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A relational perspective on the contract-control-trust nexus in an interfirm relationship

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ABSTRACT

This paper makes sense of the contract-control-trust nexus in interfirm relationships by exposing the performativity of a contract and its incorporated control structures in generating trust. In our study of an outsourcing relationship between Semorg (an international manufacturer of semi-conductors) and Fasorg (the provider of facility management services), we find that trust is interactively related to control in complex and often unpredictable ways rather than in linear ways that result from managerial decision-making. In the network of associations that constitutes the interfirm relationship, trust is not a stable solution that generates predictability, but a quasi-actor that is made to act by the contract and the incorporated control structures. As a quasi-actor, trust is fluent and performative. Once in existence, it mobilises human actors and shapes the relationship. Thus, from a relational perspective trust is a possible and to a large extent unpredictable network effect. This differs from the rational perspective in which trust is an expectation that (in multiple categories) straightforwardly emerges and develops from managerial decisions.

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1. Introduction

A contract is merely a stack of legal papers. I learnt this when I was doing business in Asia. One of my Chinese partners said to me: "The more paper work we have, the less trust we have and the less it works." – CEO Semorg

Control and trust have a complex relationship and further research into this relationship is needed to enhance our understanding, particularly in the context of interfirm relationships (Van der Meer-Kooistra and Vosselman, 2006). Since most interfirm relationships are based on contracts, particularly the contract-control-trust nexus needs further examination (Meira et al., 2010; Tsamenyi et al., 2013). This study examines this nexus, thus contributing to the literature that investigates the governance of interfirm relationships and its relation with trust (e.g. Dekker, 2004; Emsley and Kidon, 2007; Free, 2008, 2007; Langfield-Smith and Smith, 2003; Lui and Ngo, 2004; Mahama and Chua, 2016; Tomkins,

2001; Van der Meer-Kooistra and Vosselman, 2000; Vosselman and Van der Meer-Kooistra, 2009).

Much of the literature on control and trust takes a rational perspective in which control and trust are considered to be stable solutions to control problems. Lui and Ngo (2004, p.474) argue that "contractual safeguards and trust are important control mechanisms that reduce risk and facilitate cooperation in a partnership. These two mechanisms may interact with each other in determining the outcomes of cooperation. Trust is increasingly being viewed as a precondition for improved performance and competitive success in complex business environments (Free, 2008). From a rational perspective, trust can be conceptualised as a social control that reduces the need for formal controls (Dekker, 2004). It is also defined as a control pattern distinct from bureaucracy-based or market-based control patterns (Van der Meer-Kooistra and Vosselman, 2000). Furthermore, from a rational perspective on the accounting-control-trust nexus in the governance of interfirm relationships a distinction is made between thin and thick trust (Klein Woolthuis et al., 2005; Nooteboom, 2002, 1996; Vosselman and Van der Meer-Kooistra, 2009). Thin trust is produced by the contracts and their incorporated formal control structures, which may, for example, take the form of budgets, scorecards or incentive

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schemes. Thick trust is produced in the course of the relationship through the relational signals ensuing from local rational decisions.

A limitation of the rational perspective is that it ignores that in reality the shape and change of both control and trust are often the 'interactive effects of complex, unpredictable, non-linear and less controllable associations of multiple entities' (Chua and Mahama, 2012, p. 79). A related problem is that the rational perspective is merely based on assumptions from mainstream economic management control literature, which tends to reduce organisational members to self-interested 'agents' (Van der Kolk et al., 2015). Therefore, this paper's objective is to go beyond rationalism by taking a relational perspective. From this perspective, contracts, control structures and trust are interactively shaped and changed through the associations between actors, both human and non-human. They are not merely the result of the decisions made by managers who are relatively far removed from the doings in the interfirm relationship. Contracts and their incorporated control structures may thus well exceed the traditional functional properties espoused in the rational perspective. Apart from providing stability and order, they may also produce dynamics and change. That is, contracts and control structures may be performative. The notion of performativity allows us to view the contract, control structures and trust not simply as tools used by rationally acting human beings who straightforwardly instrumentalise the behaviour of other humans in the relationship, but as actors that actively engage the parties involved in the relationship to behave in a certain way. Contracts, control structures and trust circulate in a network of associations and may be performative in the sense that they help to create, maintain and modify the relationship in unexpected ways.¹ They relate to each other through their positions in this network of associations, rather than only through managerial decisions. They are actors rather than instruments, mediators rather than intermediaries (Latour, 2005).

