# The antecedent and roles of three attributes of customer trust in Japanese manufacturer-supplier relationships

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## ABSTRACT

*This study investigates a system of cooperative buyer-supplier relationships (CBSRs) from a Japanese manufacturers' perspective. It proposes a theoretical framework on an antecedent and the roles of three attributes of customer trust (contractual, competence and goodwill trust). The model is tested in a structural equation modelling framework, using paired difference scores (differences in ratings between two competing suppliers given by sample firms) obtained from 117 Japanese manufacturers. Our findings strongly support supplier relationship-specific interaction competence as an antecedent of the three trust attributes and underscore a unique role of each of the trust attributes in a development of a CBSR.*

## INTRODUCTION

Past research on cooperative buyer-supplier relationships (CBSRs) has entailed significant advancement of knowledge on the subject. The literature now offers rich theoretical explanations for reasoning of a CBSR pursuit (Dwyer, Schurr and Oh 1987; Hakansson 1982; Ford 1990 and 1998; Morgan and Hunt 1994; Sako 1992) and defines trust as the driving vehicle of such an inter-firm arrangement (Anderson and Weitz 1989; Ganesan 1994; Joshi and Stump 1999; Morgan and Hunt 1994; Sako 1992). The better understanding of the subject has led to new sets of research enquiries. Among them is a research problem resulting from the consensus on inter-firm trust as a complex, multi-dimensional construct (Butler 1991; Ganesan 1994; Moorman, Zaltman and Deshpande 1992; Sako 1992), that is "which trust and when" (Bigley and Pearce 1998, p.406). This study aims to generate empirical insights into the research problem.

We propose a theoretical framework on an antecedent and roles of three attributes of customer trust (contractual, competence and goodwill trust) proposed by Sako (1992) in a CBSR. We test the model with EQS, using the data obtained from 117 Japanese manufacturers. For this purpose, we employed a unique data set. The model was tested with

paired difference scores, which are defined as differences in ratings between two competing suppliers given by sample frms. We believe that the data enables us to capture some of the complexities of buyer-supplier relationship management in multi-sourcing settings. Furthermore, as our sample firms (Japanese manufacturers) are commonly regarded as best CBSR practitioners (Bensaou and Venkatraman 1995; Dyer, Cho and Chua, 1998), the study outcomes are expected to produce a better understanding of a CBSR system and prescriptive CBSR management and marketing knowledge.

The proceeding sections are organised as follows. First, we review literature on inter-firm trust and provide reasoning for the selection of Sako's (1992) three-dimensional operationalisation of the construct for our study, and cooperative supplier interactions as trust-building behaviours. After developing six research hypotheses, we present research methodology, findings and discussion, and address research limitations and future research.

## TRUST

Trust is the heart of a CBSR. It evolves through one's growing knowledge and understanding of others (Blois 1998), especially via direct experiences (Dwyer, Schurr and Oh 1987; Hakansson 1982). Although it is built on previous experiences, trust is a future-oriented concept (Thorelli 1986). Customer trust in the supplier has long been found to influence the attitude and behaviours toward the supplier (Schurr and Ozanne 1985). However, when it comes to its conceptualisation and operationalisation, controversy remains.

The inter-firm relationship literature offers more than a dozen definitions of trust. Although they all share a common theme of trust as an exchange party's positive affection towards the other, there is one important difference among them. While some explicitly encompass two components of trust, the behavioural and expectancy conceptualisation of trust (Moorman, Desphande and Zaltman 1993; Mayer, Davis and Schoorman 1995; Rousseau, Sitkin, Burt and Camerer 1998), others focus only on the latter (Schurr and Ozanne 1985; Anderson and Narus 1990; Morgan and Hunt 1994; Ganesan 1994; Sako 1992). In the marketing literature, there is consensus that inclusion of behavioural willingness in a definition of inter-firm trust is redundant, as the expectancy conceptualisation implies its

presence. This reasoning is built on Fishbein and Ajzen's (1975) logic that behavioural intention is an outcome of an attitude, not part of its definition. Accordingly, "*genuine confidence that a partner can rely on another indeed will imply the behavioral intention to rely*" (Morgan and Hunt 1994, p. 23). Recent management literature (Lewicki, McAllister and Bies 1998; Nooteboom, Berger and Noorderhaven 1997) supports this view.

