for more integrated supply chain, while Asian countries develop more trust based relationships to improve operational performance. These results can suggest that different institutional contexts (culture, regulation) affect the way supply chain partnerships are built. This paper contributes through a multi-region comparison using a large sample that expands the understanding of supply chain management and partnerships in different contexts. Managerial implications may help the management of international supply chains that involve companies from these different groups of countries (for example, relationships between Chinese and US companies members in the same supply chain).

1. INTRODUCTION

Supply chain (SC) is a phenomenon which always occurs when companies establish relationships, independently of the level of management. This statement distinguishes the supply chain from supply chain management (SCM), meaning that the latter is the systemic and strategic coordination of tasks among different companies that are part of a supply chain, aiming to improve each company's performance as well as the overall supply chain (Mentzer, Myers & Stank, 2001). Lately, SCs are becoming global, connecting companies from

different institutional contexts all the time (MacDuffie, 2011). A strategic orientation in supply chain management is key to compete (Yeung, 2008) and trust has pointed out as an asset for long term partnerships (Cannon, Doney, Mullen & Petersen, 2010). However, there are still few studies comparing the level of trust existent on supply chain partnerships and how this relates to performance in different countries (Dyer & Chu, 2011). This paper address to the following questions: are there differences on trust based relationships with suppliers in different group of countries (Western and Asians)? Does supply chain partnership impact on operational performance? Does trust affect performance directly or are there moderating variables?

This paper brings empirical data to this discussion through the results of a survey. Two groups of countries are analyzed using a structural equation modeling (SEM): Western (Europe and the USA) and Asian countries (Japan, South Korea and China). Results have implications for managers who deal with multicultural contexts and international supply chains. The section 2 presents the theoretical framework based on trust and supply chain partnerships and operational performance to develop the theoretical model proposed. Then, section 3 describes the method applied in this research and provides a background of the sample. Finally, the section 4 discusses the main findings and outlines the final considerations of this study, proposing further research.

2. THEORETICAL BACKGROUND

2.1 Supply Chain Management

Charvet, Copper and Gardner (2008) carried out a bibliometric study of the use of the term SCM in the academic literature. These authors divide the literature in four clusters as follows: the first is formed by papers with strong ties with logistics which are concerned on defining the term SCM; the second cluster encloses mathematical models focusing on information sharing or coordination mechanism; the third cluster focused on supply chain linkages (causal links between SC partners) and the fourth cluster groups a more heterogeneous set of papers related to supplier development, SC integration and global sourcing, among others. In their final remarks, these authors discusses that, so far, SCM is very broad and evolve in distinguished streams (Operational Research, logistics, interorganizational relationships) but that they have influenced each other.

Following these authors classification, the theoretical background of the paper is aligned to the third cluster and argues that the study of relationships among firms makes possible the identification of the driving forces that motivate them to collaborate (Dyer & Chu, 2000). SCM assumes an interdependence of agents that is sequential, that means, where the final product of an agent is the primary product of the next agent.

2.2 Trust and Supply Chain Partnership

The study of trust comes from economics and sociology, which have approached the institutional environment and inter-firm arrangements from different perspectives. Both areas of knowledge have some common interests that influence the way that Supply Chain partnership (SCP) has been studied in Operations Management. However, the acknowledgment of trust is a contradiction between sociology and economics. Institutional economics assumes opportunistic behavior as the norm and pays special attention to the use of contracts and safeguards. On the contrary, sociology pays special attention to the emergence and diffusion of trust in relationships (personal and institutional).

A number of scholars using a sociology basis have suggested that a variety of macro-level structures, including networks and governance, enhance the emergence and diffusion of trust. Authors agree that trust involves at least two agents: the trustor has trust in something (organization, product, institution) or someone – and the trustee (Zucker, 1986; Lane and Bachmann, 1998; Nooteboom, 2002). The definition used in this paper is that trust seen as "the extent to which one believes that others will not act to exploit one's vulnerabilities" (Morrow et al., 2004). Thus, it is the perception held by one party that another party is worthy of trust. Both agents can/should be both trustor and trustee.

A clear definition of who is the trustor is fundamental for a full comprehension of trust, as organizations have no ability to trust; only individuals within organization have this ability (Morrow *et al*., 2004). Batt (2003) asks, in his concluding remarks, who does the seller trust, the salesperson or the sales organization? Personal relationships are extremely important for the formation of trust and this factor should be considered when analyzing transactions.

