

THE ROLE OF TRUST AND CULTURE IN BUILDING MUTUAL RELATIONS IN BUSINESS COMPETITIVE MARKET

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Abstract

Under the challenges of globalization and fierce competition from large, international companies, SMEs worldwide are searching collaborative solutions to their business sustainability problems, hence inter-firm networking proliferating in production, commercialization, innovation etc. This complex, evolving phenomenology, shaped by economic, technological and cultural factors, calls for inquiries, both conceptual and empirical, as to why and how to get involved in such collaborative settings, and how this engagement impacts on economic performance of individual firms and markets at large. Our research-in-progress paper tackles Polish SMEs involvement in inter-firm networks in terms of the peculiar interplay between the management culture in place and their ever-increasing use of information and communication technologies. Dominant culture currently prevalent in Polish SMEs is deemed to be marked by individualism and weak propensity towards involvement in networks; in turn, this can be explained by the enduring risk-avoidance attitude of most where old associations of state enterprises – along with the underlying tradition – were dismantled and fast pace privatization led to the emergence of standalone businesses, mainly SMEs. On the other hand, ICT and, in particular, the Internet, provides ever wider opportunities for networking, which has strategically meaning (Śmigielska, 2013, p. 30), knowledge sharing and joint business ventures. These technologies are significantly increasing the propensity for inter-firm partnering and offer an alternative range of solutions to the risk-minimizing concern of SMEs, oriented towards synergy, co-opetition and collaborative arrangements.

Keywords: value-based advantages, inter-organizational relationship, SME

JEL Classification: M14, M15, D22, D23

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1. Introduction

Under the challenges of globalization and fierce competition in contemporary economy companies are searching collaborative solutions to their business sustainability problems by developing inter-firm networking. This complex, evolving phenomenology, shaped by economic, technological and cultural factors, calls for inquiries, both conceptual and empirical, as to why and how to get involved in such collaborative settings and what are the key success factors of the networking.

2. The economics of network organization

Network organizations are analyzed from different point of views and within the different theoretical approaches. Van Alstyne (1997, p. 5) identified and described three of them: computer, society and economies. Here the focus is on network as economies which is considered an option to organizing transaction through market or vertical integration (Antivachis & Angelis, 2007). In this structure social relations over a set of persons, positions, groups, or organizations are involved. The most important are strategic networks which encompass a firm's set of relationships, both horizontal and vertical, with other organizations – be they suppliers, customers, competitors, or other entities – including relationships across industries and countries. They are composed of interorganizational ties that are enduring and have strategic significance for the firms entering them. They include strategic alliances, joint ventures, long-term contract with the suppliers (Gulati, Nohria, Zaheer, 2000).

Such kind of networks could be defined by the structure, process and purpose. Structurally they combine co-specialized possible intangible assets under shared control to achieve unifying purpose, what distinguishes network organizations from centralized organizations, inflexible hierarchies, casual associations, haphazard societies and mass markets (Van Alstyne, 1997, p. 5).

In knowledge based economy the collaborative networks tend to develop. They focus on collaboration and fulfillment the goals of the members whereas in industrial economy it was on cooperation. Collaboration involves mutual engagement of participants to solve problem together, which implies mutual trust and thus takes time, effort and dedication (Camarinha-Matos & Afsarmanesh, 2006). The examples of goal oriented networks include supply chain and virtual government (continuous production driven) as well as Virtual Enterprise, Virtual Organization, Dynamic Virtual Organizations, Extended Enterprise, and Virtual Organization

Breeding Environment (VBE). VBE is an association of organizations and their related supporting institutions, adhering to a bade long term cooperation agreement, and adopting of common operating principles and infrastructures with the main goal of increasing their preparedness towards rapid cooperation of temporary alliances for collaboration in potential Virtual Organizations.

