The Governance of Non-Contractual Business Relationships: Which Social Algorithm

Chafai Mouaad¹, Slimani Assia², & Najati Issam²

¹Faculty of economics and management, University Ibn Tofail, Kenitra, Morocco
²Faculty of Juridical, Economic and Social Sciences, University Sidi Mohamed Ben Abdellah, Fez, Morocco

Correspondence: Chafai mouaad, Faculty of economics and management, University Ibn Tofail, B.P 242 Kenitra, Morocco.

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Abstract

In the "business world, there is no business relationship without trust". However, the stability of non-contractual business interaction is not based on "blind" trust. On the contrary, it requires interpersonal trust based on a sociocultural rationality." Therefore, the latter should be explored and analyzed.-

Thus, as a case study, the phenomenon of non-contractual business exchange relationships of the informal transport of goods in Morocco is governed by "social algorithms" based on interpersonal trust, in which virtues such as (Niya¹, Lkelma², Lmakoul³ etc.) create a model exchange practices based on cultural ethics and moral value.

Keywords: trust, non-contractual exchanges, social algorithm, ethical exchange practices

1. Introduction

In an informal business environment characterized by complexity, uncertainty and social governance, interpersonal trust plays an important role in governing business relationships. From this perspective, the issue of the stability of the exchange relationship between ITG⁴ and retailers remains a subject of debate, especially among law and practice in the Moroccan context.

Research on trust in inter-firm relationships has yielded a large body of literature. In fact, trust encourages adversaries to maintain their relationships and resist the appeal of short-term alternatives in favor of long-term interests (Anderson and Weitz, 1992; Ganesan, 1994; Morgan and Hunt, 1994; Doz, 1996; Doney and Cannon, 1997). Stable relationships are based on strong reciprocity, the fact that leaders to long lasting cooperation as well as reducing transaction costs. (Anderson and Weitz, 1989; Anderson and Narus, 1990; Moorman et al, 1992; Morgan and Hunt, 1994; Macintosh and Lockshin, 1997; Siguaw et al, 1998).

In fact, building a long-term relationship can save your money. This effect is recognized by Williamson (1985). Because of the trust factor in actors’ relationship, resorting to costly systems of formal control becomes less necessary.

However, to elaborate more on the Trust concept in informal businesses, it is necessary to address few challenging questions namely:

- What forms of exchange exist between informal road freight transport and retailer?
- What is the place of social order in the commercial sphere?
- What forms of governance do exist between informal road transport and retailers?
- And finally, why did we tirelessly think about the eternal duel Trust Versus Contract?

¹ Intention
² Word of honor
³ Honest
⁴ Informal transport for good
2. Conceptual Framework

2.1 Definition of Trust and Its Levels

Trust has historically emerged in the field of psychology (Deutsch, 1958) and then spread rapidly to all disciplines of the social sciences and humanities. This spread has made it an important aspect of today's inter-organizational coordination (Bidault and Jarillo, 1995; Sako, 1998; Hosmer, 1995; Lepers, 2003; Lewicki and Bunker, 1996; Mangematin and Thuderoz, 2004; Pruvost, 2001; Ring and Van de Ven, 1994).

Yet Trust as a concept in the business field is still concerns economists, since it contradicts the prevailing “Rational Actor” Approach (Maximization of profit).

2.1.1 Trust: Polysemous Concept

On the one hand, personality theorists conceptualize trust as beliefs, expectations, or feelings deeply rooted in personality (Rotter, 1971, 1980), while on the other hand, sociologists focus on understanding social bonds and define trust as a phenomenon of inter-intra-network (Granovetter, 1985). Finally, social psychologists define trust in terms of expectations and consent of third parties involved in a transaction. Transactions are associated with risk and contextual factors that alter trust and highlight personal insecurities and vulnerabilities (Deutsch, 1958; Lewicki and Bunker, 1995).

As far as academic research and the role of trust in business transactions, researchers vary their approaches and methods based on their research interest and orientations. For example, in economic analysis, trust is represented as the result of rational calculations that reduce transaction costs by evaluating the benefits of exchange (Williamson, 1993), while in psychosociological approaches, trust is viewed as an antecedent intent and represented as indicator of future behavior.

