

Developing the capability to manage relationships: Does maturity matter?

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Abstract

Supply chain management involves the extensive coordination of relationships of different lengths. Such relationships necessitate the notion of trust in favour of the long-term interests of the inter-organisational exchange (Das and Teng 1998). However, power usage can inhibit the effective management of these working arrangements with a long-term perspective (Naudé and Buttle 2000). This study investigates the presence of trust and usage of power in inter-firm relationships with the aim of understanding the influence of these two factors on the Australian road freight transport working arrangements. This study is part of a wider research project and represents the responses from a sample of 120 organisations involved in road freight. Initial findings indicate the importance of goodwill trust and the absence of coercive power in inter-firm relationships regardless of their duration. This clearly demonstrates to managers the importance of understanding the need to establish goodwill and balance of the use of power in forming a relationship between organisations.

Key words: *Inter-firm relationships; Trust; Power; Longevity*

Introduction

Inter-firm relationships such as strategic alliances, collaborative partnerships and cooperative agreements have become increasingly important in the daily operation of a business and in developing and maintaining a competitive position. Dynamic and complex industries seeking to benefit from innovation realise that inter-firm relationships are strategically important (Anand and Khanna 2000); and that they can reap benefits from long-term relationships. However, the decision on the type of inter-firm relationship appropriate for a specific circumstance is complex. This decision is often dependent on complex consideration such as the level of trust or the risk of entering into an alliance or partnership. In other cases, it could be based on far simpler criteria such as longevity, which is how long the organisation has been involved in a working relationship. There is a spectrum of possible relationships, from arms-length to closer long-term alliances; with each of them demanding a particular degree of managerial attention (Bensaou 1999; Lambert and Cooper 2000). This attention includes the effective management of a 'portfolio of relationships' (Golicic et al, 2003; Hyland et al, 2005) which become increasingly complex as the supply chain network grows. The key objective of this study is to explore the respondents' view of trust and power usage on Australian road freight transport inter-firm relationship longevity.

Literature Review

In Australia, freight plays a significant role as products need to be moved across long distances because of the size of the country (7,686,850 sq km) and the dispersion of its raw materials, production and

consumption centres. The road freight transport has long dominated the Australian freight industry. The percentage of freight transported by value, on road mode accounted for 80 percent in 2002 followed by rail (13.5%). It is estimated that the operations of the road freight transport generates 2.8 percent of Australian GDP which is as significant as agriculture, forestry and fishing (3.34%), and mining (4.23%) (Australian Bureau of Statistics 2004). The Australian road freight transport industry is not homogenous; but the industry approximates perfect competition because it has minimal entry barriers, a large number of firms and its small independent truckers are mainly price takers. Despite the rationalisation, the concentration of the industry is low: the sales of the top four firms account for only 15 percent of the market share. Small firms with one or two trucks represent almost 65 percent of the industry participants and account for nearly 12 percent of the industry's operating income.

Trust

The notion of trust is identified as a critical attribute to successful inter-organisational relationships (Gulati and Singh 1998; Hyland, Ferrer and Bretherton 2005). Trust can be best defined as the extent to which a party fulfils an agreement, meets the expected professional obligations and is trusted not to behave opportunistically (Sako 1992; Green 2003). Although there have been some empirical research suggesting that there are unexpected high trust levels in early stages of interactions between the parties (McKnight, Cummings and Chervany 1998), trust is a behavioural attitude that evolves over time (Gulati 1995; Child 1998).

The literature provides insights into three interconnected roles that trust plays in inter-organisational exchanges. First, trust is an effective means of allowing a firm to minimise the risks of opportunistic behaviour as it is expected that parties will forego short-term individual gains in favour of the long-term interests of the inter-organisational exchange (Das and Teng 1998). Nevertheless, Park and Russo (1996) and Reindfleisch (2000) have found that this seems not to be always the case within the context of some arrangements formed by direct competitors in which trust might be diminished by some tensions that arise due to conflicting of . Secondly, trust can be a source of competitive advantage in inter-organisational relationships formed by parties when they behave trustworthily (Barney and Hansen 1994). Sako (1998) found that high quality can be consistently maintained in high-trust production systems. Thirdly, trust can influence performance by reducing transactions costs, encouraging investment with future returns and motivating continuous improvement and learning (Sako 1998). Minimisation of transaction costs is achieved through eased negotiations and minimised conflicts primarily during the implementation of inter-organisational relationships agreements (Dyer and Chu 2003). It is likely that parties involved in the development of high-trust inter-organisational relationship are keen to invest in specific assets, perhaps incurring initial high setup cost, due to the assumption of the long-term orientation of the exchange (Dyer 1996; Sako 1998). For instance, a freight service buyer could make significant investment in implementing just in time quality certified deliveries with its freight service provider and supplier but in the long run it might be less costly to receive smaller and more frequent shipments randomly inspected. In the same line of performance, Johnston et al. (2004) found through the testing of supplier's perception of buyer's benevolence that suppliers are willing to share plans, innovate and be flexible based on their trust in their buyers' satisfaction of performance.