VBEs, could be based on regional basis. They examples include: industrial district, business ecosystems. In business ecosystem, the networks try to preserve local specificities, tradition, and culture, and they frequently benefit from (local) government incentives. VBEs tries to cover the key sectors within the geographical region. It is characterized by the intensive use of ICT tools to support the cooperation. Among the most important market-related reasons of VBEs there are: profit increasing, coping with market turbulence and increase chances to survival. Organizational reasons should focus on management of competencies and resources as well as the approaches to built trust. Other elements that may determine the behavior of the network and its members include: schame of incentives, the existing level of trust, code of ethics, culture of collaboration, and collaboration agreement (Wang, Kovacs, Wozny, & Fang, 2006, pp. 30-36).

Analyzing network organization in the framework of Transaction Cost Theory (TCT) involves the general description of forms characterized by repetitive exchanges among semi-autonomous organizations that rely on trust and embedded social relationships to protect transactions and reduce their cost (Borgatti & Foster, 2003). It is argued that their fast development is due to the fact that they balanced the flexibility of the markets with the predictability of traditional hierarchies. Networks could be located between hierarchies and markets (Table 1).

Table 1. Comparison of the networks with markets and hierarchies

Firm attribute	Hierarchies	Networks	Markets
Purpose	- Advance the Interests of a Central Executive	- Advance the interests of the Cooperative	- Provide the forum for Transacting
Vertical Integration	- High, Centralized Ownership of Inputs to Production	- Variable	- None
Assets & Resources	- High Assets Specificity, Not Easily Traded - Slack Resources, Buffer Stock - Fixed, Largely Tangible Assets	- Moderate to High Assets Specificity - Few Slack Resources - Flexible, More Intangible Assets	- Low Assets Specificity - Easily Traded
Trust	- Low	- Moderate to High	- Low

Transactions	- Long term Time Frame, - High Likelihood of Repetition	- Moderate to Long Term - Variable	- Short Term Time Frame - Low Likelihood of Repetition
Boundaries	- Fixed, Rigid, In or Out - Strong, Typically Stable Ties or Associations	- Flexible, Permeable, Relative, Latent Linkages - Strong and Weak, Often Dynamic Ties or Associations	- Discrete, Entirely Atomic - Distant, Arms- Length, one- Time Ties or Associations
Communications	- Persistent - Through Channels (Vertical) - One-to-Many (or Many-to-One)	- As Needed - Direct - Many-to-Many	- Short Lived - Direct - Many-to-Many
Task Basis	- Functional Orientation	- Project Orientation	- Unitary (one party completion start to finish)
Control/Authority /Mode of Influence	- Status or Rule Based - Command/Obedience Relationship	- Expertise or Reputation Based, More Persuasion - Control also Effected via Tie Formation	Persuasion Achieved via Pricing Mechanism

Source: (Van Alstyne, 1997, pp. 88-89).

Involving in networks means often specialization and engagement in narrow range of activities which on one hand increases efficiency but on the other increases the fear of the partner opportunism. According to Williamson (1985) if asset specificity increases more complex governance structures (i.e., more complex contract) are required to eliminate or attenuate costly bargaining power over profits from specialized assets (Dyer, 1997). Dyer developed the model of interfirm cooperation in which production networks can simultaneously achieve the twin benefits of high assets specificity and low transaction cost, what could be the source of competitive advantage, (see Figure 1).

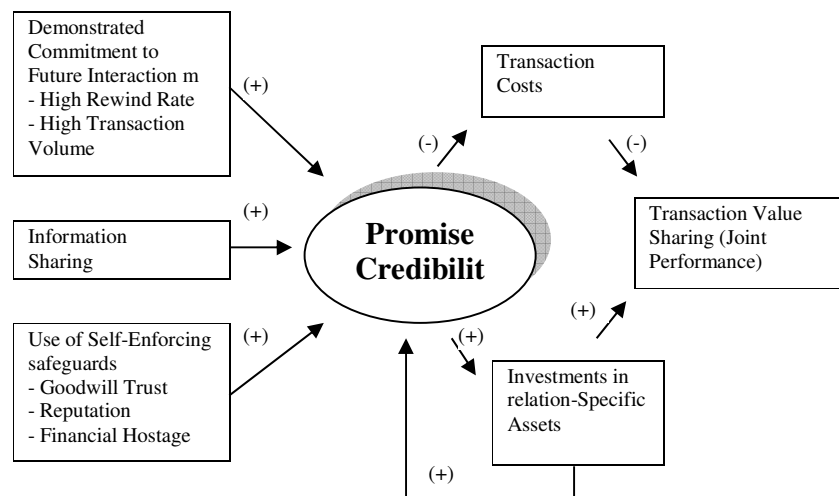


Fig 1. A model of interfirm collaboration

Source: (Dyer, 1997, p. 551).

