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# Distinguishing supplier reputation from trust in buyer–supplier relationships☆

Taewon Suh [a,1], Mark B. Houston [b,*]

[a] Department of Marketing, McCoy College of Business Administration, Texas State University—San Marcos, 601 University Drive, San Marcos, TX 78666-4616, United States
[b] Department of Marketing, M.J. Neeley School of Business, Texas Christian University, TCU Box 298530, Fort Worth, TX 76129, United States

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ABSTRACT

We argue that a firm's reputation (i.e., central, enduring, and distinctive corporate associations held by individuals outside of an organization), although under-researched relative to trust, is more important than trust in impacting buyer–supplier relationships. Our conceptualization draws on theories and extant research related to transaction cost economics, information economics, and interfirm trust. The constructs of trust and reputation are distinguished and their relative impacts on relationship commitment and willingness to invest in the future of the relationship are examined. Suggestive empirical evidence is provided from a survey of industrial buyers, and implications and specific directions for future research are discussed.



## 1. Introduction

Suppliers and buyers in business-to-business (hereafter, B2B) transactions seek to build closer relationships to improve the effectiveness and efficiencies of their transactions. For example, joint information technologies that link the ordering, manufacturing, and inventory control systems of a supplier and a buyer can result in long term efficiencies by reducing waste and provide long term sales gains by avoiding stock outs. Alternatively, when a supplier customizes a product to the specific needs of a buyer or coordinates marketing efforts with a downstream channel partner, synergistic results can emerge. However, closer relationships between suppliers and buyers also create vulnerabilities. For example, relationships expose valuable assets to trading partners. Further, to the degree that a firm makes investments that are tied to a specific partner, the firm's dependence on that partner is increased. In turn, as a firm's financial resources or market positions are at increased risk, concerns over protection from partner opportunism rise to the forefront (Williamson, 1996). Relationship dependence also implies opportunity costs of forsaking other potential trading partners. Thus, firms should structure relationships in ways that protect assets and ensure access to key resources (Webster, 1992).

Trust and reputation are each considered within the extant research literature to play important roles in business-to-business (B2B) buyer–supplier relationship decisions. Although the interconnectedness of the two constructs is not generally debated (reputation is normally seen as an antecedent to trust), a great deal of ambiguity exists between the two. The terms are often used imprecisely and interchangeably. Researchers repeatedly use reputation as a proxy for trust (e.g., Bennett & Gabriel, 2001) or consider the trust construct as a distinct conceptual stream within the study of reputation (Berens & van Riel, 2004). Although different perspectives exist across the literature, we argue that precise definitions and consistent usage are needed in order for the field to make systematic progress towards more fully understanding these constructs. Consistent with Rousseau, Sitkin, Burt, and Camerer (1998), we view trust as a relationship-based concept, which is created, reinforced, or decreased by bilateral, relational activities in a series of economic exchanges. On the other hand, we view an organization's reputation as consisting of beliefs about the organization (or "corporate associations," Brown & Dacin, 1997, p. 69) that are held by others. Specifically, reputation refers to "the set of corporate associations that individuals outside an organization believe are [central, enduring, and distinctive] to the organization" (Brown, Dacin, Pratt, & Whetten, 2006, p. 104).

Although trust has been the construct of primary interest in the extant stream of B2B relationship marketing literature (cf. Morgan & Hunt, 1994), we develop a conceptualization that suggests that partner *reputation* is more important than trust in impacting key relationship decisions and outcomes. Choosing to focus on partner reputation, versus a firm's own reputation, differs from the extant literature. Specifically, researchers typically study the firm's reputation as a strategic asset (Fombrun & Shanley, 1990). For example, channels scholars often view a positive reputation as a valuable asset that can generate rents and increase customer loyalty (Andreassen & Lindestad, 1998; Weigelt & Camerer, 1988; Wilson, 1985). Brand management scholars demonstrate the positive outcomes that can be

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* Corresponding author. Tel.: +1 817 257 7153.
*E-mail addresses:* ts21@txstate.edu (T. Suh), m.b.houston@tcu.edu (M.B. Houston).
[1] Tel.: +1 512 245 3239.

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attributed to brand-level reputation (Lane & Jacobson, 1995; Simon & Sullivan, 1993). Erdem and Swait (1998) argue that a brand's reputation sends a quality signal to the market, reducing buyer uncertainty.

In contrast, this study asks whether the reputation of a *relationship partner* impacts attitudes and intentions concerning the relationship which, in turn, impact a range of relationship governance decisions. Several under-explored questions are identified concerning the role that partner reputation plays in the structure and outcomes of business relationships. First, regarding governance issues, Chiles and McMackin (1996) utilize TCE to argue that trust between potential transaction partners reduces the degree of vertical integration required to govern the relationship (Rindfleisch & Heide, 1997). However, reputation and trust are distinct constructs. Are the governance implications of reputation similar to those of trust? While reputation provides potentially positive governance benefits (cf. Rao & Ruekert, 1994), it also raises some concerns. For example, to the degree that a buyer's strategies rely on a high-reputation supplier, the buyer may become increasingly "locked-in" (Heide & Weiss, 1995). Gundlach, Achrol, and Mentzer (1995, p. 79) argue that "[w]hen a distributor like Computerland agrees to carry a manufacturer's product line, for example, IBM, explicit and implicit cost-bearing decisions (e.g., training of sales personnel and development of promotional programs) are made that limit the capacity and freedom to deal with other manufacturers … and therefore yield commitment." Thus, the benefits that accrue from a high-reputation partner may be partially offset by increased switching and opportunity costs. The first contribution of this paper, then, relates to addressing the impact of reputation versus trust on behavioral intentions and attitudes within a supplier–buyer relationship.

