Trustworthiness in Buyer-Supplier Relation on Supply Chain Collaboration among SMEs

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Abstract - Due to the growth of operational complexity and global competitiveness, firms have recognized the worth of establishing collaborative relationships with their supply chain partners. Research found that the level of collaboration in Malaysian SMEs manufacturers is too low to gain any relational advantage from collaborative relationships in supply chain. This research is sought to review the literature to determine the factors that create trustworthiness in buyer-supplier relation on supply chain collaboration among SMEs manufacturers. According to past researches, five behavioral signals are determined to be contributing to creating trustworthiness in supply chain collaboration. They are performance to promise signals, professional relationship signals, openness signals, benevolent collaboration signals and empathy signals. This conceptual paper reveals the factors that contribute in creating trustworthiness among Malaysian SMEs manufacturers. This research provides practical implications to the Malaysian SMEs in understanding how trust-building can be produced and enhanced in developing supply chain collaborative relationships.

Keywords – Supply chain collaboration, Trustworthiness, Buyer-supplier

I. INTRODUCTION

In an environment characterized by increased global competitiveness and growing operational complexity, many companies start to focus on establishing collaborative relationship with their partners in order to survive in such dynamic environment [1]. The realization of the importance of collaborative relationship between supply chain partners has pushed companies on pursuing long term partnership with their partners [2]. Many researchers suggest that strategic relationship should be developed in order to gain competitive advantage and increased operational performance [3]. It is recognized that the success of any company no longer built around the capability of one company but on the capability of entire supply chain [4]. Most studies suggest that collaboration is critical to supply chain performance and the continuity of long term partnership [5].

Modern collaborative relationships focus on enhancing the values derived from each other so that the net value delivered in the entire supply chain is higher than the other competitors in the same industry [2]. To establish a collaborative relationship, trust and commitment along with the willingness to share risk are essential [2]. In addition, trust and collaboration have been considered as the core factors to maintain close collaborative relationships and to improve supply chain performance [5].

This research aims to determine the factors that can create trustworthiness in a collaborative relationship by integrating the antecedent factors of trust into behavioral signals of supply chain partners. The later part of this paper focuses on explaining the benefits of supply chain collaboration and the essentiality of trust in collaborative relationship. The relationship between supply chain collaboration and trust is clarified by various researchers in the past studies.

Associated Chinese Chamber of Commerce and Industries of Malaysia (ACCCIM) promote and encourage the joint ventures with other ethnic group [6], National Development Plan (NDP) also encourages inter-ethnic cooperation and joint ventures among SMEs. There is a significant efforts did by government in order to promote collaboration among Malaysian SMEs but the outcomes are lackluster as reference [7] prove a low level of collaboration among Malaysian SMEs manufacturers. This research aims to determine the factors that contribute in trust-building efforts as there remains debate about the best mechanism in building trust [8].

Reference [9] had defined trust as a necessary binding force in most buyer-supplier transactions. Building trust in supply chain domain requires belief and faith that partners will always fulfill their obligations which will then lead to lower costs incurred for all associated [10]. Without understanding the nature of trust, it is hard to develop a collaborative relationship [11]. The levels of trust that exist in most supply chain relationship are insufficient for partners to benefit from the relational advantage of successful supply chain collaboration [12].

Building trust requires all the players in the supply chain system to act in an unselfish manner for the greater benefits of whole supply chain. This requires high level of commitments and cooperation among partners in a supply chain system. However, lack of trusts appears to be the most significant barrier behind the difficulties in establishing successful supply chain collaboration [13]. This theory is further supported by a critical review on supply chain collaboration [14]. Due to lack of trusts, the fear of having opportunist in a supply chain system hindered the efforts in trust as information leakage from partner to competitor creates the sense of vulnerability [12].

