A CONCEPTUAL FRAMEWORK FOR
ASSESSING THE LEVEL OF MUTUAL TRUST
BETWEEN MANUFACTURERS AND THEIR RESELLERS

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A CONCEPTUAL FRAMEWORK FOR ASSESSING
THE LEVEL OF MUTUAL TRUST BETWEEN
MANUFACTURERS AND THEIR APPOINTED RESELLERS

Manufacturers are becoming more reseller-dependent for their sales success over time. A major 1987 study conducted by Arthur Andersen for the Distribution Research and Education Foundation predicted that manufacturers across America will become even more dependent on wholesalers for a larger part of their sales mix, as opposed to relying on direct sale or agents. McGraw-Hill's 1985 survey of 813 industrial firms confirmed that 76 percent of firms surveyed sold through distribution rather than directly to end customers. Data from the U.S. Bureau of Census confirms the increasingly important role of dealers and distributors. For instance, in selected standard industrial classifications from 1963 to 1982, sales volumes sold via distributors have jumped markedly as a percentage of the total (see exhibit 1). In addition, many firms who once sold direct, such as Xerox, NCR and IBM, today make extensive use of resellers.

Distribution Partnerships

A number of authors have commented on the growing importance of manufacturers and distributors developing and sustaining excellent working partnerships with each other (Narus and Anderson [3], Hlavacek and McCuistion [4], Hardy and Magrath [5], Shipley [6], Marvin and Ready [7]). Recently Lee Iaccoca, Chrysler's Chairman, in a Fortune magazine interview stated his belief that the market share winners among auto makers will ultimately come down to who has the best dealers. Iaccoca said, "A company with the best distribution system and the best service will win all the marbles - because you can't keep an advantage in the other areas for long."

The need for improved partnerships between manufacturers and resellers requires high levels of trust between the partners. Each partner must be able to confidently depend on the other to fulfill its part of the
marketing alliance which they have formed. The higher the trust between these partners, the greater the synergy in their efforts to mutually exploit market share, growth and profit opportunities. High trust between a manufacturer and resellers has a number of other important benefits.

1. Partners who trust one another maximize their "market learning" because they freely exchange information about the market with no fear that the other partner will exploit the information for its exclusive gain.

2. Partners who trust one another optimize marketing spending levels because their efforts at awareness-creation and share-taking in the market are jointly coordinated. This coordination minimizes waste in marketing spending which can occur when marketing programs and sales efforts are uncoordinated between the manufacturer and its resellers.

3. Partners who trust one another function more smoothly should a market crisis develop that affects them jointly (such as a product recall or regulation).

4. Partners who trust one another function in a more fluid responsive way, and thereby optimize rapid new product or promotion campaign launches. In an era of shorter product life cycles and more competitors, this can be extremely important.

5. Partners who trust one another are able to maximize end customer satisfaction because their relationship is not focused on arguments, disputes and partnership squabbles. They can focus on the external customer, and beating their competitors in the market. Numerous corporate examples of how high trust between manufacturers and resellers leverage up customer satisfaction are contained in the literature (8, 9, 10, 11, 12, 13).

6. Partners who trust one another highly, are less apt to terminate their relationship due to minor disputes which can be magnified out of all proportion by severe distrust.
Hardy and Magrath [14] identified a number of policy, design and support factors that increase the level of conflict between manufacturers and resellers. However, absence of conflict is a long way from trust. Given that manufacturers and resellers are becoming more dependent on one another for mutual sales growth over time, and that such partnerships function more effectively if each party trusts the other, it becomes important to define how trust-building works in such relationships.

A Definition of Trust

The dictionary defines trust as both a noun and a verb. So trust can be both a static state and a process. Trust is defined as the belief that another person or thing (company) may be relied upon with confidence. Trust is from the Icelandic word "trow" which means truth, the Danish word "traust" which means confidence, and the German word "trost" which means hope or consolation. So having a trusting relationship is one in which each party believes the other is truthful, relies upon the other with confidence, and hopes that the other will remain faithful to the promises it has made.

