

## Does Trust Still Matter? Relational Trust and Task Trust in Supply Chain

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### Commentary

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The concept of trust in commercial transactions is not new. As early as in 1972, the Nobel Prize-winning economist Kenneth Arrow wrote, “virtually every commercial transaction has within itself an element of trust”. We simply took it for granted that every transaction is based on trust and relationship without giving a serious thought what the word “trust” really means and how it impacts daily business transactions in supply chain operations. Pandemic has proven that we have been wrong. Pandemic reveals the weakness and vulnerability of supply chain. Major daily news media reported breakdown of supply chain during the pandemic period. “U.S. Food Supply Chain Is Strained as Virus Spreads” (The New York Times, April 13, 2020), “World Economy Shudders as Coronavirus Threatens Global Supply Chains” (The Wall Street Journal, February 23, 2020), “Covid-19 crisis has laid bare weaknesses in supply chains” (Financial Time, May 12, 2020), “People are hoarding toilet paper. The truth about the supply chain” (CNN, March 18, 2020).

Just a few broken links in the global supply chain exposes a multitude of weaknesses and had a ripple and cascade effect, spreading and multiplying until the supply chain was fractured and, in some cases, almost grounded to a halt. Adoption of technologies did not help us manage the disruptions in spite of the \$4 trillion we spent on technologies in 2019. It was reported that unchecked supply chain disruption would cost an average company six months’ EBITDA every decade (Swan, 2022). That was what happened during the initial pandemic period. The United States GDP

declined by 1.42% from 2019 to 2020 (\$21.4 trillion to \$21.1 trillion). Yet, we have been neglecting the fundamental flaws (so-called “supply chain on sand”) on which supply chain was operating prior to and during the pandemics. Supply chain had been operating on false assumption that technologies would and should have solved any and all supply chain problems. We were proven wrong again. If the fundamentals of supply chain are not deeply rooted in organization and operational structure, supply chain is easily fractured to the points that each player feels like swimming in the ocean without navigational compass.

Belatedly, we realized that current supply chain structure was unable to mitigate such disruption because supply chain was based on disconnected link along the supply chain networks. The “chain” became hopelessly broken as information sharing among and between “partners” along the chain became almost nonexistence in spite of huge investment in technologies. We belatedly became convinced that it is not technology but “people” who use technologies that could “fix” such dramatic change in supply chain landscape (Langley, 2023). Recently, the New York Times succinctly described the roles of technology that “A.I. will never replace artists (human) because it cannot experience pain or memory (March 26, 2023), and the technology still doesn’t understand what is true or not. And it can’t come up with original ideas or discuss the future (March 15, 2023).

We want to trust others because we feel ourselves inadequate and vulnerable to uncertainty in making right decisions. Therefore, we need someone we can trust and rely on who is not opportunistic or will violate the norms of the relationship (Lyles, Flynn and Frohlich, 2008). Once relationship-based trust is established, partners will not exploit other's weakness (Hawley, 2014). Since we as a decision maker are lonely and search for a comfort zone with those whom we trust. Comfort zone so created yields tangible and intangible benefits. Trust is at the heart of a collaborative innovation capability. Without a foundation of trust, collaborative alliances can neither be built nor sustainable (Fawcett, Jones and Fawcett, 2012). Therefore, trust (not technologies) is glue of supply chain. Each agent (person) has seriously limited power (competence, skills, resources, etc.) and cannot achieve all his/her potentials, but by tapping the power of others, they can achieve their potential goals. Borrowing Kenneth Arrow's words, trust fosters formation of invisible social capital that benefits other agents in the society (Castelfranchi and Falcone, 2010).

