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The Roles of Satisfaction, Trust and Commitment in Value-Creation in Strategic Networks

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Abstract

Firms' social capital can profoundly be regarded as a dynamic capability which, through yielding equifinal idiosyncratic patterns of ties and interactions among the participating nodes, results in transaction efficiency as well as maximization of relational rents for the firms which are embedded in an innovative web of relationships. In this paper, the authors have presented an integrated explanation for the nature and interrelationships among three important relational constructs while elaborating upon their roles in the value-creation as well as pie-sharing in strategic networks. It is postulated that the successive realization of mutually beneficent outcomes creates satisfaction among the participating nodes of a strategic network, which in turn fosters the process-based trust that ultimately results in an increased inter-organizational commitment. The culmination of such a commitment is an important precursor to the value-creation in collaborative structural arrangements like joint ventures, franchises, strategic alliances etc.

Keywords: Satisfaction, Trust, Commitment, Value-creation, Strategic Networks

1. Introduction

In the last couple of decades, scholars have expanded beyond the ‘make or buy’ dichotomy of organizing business relationships to include the so-called ‘hybrid’ forms of organization (Dyer and Singh, 1998; Gulati, 1998; Helper *et al*., 2000; Poppo and Zenger, 2002; Williamson, 1991). In the words of, Snow *et al*. (1992), “a new form of organization- delayerd, downsized, and operating through a network of market-sensitive business units- is changing the global business terrain”. Such networks encompass a firm’s set of (horizontal and vertical) relationships with other organizations including relationships across industries and countries. These strategic networks are composed of inter-organizational ties that are enduring, are of strategic significance for the firms entering them and can exhibit the structural formats such as strategic alliances, joint ventures, long-term buyer-supplier partnerships and a host of similar structural arrangements (Gulati *et al.*, 2000).

In our opinion, much of the previous investigative work in this area has featured too-much economic-orientation at its centrepiece while ignoring or paying little attention to the sociological dynamics while explaining the value-creation in such collaborative arrangements. However, from an in-depth case study, Larson (1992) concluded that economic transactions cannot be separated from the social context in which they take place. A sociological approach recognizes what an efficiency approach might not since opinions and perceptions are influenced by desire for power and recognition, fear of shame, and avoidance of demeaning work among others (Alstyne, 1997). As such, to view firms (in isolated or embedded forms) as atomistic entities competing for profits against each other in an impersonal marketplace becomes increasingly inadequate (Gulati *et al.*, 2000).

Network organizations can evolve out of personal and small group ties and their chances to perpetuate sky rocket if they continuously manage to give an integrated and adaptive response to the pressures stemming from dynamism prevailing in the environment. Mcneil (1980) postulated that relational norms support cooperative adaptation by stressing behaviours that will preserve the relationship even when pure self-interest might suggest otherwise. In Blios and Ivens’s (2006: p. 353) opinion, ‘norms associated with relational exchanges are those that might be expected to enable trust and commitment to develop’. Consequently, we postulate that an adaptive response to the environment is difficult (if not impossible at all) until and unless the actors in a socio-structural arrangement get embedded in a web of relationships featuring higher degrees of trust-based commitment. As the commitment profoundly affect the transaction cost and revenues, the culmination of the same can be regarded as an important precursor to the maximization of economic value in the collaborative relationships like joint ventures, strategic alliances, franchises etc.

Prior research in the relational view of strategic networks offers rich insights into the nature and interaction among the relational constructs like satisfaction, trust and commitment in affecting firms’ performance. Transaction cost perspective seems to have dominated the performance research in relational view of strategic networks even in contemporary researches as the focal point of a number of recent studies has been to elaborate upon the roles of relational norms, satisfaction, trust and commitment (the key relational constructs) in enhancing firms’ bottom-lines through cost-economization (Ryu *et al.*, 2007; Gulati and Sytch, 2008). However, Yaqub (2009a) and Yaqub and Vetschera (2009) have postulated that besides reducing the transaction cost by substituting the costlier contractual governance, trust and commitment also facilitate the revenue-enhancement in strategic networks.