Trust in a relationship can wax or wane over time as represented in exhibit 2. As this exhibit illustrates, parties in a relationship may begin with some modicum level of trust and gradually over time, increase their trust towards one another, albeit with some volatility.

Levels of Trust

Relationships can be marked by four general levels of trusting states. This is somewhat analogous to the levels of confidence one might have in a complete stranger, a slight acquaintance, a neighbor, and finally a close friend or family member.
We hypothesize that these four levels of trust exist between manufacturers and distributors, and can be similarly categorized. We further believe that trust is the outcome derived from a combination of promised behavior and actual behavior carried out in the manufacturer-reseller dyad (see exhibit 3).

By dissecting the component parts of promised and actual behavior in the dyad, one can gauge the relative level of trust that exists between the parties at any point in time. By describing the process that determines promised versus actual behavior in the dyad, one can discover whether the trust level in the relationship is likely to improve or worsen over time (see exhibit 4).

Examples of divergence between promised and actual behavior in the dyad might include the following:

<table>
<thead>
<tr>
<th>Promised Behavior</th>
<th>Actual Behavior</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manufacturer to reseller</strong></td>
<td></td>
</tr>
<tr>
<td>&quot;I promise to be accessible to help you at all times in market development.&quot;</td>
<td>Manufacturer's sales force spends minimal time assisting the resellers' reps with this job, and in fact, are slow to return phone calls. They visit the reseller very rarely.</td>
</tr>
<tr>
<td><strong>Manufacturer to reseller</strong></td>
<td></td>
</tr>
<tr>
<td>&quot;I promise to be flexible about credit, terms of sale,</td>
<td>The manufacturer is very strict in forcing compliance with credit, terms</td>
</tr>
</tbody>
</table>
such as cash discounts, and compliance with returned goods policy."

of sale and returned goods policies. It allows no exceptions, no discussion and doesn’t listen to pleas for flexibility.

<table>
<thead>
<tr>
<th>Promised Behavior</th>
<th>Actual Behavior</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reseller to manufacturer</strong></td>
<td><strong>Reseller to manufacturer</strong></td>
</tr>
<tr>
<td>&quot;I promise to maintain full inventories of all your products, and to display and sell your full line with consistent effort.&quot;</td>
<td>Reseller &quot;cherry picks&quot; the line, stocking only fast moving items, and orders only other items in the line when firm orders from end customers are in hand.</td>
</tr>
<tr>
<td><strong>Reseller to manufacturer</strong></td>
<td><strong>Reseller to manufacturer</strong></td>
</tr>
<tr>
<td>&quot;I promise to support your new products with major sales efforts, direct mail programs and sampling efforts.&quot;</td>
<td>Reseller doesn’t send his reps to available training courses to learn about the manufacturer’s new lines, and structures his commissions for his sales reps so that new products are downplayed in sales efforts by them. Direct mail and sampling efforts are minimal.</td>
</tr>
</tbody>
</table>

**Promised Behavior Versus Actual Behavior - A Framework for Manufacturer-Reseller Relationships**

In a manufacturer-reseller relationship, each party promises to perform in certain ways towards the other (see exhibit 3). We have identified five typical promise components.
1. Each promises to perform specific **functions** for the other, such as product inventorying and information exchanging.

2. Each promises to provide specific **supports** to the other, such as sales efforts, or co-op advertising efforts.

3. Each promises **rewards** to the other in terms of margins or target sales penetration.

4. Each promises the other it will use its **skills, knowledge, and professionalism** to assist the other.

5. Each promises to be **friendly and accessible** in the relationship, so that interpersonal relations are optimum between members of each organization.

We hypothesize that trust between the manufacturer and reseller will be higher if;

1. promises of functional performance are **competitive** with those of rival manufacturers or distributors,

2. promises for supports are **relevant** to the other parties' needs and wants,

3. promises of rewards are based on **fairness** as objectively measured by: comparison to the task performance expected in exchange for the rewards, and the going market rate for such rewards among likecompetitors,

4. promises of professionalism are **credible** and **believable**, and

5. promises of accessibility and positive interpersonal relationships are grounded in a real desire for **helpfulness** towards the other party.
Thus, in any relationship, the parties will weigh promises made towards each other, even before actual behavior has occurred. Such promises will condition trust between them depending upon how competitive, relevant, fair, credible and helpful such promises appear to be to each other. Because such promises in the dyad are often covered in a manufacturer-reseller contract, trust is clearly higher if each begins with what they believe to be a good contract. After actual behaviors begin to occur, we hypothesize that trust between the parties will be higher if promised behaviors are in fact carried out in an effective way, a predictable way and an honorable way.