Institutional trust exists where agents will not engage in opportunistic behavior because of the costs derived from punishment imposed by the institutional environment. Although Williamson (1996) does not recognize the possibility of trust as an absence of opportunism, there is still a role for trust within the transaction cost framework. It means that an agent can only trust a business partner if he does not engage in opportunistic behavior. In a business transaction, trust is a valuable strategic variable that impacts on timely deliveries that conform to specifications, general reliability and the sharing of know-how of production requirements and valuable information about the market, among others (Lindgreen, 2003).

Firms and individuals may pursue their self-interest by forming relationships with others to economize on transaction costs (Sako, 1992; Lindgreen, 2003; Batt, 2003; Morrow *et al*., 2004). Examples are the sharing of information on bad payers, reducing the need to inspect quality or the need to organize payment at the time of delivery. Besides reducing transaction costs, the reduction of uncertainty and information asymmetry is an important consequence of a trusting relationship (Dyer & Chu, 2003). Trust is a key factor to the development of partnerships among the different agents of a supply chain and distinguishes trust between inter-personal and interfirm (Johnston, Mccutcheon, Stuart & Kerwood, 2004). The creation of trust in inter-firm relationships can be considered related to the cultural context of the country (Sako, 1992; Dyer & Chu, 2003; Zaheer & Zaheer, 2006). In this sense, Dyer and Chu (2000), in their awarded study, found significant levels of supplier trust in the US, Japan and Korea. These differences are related to the institutional environment. These authors suggest that supplier trust depends on frequency and long term interactions that form routines (which they called **process based trust**). However, they also admit that the studied automakers buyers incur in additional costs while developing this kind of relationships.

Supply chain partnership (SCP) says that companies involved in frequent and long-term transactions are often offered incentives to not engage in opportunistic behavior, encouraging them over time to create trust (Croom, 2001; Zsidisin & Ellram, 2001). According to Pyke and Johnson (2003), companies have been using different approaches to manage their supplier, and one of them is the establishment of alliances and partnerships. Same way, the increasing pressure for costs reduction and development of products lead companies to focuses on supply chain partners (Sheth & Sharma, 2007). Vereecke and Muylle (2006) identified two kind of SC collaboration: information sharing (exchange of information of forecasting, planning and delivery) and structural collaboration (such as Kan-ban system and co-location of plants). They test empirically SC collaboration to performance improvement in engineering and assembling industries in 16 countries in the period of 200-2002 and concluded that collaboration with both customers and suppliers result in maximum performance improvement.

Johnston et al. (2004) developed a model to understand the major determinants of the buyer's satisfaction are the supplier's performance. They also showed that an increased cooperative behavior lead to higher performance and satisfaction. It also highlights the importance of building trust between buyers and suppliers. Their findings come from a broad range of buyer organizations from both public and private sector.

Mentzer et al. (2007) indicates that the next generation of competitive advantage may come from an effective relationship with supply chain partners, as soon as firms realize that collaborative business relationships improve their ability to respond to the new business environment. This happens by allowing them to focus on their core business and to reduce costs in business process.

These collaborations and partnerships in the supply chain are defined as the means by which companies within the supply chain work together mutual objectives, sharing of ideas, information, knowledge, risks, rewards, solutions to common problems (Cohen & Roussel, 2004; Benton, 2007; Bowersox, Closs & Cooper, 2002).

For Lambert (2006) the term partnership it is still the most descriptive term for closely integrated and mutually beneficial relationships that enhance supply chain performance. But the relationships within the supply chain will occur in many different styles of relationships and move around those suppliers among the different styles depending on their performance.

Figure 1 shows the characteristics of different types of relationships among firms in the supply chain.

By the market	Ongoing relationship	Partnership	Strategic alliance
Arm's length	Medium-term contracts	Long-term contracts	Long-term relationships
Clear parts specifications	Some sharing of information	Extensive sharing of information	Full sharing of information and plans
Computerized interaction	Some business with competitors	Increased trust	Limited or no business with competitors
Significant business with competitors	Good management relationship	Limited business with competitors	Extensive trust and merging of cultures

Figure 1. Characteristics of different types of supplier relationships
Source: Adapted from PYKE, David F.; JOHNSON, M. Eric. **Sourcing strategy and supplier relationships**: alliances versus eprocurement. In: HARRISON, Terry P.; LEE, Hau Leung; NEALE, John J. (ed). The practice of supply chain management: where theory and application converge. Boston: Kluwer Academic Plubishers, 2003.