Both marketing and management scholars have come to realise that trust is a complex, multi-dimensional construct (Butler 1991; Ganesan 1994; Mayer, Davis and Schoorman 1995; Morgan and Hunt 1994; Sako 1992). This makes a global evaluation of trust with no attribute specification highly problematic in research on inter-organisational trust (Blois 1998; Mayer, Davis and Schoorman 1995). Without a richer conceptualisation and operationalisation of trust, in terms of dimensionality, diagnostic insights into complex research problems are not obtainable (Ganesan 1994; Kim and Frazier 1997). However, it is also true that an over-enthusiastic conceptualisation and operationalisation, for instance Butler's (1991) ten attribute specifications, certainly curtails a pragmatic value. Finding an intermediate precision level of conceptualisation with only salient dimensional specifications is of critical importance to inter-firm relationship research (Singh and Sirdeshmukh 2000).

In this regard, Sako's (1992) three-attribute trust conceptualisation appears to be most appealing. First of all, it is the only one developed for the study of manufacturer-supplier relationships based on rich context-specific, empirical knowledge on manufacturer-supplier relationships. Secondly, it offers a richer specification of trust attributes. In contrast to past marketing researchers who conceptualised and operationalised trust as a two-dimensional construct – i.e., Ganesan's (1994) credibility and benevolence and Kumar, Scheer, and Steenkamp's (1995) honesty and benevolence, Sako offers a three-attribute trust model with contractual, competence, and goodwill trust. Although Mayer, Davis and Schoorman's (1995) conceptualisation with integrity, ability and benevolence matches Sako's, the latter's superiority remains intact for the consideration of important differences in psychological properties between goodwill and benevolence. As Dore (1987) acknowledges, the former is "*the sentiments of friendship and the sense of diffused personal obligation that accrue between individuals engaged in recurring contractual economic exchange*" whereas the

latter is "*something shown in relations between unequals, by superior to inferior, the reciprocal which is usually called loyalty*" (p. 170).

Sako (1992) defines trust as an expectation held by one party about the other that the latter behaves (acts and reacts) in a predictable and mutually acceptable manner. "*Predictability in behaviour exists, however, for different reasons, and this allows us to distinguish between three types of trust*" (p.37), namely *contractual trust* (one's expectations that an exchange partner keeps its promises), *competence trust* (one's confidence in the exchange partner's competence, or professional standard, in carrying out specific tasks), and *goodwill trust* (one's confidence in the exchange partner's open commitment to supporting and continuing a focal exchange relationship) (Sako 1992). She acknowledges that the first two attributes are instrumental to any exchange relationship - without them, no exchange can function properly. What enhances the scope and intensity of interactions in the relationship is goodwill trust, as it projects the exchange party's strong commitment to the relationship. According to her, these trust attributes are interlinked and mutually reinforcing, and exist more or less in all manufacturer-supplier relationships.

## THE RELATIONSHIP-BUILDING SUPPLIER INTERACTION BEHAVIOURS

The interaction model proposed by the International Marketing and Purchasing (IMP) Group (Hakansson 1982) explains that the exchange episodes in an inter-firm relationship involve four elements of exchange; product or service exchange, information exchange, financial exchange and social exchange. Mutually satisfactory exchange episodes nurture a seed of mutual trust and promote a cooperative atmosphere in the relationship over time. In reality, however, this seemingly straightforward developmental process is highly complex and challenging because of uncertainties that surround the exchange. The uncertainties, or the source of contingencies, necessitate exchange parties' on-going unilateral and/or bilateral adjustments (adaptations) in the exchange to ensure satisfactory transactions (Ford 1980).

Rexha and Miyamoto (2000) provide a rare insight into how a supplier makes adaptations to promote a cooperative exchange relationship with important customers. In the case research with leading Japanese manufacturers from eight manufacturing sectors, they found

that customers prefer (awards a more business share) those suppliers which not only perform pre-agreed tasks in the relationship (*task compliance*) effectively, but also outperform competing suppliers on three cooperative interaction behaviours (*responding*, *alerting* and *initiating*). Miyamoto (2001) defines them as follows:

- *responding behavior* is a supplier's interaction behavior to satisfactorily accommodate a customer's requests, or operational and/or strategic 'needs';
- *alerting behavior* is a supplier's interaction behavior to alert a customer, at the earliest point, of any possible supply problem that affects the customer's sourcing operation in order to allow the customer to make, in advance, necessary adjustments in the exchange and
- *initiating behavior* is a supplier's interaction behavior to take initiatives to realize a customer's operational and/or strategic 'wants'.