Although extant research (e.g. Zahir-ul-Hassan et al., 2016) discusses the contract and the incorporated control structures as mediating instruments (Miller and O'Leary, 2007) in the construction of a collaborative or transactional relationship, it does not offer an interpretation of the contract-control-trust nexus from a relational perspective. This paper fills this gap. The empirical site is a specific outsourcing relationship between an international industrial organisation (Semorg) and a managing agent for facility services (Fasorg). Semorg is an example of an international manufacturer that outsources its facility management, forced by global competition and the threat of having to move production to low-wage countries. The Semorg-Fasorg case is interesting as it provides an opportunity to not only expose contracts and control structures as being purposefully designed and negotiated by distanced managers, but also to reveal that they are generating entities that can bring about unexpected consequences. In the case study, the original contractual solution as negotiated by top management proved to be problematic; the resulting contract and incorporated control structures induced a recontracting process that eventually changed control and trust in the relationship.

The paper is structured as follows. Section 2 provides the theoretical anchors for the study. Section 3 presents the case setting and research methodology, followed by a presentation of the case study. This presentation is aimed at mapping out how contract and control structures are performative in building trust and how they are constitutive of the relationship. Finally, the discussion and conclu-

sion sections highlight how the case study adds to the management accounting literature.

2. Theoretical anchors

2.1. A relational perspective versus a rational perspective

In essence, this paper exposes how contracts, control structures and trust interactively shape and change an interfirm relationship. The paper therefore takes a relational perspective rather than a rational perspective on interfirm control.² Essential to our research perspective is that we do not prioritise the entities, but the *associations* or relations among the entities. Therefore, labelling our research perspective as relational is consistent with Hassard and Cox (2013), who categorise the epistemology in post-structuralist research as relational.

In contrast with the relational perspective, the *rational* perspective mainly focuses on the entities rather than on the associations. From the rational perspective, the entities are up-front. Contracts and their incorporated control structures are considered as subordinate to human beings. They provide order and stability. They result from managerial decision making and as such form the solutions to coordination problems and appropriation concerns (Dekker, 2004; Vosselman and Van der Meer-Kooistra, 2009). In order to provide solutions to coordination problems and to prevent opportunistic behaviour from occurring the contract and the control structures are negotiated and rationally decided upon by managers in search of efficiency. Once designed, the contract and control structures serve as tools to control the relationship from a distance. In contrast, from a *relational* perspective the contract and control structures are shaped and changed in a network of associations between multiple actors, both human and non-human.³ Although they may be artefacts designed and negotiated upon at a certain distance from the day-to-day activities, they are enacted in a network of associations that make up daily practice. They are not simple solutions that are straightforwardly implemented, but mobilising entities in specific episodes in practice. And in this capacity they can generate unexpected and unpredictable consequences, which makes them constitutive of the relationship. Moreover, they themselves can change.

2.2. The contract-control-trust nexus in interfirm relationships

In the management accounting discipline, the control-trust nexus has been a research topic for several years now. Some contributions are conceptual (Tomkins, 2001; Vosselman and Van der Meer-Kooistra, 2009), some provide a review of previous research (Baldvinsdottir et al., 2011; Caglio and Ditillo, 2008, 2012; Free, 2008; Meira et al., 2010), others concern a study of the governance and control of and in specific relationships (Cäker, 2008; Dekker, 2004; Emsley and Kidon, 2007; Free, 2008; Langfield-Smith and Smith, 2003; Thrane and Hald, 2006; Van der Meer-Kooistra and Scapens, 2008; Van der Meer-Kooistra and Vosselman, 2000;

² In the literature the rational perspective is sometimes also referred to as (or part of) an ostensive approach (Latour, 2005, 1986). We prefer the term rational as it better aligns with the managerial approach used in accounting and control research. It also aligns with the rational instrumentalism philosophy of rational agents in economic theory (Williamson, 1979).

³ As we particularly trace the footsteps of the contract and the control structures and expose how these footsteps interact with trust, our approach is similar to Boedker's (2010) performative approach. However, following Feldman and Pentland (2003) and Pentland and Feldman (2008, 2005), we rather prefer to assign the adverb 'performative' to the non-human actors in the field than to the research perspective. Performativity, in our view, is not a characteristic of the research approach, but of non-human actors.

¹ The accounting literature has provided numerous examples of accounting calculations as generating entities (Ahrens and Chapman, 2007; Boedker and Chua, 2013; Dambrin and Robson, 2011; Ezzamel, 1994; Jordan and Messner, 2012; Mouritsen, 1999; Mouritsen et al., 2009; Qu and Cooper, 2011).

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