This paper addresses a threefold agenda. 1) to explore the nature of three important constructs in the relational view i.e. satisfaction, inter-organizational trust, and inter-organizational commitment as revealed in the prior scholarly works 2) to describe their patterns of interaction in contributing to the bottom lines of strategic networks, 3) to highlight some ways to enhance satisfaction, trust and commitment in strategic networks. In the section to follow, we will discuss the nature and dynamics of interaction among the subject constructs. Then, a discussion is organized on how their efficacy can be enhanced in contributing to the value-added in strategic networks. The final section highlights some avenues for future research over and above summarizing the whole discussion.

2. Relational View of Strategic Networks

Whereas theory of economic exchange puts economic-transaction at the centre-piece, theory of relational exchange regards it to be of secondary importance i.e. to be an outfall of strategic (long-term) relationships. If the nodes perceive relationships with a focal actor to be of sufficiently high quality, the transactions automatically follow. These perceptions of high relationship quality emerge from experiencing higher satisfaction, trust and commitment in exchange episodes with the focal firm (Crossby *et al.*, 1990).

Researchers like Granovetter (1985), Spekman (1988), and Achrol (1991) were the first to pinpoint the efficacy of trust and commitment in culminating successful business relationships. Morgan and Hunt's (1994) commitment-trust theory (CTT) - also known as the KMV model- reveals the mediating role of trust and commitment between the antecedents and consequences of relationships success. This mediating role has been corroborated by Friman *et al.* (2002) in B2B context, Keith *et al.* (2004) in service industry, Martin *et al.* (2004) in CRM context, Styles and Hersch (2005) in International Joint Ventures, Macmillan *et al.* (2005) in Non-profit organizations, Tokman *et al.* (2006) in joint ventures, Mukherjee and Nath (2007) in online retailing, and Yang *et al.* (2008) in supply chain alliances.

Relational view of strategic networks elaborates upon the roles of satisfaction, inter-organizational trust and inter-organizational commitment in initiating, developing, maintaining and nurturing mutually beneficent strategic ties among the exchanging parties. If the focal firms in strategic networks aspire to foster true (attitudinal) loyalty (Reinartz and Kumar, 2002) among the nodes, they need to engender trust by going beyond merely satisfying them in a few exchange episodes or cooperation cycles (Park and Ungson, 2000). Considerable conceptual and empirical evidence in marketing channels research concludes that commitment is the ultimate outcome with causal precedence of satisfaction and trust (Anderson and Weitz, 1992; Morgan and Hunt, 1994). In the sections to follow, we would give a detailed account of the nature and interrelationships among these constructs.

3. Satisfaction

Satisfaction is defined as a positive affective state resulting from the appraisal of all aspects of a firm's working relationship with another firm (Frazier *et al.*, 1989; Gaski and Nevin, 1985). In a focal-node context, satisfaction can be seen as the degree to which a focal firm rises up to or exceeds expectations of the nodes in relation to their motives to collaborate. Interfirm relationships are formed with expectations of success and complementary benefits. These benefits fuel the future of relationship and give the parties an incentive to stick together (Anderson and Jap, 2005). As the scope of such benefits can be quite wide, including economic, social, informational, political and other dimensions, satisfaction is a multi-faceted construct. Geyskens and Steenkamp (2000) have interpreted satisfaction in B2B relationships as a two dimensional construct consisting of economic satisfaction and social satisfaction. Economic satisfaction refers to the evaluation of economic outcomes that flow from the relationship whereas social satisfaction refers to the psychological aspects of the relationship. It consists of the exchange partners' evaluation of the personal contacts and interactions with the other partners.

Interfirm relationships evolve in successive collaboration cycles through a process of negotiations-commitment-execution contingent upon partners' evaluations of complementarity of contributions, benefits and changed priorities in strategic interests across different stages of network life cycle (Ring and Van de Van, 1994). Each stage of cooperation provides a receptive context for the initiation and evolution of economic and social exchanges in the subsequent stages (Park and Ungson, 2000). Therefore, single-shot satisfaction, i.e. satisfaction in a single instance or cooperation cycle becomes insufficient as it fails to engender process-based trust. Totality needs to be ensured which, in this sense, refers to the 1) satisfaction in all episodes of economic and social exchange, and 2) satisfaction experienced in all constituents of the offer i.e. product/service, personnel, process etc.