The literature offers several classifications of types of trust. For example, Sako (1992) measured three types of trust: 'contractual trust', 'competence trust', and 'goodwill trust'. More recent studies present two dimensions of trust: credibility or competence and benevolence (Ganesan 1994; Nooteboom, Berger and Noorderhaven 1997). This research is based on the categorisation made by Sako (1992). Sako (1992) discusses contractual trust as the willingness of parties to adhere to written or oral agreements which rests on a shared ethical standard of keeping promises and honesty. In addition the author suggests that competence trust relates to the expectations that parties are capable and professionally perform what they say they can do. Finally, Sako (1992) advocates that goodwill trust concerns the expectations of parties making open commitment to each other beyond what is formally expected .

Trust has been reported as a relationship-oriented variable, influencing the formation of inter-firm relationships. In less mature working relationships such as those at arms-length, trust is perceived as a contractual type in which detailed written agreements prevent the parties from operating and making decisions independently (Dore 1992; Sako 1992). These contracts, agreed before the initiation of the relationships, describe each partner's obligations in most possible scenarios. The notion of trust among partners has been reported as a vital ingredient for success in more long-term orientated inter-firm relationships such as cooperation as it encourages organisations to exchange ideas, seek different courses of action, overcome problems, make a commitment, and to be a better global competitor (More and McGrath 1999). This type of inter-organisational trust seems to be more orientated to what Sako (1992) has described as competence trust. Finally, closer and more mature relationships such as collaborative arrangement demand joint processes supported by a high degree of trust and commitment. Goodwill trust motivates participants in closer and mature inter-firm relationships (for example, collaboration) to work more closely, with a shared mission, vision, seamless planning, seeking synergies (Krause and Ellram 1997) and undertake, if needed, activities that were not agreed (Sako 1992).

Power

The notion of power imbalance is considered one of the greatest discouragements and negative influences to maintaining long-term oriented relationships (Naudé and Buttle 2000). Research has shown that power is a deterrent to trust (Kumar, Scheer and Steenkamp 1998). Although the work of Hingley (2005) discusses earlier research (Svensson 2001) that presented a different point of view, not all relationships are based on mutual trust. This suggests that the portfolios of inter-firm relationships (Lambert and Cooper 2000; Hyland, Ferrer and Bretherton 2005) that organisations are increasingly managed, influenced and motivated by a diverse set of attributes including power.

Power, from the perspective of (French and Raven 1959; Raven, Schwarzwald and Koslowsky 1998) can be described as the influence of one party over the other. They suggest that there are aspects of control and coercion of parties' power which enable the participants to maintain order and authority but its abuse is a problem that needs to be limited. French and Raven (1959) identified five sources of power associated which refer to: reward power, coercive power, expert power, referent power, and legitimate power. Although Raven (1993) included a sixth source of power, this has been assumed as a characteristic of expert power (Dapiran and Hogarth-Scott 2003). Expert power refers to the ability of a party in a relationship to hold and control distinctive knowledge, information and skills that are valuable to the other party; whereas referent power concerns a party's desire to be associated with another out of admiration from them (French and Raven 1959). The authors also argue that whilst reward power refers to the ability of one party in the relationship to mediate tangible or intangible rewards to the other party, coercive power concerns the ability to use punishment and take disciplinary measures over partners. For instance, in the freight transport industry a party can exercise expert power over the other by holding market, process, regulations knowledge, and consequently, the other party may give up control, believing such knowledge could lead to better performance and profitable contracts. Likewise, participants in the freight industry can exercise reward power over the shippers by offering lower prices, shorter delivery times or improved material handling technology, conversely, shippers might offer more long-term contracts or extended loading and unloading times exercise reward power over the freight service provider. Finally, French and Raven (1959) refers to legitimate power as the recognition of the right to hold authority over the others which originates from perceived standing or status and is present if one of the parties believe the other retains the natural privilege to such power