Effectiveness in delivering on promises increases trust because one party gains respect for the other's abilities. Predictability affects trust because each partner grows to rely on the other when it understands how the partner will act in most circumstances not only over time, but vertically within its own organizational hierarchy, that is, how well top management, field management and order-transaction-level staff deal with one another. Unpredictability undermines trust.

Honorable behavior increases trust because each party sees the other as ethical and deserving of its trust. The partner must demonstrate honesty and integrity in its actions both in the market generally, and inside the dyad. Ethical behavior may require that the partners to the contract fulfill obligations to one another, even in instances where this is not necessarily the most profitable way to act for one of the partners. For instance, a manufacturer pledged to sell only via its resellers may lose some business, if holding to this promise means that some accounts who refuse to buy through resellers will buy from its competitors.

To summarize the model in exhibit 3, trust between a manufacturer and reseller will be highest when each believes it has hammered out a good contract; each delivers on its promises; and each sees evidence in actual behaviors that promises are carried out with maximum effectiveness, integrity and reliability.
Implications of This Framework

The framework is a useful tool for either party to audit the trust level of their relationship because it explicitly describes areas to examine when trying to improve trustworthiness. A manufacturer can determine whether its opportunity to increase trust with its resellers is in improving the attitudes of its personnel, the skills and professionalism of its people, or the business basis of its contract (rewards, supports, functions). Similarly, a reseller can undertake this same self-diagnosis for its organization.

This framework implies that trust can break down at any number of points. For example, partners in the dyad may be performing functions effectively for one another, but if rewards are in dispute, trust will be lacking. Or if one of the parties is viewed as not having a helping orientation, then fair rewards, relevant supports, and competitive functional performance may not be enough to guarantee trust between the partners. Or if one of the partners delivers on its promises most of the time, but occasionally surprises the other partner with lapses in this performance, the other partner will lose trust because of this unpredictability. Or if both partners are generally ethical in behavior towards each other but do not police each part of their organizations on this dimension, trust can be jeopardized. For instance, a reseller may be considered by its manufacturer partner to be an ethical company, but if one of its branch managers is considered less than honorable about carrying out the reseller contract, the manufacturer will look to a senior person within the branch or in headquarters to eliminate this problem. If this isn't done, trust will be lessened, and tentativeness in dealings with the reseller may develop.

Trust as a Process

A firm is affected by technology, regulation, competitive conditions and customer requirements as it frames its promises to its partners in various dyads. It then negotiates an explicit set of promises, in other words an agreement or "contract" in the broadest sense of the word. It must then commit its organization to the contract's fulfillment. Following this, it begins
to operate in the partnership. Trust develops in each dyad as both partners measure actual behavior compared to promises. Exhibit 4 outlines the ongoing nature of the trust building process. This trust building process is similar in concept to the trust developed between a service firm and its customers. One of the key components of a "quality" relationship between a service-provider and its customers is the gap between promised service quality and actual service delivered. When this gap is large, customers' perceptions of quality are lowered, because the customers consider that the implied "contract" with the service provider for a quality offering has been broken [23]. In any contract, a gap between promised and delivered services will result in disappointment and is a precursor to loss of trust.

This framework indicates two additional areas where trust development can be significantly affected. If a firm overpromises owing to the pressure of competition or other forces, it may be incapable of carrying out its promises because of lack of resources or skills. Secondly, a firm having negotiated the best contract possible, may not be able to secure wholehearted support for this contract throughout its own organization because of ingrained attitudes and behaviors of various personnel within the company. This step of gaining broad commitment is a vital one in ensuring that the agreement will be carried out by the organization. When the organizational "buy-in" to stated goals and expected performance levels by either partner is weak in a manufacturer-reseller dyad, trust likely will never develop. The importance of commitment to successful strategy implementation has been demonstrated by many authors [16].

