CHAPTER 2

THEORITICAL BACKGROUND

This chapter will explore a deeper knowledge of the factors and also contains the more sufficient information about the main key elements and about the theory according to the variables needed in order to conduct the research. As for the informations, definition are based from the previous studies by putting books or journal as the main sources of information or can also be able from the opinions from the experts.

2.1 Perceived trust

In any business there are several entities that would be the main concern of the company, to proceed the current buying or selling transaction event, by any means one of them are trust (Hawes, John M., Mast, Kenneth E. and Swan, John E.1989). Hence this trust implementation progress can be operationalized in variety of approaching ways of the seller or the businessman and the variates from their own ways in achieving it, because of that there are no significant findings in defining or how to achieve a trust (Buttler 1991). Regardless of what Buttler's stated before, there are many ways of achieving trust and trust can be simplified and focused into these three understanding point of views (Dwyer and Lagace 1986), the first view is definined that trust is the general expectation of customer or their personality trait (e.g., Rotter 1967). The second view is defining trust as a belief that the other parties will behave rightly in order to give a benefits to the other related business parties (e.g., Driscoll 1978). And the third view sees it as a risky behaviour toward doing a business by showing a direct interest towards the seller that will review their own image of weakness in the transaction itself (e.g., Schurr and Ozanne 1985).

In order to achieve trust from our customers, we can build our trust relationship by having a successfull deal of a transaction itself or can also be achieved by doing a research of trust building on sales. this aspect of trust within buyer and seller was stated by some of the experts which is Schurr and Ozanne (1985) Swan, Trawick, Rink, and Roberts (1988).

Nowadays there are logically gesture of selling strategies that almost all sellers are doing until now, which is being a dependable, competent, and also most importantly being friendly to the buyers, this is believed by Swan and Trawick (1987) to be able to penetrate the barrier of insecurity of the buyers and can build a trust relation between the buyer and seller. There are also a sales research that investigate and declare that a seller who puts trust to their buyers are more likely to be more successful in selling their product rather than the one that did not implement the trust factor itself. Hayes and Hartley stated that in a bigger company of buyer, trust is one of the most important things that a seller should have in order to sell their products (1989), hence the trust and developing a trust perception factor are believed as one of the key of success needed on doing or having a successfull long term relationship between parties (e.g., Hawes 1994).

2.1.1 Customer trust in supplier

As stated in the previous information, trust is important in any transaction to get a succesful deal. Any suppliers rely on the effective performance of their employee to convince the customer about the advantage power of their product to the customer (Jones et al. 1998) and also like the statement above in part 2.1, to implement a helping behaviours are proven to be a successful way to get positive feedback of evaluation and judgement of buying the product from the seller (Organ, Podsakoff, and MacKenzie 2006). Once again, the belief of the partners (seller) reliability and integrity are crucial on developing the trust between buyer and seller relationship (Ganesan 1994; Kumar, Scheer, and Steenkamp 1995; Morgan and Hunt 1994). By operating a sincere work and doing good deeds to the customers or future clients are the key element of a supplier to achieve the trust from their buyers. These two efforts are also counted as prove of trustworthiness in the buyers eye (Mayer, Davis, and Schoorman 1995). These strategy of attitude also supported by Ganesan statement, he believe that by adding these kind of attitude in the strategy of selling, the buyer will see that the seller has a concern of their (Buyer's) beneficial condition even when there are some events that are concerning the buyer (1994). Thus a good trust relationship between the buyer and seller is important and then has been implemented in the relationship pattern of the buyer and seller, this trust relationship strategy would be successful in managing the customer's trust to the supplier.

2.2 Transaction cost

Transaction cost is one of the most important element to governance a company. According to Williamson, transaction cost theory is elaborated into three key subject which is : asset specifity, uncertainty, and frequency (1975,1979). The definition of transaction cost are very big but thanks to Williamson we can narrow the main definition into these three key elements.