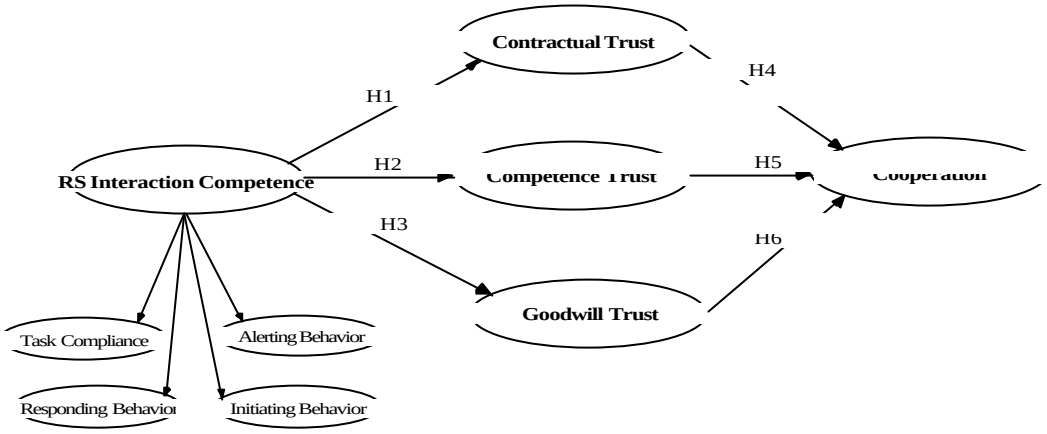
Notably, supplier competences on those four interaction attributes are not independent. They are highly interdependent for the following reason. To be an effective interaction performer across the interaction attributes, a supplier must possess a competence platform. Miyamoto and Rexha (in press) define such a platform as *relationship-specific interaction competence* (RSIC) that is built on the supplier's past and present deployment of the capabilities, skills and resources to the focal relationship and learning (knowledge) through serving the customer over time.

## AN INTERACTION MODEL OF JAPANESE CBSRs

The Interaction Model (Hakansson 1982) suggests that a supplier, if successful in ensuring satisfactory exchanges to the customer, can build customer trust and promote a partnership atmosphere in the relationship over time. The supplier's cooperative interactions via on-going active adaptations to the exchange, not only generate efficiency gains in the exchange, but also build customer trust (Brenman and Turnbull 1996; Ford 1980; Ganesan 1994). More specifically, the customer views a supplier RSIC, which manifests itself as supplier effectiveness on task compliance, responding, alerting and initiating behaviors, as proof of the supplier's sustainable ability and dedication to serve the operational and/or strategic needs and wants, and thence, finds such a supplier desirable and trustworthy

(Miyamoto 2001 and Miyamoto and Rexha in press). In turn, the established trust motivates the customer to work more closely with the supplier for superior joint value creation (Anderson and Narus 1990; Morgan and Hunt 1994).

**Figure 1: The Research Model**




Along the preceding discussions, the following hypotheses were developed:

*The difference in the customer firm's perceived supplier RSIC of two competing suppliers entails the difference in the customer firm's contractual trust (H1), competence trust (H2) and goodwill trust (H3) in the suppliers.*

*The difference in the customer firm's trust contractual trust (H4), competence trust (H5) and goodwill trust (H6) in two competing suppliers explains the difference in the extent to which the customer firm works cooperatively with the suppliers.*

## METHODOLOGY

### Sample Firms and Data Collection

A sampling frame was initially defined as the top 150 manufacturers, in terms of annual turnover, across six sectors found in the *Teikoku Databank: Zenkoku Arekore Kigyo Ranking 1998* (Teikoku Databank 1999), namely; (1) Food and Kindred Products; (2) Chemicals and Allied Products; (3) Industrial and Commercial Machinery and Computer

Equipment; (4) Electronic and Other Electrical Equipment and Components; (5) Transportation Equipment; and (6) Measuring, Analysing, Controlling Instruments. However, due to a large number of non-manufacturers in the lists, additional manufacturing firms listed in the Tokyo stock market were also included in the frame. The final sampling frame consisted of 749 firms.

