Broadening the Competitive Advantage Perspective:
Trustworthiness of Supplier Companies and Their Representatives as a
Competitive Advantage

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including time-related differences and differences in fulfilling promises and thus
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interpreted as a more restricted and specialised variable. The article proposes a
set of hypothesis for the analysis of the relevance and importance of
trustworthiness from a buyer’s perspective and for action/reaction by suppliers.
The conceptual approach of this “work-in-progress” article points out the need
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Competitive Advantages; Trustworthiness; Reliability; Supplier-Customer
Relationships; Business-to-Business Marketing

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Abstract:

The conceptual article deals with the taxonomy and managerial handling of competitive advantages. It suggests an extended list of competitive advantages including time-related differences and differences in fulfilling promises and thus trustworthiness. Trustworthiness is considered in connection with reliability but interpreted as a more restricted and specialised variable. The article proposes a set of hypothesis for the analysis of the relevance and importance of trustworthiness from a buyer’s perspective and for action/reaction by suppliers. The conceptual approach of this “work-in-progress”-article points out the need for empirical research on trustworthiness as a buyer’s evaluation criterion and a supplier’s attribute in business-to-business marketing relationships.

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In June 2006 media headlines read: “Airbus cannot maintain A-380 Deadlines”. According to this, a promise of delivery, a performance promise to an airline as a business customer apparently could not be kept. This announcement became known not only in that field of industry, but to the general public, and may have yield consequences of an economic nature which experts can by all means estimate and at which non-experts can at least guess.

Those of us who have had to wait in vain for an expected delivery, the appointed arrival of workmen, scheduled planning sessions or the timely departure of public transport certainly know that business contracts are not assigned solely based on price, quality or other such aspects; that indeed even the development and maintenance of a business relationship does not present the final consideration in choosing a supplier, but that the decision of private and corporate clients to place orders depends on an appraisal of the supplier’s ability to fulfill his contractual obligations. This trait, or more accurately this characteristic of the supplier can be called trustworthiness – as is shown below, we prefer this specific term over the more multi-faceted and more diffuse general understanding of reliability. The perceived trustworthiness is a value for a customer, a customer benefit and advantage, the revealed and demonstrated trustworthiness being a potential possibility for differentiation from competitors who show a different degree of trustworthiness.

In this contribution we do not discuss the conditions, types, and sources of trust and trustworthiness. We rather show that the uni-dimensional construct trustworthiness (be it perceived or revealed) may act as a decisive criterion for selecting a supplier. If this proves to be true, the “list” of competitive advantages or type of them has to be enlarged.

1. Trustworthiness as an Attribute and Economic Evaluation Standard

Trustworthiness is to be understood as the degree – or more specifically the likelihood – to which a supplier keeps his performance promise (Laag, 2005). Butler and John (1991) state that promise fulfillment is – at least – an important dimension of trustworthiness, besides consistency and others. In our more focused, uni-dimensional perspective, trustworthiness means that the customer can “rely upon” the supplier’s commitment (Günter, 1997) with a certain probability. “Customer know that whatever takes place or has been agreed upon, they can rely on the service provider, its employees and systems, to keep promises and perform with the best interest of the customers at heart” (Grönroos, 2001). Schurr and Ozanne (1985) state that for the buyer “…the trustworthy seller`s word is reliable and exchange obligations will be fulfilled”. That means at the same time that the buyer will not expect opportunism of the supplier at least with regard to fulfilling the performance-related promises. Barney and Hansen (1994) define trustworthiness: “… an exchange partner is trustworthy when it is worthy of the trust of others”. Trustworthiness then is an attribute of individual exchange partners.

The construct trustworthiness may be considered as being one part of the construct reliability. The latter is normally applied indiscriminately with reference to products, systems, individuals or organizations. Trustworthiness refers exclusively to possible and actual contractual partners, thus to individuals, groups, or organizations (institutions in the strictest sense such as a company, association, etc.). The construct reliability is usually independent of performance promises, it includes solely implicit or explicit statements about the fulfillment of expectations – that is to say, even without any direct performance promises a certain degree of reliability of a system or product can be asserted. We prefer to systematically separate aspects of the trustworthiness of people and organizations from those of reliability in order to allow better insight into contractual buyer-seller relationships and their fulfillment.
In the light of the New Institutional Economics, the construct trustworthiness of a supplier can be classified as follows. A customer and a supplier reach an agreement on an object of a contract, an object of a transaction, a property right which will or is to result in the conclusion of a contract. Within the same context, agreement is reached on the contribution of the customer in return. Moreover a third dimension is added in order to more precisely describe the transfer of the property rights and to specify the transaction: the dynamic component of “time”, i.e. the setting of the temporal component which states when exactly the transfer of the property right will take place and thus the customer will be able to expect when to have the object of the transaction at his or her disposal. It is evident that this dimension plays a part in influencing economic considerations such as for example calculations on economic efficiency, meaning that the question of temporal availability is one of the criteria according to which a customer can assess the propitiousness and the preferability of an offer.

