

## Chapter 2

# Trust in Procurement Decisions of New Zealand SMEs: A Repertory Grid Analysis

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### **ABSTRACT**

*The purpose of this chapter is to explore the role of trust or confidence through the managerial lens. The chapter aims to acquire empirical evidence regarding the importance of factors that play a role in fostering trust during procurement decision making exemplified through a New Zealand-owned company, ContainerCo. This exploratory study scrutinises trust as perceived by SME managers in the supply chain of logistics and procurement in New Zealand. It uses the repertory grid analysis and is based on two interviews conducted through the repertory grid technique, a semi-structured method. Although different in every company and country, trust plays a major role during the selection of suppliers. Factors such as reliability and value are regarded as the most important ones for choosing the right supplier in the case of ContainerCo.*

### **INTRODUCTION**

Since the past two decades, supply chain management (SCM) has been put in the limelight of research as it has gained considerable attention. One particular aspect of this research was to focus on eliminating inefficiencies and ineffectiveness in the procurement process. However, it has been found through experimental work that many supply chain members tend to deviate from the optimized decisions that literature provides. This highlights the fact that there is something more to relationships in the supply chain than just the economic exchange (Ebrahim-Khanjari et al., 2012).

Traditionally, SCM is based on contractual ties, which primarily relied on monitoring and control methods. The traditional theory of management had a ‘fixed’ view on what can be described ‘hard management’ systems. This system suffered from various problems (Meng, 2015). A primary concern of this traditional method was its inflexibility to resolve the issues of unforeseen circumstances, render-

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ing it myopic and inactive in times of dire need. The contract in any project is considered the standard of behaviour; however, the lack of equal information sharing, limited rationality and transactional costs substantiate the project to remain unfinished (Turner, 2004). An unfinished contract snowballs to another old problem that creates uncertainty and disputes between the business partners. Heavy monitoring and control cause another set of issues that turn the relationships sour and adversarial which leads to the 'hurt' party to implement hidden costs (Cheung et al., 2015). Therefore, such traditional practices of management have been an obstacle to the successful completion of large business deals and burgeon substandard performance comprising of postponements of time, higher costs and undesirable quality.

Although they cannot be quantified or contracted on, such non-pecuniary issues are important because they affect businesses (Ebrahim-Khanjari et al., 2012). Uzzi (1996) demonstrated in longitudinal empirical research of buyer-supplier relationships in the textile industry that the economic exchange over time became more rooted in complex relationships that involved investments, friendship, and altruistic attachments. There is sufficient affirmation that business decisions are influenced or impacted by successful relationships amongst business partners (Coughlan, 2002).

## **The Problem and Research Question**

A plethora of studies on SCM viewed trust as the trust between organisations, i.e., inter-organisational trust (Joshi & Stump, 1999). Furthermore, trust is often perceived as collateral to collaboration's constructs such as knowledge sharing and dyadic decision making. Therefore, trust is perceived as one of the key effects of organisational performance (Byoung-Chun et al., 2011).

Although literature has attempted to expand the definitions and factors of trust through synonymous use of trust, literature has not really defined what trust is and how it can be fostered and what are its practical aspects during the purchasing process. Since trust is considered as sentiments and beliefs between people, it is crucial to scrutinise it at an inter-personal level rather than at an organisational level (Mouzas et al., 2007).

This project aims to comprehend the research gap of the underlying factor that builds stronger client-supplier relationships that goes beyond the normal parameters of doing business. Researchers have succeeded in broadly defining the glue that binds such relationships in the supply chain by coining it on 'trust'. To enrich this understanding of what is defined and measured by 'trust' practically, I scope my research based on the organisational setting of ContainerCo. For any decisive changes made in an organisation, it involves the management, especially at the senior level, where the decisions are generated, much like in the case of ContainerCo. With the company willing to make radical changes to expand its business, these senior managers want to go beyond the fiscal gain of the company, by taking society and the environment into account. They intend to venture into delivering their products to their customers in a more efficient, effective and attainable way.

From equating the balance sheet to actually implementing such decisions, the participants of this research, need to "trust" their suppliers before signing the contracts. Therefore this paper will answer the research question: how do staff perceive their trust (or confidence) in suppliers during the procurement process and what role does this have on procurement decisions?

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