For data collection, we employed a mail survey and single key informant method, defining a purchasing manager as a key informant. We prepared survey packages in Japanese and mailed them from Australia. Prior to a follow-up reminder, we received 9 letters declining their involvement, 9 undeliverable packages, 46 usable, and 2 non-usable responses. Follow-up reminders were mailed to 731 firms and generated a further 71 usable and 1 non-usable response. Thus, the mail survey achieved a 16 per cent response rate (117 usable responses from the effective sample size of 731). A nonresponse analysis was conducted by comparing responses returned prior to and after the follow-up reminders, following the procedure recommended by Armstrong and Overton (1977). The finding of no significant group differences suggested an unlikely non-response bias in the data. The followings are the final sample firm-sector distribution and the original firm-sector distribution (shown in parentheses): (1) Food and Kindred Products: 15 (110); (2) Chemicals and Allied Products: 20 (137); (3) Industrial and Commercial Machinery and Computer Equipment: 35 (158); (4) Electronic and Other Electrical Equipment and Components: 14 (141); (5) Transportation Equipment: 27 (121); and, (6) Measuring, Analysing, Controlling Instruments: 6 (82).

In the questionnaire, informants were first asked to select an operationally and/or strategically important input sourced from at least two suppliers and then to provide information on their firms' business relationships with and attitudes towards the largest (the preferred supplier) and the third largest business share supplier of the focal product, or the second largest supplier in the case of dual-sourcing. We believed that this questionnaire design would better simulate informants' real-life supplier auditing situations and thus produce more accurate responses. For this research, we calculated gap scores between the two suppliers at each sample firm by subtracting scores of the non-preferred supplier from those of the preferred supplier.

**Measures and Measure Validation**

All constructs in this research were measured using multi-item scales on seven-point Likert scales, indicating one as "Strongly Disagree" and seven as "Strongly Agree", except for supplier RSIC posited as a higher order factor of supplier task compliance, responding, alerting, and initiating behaviors. In absence of existing scales for all eight constructs, we developed multi-item scales based on their conceptual definitions in the literature. All scales were qualitatively evaluated through interviews with three Japanese purchasing managers prior to the mail survey. Though this process resulted in minor modifications in wording, it did not reveal any major flaws in scales.

Prior to a confirmatory factor analysis (CFA) for the examination of internal consistency of each construct, we also conducted an analysis of item inter-correlations, item-total correlations and an exploratory factor analysis. This process produced consistent findings in support of the internal consistency of item scales for each construct. A CFA was performed with the maximum likelihood estimation (MLE) method, using the structural equation modeling program EQS 5.7b which facilitates the following two attractive features: (1) a *robust* $c^2$ *statistic* (the Satorra-Bentler scaled statistics, SCALED $\chi^2$, and Comparative Fit Index (CFI) corrected by the $\chi^2$, Robust CFI) that incorporates a scaling correction for the $\chi^2$ statistic when distributional assumptions are violated (Satorra and Bentler 1994), and (2) *robust standard errors* that are correct in large samples even in the absence of multivariate normality (Bentler and Dijkstra 1985).

First, we examined the adequacy of the proposed second-order factor model of perceived supplier RSIC, based on Marsh and Hocevar's (1985) target coefficient - the ratio of the $c^2$ of the first-order model (base model) to the $c^2$ of the more restrictive model. For evaluation of model fitness, we employed robust statistics due to the observed large degree of multivariate kurtosis in the data (the normalized estimate of multivariate kurtosis exceeding 30). After three rounds of model respecification through item deletions in the light of the multivariate Lagrange Multiplier test statistics, a target model was obtained with fourteen variables. Inspection of a statistical property of input data and fit of internal structure indicated a satisfactory model fit, except for the significant $\chi^2$ likelihood ratio