In this model if the partners demonstrate commitment to future interactions by e. g. high transaction volume, information sharing, and transparency as well as usage of self-enforcing safeguards like goodwill, trust, reputation and financial hostage there is no need for bear high contracting, monitoring and enforcement costs. “The purpose of safeguards is to provide, at minimum cost, the control and trust that is necessary for transactors to believe that engaging in the exchange will make them better of” (Williamson, 1985; Dyer, 1997; Dyer & Singh, 1998a). Such a network reduces cost of the partners involved in them and in this way they become more competitive. But development of it depends directly on trust and indirectly on culture which influences propensity to collaborate.

3. The role of trust and culture in developing networks

Trust relates to the confident positive expectations that individual has about the motives of another in respect to situation involving risk (Hodgkinson & Ford, 2005, p. 22). The focus in bargaining power among network members raises new questions – concerning how performance gains (if any) are distributed within the network (Grimshaw & Rubery, 2005, p. 1038). Trust can be defined as increasing one’s vulnerability to the risk of opportunistic behavior of one’s transaction partner, whose behavior is not under control in the situation in which the cost of violating the trust are greater than benefits of upholding the trust (Rotter, 1967), (Rotter, 1971), (Rotter, 1980). There is a strong relationship between trust, information, control and influence

(Zand, 1972, p. 231). Without the vulnerability of the risk of opportunism there is no need to trust (Chiles & McMackin, 1996, p. 86).

Trust is the core of successful relationship and successful cooperation. (Zaheer, McEvily, & Perrone, 1998, p. 142) distinguished interpersonal from organizational trust. They define interorganizational trust “as expectation an actor 1, Can be relied on to fulfill the obligations 2. Will behave in predictable manner 3. Will act and negotiate fairly when the possibility of opportunism is presented”. Trust influences how parties in social exchange relationship think and act.

If the trust is low, parties of relationship need more information (see figure 2). As long as they get the information trust increases (Tomkins, 2001, p. 164-172).

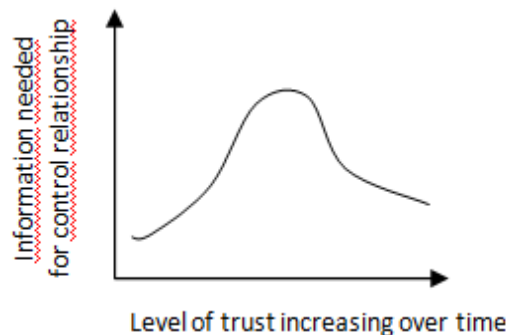


Fig 2. The inverse u-shaped relationship between trust and information

Source: (Tomkins, 2001, p. 170).

If the firms, which are highly economically interdependent, want to create long term and successful cooperation they should build higher level of trust or more extensive control mechanisms with the associated increase in information. The level of trust (and as a consequence the demand for information) and propensity to opportunistic behavior depends on culture and personal variables.

Culture is the concept which is very complex. According to the model developed by Schein (Schein, 1984, p. 4) three levels constitute it: 1. Behaviors and artifact, 2. Beliefs and values, 3. Underlying assumptions. This model could be applied to both corporate and national cultures. Since the international networks will be discussed the focus is on national culture. Literature suggest that organizational culture arise from specific historical events experienced by the group and organizations as well as form the influence of individuals engaged in their routine interactions. Thus within the same relative stable national culture context, organizational and

group cultures can vary widely (Salk, Emmett & Crocker, 2006, p. 77; Brannen, 2000, p. 192-193). According to (Laurent, 1986) corporate culture may modify first two levels but will have a little impact on underlying assumptions that are embodied in national culture. The underlying assumptions prescribe ways of perceiving, thinking, and evaluation the world, self and the others. This assumptions include views on the relationship with nature and the human relationship.