The first out of three elements is asset specificity. Asset specificity is added into investment segmentation because this element is included in the support of any transaction that is going on inside the company (Klein, Crawford, & Alchian, 1978; Williamson, 1979). But in this research the author changed the asset specificity variable with the size of the company because the value of asset specificity is difficult to measure consistently across industries, so in order to get more precise result this replacement had to be done. Second, uncertainty is always related to a trouble that the company has to face which are related to the lack of knowledge to calculate the up coming events whether the decision was efficient or non efficient (Hayek, 1945; Williamson, 1985), and last, for the frequency of transaction factor it is obvious that it defines on how often a company doing a transaction (Williamson, 1981). These three elements are colaborating and become one of the most influencial matters whether a company will make or buy an accounting service in the decision making.

According to Williamson, transaction cost theory are biased to the make decision or so we can say Hierarchical governance (1975, 1979, 1985), to be more precise as the frequency of transaction increase, so does the size of the company and uncertainty become more and more thicker if the company is not certain about their decission, and because of it there is a possibility of risk that will affect a higher transaction cost whenever a company would like to make a transaction. Based from Simon and Williamson statement, transaction cost theory assumes that economic actors are always bounded rationaly (1945, 1975) and because of that, the entities that are related to the transaction cannot prepare for whats going to happen with all the possibilities of changes after the transaction are finished. Williamson also stated that transaction cost theory always assume that economic actors are an opportunity seekers (1975), These behaviour means that the existing parties in any transaction will make use of the advantage that occur in the deal into their own advantage by any means can make a disadvantage events in the company, and so these two behaviours of other parties can become a boundaries in finishing a deal. The uncertainty factor will be obvious to go with the make decission of governance in order to prevent a loss for the company. When a certain company is dealing with the uncertainty problem, the firm will more likely not make any specific asset investment, by any means not doing a commitment of transaction with other parties (Myers, 1977, 1984). But the previous statement has an opposite reaction from Folta's opinion, which is such of commitment can drive the company into a state where they can not adapt with the current situation , it will threaten their own chance of survival (1998). Folta's logic support the Schilling and Steensma's result of research where the managers of the company encouraged to buy a professional service rather than making their own information management in their company (2002). Their findings result and opinions differ in the uncertainty factor. Transaction cost theory belief that uncertainty will lead to a make decission, in other hand, Schilling and Steensma's findings were that they are in the same page as the real options theories suggest that a firm with uncertainty problems will morelikely buy a service rather than making it. Still the main basis of transaction cost is that a firm will always go for the mode where they can mitigate (lessen) the cost of the company itself (Shelanski and Klein, 1995; Williamson, 1991).

2.3 Conclusion from the information

As stated above, the decision of using a service or making it are influenced by two main factors which is trust and transaction cost. In the transaction cost matter itself is divided into three different parts which is asset specifity (which later will be changed to size of the company), uncertainty, and frequency of the transaction. Each of these three elements are related each one to another by any means as stated before, whenever a company make a transaction it is count as a frequency of the transaction and therefore the Size of the company will also increase following the increasing of the transactions frequency of one company. Before doing the transaction this is where the uncertainty element takes part, this one element occur when the buyer can not have a complete intention on buying or is having some doubts towards the seller, the product or any other certain things, will lead the buyer to find an alternative options on buying the product.

According to the result of the research from the experts and from a certain event, it was stated that based from the trust factor it will encouraged the company to choose a Buy decision because of the belief to the seller that they will give a better advantage and a satisfying results for their clients which is the buyers company. As for transaction cost factor, it is said that it was more convinient to make rather than buying a service but that statement is not absolutely true because Transaction cost theory are broad. There are some parties that agree that uncertainty could lead in hiring professional services. The decision can only be decided by the compiled data of the three factors, for example: higher transaction frequency = more convenient to make, lower frequency = more convinient to buy. Further information will be explained later on in the result of the study research.