Many of the forces that affect manufacturers' or resellers' promises are in a state of radical change. Competitors are more numerous as globalization of markets occurs. For example, even in Japan, the traditional high trust that exists between manufacturers of electronic products and their appointed resellers is breaking down because of competitors from Taiwan and Korea who flood the Japanese markets with lower priced products [17]. More frequent customer demand for just-in-time service on sales orders is placing pressure on manufacturer-reseller dyads. Mergers and acquisitions by both parts of the dyad are resulting in new relationships between dyad partners.
These new relationships often involve new people, as well as restructured companies whose commitments to contracts may be less than the original partners' commitments. These mergers may also produce radically altered power relationships on one side of the dyad, which may reduce candor and trust in the relationship. Hardy and Magrath discuss this at length in "When Mergers Rock Your Distribution Channels" [18]. Finally, the resources available for the fulfillment of promises may be strained because of downsizing and other efforts by both manufacturers and distributors to become "lean and mean" in staffing and other areas of spending. One researcher has found that in a channel dyad, when environmental change is anticipated to be rapid, the level of trust declines in anticipation of the shifting future demand [24].

The process of trust-building is continuous. As partners in the dyad build toward more trust, a helping orientation becomes embedded in the culture of each firm, and each becomes more adept at making promises and agreements in keeping with its abilities to carry them out. The duration of a relationship affects trust directly, because partners in a channel who expect their relationship to be ongoing, generally learn to trust one another and need to trust one another, more than partners to one-time transactions [25]. As exhibit 4 shows, it makes sense in a new relationship not to overpromise, lest expectations be set far above the ability of the partner to fulfill them. When this occurs, the framework suggests that trust will deteriorate. This is indicated by the signs in the bottom right of the framework which suggest that trust is more easily destroyed than built. Trust built up over some time can erode much faster with one or two negative incidents than it can be built up with one or two positive incidents. In this respect, trust relationships are fragile, even when built over time.

The negotiation step in the framework allows a firm to look at its typical negotiating style. The negotiating literature strongly suggests that seeking win-win outcomes in a negotiation where the partners have a continuous relationship is the only way to ensure that both will work to fulfill the agreement amicably [19].
The framework in exhibit 4 depicts an iterative process in which partner firms promise behaviors, deliver performance to promises, and re-promise, etc. In such a model communications become key. Buyers and sellers must genuinely listen to one another's needs and expectations, or they cannot hope to meet them or even to discuss difficulties in meeting them. Inter-firm communications that are genuinely two-way, are frequent, and in many cases marked by personal kindnesses are optimum. Resellers especially comment on how important personal communications can be for setting the tone in a relationship with a manufacturer. They appreciate it when the manufacturers' sales representatives involve them in decision making, when they say "thanks" for a job well done, and when they remember to get together regularly for lunch, or remember birthdays of reseller principals [21, 22]. Excellent communications ensure that partners don't surprise one another in a relationship, and it sensitizes each to the need to avoid unilateral actions and combative behavior. A recent author has isolated two parts of communication that destroy trust, namely "not giving credit when it is due" for task performance, and "hoarding information for use as a tool or reward" [22]. Although his comments pertain to a superior-subordinate interpersonal relationship, they may apply equally to intra-organizational partnerships.

Summary

Manufacturers and resellers frequently decry the lack of loyalty and trust in many of their ongoing relationships that are tested by more competition, tougher end-customer demands, mergers of firms, and pressures on margins. These are forces at play that frequently act to cause each partner in such a relationship to either promise too much to its partner, or deliver too little. This paper offers a conceptual framework to assess the level of mutual trust that exists in any manufacturer-reseller dyad. By examining the framework's components a firm can audit its own promises and behaviors to determine where the gaps may develop between promised and actual behavior.
A second framework shows how trust-building is an ongoing process rather than merely a steady state outcome of a relationship at any one point in time. This framework allows a firm to decide if it needs to improve key processes that affect trust in a significant way, including its negotiating style, its communications effectiveness, and its organization's commitment to promises made to its partners. These processes are operating on both sides of the dyad, even as a variety of joint actions are taking place in the market.