The Figure 1 shows that beginning with the simple Arm's length relationship to the more complex long-term strategic alliances, firms can choose from different strategic choices for the relationship within their supply chain.

In the strategic alliance, the relationship extend well beyond this notion to an even more relational level of exchange in which partners create an intensive, interdependent relationship from which both can mutually benefit. Supply partnerships emphasize direct, long-term association, encouraging planning and problem-solving efforts (Benton, 2007, p.191).

2.3 Operational Performance

Previous study (Johnston et al, 2004) suggests that cooperative behavior in a dyadic relationship (buyer-supplier) lead to higher operational performance and satisfaction perceived by the buyer. In our study, we define that competitive criteria can measure operational performance. Firstly, Skinner (1969) and Wheelwright (1984) proposed the first basic criteria: costs, quality, flexibility and dependability. Other authors complete this proposal, including aspects such as innovativeness and delivery. Vereecke and Muyle (2006)

use these six as performance improvement measures in empirical research. Nevertheless, other empirical studies have identified still four criteria as the origin of the whole group including: cost, delivery, flexibility and quality (Boyer & Lewis, 2002).

We will argue that there are four fundamental factors that should drive a firm toward closer relationships. These factors should be considered in light of the operations objectives of the firm – cost, quality, delivery, and flexibility. Firms should focus on their critical objectives as they analyze relationship for each component category. (Pyke & Johnson, 2003).

According to the discussion above, we propose the theoretical model showed in the Figure 2.

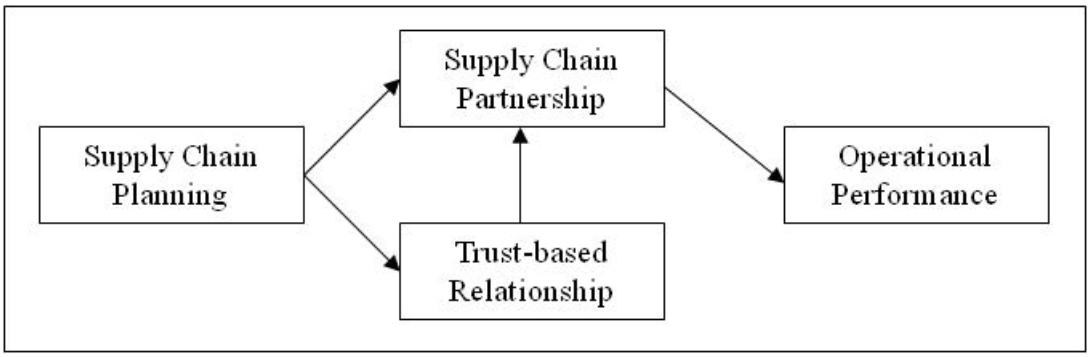

Figure 2. Theoretical Model Proposed

3. METHOD

The data collection uses a survey methodology based on project High Performance Manufacturing database (Schroeder & Flynn, 2001). The sample has 317 plants from three different industries: electronics, machinery and automotive suppliers. Plants are located in Austria, China, Finland, Germany, Italy, Japan, Spain, South Korea, Sweden and United States.

Currently, the project is in the third round. The first round was focused on plants located in the United States of America. The second round started in 1996 and included plants from Europe and Asia, ranging a large portion of the industrialized economies. The latest round began in 2004 and was set to cover 10 countries. The data already collected involve a wide range of companies from different countries within the three industries focused on the project (Table 1).

Table 1
Countries and number of plants

Countries	TOTAL
Austria	21
China	51
Finland	30
Germany	41
Italy	27
Japan	35
South Korean	31
Spain	28
Sweden	24
United States	29
TOTAL	**317**

We used confirmatory factor analysis (CFA) to verify validity and reliability. We considered those indices that are able to adjust to model complexity (Kaynak, 2003). The indices related to the goodness-of-fit are in the satisfactory levels (Table 2). The recommended indices are between parentheses. Also all the loadings are above .50, confirming convergent validity, as shown on Table 3.