2.4 Theoritical framework

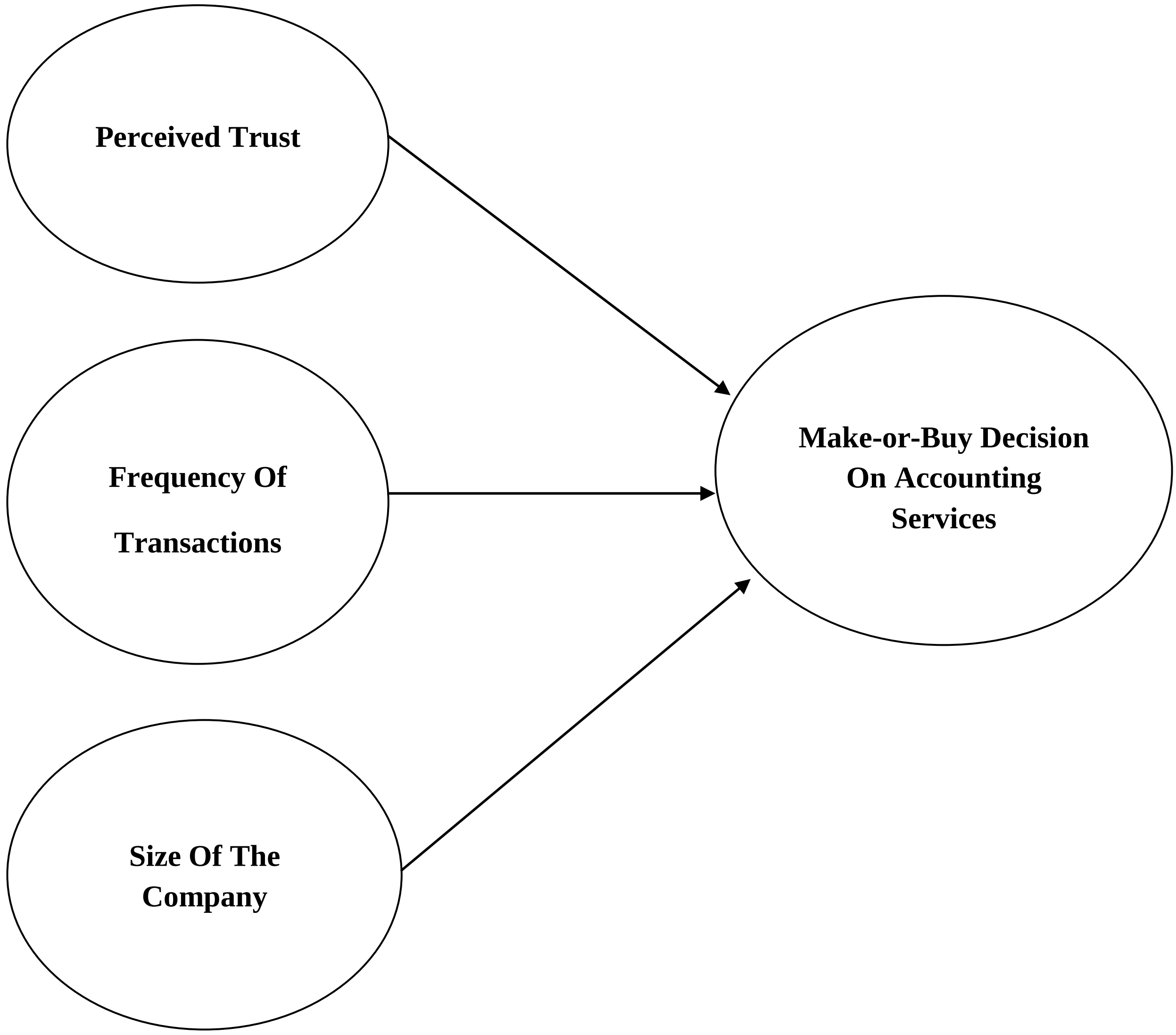

Figure 2.1 Current Model

It is shown in the figure above that there are three independent variable. Those three independent variables are: Perceived Trust, Frequency Of Transactions, and the Size Of The Company. Based on the hypothesis (H1) of the main journal, it is stated that perceived trust is a factor that influence the buy decision so it will also have an impact to the dependent variable which is the make-or-buy decision. After that, there is a frequency of transactions, this variable also have an impact on the make-or-buy decision but based from the main journal's hypothesis (H2) The frequency of transactions will encourage the company to choose the make decision because the more frequent the transactions occur, it will also increase the governance cost of the company and this is by hiring an external accounting company. in hypothesis (H3) The last variable is size of the company, based on the hypothesis of the main journal it is stated that size of the company is correlated with the frequency of transaction because it is originally that frequency of transaction and size of the company is one of the entities of the transaction cost, therefore size of the company also encourages the company to take the make decision of an accounting services.