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Always trust in old friends? Effects of reciprocity in bilateral asset specificity on trust in international B2B partnerships

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ABSTRACT

Grounded in Social Exchange Theory (SET), this study is motivated by two unresolved issues. First, scholars find mixed results on how relationship duration facilitates business-to-business (B2B) trust. The lack of consensus results from the assumption that relationship duration is a measure of prior trust-building efforts. We contend that trust-building lies in exchanges between B2B partners, and relationship duration moderates the effects of reciprocal exchanges. Second, although Transaction Cost Analysis (TCA) is one of the most used theoretical lens in the study of B2B trust, TCA is criticized for neglecting the exchange process in B2B trust-building. To provide clarity to these issues, we validate the expectation that bilateral asset specificity constitutes social exchange processes, which communicate goodwill reciprocity and equivalence reciprocity. Empirical findings suggest that, within bilateral asset specificity: (1) achieving goodwill reciprocity always enhances trust, regardless of the duration contingency; and (2) violating equivalence reciprocity impairs trust over the duration.

1. Introduction

Grounded in Social Exchange Theory (SET), this research addresses two unresolved theoretical issues in interorganizational trust literature. The first observation is that empirical works report inconsistent findings regarding how relationship duration facilitates business-to-business (B2B) trust. Thus, we clarify the role of relationship duration in B2B trust-building process. The other theoretical puzzle is from the Transaction Cost Analysis (TCA). The article seeks to fill a gap in theory regarding social aspects of exchange and its development process, specifically related to asset specificity in the context of B2B trust. Our effort is directed to the widely lamented issue (Granovetter, 1985; McEvily, Perrone, & Zaheer, 2003; McEvily & Zaheer, 2006) that TCA downplays social foundations of transactions (e.g., meta-analysis evidence from Palmatier, Dant, Grewal, & Evans, 2006; Leonidou, Samiee, Aykol, & Talias, 2014; Zhong, Su, Peng, & Yang, 2017). Heeding the warnings in the literature, we empirically focus on bilateral asset specificity and its role in underlying social exchange process that triggers goodwill reciprocity and equivalence reciprocity.

The conventional view asserts that adequate relationship duration strengthens interorganizational trust through connecting two parties beyond the discrete transaction, enhancing mutual understanding, and aligning them to pursue common goals (Dwyer, Schurr, & Oh, 1987; Morgan & Hunt, 1994). For example, Ganesan (1994) states "…such periods provide both parties with a greater understanding of each other and their idiosyncrasies. Thus, experience with the vendor is likely to increase a retailer's trust in the vendor's credibility and benevolence (p.5)." This theme repeats itself in relationship marketing studies as they underline with the same tone that relationship duration accrues interorganizational trust (Anderson & Weitz, 1989; Doney & Cannon, 1997; Zhang, Watson, Palmatier, & Dant, 2016). However, empirical findings are mixed. Scholars find that the connection between relationship duration and interorganizational trust varies from positive effects (Brashear, Boles, Bellenger, & Brooks, 2003; Dong, Ma, & Zhou, 2017; Zhang et al., 2016), to insignificant effects (Ekici, 2013; Heide, 1994; Palmatier et al., 2006; Vanneste, Puranam, & Kretschmer, 2014), to negative effects (Gulati & Nickerson, 2008). Therefore, the role of relationship duration on interorganizational trust-building remains unclear.

Building on the Dwyer et al. (1987) conceptual framework, empirical studies attribute a constructive role in developing a mutual understanding and maturity of relationship (Anderson & Weitz, 1989; Bejou, Wray, & Ingram, 1996; Gulati, 1995; Sa Vinhas & Heide, 2014). Despite such optimism, the length of relationship does not guarantee

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mutual reliance and relationship bonding (Fichman & Levinthal, 1991). Instead, relationships mature during the social exchange process along with the complex experience of shared ideas, and form mutual identity over bonding between two parties. (Blau, 1964; Cook, Cheshire, Rice, & Nakagawa, 2013; Cropanzano & Mitchell, 2005). In other words, what matters is not how long the relationship lasts, but what has been done in the exchange dynamics within the course of the relationship. Responding to inconsistent empirical findings, scholars call for process-based perspectives on interorganizational trust rather than directly viewing relationship age as a proxy for accumulated trust-building efforts (Akrout & Diallo, 2017; Heide & Wathne, 2006; Möllering, 2006; Zhong et al., 2017). Thus, our first research question is: *How does relationship duration affect the trust-building process in international B2B partnerships*?

Based on SET, this article posits the contingency role of relationship duration in interorganizational trust-building. The process lies in the relationship dynamics between two parties – how they communicate certain social norms and comply with them. By complying, they ensure both predictability and stability to facilitate trust (Blau, 1964; Cropanzano, Anthony, Daniels, & Hall, 2017; Cropanzano & Mitchell, 2005). As such, repeated mutual understandings and expectations on certain norms are incrementally communicated, learned, and internalized through continuing interactions (Cook et al., 2013). Over time, the fog gradually clears in partners' behavior, norms get established, compliance leaves a track record. Alongside with growing compliance, predispositions also multiply, the partners' expectations turn sharper and stricter to ensure sustainable exchange and reduced relational risk. (Blau, 1964; Cook et al., 2013). Hence, the importance of norm-complying exchanges on trust increases over time. With this view, one notable contribution of the current study is to identify relationship duration as a contingent moderator between norm-complying exchanges and trust.