Driven by relational methods, (Morgan and Hunt, 1994 and Ganesan, 1994) proposes a conceptualization based on "beliefs, feelings or expectations of a business partner arising from his or her expertise, reliability and intentions". Ultimately, according to Fukuyama (1995), trust is defined as "expectations formed within a community of normal, honest, and cooperative behavior based on norms commonly shared by other members of that community.

These scholarly contributions towards the concept of trust allow us to attribute Trust to the social capital, rather than placing oneself in a position of vulnerability to a partner, as advocated by the economic literature.

2.1.2 Types and Levels of Trust

Different degrees of trust are superimposed to form a trust block (Breton & Wintrobe, 1982).

Trust types largely conform to the framework defined by Zucker (1986). It distinguishes three forms of trust: interpersonal trust, inter-organizational trust, and institutional trust.

Zucker (1986) proposes 3 types of trust in exchange relationships:

- First trust which is a process related to past transactions, previous or planned exchanges (e.g., reputation...);
- Secondary trust which is based on people's characteristics, as long as it correlates with commonalities between individuals, such as cultural or ethnic similarity;
- Institutional trust which refers to formal social structures.

On the other hand, Mc Allister (1995) contrasts cognitive trust, which is based on interaction processes and knowledge of personality traits, with affective trust based on personal relationships, shared values, and racial, linguistic, or religious similarities.

To these definitions of trust, the notion of community trust that is based on racial similarity and the characteristics of belonging to the same community.

However, Dupuy and Torre's (2004) improve: << trust as granted to the person through a Dam’n5 involvement as a third party and not to the person him/herself or his community.

This type of trust, whose character and nature must be examined, remains a predominant governor in business exchange practices between Informal freight and retailers. Likewise, Doney et al., (1998) describe the process of trust building as follows:

5 Third party with long experience especially in non-contractual business relationship.
Table 1. Trust Development Process

<table>
<thead>
<tr>
<th>Trust Development Processes</th>
<th>Authors, Reference and disciplines</th>
<th>The fundamental assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculation: the individual calculates the costs and benefits seeking to maximize his/her personal interest while remaining suspicious.</td>
<td>Economic (Dasgupta, 1988; Williamson, 1985)</td>
<td>Individuals are opportunistic and seek to maximize their own interests.</td>
</tr>
<tr>
<td>Prediction: the individual grants confidence when the behavior of the partner can be predicted.</td>
<td>Social psychology (Deutsch, 1960; Lewicki &amp; Bunker, 1995)</td>
<td>The behavior of individuals is consistent, and can be predicted.</td>
</tr>
<tr>
<td>Intentionality: the individual grants trust based on an assessment of the partner's motivation.</td>
<td>Social psychology (Rempel et Holmes, 1986)</td>
<td>Individuals are oriented towards others and are motivated by the search for common gains.</td>
</tr>
<tr>
<td>Capacity: this one is based on an assessment of the partner's capacity to meet his/her commitments.</td>
<td>Sociology (Barber, 1983; Butler et Cantrell, 1984)</td>
<td>Individuals are different in terms of skill and expertise, as well as in the way they respect their commitments.</td>
</tr>
<tr>
<td>Transfer: the individual relies on sources of proof or credits such as sociological institutions or social networks as guarantors of trust.</td>
<td>Sociology (Granovetter, 1985; Strub et Priest, 1976)</td>
<td>The individuals and the institutions are credible; the relationships of the networks are strong and intertwined.</td>
</tr>
</tbody>
</table>

Source: (Doney et al, 1998)

3. Methodology

A qualitative methodology is associated with holistic-inductive paradigms (social constructionist, social constructivism, phenomenological and interpretive social sciences approaches). Holistic-inductive paradigms enable researchers to study (business) phenomena in their totality and complexity, instead of focusing on sets of variables and subsequent causal relationships representing parts of the overall whole of the business or business-related phenomenon being studied. Theory development is generated inductively from empirical materials (data) rather than through the use of *a priori* theories. Researchers employing this methodology essay to understand the business phenomenon as an insider. A qualitative methodology generates multiple “truths” from real-world settings, such as business environments and contexts. Findings are related to the local setting and may be generalized to other similar settings and contexts.

Qualitative research can be defined as the study of the nature of phenomena and is especially appropriate for answering questions of why something is (not) observed, assessing complex multi-component interventions, and focussing on intervention improvement. The most common methods of data collection are document study, (non-)participant observations, semi-structured interviews and focus groups. For data analysis, field-notes and audio-recordings are transcribed into protocols and transcripts, and coded using qualitative data management software. Criteria such as checklists, reflexivity, sampling strategies, piloting, co-coding, member-checking and stakeholder involvement can be used to enhance and assess the quality of the research conducted.