4. Inter-Organizational Trust

Trust is a multifaceted construct that can been viewed from different perspectives. Trust, generally, has been defined in one of the two possible ways; 1) as a confident belief or expectation (i.e. a trusting belief), and/or 2) as a willingness or intention to depend on the trustee (i.e. a trusting intention) (Dicky *et al.,* 2007). Trusting beliefs involve perceptions that the other party will act in ways favourable to the trustor (Boone and Holmes, 1991), or that the other party has ethical, efficacious, or favourable characteristics (Hagen and Choe, 1998). Some of these beliefs, as revealed in previous research, include: continuity of natural order, competence, and fiduciarity (Barbar, 1983); dependability (Kumar, 1996); ability, benevolence, and integrity (Mayer *et al.,* 1995); competence, judgement, and openness (Mishra, 1996); reliability, and predictability (Rempel *et al.,* 1985). By contrast, trusting intention involves a willingness to become vulnerable to the other or willingness or intention to depend on the other (Baier, 1986; Currall and Judge, 1995) based on the expectation that the other will not exploit this vulnerability (Mayer *et al.,* 1995). Some evidence that trusting beliefs predict trusting intention has been documented in studies on trust in leaders (Mayer and Davis, 1999).

From a relational perspective interorganizational trust has been defined as the expectation that an actor 1) can be relied on to fulfil obligations (Anderson and Weitz, 1989), 2) will behave in a predictable manner, and 3) will act and negotiate fairly when the possibility for opportunism is present (Anderson and Narus, 1990, Bromiley and Cummings, 1995). Whereas communication and fairness early in the relationship are keys for the development of trust (Ferguson *et al.,* 2005), relational trust, at large, emerges out of the quality of experience or interaction with a particular exchange partner (Ring and Van de Ven, 1992). More specifically, relational trust emerges from mutually beneficent successive collaboration cycles among the participating nodes. By transacting repeatedly, partners become familiar with one another and develop social attachments (Gulati, 1995; Ring and Van de Ven, 1994) which foster stronger forms of trust like process-based trust and/or familiarity-based trust as a consequence of opportunities to share information and learn about each partner’s proclivities toward trustworthy behaviour (Gulati, 1995; 1998). However, on a futuristic account, Luhmann (1979) argued that trust stems from a growing confidence in a firm’s expectations of the future. Schelling (1960, p. 134) also provides a rational account by positing: *“trust is often achieved simply by the continuity of the relation between the parties and the recognition by each other that what he might gain by cheating in a given instance is outweighed by the value of the tradition of trust that makes possible a long sequence of future agreement”*. However, for the partners new to the structural arrangement, trust assumes the form of characteristics-based trust with reputation, size, economic power etc. being the focal characteristics.

For relational exchange, trust is so crucial that Spekman (1988) postulated it to be the ‘cornerstone of strategic partnerships’. Achrol (1991) has posited relational trust to be the major determinant of relationship commitment, especially in risky situations. Because commitment entails vulnerability especially when perceived risk is high (as is the case in volatile environments), parties in an exchange relationship seek only trustworthy partners (Morgan and Hunt, 1994). As trust constitutes the basis of socially embedded exchanges (Granovetter, 1985; Uzzi, 1997) and relational patterns of governance (Mcneil, 1978), the partners in the inter-firm relationships need to continuously earn and re-earn mutual trust so as to fuel the longevity of such relationships.