Second, another issue within interorganizational trust-building studies is a void left by the Transaction Cost Analysis (TCA). Although the most widely used theoretical lens (i.e., Leonidou et al.'s, 2014 meta-analysis), TCA often receives critical scrutiny in the examination of interorganizational trust. The reasons include neglect of social context, path dependencies, and the interactive process in relationship bonding (Granovetter, 1985; McEvily et al., 2003). McEvily et al. (2003) state "the Williamsonian view reflects an under-socialized view of the organization and coordination of economic activity and the relationship between economic actors, based on a limited understanding of how trust really works (p.99)." Responding to the critiques on applying TCA to interorganizational trust-building, we address the underlying reciprocity within bilateral asset specificity.

The present study draws from the Social Exchange Theory to propose a more socialized, context-oriented, and path-dependent investigation on the usage of TCA framework in interorganizational trust. Our approach has merits. For instance, Zhong et al. (2017) after a meta-analysis suggest that TCA and SET could be complementary perspectives in understanding trust across organizational boundaries. Each party interprets the opponent's move depending on whether or not the move complies with the reciprocity norm (Blau, 1964; Cook et al., 2013; Cropanzano & Mitchell, 2005; Emerson, 1976). Given that TCA-based studies claim asset specificity to be one of the most influential factors in interorganizational relationships (Geyskens, Steenkamp, & Kumar, 2006; Palmatier et al., 2006), we investigate how reciprocity within bilateral asset specificity influences interorganizational trust. Accordingly, our second research question is: *Does reciprocity within bilateral asset specificities play a role in the trust-building process in international B2B partnerships*?

Building on SET insights, any form of 'give-and-take' interaction constitutes a social exchange process. Accordingly, we contend that bilateral asset specificity consists of an underlying social exchange process between the parties, a process that affirms the opponent's goodwill, strengthens the reciprocity beliefs, and indeed elevates trust. The reciprocity is also constitutive. It facilitates an expectation that a good-deed engenders the return of the good-deed (Blau, 1964; Molm, Schaefer, & Collett, 2007). In the mutual exchange of positive behavior, reciprocity emerges in two components (Gouldner, 1960; Hoppner & Griffith, 2011; Hoppner, Griffith, & White, 2015; Swärd, 2016). In the one, the concept of reciprocity is construed on exchanges of latent goodwill intentions (partner's actions in the dyad are more mutual-interest driven than self-interest driven). In the other, reciprocity is built on the equivalence of contributions (the level of investment in comparison to that of the partner). The present investigation contributes to the literature by identifying goodwill reciprocity and equivalence reciprocity within bilateral asset specificity to extend the field's understandings.

The remainder of this paper is organized as follows. First, we introduce the relevant literature on relationship marketing and describe how applying the SET extends our knowledge. Next, we illustrate our conceptual framework and hypotheses. We then report an empirical study of 202 international buyer-seller relationships. Methodology and empirical results are also presented. Finally, we conclude with theoretical extensions and managerial implications.

2. Theoretical background

2.1. Interorganizational trust

Trust is a focal factor in interorganizational relationship studies (Ganesan, 1994; Morgan & Hunt, 1994). For example, Heide (1994) delineates trust as an inter-organization governance mechanism that improves cooperation and reduces opportunism in interorganizational exchange. Doney, Cannon and Mullen (1998) define interorganizational trust as "… as a willingness to rely on another party and to take action in circumstances where such action makes one vulnerable to the other party" (page 4). McEvily et al. (2003) state that mutual trust creates favorable conditions for partners to cooperate and generate improved performance. Extant studies empirically verify that trust-based international B2B relationships enjoy superior relationship performance (Cavusgil, Deligonul, & Zhang, 2004; Katsikeas, Skarmeas, & Bello, 2009; Zhang, Cavusgil, & Roath, 2003).

Although the importance of interorganizational trust is widely acknowledged, two questions remain unanswered. First, the role of the relationship duration is unclear. Conceptual works explore the role of relationship duration in trust but differ on the question of why and how. For example, Dwyer et al. (1987) propose a conceptual model to differentiate between discrete transactions and relational exchanges, suggesting that relationship duration transforms economic transactions into social exchanges. Anderson and Weitz (1989) posit that the age of the relationship represents the level of bilateral relationship inertia in repeated interactions that signify established communications and reliable routines. Similarly, empirical findings are significantly mixed, even among meta-analysis studies. One meta-analytical study corroborates that relationship duration fails to influence interorganizational trust (Palmatier et al., 2006), but another meta-analysis suggests the relationship duration augments interorganizational trust (Zhong et al., 2017).

2.2. Asset specificity

Asset specificity is a central piece in TCA. In particular, the TCA posits a strong and purely calculative view of the concept. Put simply, TCA considers the difficulty of redeployment of assets outside the relationship due to specificity. The resulting lock-in condition requires the safeguarding control and places the investing party in an unfavorable position (Williamson, 1985, 1991). Bilateral asset specificity lock-in both the parties in the relationship and reduce the concern for opportunism (e.g. Ganesan (1994); Poppo, Zhou, and Li (2016)). TCA-based studies in interorganizational relationship employ the calculative

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