Table 2
General statistics for goodness-of-fit

Goodness of Fit Statistics	
Chi-Square	165.39
Degrees of Freedom (df)	86
Probability Level	.000
Goodness of Fit (GFI)	.936 (.>.90)
Adjusted Goodness of Fit (AGFI)	.911 (.>.90)
Standardized RMR	.037 (0 = perfect fit)
RMSEA	.054 (<.080)
Akaike´s Information Criterion (CAIC)	395. (< Saturated and Independent Model)
CAIC for Saturated Model	811.068
CAIC for Independent Model	1652.588
Parsimony Goodness of Fit Index (PGFI)	.671 (>.50)
Parsimony Normed Fit Index (PNFI)	.732 (>.50)
Comparative Fit Index (CFI)	.945 (>.90)_

Table 3
Reliability of the constructs

Constructs (Cronbach's Alpha)	Questions	Loadings
Supply Chain Planning (.791)	We actively plan supply chain activities.	.70
	We consider our customers' forecasts in our supply chain planning.	.57
	We monitor the performance of members of our supply chains, in order to adjust supply chain plans.	.80
	We gather indicators of supply chain performance.	.73
Trust-based Relationship (.766)	We are comfortable sharing problems with our suppliers.	.80
	In dealing with our suppliers, we are willing to change assumptions, in order to find more effective solutions.	.54
	We believe that cooperating with our suppliers is beneficial.	.68
	We emphasize openness of communications in collaborating with our suppliers.	.69
Supply Chain Partnership (.803)	We maintain cooperative relationships with our suppliers.	.72
	We help our suppliers to improve their quality.	.78
	We maintain close communications with suppliers about quality considerations and design changes.	.78
Operational Performance (.605)	Conformance to product specifications	.57
	On time delivery performance	.71
	Flexibility to change product mix	.41

We used an X^2 difference test in order to check discriminant validity (Koufteros, 1999; Paiva, Roth & Fensterseifer, 2008). All the models indicated statistically significant differences, when one of their scales had its correlation was fixed at 1. Repeating this procedure for all the pairs of scales in the instrument, all the differences between the fixed and free solutions in X^2 were significant (Table 4).

Table 4
Results of confirmatory factor analysis test of discriminant validity

Construct scale pairs	Unconstrained		Constrained		χ^2 difference
	χ^2	d.f.	χ^2	d.f.	
Supply Chain Planning					
Trust-based Relationship	38,861	19	181,958	20	143,097*
Supply Chain Partnership	11,535	13	999,533	14	987,998*
Operational Performance	11,758	13	696,607	14	684,849*
Supply Chain Partnership					
Trust-based Relationship	23,766	13	1225,018	14	1201,252*
Operational Performance	16,599	8	2075,946	9	2059,347*
Trust-based Relationship					
Operational Performance	19,196	13	1187,695	14	1168,499*

*Significant at $p < 0.000$.

We used four constructs: Supply Chain Planning, Supply Chain Partnership, Supply Chain Trust and Operational Performance. Operational performance was based on the traditional competitive criteria (Cost, Quality, Delivery and Flexibility). Nevertheless, the Cost item presented a low loading in the first CFA analysis. Our decision was to keep it as a moderator variable for Supply Chain Partnership and Operational Performance. According to Baron and Kenny (1986, p. 1174), "…a moderator is a qualitative (e.g., sex, race, class) or quantitative (e.g., level of reward) variable that affects the direction and/or strength of the relation between an independent or predictor variable and a dependent or criterion variable. Specifically within a correlational analysis framework, a moderator is a third variable that affects the zero-order correlation between two other variables." In this case, we checked if Cost presents or not a relation of trade-off with the other three items that compose Operational Performance construct. Operational Performance presented a lower Cronbach's Alpha (Table 3) however for exploring studies values above .60 are acceptable (Malhotra, 2007).

The scales used a Likert scale with seven levels from (1) Totally Disagree to (7) Totally Agree. Two groups of countries were analyzed using a structural equation modeling (SEM): Western (Europe and the USA) and Asian countries (Japan, South Korea and China). 200 plants are located in Western countries and 117 in Asia. We test the following hypotheses in the two samples.

H1. SC Planning impacts positively on both SC Partnership and trust.
H2. Trust-based relationship impacts positively on SC Partnership.
H3. SC Partnership impacts positively on operational performance.

It is worth to mention that cross-cultural issues may emerge when investigating samples from different countries or regions. Rungtusanatham *et al.* (2005) and Rungtusanatham *et al.* (2008) identified national specificity related to cultural, political, economic and judicial issues. Studies like Cadogan, Diamantopoulos and Mortanges (1999) and Mullen (1995)

argued that cross-national studies must evaluate possible differences or equivalences between constructs, samples and measurements.

H4. The relationships between SC Planning, SC Partnership and trust are influenced by regional aspects.

The path analysis related to the proposed model is presented in Table 5.