5. Inter-Organizational Commitment

Commitment signifies the highest form of relational bonding among firms (Dwyer *et al.,* 1987) and contributes to the longevity of relationships (Gundlach *et al.,* 1995). Defined as an attitude that reflects the desire to continue a valued relationship (Moorman *et al.,* 1992) and as willingness to make short-term sacrifices to maintain that relationship (Anderson and Weitz, 1992), commitment has been examined quite extensively in consumer contexts (Sharma and Patterson, 2000; Verhoef *et al.,* 2002), work-place contexts (Luthans, 2006; Allen and Meyer, 1990), and business-to business contexts (Gruen *et al*., 2000; Morgan and Hunt, 1994). Extending Luthans's (2006) view of workplace commitment to the relational context, we define commitment as a predisposition that comprises of an actor's willingness to 1) stay long in the relationship, 2) accept the norms and values that govern the relationship, and 3) contribute maximally for the welfare of the relationship.

Whereas organizational researchers like Morgan and Hunt (1994), Garbarino and Johnson (1999) viewed commitment as a uni-dimensional construct, a vast majority of researchers has regarded it as a multi-dimensional construct in a variety of business contexts (Allen and Meyer, 1990, Cullen *et al*., 1995; Geyskens *et al*,. 1996; Gundlach *et al.,* 1995; Kumar *et al.*, 1994). Whereas Geyskens *et al.,* (1996) differentiated between affective commitment and calculative commitment; Allen and Meyer (1990) have revealed three dimensions of commitment which include: continuance commitment (cost-based attachment), affective commitment (desire-based attachment) and normative commitment (obligation-based attachment). Considerable research support has been established for these three dimensions of commitment and that these dimensions were appropriate regardless of target of commitment (Bansal *et al.*, 2004; Herscovitch and Meyer, 2002).

6. Contributions of Relational Constructs to the Bottom-Line

Schul *et al.,* (1985) argued that satisfaction affects partner's morale and the resulting incentive to participate in collective activities. Hunt and Nevin, (1979) concluded that satisfied channel members are less prone to exit the channel, less inclined to file lawsuits against other channel members, and are not keen to seek protective legislation. Geyskens *et al.* (1999) demonstrated that satisfaction is both conceptually and empirically separable from related constructs like trust and commitment. However, they concluded that '*the distinction between satisfaction and trust is less pronounced when satisfaction is operationalized in non-economic as opposed to economic terms'* (p. 234).

Whereas the standard economic analysis neglects the identity and past relations of individual transactors, the central theme in economic sociology is the necessity of trust and trustworthy behaviour (as a function of past interactions as well as the future expectations) for even the normal functioning (let alone the superior performance) of economic action and institutions (Granovetter, 1992). In organizational economics literature, trust has been theorized to reduce cost associated with opportunistic hazards, ultimately resulting in more efficient governance (Bromiley and Cummings, 1995; Poppo *et al.,* 2008). The choice of trusting behaviours reduces cost and thus results in transaction efficiency (Ganesan, 1994; Volery and Mensik, 1998). Where there is trust, appropriation concerns are likely to be mitigated and organizations may not choose to rely on detailed contracts that are costly to write, monitor, and enforce (Gulati, 1995).

Social scientists across a wide range of literature have examined the effects of commitment on effectiveness or performance related outcomes (Jap, 2001; Sarkar *et al.*, 2001; Skarmeas *et al.*, 2002; Voss *et al,* 2006). Commitment has been shown to be positively associated with cooperation (Morgan and Hunt, 1994), relationship longevity (Ryu *et al.*, 2007) and satisfaction (Mohr and Spekman, 1994) in structural arrangements like joint ventures, strategic alliances, buyer-supplier partnerships etc. Axelrod (1984) noted that long-term commitments can generate a state of cooperation between partners due to the 'shadow of the future'. With each partner anticipating doing business with the other well into the future, cooperation among them is more likely. Game-theorists also suggest that committed relationships establish an expectation of repeated exchange, which discourages opportunistic behavior whenever expected payoffs from continued exchange surpass short-term gains from defection (Abreu, 1988; Axelrod, 1984; Taylor, 1987).