Research on the influence of power on the inter-organisational relationships will provide a better understanding of whether this plays a role. Studies have found that less mature inter-firm relationships (i.e., arms-length) between supply chain partners lead to low responses to demand changes because parties see each other as rivals. This element of power imbalance prevents them from sharing information (Narasimhan and Jayaram 1998). Balance of power is generally outside the short-term control of arms-length relationships and gaining greater power relative to firm's partners can be a long-term strategy. Moreover, more long-term orientated inter-firm relationships such as cooperation and power have been

contrasted, suggesting that cooperation is negated by power usage. This means that firms participating in power-oriented relationships have more disincentives to cooperate (Dapiran and Hogarth-Scott 2003). Furthermore, power is suggested to be the flip side of trust and hinders more long-term orientated inter-firm working arrangements (More and McGrath 1999), particularly in relationships between partners with different strengths and interdependency levels. For instance, despite the current push toward cooperation and integration, business relationships in the Australian freight industry tend to be extremely competitive, and the larger organisations maintain a relatively lop-sided power advantage over small owner drivers.

Longevity

The duration of the relationship may indicate whether a relationship succeeds or fails, or whether the relationship is close. Various scholars have suggested that well-established long-term trading exchanges indicate successful relationships (Morgan and Hunt 1994). Likewise, it is argued that in long-term arrangements, the longevity of the relationship, in many cases, depend on how each party perceives that the relationship itself represent an investment (Johnsen and Ford 2001). Longevity can be seen then as a perception of the parties' expectations of future exchanges and willingness to continue working together. This notion also involves the period in which the parties have been working and are contractually committed to work (Jagdev and Thoben 2001).

It is suggested that parties that engage in long-term exchange relationships develop a history together. The past history of interactions of parties is critical in reducing the likelihood of behaving opportunistically towards the other party as sanctions can be imposed (Ouchi 1984). Studies show that during the past interactions, the parties obtain information such that as more information is accumulated, the more knowledge is acquired about each other (Coulter and Coulter 2002). Higher levels of trust are expected in inter-organisational relationships where the parties have a longer history of ongoing interactions and acts are based on norms of equity (Bolton 1998). Moreover, the literature of services marketing suggests that duration of interactions is likely to be driven by the perceived switching cost of changing partners as participants increasingly commit important resources over the period they decided to remain in a relationship (Coulter and Coulter 2002). Under these conditions, a party's willingness to remain with the same partner can be perceived by the partner as a manifestation of commitment and trustworthiness (Dyer and Chu 2000).

A review of the interplay in inter-organisational relationships

Parties are likely to engage and stay in different types of relationships depending on their nature and the pursued objectives. In less mature inter-firm relationships such as arms-length relationships, the interactions are characterised by independence, focusing on strong price competition and contractual details, a short-term horizon, minimal commitment in terms of dedicated resources and little risk-sharing (Sako 1992; Rutherford 2001). Moreover, in more long-term orientated working arrangements (cooperation), commitment is a vital component of successful long-term cooperation, which implies a motivation to make short-term sacrifices to achieve longer-term benefits (Gundlach, Achrol and Mentzer 1995). Finally, any element of power imbalance has been found to be inversely related to perceived effectiveness in many closer mature relationships such as alliances (Steensma and Lyles 2000) and the shifts in the balance of partners' bargaining power are responsible for instability and unplanned termination of alliances (Inkpen and Beanish 1997). Studies conducted by researchers such as Ring and Van de Ven (1994), and Parvatiyar and Sheth (2000) provide foundations for the discussion on the strategic shift along a relationships continuum. Although these researchers take into consideration the influence of the nature of the relationships in the evolution of relationships, their research fail to incorporate a more comprehensive set of empirically tested relationship characteristics (i.e., power, trust, sharing, interdependency and longevity) that would determine what organisations should do in different relationships stages.