Table 5
Path analyses results: regression weights and general statistics for goodness-of-fit

	Model Fit							
	χ^2	df	*p*	GFI	AGFI	RMSEA	PNFI	CFI
Sample 1 - Western (n=200)	145.45	86	.00	.91	.88	.06	.70	.93
Sample 2 - Asia (n=117)	117.24	86	.15	.88	.83	.06	.68	.95

Outcomes	Predictor	Western	Asia
Trust	Supply Chain Planning	.384***	.432***
Supply Chain Partnership	Supply Chain Planning	.457**	- .145
	Trust	.121	.508**
Operational Performance	Supply Chain Partnership	.125*	.391**
Cost (moderator)	Operational Performance	.111	.009

Estimated from structural equation modeling
* p < .05
** p< .001
*** p< .000

4. FINDINGS AND FINAL REMARKS

The results suggest that the SCM has a positive impact on supply chain partnership and trust on both groups (Asian and Western) of countries as expected. Therefore all the three first hypotheses based on the proposed theoretical model were confirmed. However, Asian countries have a higher level of trust impacting on supply chain partnership and this impact positively on operational performance. These results suggest that supply policies related to lean manufacturing are more present in Asian countries. In this case, companies seek to work with a small number of suppliers with a long term relationship (see Dyer & Shu, 2011, among others). Previous studies like Flynn and Flynn (2004) also identified similar differences between Asian countries (especially Japan) and Western countries. Also the results related to the positive relationship between trust and operational performance is expected (see for example, Dyer & Nabeoka, 2000). Probably, the lean manufacturing practices, though widespread worldwide, are still more present in Asian countries than in Europe and even United States of America.

On the other hand, Western countries also develop supply chain partnership but it has with less influence of trust. In addition, for the Western Countries, the SCP also impacts positively performance but it is a weak influence when compared to Asian countries. Thus, as Asian

countries developed process based trust, seems that this aspect has a strong positive impact in operational performance. It is worth to highlight that partnership is only present for that Asian sample when trust is present while this is not a mandatory aspect for Western sample. Cost does not influence the relationship between Supply Chain Partnership and Operational Performance. The results suggest that cost is not a central aspect in trust-based relationships and other criteria could determine these long term relationships.

Based on these findings, it is possible to suggest that Western Countries develop supply chain partnerships searching for a more integrated SC (Perona, 2002), while Asian countries develop more trust based relationships to improve operational performance (Dyer, 1996; Dyer & Chu, 2003). Asian countries are closely to the world class performance, i.e., are able to improve performance in different competitive criteria simultaneously (Flynn & Flynn, 2003; Paiva, 2010). Pyke and Johnson (2003) also found that companies have different approaches to manage their supplier, but in our study, even long term relationships can occur due to different ways. These results can suggest that different institutional contexts (culture, regulation, among others) affect the way SCPs are built (Cannon, Doney, Mullen & Petersen, 2010). The main aspect identified here is the differences levels of trust between the two samples. Therefore the fourth hypothesis was also confirmed. Similar results also were identified in several studies related to supply chain. Prahinski and Benton (2004) highlighted the importance of long term relationships to generate supplier's commitment and better performance. We identified similar aspects in the results found. In Western countries, there is no clear influence of SCP and operational performance. On the other hand, in Asian sample the presence of trust in the relationship influences positively SCP and in the sequence SCP is related positively to operational performance.

This paper contributes through a cross national and regional comparison using a large sample that expands the understanding of SCM and partnerships. It also provides improve generalization capacity for the studies by Dyer and Chu (2000, 2003, 2011). Managerial implications may help the management of international supply chains that involve companies from these different groups of countries (for example, relationships between Chinese and US companies in the same SC). As limitations of the study we may mention that the study focus only on three industries and therefore any generalization needs caution. Also, some differences of questions understanding or other influences of cultural aspects are potentially present considering that the questionnaires were applied in different countries with translation for the local language. The countries included in a group also have significant differences, for example, the role of institutions and level of development of countries such as Japan and China. In Western countries, it is known that are differences in Anglo-Saxon and Latin origin countries while regarded trust issues. Given the time and content limitations of this study, several avenues for future research are suggested. Future studies may explore in depth other regional differences. For example, if these practices are the same among the Asian countries, especially in the case of China. The comparison with other plants located in emerging economies such as Brazil and India is another research opportunity. Also the role of cost in trust-based relationships deserves deeper investigations.

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