Chaturvedi and Gaur (2008) propose that the final outcome of an alliance relationship depend on the development of trust and commitment over time, which in turn depend on the motives with which firms enter into relationships where firms with competing motives lead to a failure of the alliance. Seppa¨nen *et al*. (2007) have also revealed the development of trust and commitment to be an important pre-requisite for the culmination of relationship capital that consists of the socio-psychological aspects of an alliance that are positive and beneficial to the alliance. Hwang (2006) concluded that trust and commitment attenuate the fear of exploitation due to higher TSIs. Yaqub (2009a, p. 111) notes: *"Whereas exercising relational creativity (in a relational community) in the upstream-side (suppliers) enhances efficiency, doing the same in the downstream-side (intermediate and ultimate buyers) of a focal actor's supply chain positively contributes to the revenues. However, securing commitment (especially in high value nodes) is an important precursor to the stability as well as exercising relational creativity in the relational space"*. Finally, Yaqub and Vetschera (2009) theorize that the culmination of satisfaction and inter-organizational trust leads to increased inter-organizational commitment that eventually translates into increased focal firm profitability through embracing revenue-enhancing relational behaviors (ReBs) like longevity of relationship, increased business share, positive word-of-mouth, and reduced partial defection in the downstream networks. The next section reveals some ways of fostering trust-based commitment in collaborative relationships.

7. Development of Trust and Commitment

While trust and commitment provide countervailing effects for alliance stability, they do not evolve overnight and seldom come easily: they can be built only over time. Generally trust emerges based on "norms of reciprocity" and it can be extended to an organization with a reputation of trustworthiness (Ring and Van de Van, 1994). Transacting parties become aware of the relevant party's reputation on trust through consulting their own experience and/or from experience of other (Gulati, 1999). In addition to the reciprocity in exchanges and reputation effects, high asset specificity and inequity aversion significantly contribute in the development and/or enhancement of trust and commitment. In the following section, we will elaborate upon these constructs.

7.1. Trust and Satisfaction

As already pinpointed, firms' satisfaction in prior collaborative histories with one another induces trust and cooperation since the possibility and cost of breaking off relations serve as a self-enforcing sanction (Telser, 1980). Trust emerges from gratifying successive collaboration experiences among the firms. As a natural consequence of these collaborations, the partners develop mutual understanding and goodwill about each other over time; therefore, the stronger form of trust, i.e. process-based trust starts to replace the initial characteristic-based trust (Zucker, 1986) and a network then become more dependent on informal measures than it was in the earlier stages.

7.2. Reputation Effects

All systems of honest trade are variants on the reputation-effect mechanisms of market (Milgrom *et al.* 1990). Parties consult not only their own past experience but also benefit from the experience of others in getting to know the reputation of a potential partner in order to reduce the likelihood of adverse selection. As such, the damage to one's reputation can influence not just the specific relationship in which one behaved opportunistically, but all other current and potential strategic ties. Social groups sanction untrustworthy behaviour by 'refusing to exchange', which in turn encourage actors to value and preserve reputation (Tyler and Kramer, 1996). Improved reputation effects can attenuate incentives to behave opportunistically since the immediate gains from opportunism in a regime where reputation effects count must be traded off against future costs. Partners in collaborative arrangements can mitigate the costs inherent in opportunistic behaviour by making it highly (adversely) consequential owing to the reputational effects. The only thing they need to ensure is that such behaviour is readily discovered and that the information is spread rapidly across the network and the marketplace (Yaqub, 2009b).

7.3. Perceived Fairness/Inequity-Aversion, Trust and Commitment

Inequity aversion is the preference for 'fair rewards' and 'fairplay'. Players with such tendencies would prefer receiving nothing to receiving a reward awarded *inequitably.* (Fehr and Schmidt, 1999) describe two forms of IA as;

Disadvantageous IA: (envy) disliking if another individual receives more than you.

Advantageous IA: (guilt) disliking if you receive more than another individual (i.e. over-compensation).