This paper examines inter-organisational relations in the road freight industry in Australia. Road freight providers are an important and critical component in many supply chains and in this sector. In Australia, there is a growing consolidation of actors as large firms continue to dominate the market. The key objective of this study is to explore the influence and variation of factors such as trust, power and

longevity in inter-organisational relationships in the Australian road freight transport industry. Statistical analyses were conducted to investigate the relationships between these three factors of trust, power and length of relationship (longevity).

Methodology

The research methodology involved a self-administered survey questionnaire targeting different freight businesses involved in different types of relationships with the members of their supply chain (i.e., warehouse service providers; distribution centres; and other road freight operators). The questionnaire was mailed to 1000 road transport companies in Australia who were involved in different types of inter-firm relationships for which contact information could be found. The purpose of the questionnaire was primarily to gather data on issues relating to the attributes that characterise inter-firm relationships (i.e., trust, power, longevity) between Australian road freight businesses and their supply chain partners. Inter-company arrangements such as arms-length, cooperation, collaboration and alliances were the focus of this research.

The measures were developed by adapting elements of the theory and items used by previous researchers and by devising new measures. Whenever possible, multiple measures were used for each of the theoretical constructs. Firstly, trust was operationalised using a 5-point Likert scale designed to measure the extent to which the road freight businesses trusted the members of their supply chain not to behave opportunistically (Sako, 1992; Gulati 1995; Zaheer and Venkatraman, 1995; Green, 2003). The operationalisation of trust encompassed statements such as whether the road freight business has confidence in the member of the supply chain to the extent that non-written agreements are needed, and whether the road freight business perceives that a supply chain partner will take unfair advantage of the road freight business. This scale had a Cronbach alpha of 0.85. Secondly, the power variable was operationalised using multiple scale items to tap the power bases which have been broken into categories such as mediated and non-mediated (Jonhson et al., 1993). Included among these categories are information, expert, referent, legitimate, reward and coercive power. The operationalisation of power involved statements such as whether an organisation would comply with a request as a result of a belief that supply chain partners possessed the ability to penalise them and whether a trucking organisation believes that its supply chain partners have a lot of experience and therefore know best. This scale had a Cronbach alpha value of 0.88. Thirdly, although the concept of longevity is stimulated by previous theory and research, the 5-point Likert scale to measure the concept was developed specifically for this research. The concept of longevity was operationalised taking into account formal duration of relationships (Jagdev and Thoben, 2001). Formal duration was investigated as to the number of years since the road freight business first began inter-organisational relationships. Respondents were asked to indicate the number of years they have been in inter-firm relationships. Given the size of the sample in this study the length of relationships have been sub-divided into 3 groups of 0-9years, 10-19years and 20+ years, this allows sufficient numbers in categories with less than 20 years in relationships for comparative purposes.

The analysis was based on 120 questionnaires derived mainly from heavy goods and chemical carriers; and containers and furniture carriers. The respondents ranged from operations managers, managing directors to chief executive officers. This research aims to provide insight to the following research question: What are the implications for inter-organisational relationships on the influence of trust and power?. The findings are presented as follows.

Findings

The cross tabulation presented in Figure 1 shows the number of trucking firms that have participated in inter-organisational relationships (less than 9 years, between 10 and 19 years and more than 20 years) who rated their level of agreement to statements related to three types of trust, as a percentage of the total number of respondents of each relationships duration grouping. For example, a total of 22 respondents who have been in inter-organisational relationships for less than 9 years rated their level of agreement with inter-organisational goodwill trust related statements. Thus, the 16 trucking firms who agreed, 3 trucking firms who neither agreed nor disagreed, and 3 trucking firms who disagreed, represent

73 %, 13.5% and 13.5 % of the respondents who rated their level of agreement with goodwill trust related statements, respectively. Similarly, a total of 61 respondents who have been in inter-organisational relationships for more than 19 years rated their level of agreement with inter-organisational competence trust related statements. Thus, the 31 trucking firms who agreed, 18 trucking firms who neither agreed nor disagreed, and 12 trucking firms who disagreed, represent 50.8 %, 29.5% and 19.7 % of the respondents who rated their level of agreement with competence trust related statements, respectively