Quantitative research is relatively rare in socio-institutional studies, which tend, on the whole including this case, to use qualitative methodology or adopt a mixed methodological approach to empirical research.

4. Results

4.1 Diagnosis of the Infrastructure of Informal Freight in Morocco

The sector suffers from several insufficiency as follows:

1. The Road transport services are characterized by poor quality.
2. The sector is dominated by financially and commercially unstructured micro-enterprises.
3. These companies don’t invest and often don’t comply with applicable regulations: The average age of the truck fleet is 13 years, and these trucks often don’t include transportation insurance.
4. Very few companies have achieved fast and reliable road transport.
5. The implementation of sectoral modernization under Law No. 16-99⁶ is still in progress. Therefore, the modernization of the sector requires long-term intervention by public authorities and private operators. The poor development of logistic providers and the lack of awareness among Moroccan companies on the importance of logistics have not contributed to the development of road transportation services.

6. Only a few companies offer a formal logistics services. The range of logistical advice is almost non-existent.

7. Moroccan companies generally do not integrate a “supply chain management” approach (i.e. optimizing logistics management, which is considered an important factor for competitiveness).

4.2 Types of Transport Companies

In this paragraph we present the different types of road transport companies:

- **Organized public transport companies**
  
  Their number is still very limited but they have an undeniable competitive advantage in terms of quality compared to other categories. However, with the implementation of Law 16-99, these companies are the most vulnerable to the new environment of liberalization following the price war.

- **Small-scale transport companies on behalf of others inherited from the old system:**
  
  They make up the bulk of public road transport. These companies join cooperatives and work by hand. Most of these companies are "single-vehicle" and managed by owner-operators, often operating with aging fleets and informal practices.

- **Businesses in the informal sector:**
  
  These companies operate in the informal sector, thus escaping any administrative and financial control advocated by reformers to normalize their situation. The number of these companies experienced dramatic growth during the old system, firstly because there were no legal restrictions on purchasing vehicles, secondly because small capital easily entered the industrial sector, and finally because transportation business activities were attractive in an environment that lacks entrepreneurial ideas.

- **Legalized businesses in the informal (pseudo-formal) sector**
  
  These are companies that have been operating in the informal sector and which, as part of the new reform, legalized their situation by integrating transport on behalf of others. This category has the same structural and managerial characteristics as the previous category. The large number of these artisanal companies have been operating in anarchy which has led to a dilution of professionalism.

- **Companies operating in the IRT (International Road Transport):**
  
  The just outlined situation of road transport sector as well as the environment that shapes the aforementioned companies could be conducive to the development of an IRT supply system that is capable of positioning itself in a highly sought-after market by foreign fleets.

4.3 Assessment of Road Transportation Sector Reformation: Never-ending Informal Practices

Currently, road freight transportation in Morocco is in a downward spiral in the face of informal practices, which has a detrimental effect on the quality of transport: lower service prices lead to lower quality of services. Due to the sufficient supply of goods and low tariffs, operators have invested and accelerated the aging of the sector. Ultimately, this influx of free parks has led to the creation of informal sector. This has also contributed to the emergence of drivers who are not trained in safety standards (the most striking example is when the truck or the vehicle containers are often strapped or roped to pallets that put the whole road at risk).

5. Discussion

The literature on governance in inter-firm is based on two paradigms, one called transactional and the other relational (Sebti, 2007). Rooted in the transactional paradigm, transaction cost theory examines three organizational structures for managing relationships: markets, hierarchies, and hybrid structures. The paradigm uses contracts as incentives and allows for the development of a system of sanctions.

For Kamminga and Van der Meer-Kooistra (2007), the transactional paradigm leaves little room for relation-specific control. The relationship paradigm is based on trust, norms, cultural values, and the exchange of

information between partners. In inter-organizational relations, these two antagonist approaches coexist. In fact, when setting up inter-organizational relations, the transactional approach was used as the basis, while the relational approach is used in some cases.

For agency theory, there are two assumptions that justify the establishment of control mechanisms: on the one hand, there is a potential conflict of interest between principal and agent, and on the other hand, there is information asymmetry between them. Both hypotheses increase the threat of opportunistic behavior by participants.