The fourth dimension of property rights and their transfer is formed by the probability with which an intended, expected and/or contractually agreed-on transfer of a property right will take place. Meaning the probability with which the keeping/fulfilling of a promise given by the supplier will occur looking at it in an objective way or from the subjective point of view of people involved (in special cases also of people not involved). It is obvious that also customer promises, for example with regard to the agreed-upon customer contribution to tailor-made products in return can be viewed under the aspect of trustworthiness – here: of the customer. This however is not the subject of further discussion here.

Trustworthiness therefore reflects the degree of certainty with which supplier promises are kept and thus the probability for the adherence of the transaction contents and conditions agreed upon by the contracting parties. The question how to handle uncertainty that arises in such cases, which have been dealt with extensively in management theory in the past years, shall only be mentioned here. Figure 1 shows the elements of the definition of trustworthiness if used to describe a possible competitive advantage of a supplier company or its representatives. It thus conceptualizes the construct of trustworthiness in the context of evaluation criteria in supplier selection and supplier-customer relationships.

For the differentiation of trustworthiness from other constructs such as for example credibility etc., the work of Laag shall be referred to in which the delimitation of the construct of Trustworthiness is analyzed more closely (Laag, 2005).

Similarly it is not the measuring of the construct which should be explored here. We do however assume that the perceived probability of adherence to performance promises can be assessed through customer surveys; moreover, that customers use certain signals as indicators for the supplier’s trustworthiness and that in turn the suppliers send signals for their own trustworthiness when according goals have been set. Furthermore, experience (both personal and that of others) as well as the trustworthiness communicated within the market (analogous to the construct of reputation) are co-effective components for the creation of context in each individual case.
2. The Taxonomy of Competitive Advantages

If the trustworthiness of a supplier is relevant for customer decisions, if a high degree of perceived trustworthiness contributes to the preferability of a supplier, then trustworthiness is – at least in theory – a value and benefit for the customer and thus a possible competitive advantage of the respective supplier (Backhaus, 2003; Plinke, 2000).

The starting point thus must be the decision process of a customer, the selection of a product, service, supplier, or relationship according to preferred value offered by competitors on the supply side. “Customer value”, “value for the customer” or “Customer Preferred Value” is discussed deeply by e.g. Sheth et al. (1991), Woodruff (1997), Anderson and Narus (1998), Holbrook (1999), Woodall (2003), Grönroos (2004, 2007), Wilson et al. (2008) and many others. According to those approaches, all issues and arguments (“performance features”; Homburg et al. 2009, p.72) perceived by customers may lead to preference and preferability of offers by potential customers.

Potential and actual competitive advantages of suppliers have been examined more closely and analyzed in a strategic management and marketing context by Porter (2004 and earlier editions) and e.g. in Germany by Simon (1988) and Backhaus (2003). Competitive advantages have often come into the focus of economic considerations on corporate strategic management, partially also in industry analyses, in order to explain the dynamics of competition. When it comes to defining a competitive advantage or differential advantage (Hooley et al., 2008) most authors refer to Michael Porter, of course, but we rarely find differing or even precise definitions or taxonomies of competitive advantage categories. Barney states: “Firms gain competitive advantages when their theory of how to compete in an industry or market is consistent with the underlying economic processes in that industry or market and when few other firms share this theory or are unable to act upon it as completely” (Barney, 2001).

In the literature, the categorization of competitive advantages is mostly carried out according to the competitive strategies identified – among others – by Porter, consequently a supplier’s possibilities of positioning, profiling and differentiation. Additional starting points are formed by price-quantity and preference strategies as well as Porter’s structuring of the competition strategies according to differentiation, cost-leadership and concentrated strategy. The system of the latter form of categorization can be criticized with good reason due to its fuzziness, something which can be left out here however.