Trust is universal without boarder or boundaries. You are not alone during the process of establishing relationships with others on a global scale. Furthermore, trust is resilience and forgiving. As a result, transaction cost is reduced (Williamson, 2008). Assis, Lucas and Rainho (2022, P.1) even argue that "trust is one of the most prominent and critical aspect for not only the effectiveness of collaboration, but also for improving sustainability performance". "Trust is one thing that changes everything" (Covey, 2006, P.9). In short, *trust is one word that carries a heavy responsibility, but renders a joy without fear.*

Relationship management is the core that links all parties together. Strong relationships with suppliers go beyond the cost of materials. It encompasses the efficient process of materials that flow through the supplier's and customer facilities. The sharing of information from all parties takes costs out of the supply chain while seeing the continuous improvement in the overall service. Without relationship management, the disruption in the supply chain is inevitable (Personal conversation in June 2022 with Mr. Marty Tendler, retired executive in global sourcing and logistics at Nestle Purina Corp.). When both sides trust each other, they are able to share important and strategic information, to invest in understanding each other's business, and to customize their information systems or dedicate people and resources to serve each other better (reciprocal asset investment). A trusting party typically will not feel it needs to monitor their counterpart's behavior; thus, it can cut its monitoring costs.

Leaders understand the stakes at least in principle. In its 2016 global CEO survey, PwC reported that 55% of CEOs think that a lack of trust is a threat to their organization's growth. But most have done little to

improve the level of trust, mainly because they aren't sure where to start (Zak, 2017). At last, research starts to reveals tangible benefits from trusted based relational supply chain. For example, the best collaborator based on relational trust in supply chain cut the inventory carrying cost almost by 50% (Partidas, 2015). Collaborative relationship in supply chain organizations yields a reduction of transaction cost (Kwon, Hong and Kim, 2017).

The above two studies seem to confirm previous conceptual research model that there is a strong correlation between performance index and collaboration index (Simatupang and Sridharan, 2004). On average, a company's level of trust and its satisfaction were the highest and the level of perceived conflict was lowest in the relationships when there is a high level of interdependence based on relational trust. Employees in high-trust organizations are more productive, have more energy at work, collaborate better with their colleagues, and stay with their employers longer than people working at low-trust companies. They also suffer less chronic stress and are happier with their lives, and these factors fuel stronger performance (Kumar, 1996). On the other hand, lack of trust-based collaboration is the biggest obstacle to improving supply chain processes (American Productivity and Quality Center, 2022). Loss of trust costs Chrysler \$24 billion in profit over the past 12 years (Henke Jr., Stallkamp and Yenyurt, 2014).

On the contrary to the existing thoughts on use of technologies in supply chain, digital transformation of supply chain reaffirmed the crucial roles of relationship-based trust in supply chain operations (Kwon *et al.*, 2021). The digital deployment is creating new products, processes, and services. But to provide these new services, we must share information and assets with each other. For example, it has been reported that if the world of brands were sharing a supply chain network, it is estimated that 90,000 fewer trucks on the road, 9 trillion parcel miles saved, \$40 billion logistics cost saving, and 30% carbon footprint reduction (Modern Material Handling, 2022). In a recent survey on technology deployment in supply chain management, more than half (56%) of the respondents believe that technology should be used as a collaboration tool (strategic tool) as much as a tactical tool (Brown, 2022). In order to achieve the above, companies need to change the way they forge and manage relationships with other entities in the supply chain that facilitates new types of alliances and agreements. This new alliance requires/mandates us to adopt a boundary-spanning mindset in order to facilitate collaboration, experimentation, and trust across organizational boundaries" (Saenz, Revilla and Borrella, 2022).

Lesson that we learned during the pandemic and post pandemic areas (fractured supply chain)

became clear; we should build supply chain based on strong foundation that will sustain future supply chain disruptions. We learned that it is not technology that could have prevented such disruptions. It is undisrupted information sharing based on relational trust among and between supply chain partners. Trust based on task oriented relationship ceased to exist once tasks ended leaving no room for reestablishing relational trust. During the transitional period from the end of task-based trust to re-establishing the relational trust, supply chain operations enter into “dark” period where each player attempts to re-create relationship that once existed but abandoned as the task was terminated. The sum of the individual pie is always less than total pie. Every player ends up with less than original goal. The society as whole suffers as we witnessed during and post pandemic period.

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