In order to exercise control, whether transactional or relational, it is necessary to describe the process by which a decision is made and to understand the time period during which the decision can be controlled (Bouquin, 1997).

In the other hand Ouchi (1979) described behavioral control as a set of behaviors and means designed to direct, control, or restrain an actor's behavior.

Table 2. Modes of organizational control

<table>
<thead>
<tr>
<th>Control by the hierarchy</th>
<th>Direct management minimizing the formal autonomy of the actors, risk of overcrowding of decision-making centers and of arbitrariness.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule control</td>
<td>Mechanical control that protects against arbitrariness. Risk linked to the fact that it relates to the procedure and not to the action.</td>
</tr>
<tr>
<td>Control by audits</td>
<td>Evaluate against goals or standards.</td>
</tr>
<tr>
<td>market control</td>
<td>Flexible, clear, efficient, impersonal.</td>
</tr>
<tr>
<td>cultural control</td>
<td>Risk of favoring the short term, immediate savings, losing sight of the general interest.</td>
</tr>
<tr>
<td>clan control</td>
<td>Values shared by a group.</td>
</tr>
<tr>
<td>Control through ethics</td>
<td>Unification of concerns and behaviors. Handling risk.</td>
</tr>
</tbody>
</table>

Sources: Ouchi (1979)

The implementation of Inter Organizational Relations raises questions about the mechanisms by which it is managed and its control is achieved. Both are critical to managing operations and pursuing Inter Organizational Relations goals, such as gaining flexibility, reducing costs, or gaining capabilities not available internally (Dumoulin et al., 2000). Control is achieved by several theoretical currents. For the transactional approach (Williamson, 1975), control must be based on basic cost criteria. For agency theory, control tools reduce information asymmetry between principal and agent. Finally, social exchange theory proposes informal control mechanisms such as trust or social ties (M. Capron, F. Quairel-Lanoizelee, 2007).

The classical exchange method represented by microeconomics shows that the parties involved in the exchange have no other form of relationship other than the exchanged object (price), the exchange ends with the completion of the transaction (Macneil, 1987), and the conflict is an externally controlled mechanism (judiciary regulation). Additionally, new institutional economics assumes that individuals behave rationally, oriented by their own interests, and thus hardly affected by social relations. This utilitarian assumption largely dominates the interorganizational literature, which sees markets and hierarchies as the only mechanisms that facilitate transactional relationships. However, this argument contradicts the new institutional sociological current, because for this current economic situation, it is not only possible to approach economically without regard to the social dimension. Based on this observation, Mark Granovetter (1985) analyzed and conceptualized economic actors form partnerships, by developing the concept of embedding which attempts to go beyond the analysis of transaction costs by showing that actors do not isolate themselves from the social environment in order to make decisions.

Actors are then inevitably embedded in the context of social relations, which appears to be a powerful means of regulation and coordination among transaction parties (Gulati, 1995). Similarly, Fukuyama (1992, 1995) analyzed the return process of traditional interpersonal values (informal values) and proposed the term "social capital/social control". Fukuyama (2000) writes:

“To avoid problems of cultural relativism, this book focuses not on the cultural norms of capitalization, but on the specific subset of norms that make up social capital. Social capital can be defined simply as a set of informal values or norms that are shared by a group of members and enable collaboration among them. Team members trust each other when they expect others to behave reliably and honestly. Trust is like a lubricant that can make the leadership of any group or organization more effective".

Additionally, the origin of social capital, according to Fukuyama (1995), is defined as follows:

“An asset arising from general trust in society or a part of it. It can be embodied in the family, the smallest and most basic social group, or in the largest state, like all other intermediaries. Social capital and social
governance arise from interpersonal trust, which constitutes the cornerstone of ethical exchange based on social virtues”.

6. Conclusion
In our article, we focused on binary forms of governance, particularly non-contractual commercial relationships between informal transport and retailers in the Moroccan context. We also attempted to identify certain variables inherent in the emerging social algorithm. Given the diversity of exchange relationships, it was necessary to identify trust and its level and governance mechanisms.

This literature review allows us to see the inadequacies of transactional methods (which are contract-based by default) and, conversely, the relevance of social exchange methods, especially interpersonal trust, to determine the relationship between these antagonists, and we finally distinguish between contract-based judicial and trust-based moral orders.

References


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