Figure 1 shows the road freight transport participant's view on trust has an influence on the length of their inter-organisational relationships. Contractual trust is agreed to be slightly more important for organisations in their first 9 years of relationships (72.7%), than for organisations that have been in organisational relationships for more than 10 years (65%). Whilst competence trust is not significantly important for trucking industry's newcomers (36.4%), it becomes more important as the business matures (>50%). Overall, regardless of the relationships duration, a significant number of the businesses surveyed agreed that their inter-firm relationships are based on goodwill trust (more than 70 %)

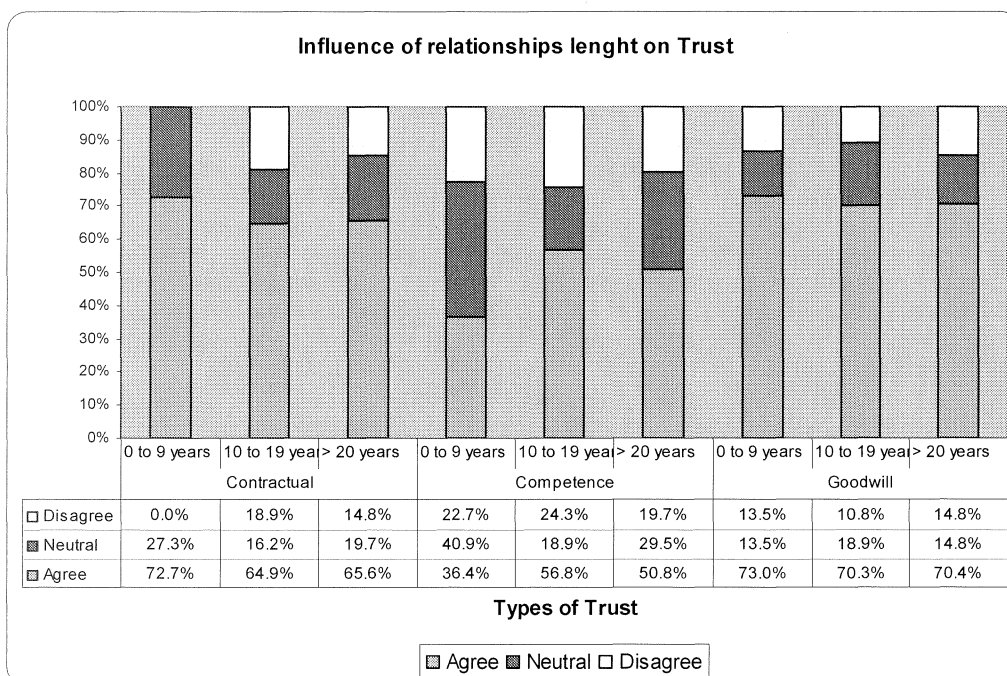


Figure 1 Type of trust by relationships duration

An analysis of variance (ANOVA) was conducted to determine whether road freight businesses in the three groupings differ significantly in their level of agreement with contractual, competence and goodwill trust related statements. Before conducting the ANOVA, it was tested that scores in each group should have homogeneous variances. Levene's test (Table 1) for homogeneity of variances was not significant ($P > .05$) and therefore the population variances for each group were approximately equal.

Table 1 Test of Homogeneity of Variance and ANOVA for Trust

Type of Trust	Test of Homogeneity of Variances				ANOVA				
	Levene Statistic	df1	df2	Sig.		df	Mean Square	F	Sig.
Contractual	3.370465576	2	117	0.377433	Between Groups	2	0.544834421	0.537022	0.586
					Within Groups	117	1.01454699		
					Total	119			
Competence	1.388897923	2	117	0.25343	Between Groups	2	0.343178965	0.514074	0.599
					Within Groups	117	0.667566741		
					Total	119			
Goodwill	0.059534001	2	117	0.942232	Between Groups	2	0.475996059	0.573905	0.565
					Within Groups	117	0.829398928		
					Total	119			

The results from the ANOVA (Table1) indicate that neither Contractual trust – $F(2,117) = 0.54$, $P > .05$, ns., Competence trust – $F(2,117) = 0.51$, $P > .05$, ns., nor Goodwill trust $F(2,117) = 0.57$, $P > .05$, ns., were significantly influencing the relationship length.