statistic ($\div^2$ 71, N= 117) = 110.48, $p$ < .01; SCALED$\div^2$ (71, N= 117) = 70.67, $p$ > 0.48; Non-Normed Fit Index (NNFI) = 0.96, RCFI = 1.00, Root Mean Square Error of Approximation (RMSEA) =.070 and its confidence interval of .042-.093). The proposed second-order factor model also produced a satisfactory fit of internal structure and overall model fit index: SCALED$\div^2$ (73, N = 117) = 77.90, $p$ > 0.32; NNFI = 0.96; RCFI = 0.99; RMSEA = .077 (.052-.099). A target coefficient of 0.91 (70.67/ 77.90) supported the adequacy of the proposed higher-order factor model. Obtained standardised factor pattern coefficients in the model are as follows: 0.89 for responding behaviour, 0.92 for alerting behaviour, 0.86 for initiating behaviour, and 0.78 for task compliance.

We began model specification of a final measurement model by incorporating the second-order factor model to four other model constructs measured by fifteen variables (four items for each trust construct and three for cooperation). After discarding three variables, an acceptable model was developed. Obtained statistics supported an overall model fit and fit of internal structure (SCALED$\div^2$ (285, N = 117) = 348.84, $p$ < .01; NNFI = 0.91; RCFI = 0.93; RMSEA = 0.086 (.073-.096)). Except for the $\div^2$ values, all statistics were within the acceptable ranges. Standardized pattern coefficients and scale reliabilities supported convergent validity and reliability of all model constructs. All factor inter-correlations were also found to be significant and each construct was distinct from one another.

The initial estimation of the proposed structural model did not produce an acceptable result, requiring further model respecification. It not only found hypothesis 4 (the path from 'customer contractual trust' to 'cooperation') non-significant (standardized $\beta$ = -0.094, t = -0.747), but also produced rather poor goodness-of-fit indices highlighted by the upper limit of RMSEA confidence interval greater than 0.10 (RMSEA = 0.092 (.080-.102) (MacCallum, Browne and Sugawara 1996). Optimisation of model fit necessitated two model respecifications, namely dropping the structural path and allowing two errors in equations ($\zeta$s of contractual and competence trust) to correlate freely. The estimation of the final model produced the following goodness-of-fit indices: SCALED$\div^2$(289, N = 117) = 364.23, $p$ <.01; NNFI = 0.90; RCFI = 0.91; RMSEA = 0.089 (.077-.099).

## FINDINGS AND DISCUSSION

The findings provide strong support for all hypotheses, except for hypothesis 4 (Table 1).

**TABLE 1: Tests of Hypothesised Relationships**

| **Endogenous** | | **Exogenous Constructs** | | | |
|---|---|---|---|---|---|
| **Constructs** | **RSIC** | **CNT** | **CMT** | **GWT** | $\mathbf{R^2}$ |
| **CNT** | H1: .86 (8.55) | - | - | - | .74 |
| **CMT** | H2: .54 (3.46) | - | - | - | .30 |
| **GWT** | H3: .88 (7.46) | - | - | - | .77 |
| **COOP** | - | *H4: dropped* | H5: .21 (2.06) | H6: .66 (6.19) | .62 |

Note: Standardised estimates of path coefficients are followed by t-values in parentheses
RSIC = perceived supplier RSIC; CNT= Contractual Trust; CMT= Competence Trust; GWT= Goodwill Trust, and COOP= Cooperation.
$ø_{CNTCMT}$ = .52.

Overall, our data quantitatively validated the notion that perceived supplier RSIC, projected by four key supplier interaction attributes, is an important determinant of all three trust attributes, and customer trust is a powerful predictor of the inter-firm cooperation.

The research found that the preferred supplier's superior RSIC was most dominantly reflected by the superior performance on alerting behaviour ($\gamma$ = 0.92). The RSIC resulted in the sample firms' greater confidence in their preferred suppliers along with all three trust attributes, though in varying degrees; goodwill trust ($\gamma$ = 0.88, t =7.46), contractual trust ($\gamma$ = 0.86, t = 8.55) and competence trust ($\gamma$= 0.54, t =3.46). Given the nature of the behavior (a supplier's voluntary, cooperative information disclosing behavior) as a marker variable of the RSIC, the observed ranking in path coefficient sizes appears to be plausible.

