



Antecedents and Consequences of Trust and Commitment in Apparel Manufacturer-Contractor Relationships: The Moderating Role of Firm Size

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### Introduction

As the long-term orientation of the relationships established between firms has been widely discussed as an important strategic element to success in competitive business environments, firms have been interested in establishing cooperative long-term business relationships with customers and suppliers (Morgan & Hunt, 1994). Existing evidence from research insists that the size of the firm (Redondo & Fierro, 2007) is a fundamental component considered in dyadic relational models and trust and commitment (Morgan & hunt, 1994) and firm performance and relationship satisfaction (Jap & Ganesan, 2000) are key elements in the development and maintenance of lasting relationships between firms. Drawing on buyer-seller relationship in channel theory, this study attempted to examine the moderating effect of firm size on the impacts of apparel manufacturer-contractor business relationships (i.e., antecedents of trust and commitment) on trust and commitment as well as on firm performance and relationship satisfaction.

### Research Method

A self-administered structured questionnaire was developed and distributed to a total of 128 South Korean apparel manufactures. All 128 responses were included and analyzed for this study. The apparel manufacturer's size was divided into small and medium-sized firms ( $n = 52$ ) in which the number of employees was under 300, and large firms ( $n = 72$ ) in which it was more than 300. Factor analysis with varimax rotation was conducted to identify the number and nature of the underlying factor structures of antecedents of trust and commitment. The factor analysis revealed eight factors: specific investment, opportunistic behavior, communication, uncertainty, interdependence, power imbalance, and shared value. In order to assess the moderating effect of firm size on the impacts of apparel manufacturer-contractor business relationships on trust and commitment and firm performance and relationship satisfaction, path analysis was implemented.

### Results

The results obtained are highly satisfactory, demonstrating a good fit between the measurement model and the data ( $\chi^2=46.77$  ( $df=32$ ,  $p = .044$ ), RMR=.04, RMSEA= .06, GFI= .94, AGFI=.71, NFI= .95, CFI= .98). As for the moderating effect of firm size in the impacts of apparel manufacturer-contractor business relationships (i.e., antecedents of trust and commitment) on trust and commitment, Small and medium-sized apparel manufacturers' trust was positively affected by communication ( $r = .24$ , C.R = 2.09,  $p < .05$ ) and flexibility ( $r = .61$ , C.R = 4.09,  $p < .001$ ). The antecedent variables that positively and/or negatively affected to small and medium-sized apparel manufacturers' commitment in their contractors were interdependence ( $r = .30$ ,

C.R = 3.55,  $p < .001$ ), power imbalance ( $r = -.30$ , C.R = -3.43,  $p < .001$ ), and flexibility ( $r = .50$ , C.R = 2.74,  $p < .001$ ). Large apparel manufacturers' trust was significantly affected by opportunistic behavior ( $r = -.28$ , C.R = -3.89,  $p < .001$ ), shared value ( $r = .61$ , C.R = 2.21,  $p < .05$ ) and flexibility ( $r = .43$ , C.R = 4.57,  $p < .001$ ). The antecedent variables that significantly affected large apparel manufacturers' commitment in contractors were uncertainty ( $r = -.25$ , C.R = -1.99,  $p < .05$ ), interdependence ( $r = .25$ , C.R = 2.33,  $p < .05$ ), power imbalance ( $r = -.21$ , C.R = -2.33,  $p < .05$ ), shared value ( $r = .24$ , C.R = .12,  $p < .05$ ) and flexibility ( $r = .33$ , C.R = 2.00,  $p < .05$ ).

As for the moderating effect of firm size in the impacts of trust and commitment on firm performance and relationship satisfaction, Small and medium-sized apparel manufacturers' firm performance was affected by both trust ( $\beta = .39$ , C.R = 3.47,  $p < .001$ ) and commitment ( $\beta = .52$ , C.R = 4.54,  $p < .001$ ). However, small and medium-sized apparel manufacturers' relationship satisfaction was affected by only commitment ( $\beta = .65$ , C.R = 5.43,  $p < .001$ ). Large apparel firms' performance was affected by both trust ( $\beta = .56$ , C.R = 6.25,  $p < .001$ ) and commitment ( $\beta = .32$ , C.R = 3.56,  $p < .001$ ). Large apparel firms' relationship satisfaction was also affected by both trust ( $\beta = .63$ , C.R = 7.85,  $p < .001$ ) and commitment ( $\beta = .32$ , C.R = 3.98,  $p < .001$ ).

### Conclusion and Implication

The result of this research provides valuable data for making a concrete suggestion regarding the strategy for improving trust and commitment for the sake of the desirable relationship between apparel manufacturers and contractors. The results suggest that communication, interdependence, and flexibility are key drivers of a small and medium-sized apparel manufacturer's trust and commitment in contractors. However, a power imbalance between small and medium-sized apparel manufacturers and contractors inhibits affective commitment, meaning that it may cause detrimental effects on the stability of exchange relationships. Shared value and interdependence are beneficial to especially large firms' trust and commitment in contractors. However, opportunistic behavior, uncertainty, and power imbalance impairs the large firm's trust and commitment. Findings from this study also suggest that both trust and commitment are beneficial to especially large firms' performance and relationship satisfaction, while just trust benefits small and medium-sized firms' performance. Moreover, commitment benefits both small and medium-sized apparel manufacturers' performance and relationship satisfaction.

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