The cross tabulation presented in Figure 2 shows the number of trucking firms that have participated in inter-organisational relationships (less than 9 years, between 10 and 19 years and more than 20 years) who rated their frequency of usage of five sources of power as a percentage of the total number of respondents of each relationships duration grouping. For example, a total of 80 respondents who have been in inter-organisational relationships for less than 9 years rated their frequency of coercive power usage. Thus, the 2 trucking firms who rated frequent usage, 2 trucking firms who rated occasional usage, and 18 trucking firms who rated never usage, represent 9.1%, 9.1% and 81.8% of the respondents who rated their frequency of coercive power usage in inter-firm relationships, respectively.

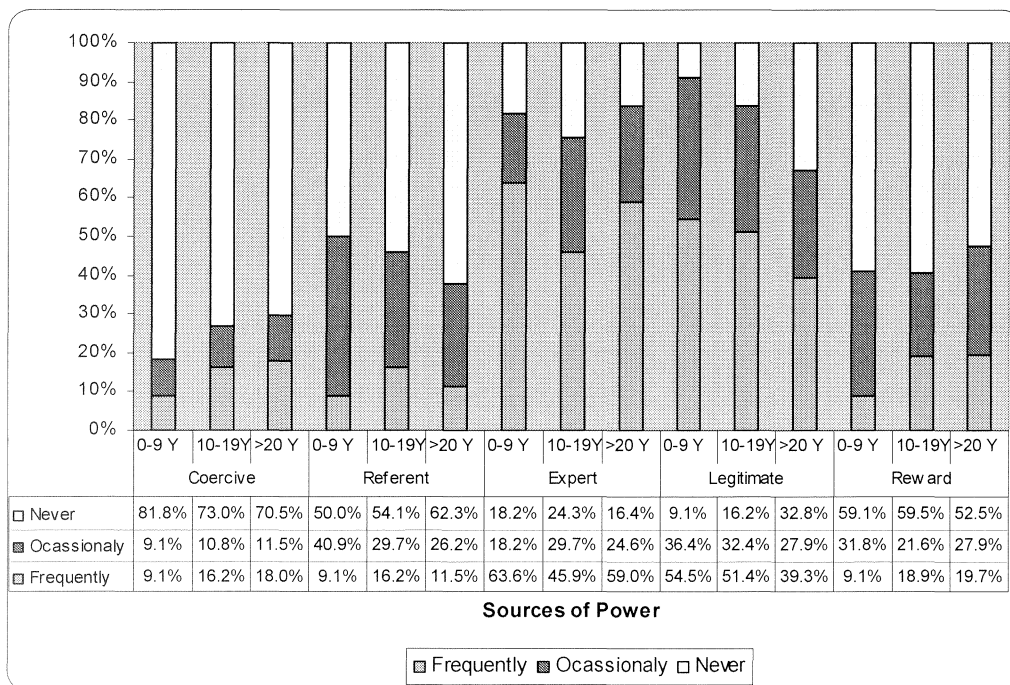


Figure 2 Sources of Power by relationships duration

Figure 2 suggests that power usage, to some extent, plays a role in the Australian trucking industry inter-organisational relationships. Coercive, and reward power are not frequently present in trucking inter-firm arrangements – less than 20% of road freight businesses in each relationship duration grouping. Importantly, more than 70% of firms regardless of the length of time they have been in business believe coercive power is not used in relationships. Overall, more than 40% of the trucking firms in each relationship duration grouping regarded the use of expert and legitimate as an important source of power to conduct their inter-firm arrangement regardless the length of the relationship. When it comes to referent power usage, less than 20% of trucking business in each relationship duration grouping acknowledged its usage to participate in inter-firms relationships.

ANOVA analysis was conducted to determine whether the three relationships duration categories differ significantly in their frequency of usage of the five sources of power. Levene's test for homogeneity of variances was not significant ($P > .05$) and therefore one was confident that the population variances for each group were approximately equal. The results from the ANOVA (Table 2) indicate that neither Coercive Power – $F(2,117) = 0.70$, $P > .05$, ns., Referent power – $F(2,117) = 0.17$, $P > .05$, ns., Expert power – $F(2,117) = 1.49$, $P > .05$, Legitimate power – $F(2,117) = 2.02$, $P > .05$, ns, nor Goodwill trust $F(2,117) = 1.10$, $P > .05$, ns., were significantly influencing the relationship length.

