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Subjective trust and perceived risk influences on exchange performance in supplier—manufacturer relationships

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Summary Theoretical and empirical contributions to relational exchange literature are offered by examining subjective trust and perceived risk in supplier—manufacturer relationships by using a relational view framework. The study explores the theoretical proposition that subjective trust and perceived risk in supplier—manufacturer relationships impact on exchange performance through the mediating effects of four relational rents sources: asset specificity, knowledge-sharing routines, resource-capabilities complementarity and effective governance. Data from a sample of fashion industry dyadic relationships, using a structural equation model, provides general support for the hypotheses. The results indicate that subjective trust and perceived risk are related constructs and play different roles in affecting exchange performance. The findings highlight the critical role played by asset specificity, knowledge-sharing routines and effective governance mechanisms as mediators in subjective trust and perceived risk relationships with exchange performance.

Introduction

Trust is an essential component of economic exchange and has traditionally received considerable attention in the literature across many perspectives (see Rousseau, Sitkin, Burt, & Camerer, 1998 for a review). One construct that is increasingly being woven into the conceptualization of trust is risk (Boon & Holmes, 1991; Mayer, Davis, & Schoorman, 1995). Some scholars believe that only in risky situations do we need trust (Coleman, 1990; Deutsch, 1958), and that to trust someone is to take risk with the trustee (Das & Teng, 2004b; Sabel, 1993). Das and Teng (1998) also suggest that trust becomes important in situations having high risk and uncertainty.

The risk-based approach to trust results in great interest, mainly with reference to the inter-firm level of analysis (Gambetta, 1988; Ring & Van de Ven, 1994). Trust at the interorganizational level is "the extent to which organizational members have a collectively held trust orientation towards the partner firm" (Zaheer, McEvily, & Perrone, 1998, p. 142). This construct is regarded as more important than the other forms of trust (e.g., interpersonal trust) as a salient factor for the success of inter-firm relationships (e.g., Fawcett, Magnan, & Williams, 2004). Indeed trust creates an environment where firms strive to exceed the minimum

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requirements of a relationship to increase the possibility of mutual benefits (Panayides & Lun, 2009).

Within this stream of research, a number of studies have been published on the impact of trust on exchange performance (e.g., Gulati & Nickerson, 2008; Zaheer et al., 1998) but very few empirical researches have explicitly included the concept of risk in the analysis. The goal of this article is to fill this gap and provide some conceptual clarity on the topic by means of a three-fold approach.

Firstly, the study proposes a theoretical basis upon which trust and risk could be conceptualized as related but distinct constructs. In order to address the multidimensionality of both concepts, the study incorporates the Das and Teng (2004a, 2004b) perspective and considers the link between subjective trust and perceived risk. In this view, trust appears as "a mirror image of risk" (Das & Teng, 2004b, p. 99). Thus, a high trust situation suggests low perceived risk and vice versa.

Secondly, the study explores a theoretical model that relates subjective trust and perceived risk to exchange performance. The main argument contained in this paper is that trust and risk impact on exchange performance through the mediating effect of four procedural variables derived from the relational view: (1) asset specificity, (2) knowledge-sharing routines, (3) resource-capabilities complementarity, and (4) effective governance mechanisms (Dyer & Singh, 1998; Lavie, 2006).

Thirdly, the study empirically tests the theoretical model with survey data from a sample of supplier—manufacturer relationships in the footwear industry using a structural equation model (SEM).

The paper proceeds as follows. The next section describes the hypotheses against the backdrop of a focused literature review. Third section covers the discussion of methodology and data. Fourth and fifth sections present the empirical results which are discussed and linked to previous researches. The final section describes the limitations and offers directions for further research.

Theory and hypotheses

The risk-based view of trust

The risk perspective has a prominent place in the extant literature on trust (Boon & Holmes, 1991; March & Shapira, 1987; Mayer et al., 1995; Sitkin & Pablo, 1992). Although considerable research in psychology and sociology focuses on the risk-based view of trust in individuals (e.g., Currall & Judge, 1995) and in social groups (e.g., Kramer & Wei, 1999), in the organizational and interorganizational context the role of trust and risk has only recently attracted interest (e.g., Smith, Carroll, & Ashford, 1995). As a result of both of the different disciplinary lenses used to study the phenomenon and the inherent ambiguity of trust and risk constructs, there is currently a confusing assortment of views about these two principal issues: (a) the intrinsically complex and multifaceted nature of trust and risk definitions, and (b) the variety of situations and levels of analysis to which trust and risk have been applied (Janowicz & Noorderhaven, 2006).

In addressing the first issue, the study considers three broad domains in the literature on the trust-risk linkage. The first generally includes the studies emphasizing that a risky situation creates the need for trust (e.g., Deutsch, 1958). The second domain includes research that recognizes risk taking as a result of trust (e.g., McAllister, 1995). Finally, still another group of scholars believes that trust is essentially a subclass of risk, since both deal with uncertainty and probability (Coleman, 1990; Rousseau et al., 1998; Williamson, 1993). Within the third domain, Das and Teng (2001, 2004b) stress the need to explicitly clarify and differentiate various conceptualizations of trust and risk. In fact, the term trust can actually refer to three altogether different concepts: (1) an expectation, (2) a behavioural outcome due to the expectation, and (3) personal and situational characteristics that lead to the expectation. Authors specifically use three explicit terms to avoid confusion on the aforementioned definitions: (1) subjective trust, (2) behavioural trust, and (3) trust antecedents. These three basic concepts of trust lead to the development of three corresponding conceptualizations of risk: (1) perceived risk, (2) risk taking, and (3) risk propensity (Das & Teng, 2004b, p. 97).

Given the focus on supplier—manufacturer relationships, this study employs definitions of trust and risk that are inherently "relational" in order to explore the role of the trust-risk link in interorganizational contexts. For this purpose, the study considers explicitly the link between subjective trust and perceived risk (Das & Teng, 2004b). In this view, subjective trust appears as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or [behavior] of another" (Rousseau et al., 1998, p. 395). Subjective trust may concern "a partner's ability to perform according to agreements (competence trust) or his intentions to do so (goodwill trust)" (Nooteboom, 1996, p. 990). Equally, perceived risk appears as "the perceived probability of loss, as interpreted by a decision maker" (Rousseau et al., 1998, p. 395). This perceived risk definition both refers to the probability of a partner not fully committing to a relationship (i.e., relational risk) and to the probability of not achieving the goals in a relationship, given good intention, commitment, and efforts of the partner (i.e., performance risk) (Das & Teng, 2004b).

The conceptualization of subjective trust as an expectation — thus as a subjective evaluation of probabilities — leads to assigning a salient role to perceived risk. The reason for this is that perceived risk is also the subjective estimation of probabilities under conditions of uncertainty (Slovic, 1987). However, the two concepts describe the probability estimate with contrasting mentalities: while subjective trust refers to assessed probability of having desirable action performed by the trustee, perceived risk is the assessed probability of not having desirable results. Thus, "subjective trust and perceived risk are like mirror images of each other" (Das & Teng, 2004b, p. 99). After all, they are related constructs evaluating the same situation but from two distinctly different perspectives of hope and concern. Thus, the relationships between subjective trust and perceived risk are strictly inverse (Das & Teng, 2004b, p. 100; Johansen & Selart, 2013).

Because subjective trust and perceived risk are inversely related constructs, a high trust situation suggests low perceived risk. When perceived risk is low, the more efficient approach is to go forward with risk taking because its utility is higher. On the other hand, when subjective trust is low, risk is

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