As to determinants of cooperation, we found different roles and impacts for each of the three trust attributes. Sample firms' greater goodwill trust in their preferred suppliers was found to be the key driver of their more cooperative working relationships with suppliers ($\gamma$ = 0.66, t = 6.19). This is in agreement with Sako's (1992) early case research finding. Yet, our findings advance the knowledge a step further. They not only identify another determinant of cooperation, but also shed light on the difference in impact on cooperation

between the two determinants. Although its impact was more than three times lesser than goodwill trust, competence trust was also found to determine the extent of cooperation in the relationship ($\gamma$ = 0.21, t = 2.06). These findings seem to reflect the reality of the complexity of manufacturer-supplier relationship management; that is, the firm cannot force a supplier that lacks the commitment to the relationship, into superior joint-value creation, nor can the firm realize much benefit from joint-value creation with a supplier that is openly committed to the exchange, but lacks necessary competencies. Our findings suggest that a customer emphasises a supplier's dedication to the relationship as a more critical quality than the competencies.

On the other hand, as to the finding on the effect of contractual trust on cooperation, some sensible interpretation is needed. Our data failed to support the hypothesis – i.e., *"The difference in the customer firm's contractual trust in two competing suppliers explains the difference in the extent to which the customer firm works cooperatively with the suppliers."* Yet, the finding is not at all to suggest an insignificant role of the trust attribute in a CBSR pursuit. Instead, it seems to suggest its distinctive psychometric property from the other two attributes – that is, the property of a dichotomous construct ('trust present' vs. 'trust non-present'). More specifically, the firm's primary concern seems to rest on the question of whether the supplier keeps its promises, rather than the question of how well the supplier does so. In turn, this highlights a supplier's contractual trustworthiness as a prerequisite for any in-supplier. These offer logical explanations for the non-presence of statistical support for the hypothesized correspondence between the variations of the two model constructs.

## LIMITATIONS AND FUTURE RESEARCH

Findings of this research need to be treated with some caution because of its associated limitations. Firstly, some limitations are inherited in our data collection method that used a single key informant on only one side of the dyad and in a cross-sectional design. The possibility of a common method bias (the selection problem and perceptual agreement problem) resulting from this method is not eliminated. Secondly, our findings were drawn from a relatively small sample size and somewhat uneven sectional sample representation. A small sample size is often associated with instability of model parameter estimates.

While our sample size meets the conventionally recommended minimum sample size of 100 to 150 for the appropriate use of the MLE method in structural equation modeling, it does not give as much confidence in model parameter estimates where the sample sizes are much larger. The sample size is also suspected as one of sources for the acceptable, but not highly satisfactory overall model fitness experienced in this study. Another potential source of the somewhat poor model fitness is our assumption that a preferred supplier (the largest business share) is a partner supplier among competing suppliers. As Miyamoto (2001) acknowledges, when a partner supplier does not have a large production capacity, the customer rewards it not with the largest business share, but by other means (financial and technical supports). Finally, though our data supported construct reliability and validity of our own scales, they should be examined further and improved in future studies. Construct validity of measures is something that can never be completely established.

Considering its criticality in the development of a CBSR, trust is certainly an under-researched subject. This is evident in the insufficiency in literature on empirical knowledge on the complex subject. Further empirical research is strongly needed through richer conceptualisation and operationalisation so as to facilitate the further development of our understanding of the key CBSR construct. Our finding on contractual trust offers a starting point in this pursuit - comparison of psychometric properties among different trust attributes. In addition, future research is strongly needed to identify 'an intermediate precision level of inter-firm trust conceptualisation with only salient dimensional specification. Another research issue that challenges future researchers is the empirical quantitative study of a factor structure of multi-dimensional trust models and a CBSR system across cultural research settings.

## CONCLUSION

We investigated influence patterns and magnitudes of three attributes of customer trust (contractual, competence, and goodwill trust) on cooperative value creation in buyer-supplier relationships, together with their critical antecedent, in a structural equation modelling framework, with data collected from 117 leading Japanese manufacturers. While supporting the criticality of supplier relationship-specific interaction competence in a

CBSR pursuit, our study successfully revealed unique roles of each of the trust attributes in the relationship. Though both goodwill and competence trust were found to be instrumental precursors to cooperative working relationships, the former was found to be a more powerful driver of cooperation.

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