Both frameworks suggest that trust is highest in a manufacturer-distributor relationship when

- each party consistently does as it promises to do,
- each party is fair in rewarding the other for tasks performed,
- each party is predictable, and reliable in its actions,
- each party is ethical and honest in dealings towards the other,
- each party acts bilaterally and collaboratively rather than unilaterally and combatively towards the other, and
- each party constantly communicates with the other to avoid misunderstandings that can magnify and destroy trust.
### Exhibit 1

**Sales by Distributors as Percent of Total**  
**1963 - 1982**  
**For Selected Industry Groups**

<table>
<thead>
<tr>
<th></th>
<th>1963</th>
<th>1982</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Machinery</td>
<td>45</td>
<td>57</td>
<td>(SIC code 5084)</td>
</tr>
<tr>
<td>Electrical Apparatus</td>
<td>34</td>
<td>45</td>
<td>(SIC code 5063)</td>
</tr>
<tr>
<td>Electronic Parts</td>
<td>36</td>
<td>40</td>
<td>(SIC code 5065)</td>
</tr>
<tr>
<td>Chemicals</td>
<td>16</td>
<td>26</td>
<td>(SIC code 5161)</td>
</tr>
<tr>
<td>All Above</td>
<td>34</td>
<td>43</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** U.S. Census of Wholesale Trade Geographic Area Statistics for 1982 Table 1 and Table 2 for 1982 and 1963.

**Note:** A 1986 study by the Conference Board entitled "Rethinking the Company’s Selling and Distribution Channels" by Howard Sutton confirmed that the majority of U.S. firms expect by 1991 to be more dependent than in 1986 on indirect sale of products via distributors or dealers (page 3). The Conference Board survey included 214 reporting companies. Report No. 885, 26 pages, Conference Board Inc., 845 Third Ave., New York, N.Y.
Exhibit 2

Levels of Trust Between Organizations in a Relationship Over Time
Exhibit 3

The Component Parts of a Trusting Relationship Between Manufacturers and Distributors

<table>
<thead>
<tr>
<th>Promised Behavior (A)</th>
<th>Actual Behavior (B)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Types of Promises</strong></td>
<td><strong>Nature of Promises</strong></td>
</tr>
<tr>
<td>1 Functions —— &gt; &quot;competitiveness&quot; performed</td>
<td></td>
</tr>
<tr>
<td>2 Supports —— &gt; &quot;relevant&quot; exchanged</td>
<td></td>
</tr>
<tr>
<td>3 Rewards —— &gt; &quot;fair&quot; exchanged</td>
<td></td>
</tr>
<tr>
<td>4 Skills, —— &gt; &quot;credible&quot; professionalism displayed</td>
<td></td>
</tr>
<tr>
<td>5 Attitudes —— &gt; &quot;helpfulness&quot; promised</td>
<td></td>
</tr>
<tr>
<td>1 Effectiveness</td>
<td></td>
</tr>
<tr>
<td>2 Predictability</td>
<td></td>
</tr>
<tr>
<td>3 Honorableness of &quot;promise&quot; execution in the dyad by each party.</td>
<td></td>
</tr>
</tbody>
</table>

Trust is highest when:

1. B. is consistent with A (in total)
2. Each part of A is as - competitive - relevant - fair - credible and - helpful as possible.
3. Each part of B can be separately rated against promises as - highly effective - highly predictable/reliable - highly honorable/ethical
Exhibit 4
The Trust Building Process in the Manufacturer-Reseller Dyad

RESOURCES AVAILABLE
- Technology
- Money
- People

CUSTOMER REQUIREMENTS

REGULATION

COMPETITION'S OFFERINGS

PROMISE (VERBAL)

HELPING ORIENTATION

NEGOTIATE

GAIN COMMITMENT

NEGOTIATE EXPLICIT PROMISES (Dist. Contract)

ACTUAL BEHAVIOR VS. AGREED BEHAVIOR = VARIANCE

Do as say = 0 pts
Do more than say, you will + 1 pt
Do less than you say, you will - 2 pts.
References