Second, gaining access to a partner's assets (brand names, technology, etc.) is a common motivation for forging a relationship (Combs & Ketchen, 1999; Spekman, Forbes, Isabella, & MacAvoy, 1998). While there is general evidence of benefits that accrue from partners' investments in transaction-specific assets (e.g., Dyer, 1996), there exists little theory or evidence as to the impact of intangible assets, such as partner reputation. This gap in the literature is made more relevant by the "ever increasing rate" at which alliances are being formed and their pervasiveness across industries (Spekman et al., 1998, p. 747).

The overall purpose of the present article is to take an *initial* step in setting the research agenda for understanding the often-understated impact of reputation in supplier–buyer relationships. While several dimensions of reputation are in need of conceptual development, the present paper focuses on one critical aspect: *supplier reputation*. Supplier reputation has be characterized as the beliefs that people and firms within an industry hold about the supplier's characteristics and abilities as a trading partner (Doney & Cannon, 1997; Ganesan, 1994). Specifically, we develop a theoretical framework that draws from TCE theory, information economics/signaling, and resource dependence theory to specify how supplier reputation can impact relationship attitudes and behavioral intentions. Given the rich context that it provides, we review extant theory on B2B relationship governance, and then examine the respective roles of reputation and trust. Organizing the discussion around these themes, we also present initial empirical evidence from a cross section of buyer–supplier relationships regarding the respective roles of reputation and trust (operationalized as both benevolence and integrity) in order to examine the validity of the framework.

## 2. Buyer–supplier relationship governance

Why do supplier–buyer relationships require governance? Buyers transact with sellers in order to access needed resources. While alternative motivations may drive specific transactions (e.g., to preempt a competitor's access to a key supplier; to support a relationship partner's financial viability), the buyer's impetus for entering an exchange usually involves the need to acquire assets that the supplier exposes to the market (e.g., goods for resale, raw materials, operating supplies and services, unique knowledge and/or skills, high reputation, etc.) (Combs & Ketchen, 1999; Dyer, 1996; Hall, 1992; Mitchell & Singh, 1992). A supplier's ability to gather rents from buyers depends heavily on the desirability of that supplier's exchange assets to buyers in the market. As the supplier's assets are generic to the marketplace and there are no long- or short-term benefits (volume pricing, reduced transaction costs) to be had from engaging in relational exchange with a particular supplier, buyers have incentive to acquire needed assets from the market. However, when a particular supplier's assets are unique, or when other valuable benefits accrue from repeatedly transacting with that particular supplier (e.g., enhanced monitoring or reduction of uncertainty), firms face switching costs and have an incentive to move along a continuum from discrete exchange to more integrated transactions (Heide & Weiss, 1995; Webster, 1992). These more integrated exchanges may be highly informal (e.g., repeated contracts) or legally formalized (e.g., a franchise agreement, joint venture, or merger).

Relational exchanges reduce *social uncertainty* (Yamagishi, Cook, & Watabe, 1998) via formal and informal mechanisms that support cooperative behavior over a longer expected horizon of repeated exchanges (Lazzarini, Miller, & Zenger, 2008). However, relational exchanges (and the "lock-in" they create) can exacerbate concerns over *exchange value uncertainty*, i.e., whether a current exchange partner will in the future remain optimal relative to alternative suppliers (Kranton & Minehart, 2000). Thus, neither discrete nor relational exchange structures dominate the other in all conditions.

Our knowledge of the motives that underlie the formation of alternative relationship structures has developed extensively (Dwyer, Schurr, & Oh, 1987; Morgan & Hunt, 1994; Spekman et al., 1998). Two predominant perspectives exist. Transaction cost economics scholars assert that trading partners move transactions from market exchanges to more integrated, hierarchical arrangements when transaction-specific assets are exposed, when partners have opportunity and motivation to behave opportunistically, and when uncertainty can be reduced by closer alliances (Williamson, 1996). As the degree of ownership in a partner increases, the firm's legitimate control over the partner increases. Resource advantage scholars, on the other hand, argue that firms seek relationship forms that create synergy (e.g., enhanced market power, distribution efficiencies, etc.) to acquire needed assets from other firms (Combs & Ketchen, 1999).

Williamson (1985) argues that firms will choose a relationship structure that will minimize transaction costs while providing effective governance. Transaction costs go beyond the costs of organizing and legal contracting to include expenses for monitoring inputs and measuring outputs, losses incurred as a result of inaccurate monitoring and measuring, specialized assets investments, and dividing future gains and losses (Kogut, 1988). TCE theory suggests that protection is required because of partner opportunism and the uncertainty created by imperfect knowledge. Even without opportunism, disagreements over how to divide revenues or unexpected expenses can be present. Thus, when parties have goals that differ, imperfect knowledge, and/or incentive to behave opportunistically, then the benefits from employing transaction governance mechanisms should exceed the costs (Williamson, 1975).

Vertical integration gains appeal as supplier opportunism becomes difficult to detect, as firms invest in specialized assets (which cannot be easily shifted to other uses, increasing "lock-in"), and as contingencies and/or product attributes cannot be precisely specified *a priori*. In these conditions, market transactions provide inadequate governance (Heide & John, 1988; Williamson, 1975). Market transactions have low organizing costs, but the costs from imperfect monitoring may be excessive. In turn, integration can be costly and