A study on level of supply chain collaboration of Malaysia SME manufacturers did by [7] showed that the level of collaboration of Malaysian SME manufacturers is at minimal level. The results in the paper show that high percentages of Malaysian SME manufacturers do not share operational information with their partners. Even if they do, their level of collaboration is at the lowest level as defined in the paper. It is also discovered that trust is the main factor that influence the collaboration level for Malaysian SME manufacturers. Low level of collaboration indicate that
Malaysian SME manufacturers have low level of trust on their supply chain partners as all the respondents agreed that trust factors are their primary concerns in supply chain relationship. Hence, the objective of this study is to determine the factors of creating trustworthiness in collaborative relationship to serve as a basic framework for Malaysian SME manufacturers in their trust-building efforts.

II. A REVIEW OF SUPPLY CHAIN COLLABORATION AND TRUSTWORTHINESS LITERATURE

A. Supply Chain Collaboration
Supply chain is also referred as a meta-organization which is a closed community supply network, a net chain or a supply network [15]. It is worth to be mentioned that ties between buyer-supplier and supplier-supplier cannot be divorced as either competitive ties or cooperative ties are created between these parties [16]. Reference [17] separates supply chain into 3 stages of development: dyadic linkages, a chain of suppliers and supply network. Supply chain is a set of collaborative activities and relationships that links company together in value-creation process while supply network is comprised of a set of active members in an organization of supply chain and a set of organization related inactive members that can be called to contribute upon needs [17].

Supply chain collaboration has been defined as a collaborative relationship formed by two or more chain members in order to create a competitive advantage through information sharing, conducting joint decisions and benefits sharing which will result in greater profitability in customer satisfaction than acting alone [18]. Reference [1] defines supply chain collaboration as efforts of two or more firms working together to build and manage unique value-added processes to better satisfy customer needs. Firms are taking supply chain collaboration as a power instrument to achieve effective and efficient supply chain management [19].

There are a total of 5 stages in buyer-supplier relationship evolution in accordance to reference [20]. The 5 stages are pre relationship stage, early interaction stage, relationship growth stage, partnership stage and relationship end stage. Reference [21] states that most literature sees buyer as principal with a focus on leveraging of supplier resources in order to increase buyer’s expected value. Buyer is considered to be the major player in creating a healthy buyer-supplier relationship [21].

B. Antecedents Factors of Trustworthiness
Trustworthiness can be defined as the belief of one party that the other party in the relationship will not exploit its vulnerabilities for own benefits even when the exploitation is unlikely to be detected [22]. Based on past studies, trust implies the participation of at least two parties, a trader and a trustee [4]. A trustee is the one who placed himself under vulnerable situation and the trustee is the one who the trust is placed upon. The trustee is the one that has the opportunity to exploit the vulnerabilities of trustee. Past researches reveal that there are basically two streams of concepts about trust [4].

Most managers did not have sufficient knowledge on the nature of trust which is why trustworthy relationship is hard to be developed [11]. In addition, low level of trust that exist among supply chain partners in insufficient to enable a relational advantage of supply chain collaboration [12]. Past researchers have identified a number of trust factors that contribute to effective relationship management between supply chain members, and they are confidentiality, honesty and integrity, work standards, politeness and friendliness, shared values, reliability, timeliness, customization and information sharing as discussed below.

Confidentiality has been proposed as an important trust building factor [2]. He states that sharing of secrets among supply chain partners can raise the level of confidence towards each other and form stronger beliefs on each other competency. Sharing of critical information is only available in the relationship that is built on the foundation of trust [23]. Reference [2] states that the action of sharing secrets provides a signal of good faith to the partner as sharing secrets mean revealing vulnerabilities to the opposite party. Sharing confidential information not only builds trust but also grow in according to the level of trust that exists between both parties [2]. Both theories suggest that sharing of confidential information builds trust which will then lead to more information sharing and trust-building.

Reference [10] states that honesty and integrity are important in trust building and maintaining trust in supply chain partnerships. They state that openness and honesty are essential elements in the communication. Open and honest communication among supply chain partners act as basic requirement to enter competitive market. Reference [2] also states honesty and integrity are important factors in determining reliability of other party.