The relation with nature reflect several dimensions 1. Control over the environment, 2. Activity vs. passivity or doing vs. being 3. Attitudes towards uncertainty 4. notion of the time 5. Attitudes towards change 6. What determines the "truth". The dimension of individualism/collectivism is marked by the degree that people within a society prefer to act on behave of themselves as individuals, as opposed to acting on behalf of the group. In collective culture a person learns to respect own group, remain loyal to it and prefer group interest above individual (Emmett & Crocker, 2006, s. 77). Networks build with the companies from the countries with high power distance are likely to exhibit the need to show deference to contact, so the additional time may be required to pay the appropriate respect to network members. If the home market is characterized by collectivism relationship based on traditional concept such as trust and loyalty is valued. In individualistic society more emphasis is placed upon contact, and meritocracy (Dodd & Patra, 2002, pp. 122-123). Uncertainty avoidance is the measure of the degree to which a given culture adapts to changes and copes with uncertainty and ambiguity.

4. Problems of network development in Poland

The participation in networks is especially important for Polish SMS. The sector of small and medium sized enterprises is very important for Polish economy. In Poland in 2012 there were 1,8 million of firms, from which 99,8 % belonged to SME sector (Łapiński et al., 2014, p. 14-20). They generate in Poland almost a half of Polish GDP (48.4%) although their contribution to GDP is lower than average for UE28 it gives Poland the position of the sixth economy in the EU. But the problem is that many of them disappear every year also because they operate alone in very competitive market.

The research conveyed Hashi and Krasniqi which compared three advanced Central Eastern European countries (Poland, Hungary, and Czech Republic) (Hashi & Krasniqi, 2011, p. 475) indicated that SMEs in Poland (which is include in CEE group) have reached a stage where they could benefit from networking (mainly through: information flow, the ability to

represent the group's interest and influence public opinion and the policy process, etc. due to high quality labor force.

In Poland the masculinity culture dominates, what means rivalry, status manifestation and individualism. The focus is more on the individual person than the group so the tendencies to achieve the individual goals could be more important than goals of the group. It could become an important obstacle in networks development.

Reputation is linked to the trust on the internal and external level. The problem concerning reputation and trust building has become the main research subject of studies which created numerous models and approaches to its characteristics (Lavrač, Ljubič, Jermol, & Bollhalter, 2005, p. 170; Lavrac, Lavra, Ljubi, & Ljubic, 2007). Constituent of trust is reputation and cooperation. The main instruments of trust building, among others are: reputation, honesty, common values, goals, vision, organizational structure, adaptation within the enterprise, communication (Huotari & Iivonen, 2003, pp. 189-192). The results of the research conveyed in South-East of Poland (Potocki & Wierzbiński, 2013, pp. 73-74), showed that businesses which defined themselves as well known companies of high reputation defined importance of few factors which gives opportunity to competitive advantages in the context of perceived trust and company's reputation. From the point of view of SMEs, the most important factor which builds the company's reputation is the trust to firm. It is especially important in a situation when company starts cooperation with the new business partners.

5. Conclusion

Networks are characteristics for nowadays economy. By being involved in different types of collaboration companies could get access to the resources they do not possess and in this way become more competitive. Growing importance of networks is also associated with the development of information technology. IT makes the process of network coordination and control easier and cheaper. So in the well developed countries not only big but also medium sized and small companies are involved in different type of networks and many of them tends to be collaborative networks.

In Poland, due to growing competition not only from national but also international companies, independent firms face the problem of developing different types of relationships with business partners. Individualism and low trust which are characteristics for Polish culture could become the obstacle in network development. But on the company level business partner

reputation and trust, which could be the result of previous experiences, could increase the propensity for networking. But identification of real factors which encourage the companies to involve in the networks needs primary research.

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