Discussion and Conclusions

The results of this study provide insights into a better understanding of the conditions for the formation of inter-organisational relationships in a critical but previously unexplored industry. In particular this study explores the influence of trust and power on the longevity of inter-firm relationships. There should be caution in assuming generalisability as these are preliminary findings of a more comprehensive study. Some conclusions can be drawn from this study. As reported in Figure 1, there are some indications that respondents' views of Sako's (1992) inter-organisational trust typology are influencing relationship longevity. The differences in agreement with the trust typology across the three relationships longevity groupings raise some important issues, particularly, how important are contractual, competence and goodwill trust allowing for, or fostering long term relationships?

Different types of inter-organisational trust exist in the Australian road freight transport industry. A priori, one would have expected that trucking inter-firm contractual trust would be less necessary as businesses relationships mature (Gulati 1995; Child 1998). The findings (Figure 1) indicate that trucking firms relationships, regardless of the duration, are based on actions driven by rules and written contracts. The overall agreement of respondents may be result of that approximately 70 percent of the industry participants are owner-drivers who are usually keen to take any spot contract to secure the cash flow and be able to survive and cover their operating costs. While there is not a clear trend from Figure 1, it appears that less mature business relationships have as yet been unable to establish inter-organisational competence based trust. However Figure 1 suggests that businesses in relationship for more than 10 years have been working together long enough to increase the perception of and demonstrate that they can deliver and meet the performance objectives (Johnston et al. 2004).

Furthermore, overall the results do show that regardless the relationship length; inter-firm arrangements in the Australian trucking industry are based on goodwill trust- which is expectations that business will not harm each other. Goodwill trust for less mature inter-firm relationships might be characterised by verbal agreements carried out under spot transactions in which business that are merely registered to different data bases are called to perform a duty without signing contracts. More mature relationships had previously experience difficulties such that the lessons learnt can help participants to ensure progress in their working relationships by performing duties that are not usually expected (Sako 1992).

The results from power usage on road freight transport inter-firm relationships represent some of the first empirical evidence to demonstrate whether power is a significant influence on the duration of relationships between the industry participants. Although coercive-based power may be necessary at times in business environments with the characteristics of the Australian trucking industry, one would

expect there to be a lack of coerciveness as a source of power in inter-organisational relationships. This confirms the importance of goodwill trust and suggests that penalties and punishments which are characteristics of coercive power (French and Raven 1959), are not used to solve problems in road freight transport inter-firm relationships. Thus, a trucking firm holding power is not enforcing its power through coercive means as this will be detrimental and harm its relationships. In addition, the results are pointing to trucking businesses unwillingness to associate with big players in the markets as not to be seen as participants with power because of their working relationships with powerful partners. This is a feature of referent power (French and Raven 2006) and indicates that referent power based working relationships is not a common practice in the industry. With regard to expert power, the firms surveyed indicated that knowledge is important in balancing power of their working relationships. This is also suggesting that the participants in the industry are concerned with aligning themselves with knowledgeable partners and expect efficient performance and longevity to result from this association (French and Raven 1959). Legitimate power seems to have an important effect on the working relationships durations which can be explained by the perception of the owner drivers, accounting for 70 % of the industry's firms, that big players (e.g., Toll, TNT) who provide them with work have the right and authority within their supply chain. Finally, consistent with the distribution channel literature, the results show some evidence of the negative influence of reward power usage on the duration of inter-organisational relationships. The participants in this industry seem not to approve of reward-driven performance, and thus, rewards are not utilised or offered to achieve improvements in their working relationships. An unnecessary reward could be perceived as harmful to the duration of the relationship.

The research findings provide some insight into the orientation of participants in the industry and supply chain research. The contributions provide some indication of the role that trust and power plays within the Australian road freight transport industry. It demonstrated that different types of inter-organisational trust exist and are important in the trucking industry, but the dominant type of trust is goodwill. It is also substantiated that expert power and legitimate power has some critical influence on the road freight industry working relationships. Thus, managers in the industry must be aware of trust and power influences on their working relationships duration and understand how these factors impact on the relationships efforts as well as on the individual performance. The research findings also contribute to the direction of future inter-firm relationships in supply chain. The evidence of the combination of goodwill trust and legitimate as well as expert power usage establishes the need of supply chain research to address and incorporate them into its relationships analysis.

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