Trust in a supply chain can be related to the competence or work standards of member. Members that have the ability and knowledge to fulfill their obligation and agreement are more likely to be trusted [10]. Competence-based trust can be broken into three main areas, which are specific competence, interpersonal competence and competence in business sense [2]. Specific competence is the knowledge and ability in the functional area, interpersonal competence is the ability to work with people and competence in business sense is the wisdom and experience in conducting business process.

Factors like politeness and friendliness are important in the early stage of developing trust among supply chain partners [24]. In a condition where little knowledge is known about each other, politeness and friendliness play a major role in developing good interactions among members. Politeness and empathetic attitude facilitate the drawing of positive influences and increase comforts level. These contribute towards the establishment of trust among supply chain partners [24].

It is fully recognized that shared values are one of the foundation of trust [25]. Reference [26] states that shared values between partners increase the level of trust. The existence of shared values has positive impact on trust building efforts which will then lead to higher effectiveness and efficiency of supply network [25].
Trust can be related to contractual trust, as stated in reference [26]. Contractual trust is an expectation that the other party will act according to generally accepted business practices by fulfilling his obligations as a trustworthy partner [26]. Level of trusts between partners can be increased by continually delivering on promises of the contract as trust between partners is often based on the knowledge that the partners are reliable and always deliver their promises [2].

The readiness of partners to always react quickly based on the requests of another partners can build trusts between supply chain partners [27]. When partners always respond on the request quickly, it displays a sign of good faith and trustworthiness factor to the other partner that they are always ready for the plans ahead [2].

Trust building efforts can start by customizing business operations according to the needs of supply chain partners [2]. Relationship continues to grow by actively working on meeting partner’s needs which is why adaptability plays a major role in customization as alternatives need to be provided in order to meet the specific needs [2]. Collaboration between partners enabled them to coordinate according to each other needs of supply chain practices and improve performance for supply chain [24].

Information sharing refers to the action of exchanging relevant information for supply chain planning and controls operations [18]. Continuous commitment to communication is an essential element in building a trustworthy relationship between supply chain partners. Sharing critical information and also strategic information with supply chain partners help in building a high level of trust and coordination between supply chain partners [10]. Information sharing is crucial as efficient exchange of routines information is necessary for high level of collaboration [23].

C. Antecedent Factors of Trust and Behavioral Signals

According to reference [8], many researchers support that successful collaboration is based on the establishment of trust. Trust is considered as one of the main facilitating element in establishing inter-firms relationships [28]. Reference [29] also states that the establishment of trust is critical and essential for strategic partnership and may be a prerequisite for effective collaboration. Trust must be constantly nurtured, beginning with small collaborative efforts. As the presence of trust increase, size of collaborative activities can be increased accordingly [30].

It is believed that members in supply chain relationship affect each other via behavioral signals. These signals are specific behavior or action that either instill or diminish trusts and each signal is related to different trustworthiness factors [12]. Five factors that influence the trustworthiness perceptions of each member have been identified. They are performance to promise signals, professional-relationship signals, openness signals, benevolent collaboration signals and empathy signals [12].

- Performance to Promise Signals
  When a partner always delivers his promises, his trustworthiness will be demonstrated to the other partner. By repeatedly conducting business processes on time with the expected quality, buyer will gain confidence on the supplier in terms of capability and reliability [2]. On the other hand, if supplier does not deliver up to the expectation of buyer, trustworthiness will be diminished. Supplier with high capability and reliability are likely to have high reputation which can positively impact the level of trusts of other parties on the supplier [12]. In addition, reference [10] states that reputational trust is specifically important on the first meeting and the beginning of new supply chain relationships. Buyer performance in delivering promises has immediate effect on his trustworthiness [12].