In pluralist players, the disadvantageous IA induces a resolve to sacrifice potential gain(s) to block another (opportunistic) player from (unduly) receiving a superior reward. This, apparently self-destructive, response is essential in creating an environment in which bilateral bargaining can thrive. Without IA's rejection of injustice, stable co-operation would be harder to maintain as there would be more opportunities to prosper for the free-riders. Additionally, if some partner is kind enough to behave fairly despite the opportunities to maximize his private-interest by behaving opportunistically (opportunity cost of fairness), the other players should also reciprocate the kindness so as ensure fairness equilibrium. Such an approach goes a long way in making these relationships more like polygamous friendships than monogamous marriages (Yaqub *et al.*, 2009).

The co-sharing of reputation for being trustworthy and inequity-averse (if not compassionate) partner is important for the culmination of ex-ante trust and commitment which reduces the fears and chances of adverse selection and thus facilitates the formation of collaborative arrangements. This heightens the network performance when augmented with co-sharing of predispositions of general trust. Even though the pro-activity of players featuring grater propensity to general trust causes a greater ex-post inducement in other players to react positively following the ‘norms of reciprocity’, yet it also makes them more vulnerable to a game-theoretic behaviour by the opportunistic players especially in the cooperation cycles towards the terminal stages of network life cycle. If the opportunistic players feature a fly-by-night predisposition and do not expect to be a part of future alliance(s) with these players, they may ignore the loss of reputation caused due to such cheating (Yaqub, 2009b). Hill (1990) suggests that opportunism is viable if the future is not important to the provoker.

7.4. Role of Mutual Hostage Taking Investments

Mutual hostages are dedicated investments such as assets, human resources, specialized strategies and capital equipment that are difficult to move and redeploy in other relationships (Williamson 1979)**.** Besides efficiency concerns, firms make investment in transaction-specific-assets (TSAs) to signal honourable intentions to the partners with respect to their trade relationships (Mishra *et. al.* , 1998). In the absence of trust or any possibility for successor projects, such investments can be highly instrumental in maintaining short term contracts (Kogut, 1988). By developing mutual hostages, the partners create what economists call ‘self-enforcing contracts’ because each party loses an incentive to cheat the other and instead gains a powerful motive to stay in the relationship and make the most of it (Klien, 1996). As such, these investments are highly instrumental in achieving higher return on investment through accomplishment of synergistic performance in the collaboration. However, the value of TSAs is substantially reduced if the relationship is terminated because of opportunism (Doney and Cannon, 1997). However, complementing TSAs with common ownership, muted incentives, enhanced monitoring, and the threat of sanctions can mitigate this problem (Williamson, 1985).

8. Conclusion

The partners join a strategic network and remain committed to it till the time there exists higher degrees of inter-organizational commitment fostered by strong trust that in itself is based on higher intentionality and integrity in addition to higher satisfaction in previous exchange episodes and an expectation for continuation of the same (Fiability). Partner firms' prior collaborative histories with one another breed familiarity which together with dedicated investments, higher perceptions of fairness and positive reputation effects culminate (stronger form) process-based trust, and not only induce cooperation but also substitutes the more elaborate and costlier forms of governance like contracts, vertical integration etc. The end result is high value created as a result of more innovative, efficient and effective configurations of resources/services brought in by the partnering firms that not only increases the relational rents but also simultaneously lowers down the transaction cost (contracting, operating, governance, agency, coordination). But if vice versa is experienced, the commitment fails to escalate and the partners start behaving opportunistically in order to maximize their self-interests during the perceived shortened lives of the networks. The nodes with asymmetric power (information, learning, resources, and control) are more prone to be engaged in such acts of opportunism. Anyhow, this can go both ways. The result is a commitment wear-out resulting in high transaction cost which if escalate too much make the network arrangement an unviable option. The networks need to institutionalize the efforts to foster trust and commitment rather than treating them to be a natural consequence of the quality of interactions or individual efforts of the boundary spanners.

9. Future Research

The focus of much of the earlier research in relational view has remained on identifying, defining and explaining the nature, scope, dimensions and interactions of the determinants of these relational constructs especially trust in context of strategic networks until recently when the focus has shifted to the contributions of trust in reducing the transaction cost by increasing transaction efficiency by substituting as a less costly informal control mechanism. The future research should also take into account the up-side contributions of these constructs i.e. enhancement in relational revenues.

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