- Professional Relationship Signals
  An agent is always an important representation to the firms in terms of reputation, credibility and reliability [12]. Integrity found in agents always act as a prerequisite trust factor that the firm intention and ability to keep its promises. Suppliers tend to trust buyers more when the agents are honest and credible in the communication process [12]. It is important that agents do not deceive or over exaggerated in terms of firm’s capability. In addition, the most important part is that suppliers do not trust purchasing as it only means cost. An agent must be able to gain supplier trust in whatever condition [12]. The trustworthiness factors of a firm are built on agents that are able to demonstrate respect and integrity. Professional relationship signals provide opportunities for firm to build credibility which will significantly influence trust in collaborative relationships [12]. Results from the reference [12] show that creating respectful relationships contribute to collaborative trust.

- Openness Signals
  Openness by partners diminishes and reduces the uncertainties that the other party have on the actions of opposite party and thereby delivers powerful signals of partner’s intention to perform as expected [10]. Uncertainties increase as partners have little or no visibility to the operations of the other parties. Information sharing between partners increases trust and helps in reducing uncertainties by sharing operational details that can help each other in terms of business planning [10]. Information linkages can be established between buyers and suppliers in order to better implement collaborative planning [12]. Information sharing signifies the commitments of partners to the collaborative relationships. Allowing oneself to get into a vulnerable situation allows other partners to believe on the intention to create a trust-based partnership [2].

- Benevolent Collaboration Signals
  Trustworthiness can be shown in terms of how supply chain partners treat each other in the relationship [12]. Delay of payments that are agreed on or the usage of questionable actions in order to obtain lower prices or benefits can hinder trust-building efforts by both parties. These behaviors above signify that the other parties cannot be trusted [12]. In contrast, making investments in partners in order to better improve the performance increases the level of trusts between supply chain partners as such intentions provide evidence that the partner’s motives are trustworthy [2]. A vendor can always help in training the retailer on the way of merchandising and supplier can always help a buyer with technical assistance on the new equipment. In addition, the willingness to share risks and rewards with partners also signifies the intention to build a long term partnership [2].
Empathy Signals

In reference [12], empathy signals are defined as the ability of a firm to empathize with its partner even in a situation where the power is asymmetrical. Empathy is a strong signal which indicates that a firm will not exploit on the vulnerabilities of its partners [12]. A firm with empathy always considers the needs and situations of its partners in decision making process to safeguard the relationship. Empathetic action sends a strong signal of a partner’s trustworthiness [12]. Reference [24] states that empathy removes the feeling of risk and thereby helps in establishing trust between supply chain partners.

Based on the literature review discussed on above, a conceptual framework is constructed.

**Performance to promise**
- Professional relationship
- Openness
- Benevolent collaboration
- Empathy

**Trust-building in buyer-supplier relationship**

### 5.0 Conclusion

In conclusion, trust is essential in establishing a collaborative relationship among supply chain partners. It is vital to understand what factors contribute in creating trustworthiness among Malaysian SMEs manufacturers in order to increase the level of collaboration. This study provides significant contribution by proposing a framework of trust-building between supply chain partners in Malaysian SMEs by studying the nature and antecedent factors of trust required to create trustworthiness on supply chain collaboration. SMEs have been making huge contribution to Malaysia GDP these recent years. Although the figures are quite satisfying, the truth is there is more room of improvement that can be made in terms of economic contribution by SMEs. A study has shown that Malaysian SMEs are having low level of collaboration with their supply chain partners. This is indeed not a good sign for Malaysia SMEs scene as collaborative efforts between supply chain partners are now globally seen as the main driver in enhancing competitive advantage and operational performance. A framework of trust-building can be served as a guideline for Malaysian Chinese SMEs in establishing collaborative relationships with their supply chain partners. In order to determine the factors that create trustworthiness in terms of supply chain, the antecedent factors of trust are integrated into behavioral signals of supply chain partners to further ensure the proper fitting of the choices of variable and the accuracy of data. Five behavioral signals that are used as references in this research are performance to promise signals, professional relationship signals, openness signals, benevolent collaboration signals, and empathy signals.

### REFERENCES


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