A widespread approach is a rough differentiation of competitive advantages into two basic categories, namely on the one hand such which start with the quality, benefit, and value of the contract’s object for the customer (“better than the competitors’ offers”) and such which start with
the costs for the customer, meaning not the purchase price but the “Total Cost of Ownership” for the buyer (“more cost-effective for the customer”). This TCO view can be further refined by starting with individual components of the TCO and by making the contractual terms of the development costs, of the purchase price including incidental acquisition costs, of the current costs as well as of the disposal costs, the content of competitive advantages (Günter, 1997 and 2007).

Apart from these two groups of competitive advantages, the understanding of regarding temporal advantages as being an argument for the preferability of offers through customers in that they are an independent competitive advantage themselves (“faster from a customer’s point of view”) has become more and more widespread throughout the last years. If one follows this approach, aspects such as “time to market”, bidding periods and delivery times among others become independent competitive advantages themselves apart from the above-mentioned basic categories. What needs to be pointed out is that “faster” from a perspective of institutional economics as used above means: a faster transfer of the property right and not for example a higher work speed of a machine (this would have to be subsumed where necessary under the quality advantage mentioned above as the first basic category).

Marketing theory and scholars often seem to assume that suppliers keep their promises. As practitioners often refer to their trustworthiness as a decisive aspect in competition, we claim that trustworthiness should be regarded as the fourth basic category of a competitive advantage. No statements are to be made at this time on the empiric foundation and examination. The following cases should simply be pointed out – on the basis of anecdotal evidence and plausibility: from time to time, customers look for a management consultant, lawyer, tax advisor, workman or something similar for the first time, for example at a new location. Let us assume that the available offers were either of absolute equal preferability or could not be evaluated at all concerning quality (“better”), cost-effectiveness (TCO) and time (“faster”). Information on the latter case (“cannot be evaluated at all”) is especially given by the approaches of Economics of Information and the Principal-Agent Theory in the framework of the New Institutional Economics. In cases like the ones named above ceteris paribus we are able to uncover and name the decisive criterion if we answer to the question “Being the ordering party, which of the suppliers can I rely on the most? Who will keep (with the highest probability) their performance promises?” Thus the decisive competitive advantage (strictly from the customer’s point of view; we can even use the term “customer advantage”) in this situation would be the one of the subjectively perceived trustworthiness. From the supplier’s point of view, this argument must then be included in the fourth category of a competitive advantage.

This leaves the unanswered question why it is now necessary to form four categories of competitive advantage… and not an arbitrary number \( n \). In that case \( n \) would have to be the number of possible purchasing, vendor selection, and/or contract-awarding criteria of a customer. The answer is seemingly simple if the above-mentioned approach of institutional economics argumentation is followed. Moreover, it can formally and pragmatically be argued that there is little sense in making an arbitrarily set high number of competitive advantages the basis of positioning, of marketing strategies and of the use of marketing instruments. On the other hand, it would make no sense at all to take a very little or not at all structured “conglomerate” of one or two competitive advantages as a basis and especially not: to talk about only one competitive advantage which then would encompass the complete benefit and value for the customer and would need to be further differentiated in itself. From a pragmatic and empiric point of view, more considerations on the expedience of a catalogue of competitive advantages could be now made.

Barney and Hansen claimed in 1994 that capabilities or property rights can only be sources of competitive advantages if the admission to them is restricted or if not all competitors have the same control over it. They come to the conclusion that reliability thus is not a competitive advantages or a sorce of it (Barney/Hansen 1994). In our contribution, we claim that keeping the promises, i.e. trustworthiness and dependability as variants of reliability, are not inherent to different companies or
individuals to the same extent. If organizational or individual pre-conditions or promise-keeping ability and behavior differ, then trustworthiness may become a value for customer and a differential competitive advantage.

3. Trustworthiness and Business-to-Business Marketing Strategies

Trustworthiness as a competitive advantage plays an important role in the decision options of a supplier, if customers – especially because of their obligations and interests in markets along the supply chain – are dependent on the highest possible degree of observance of their supplier and cooperator’s performance promises. When does this apply, and which possible strategic and instrumental reactions are available to the supplier?

One hypothesis which is to be formulated at this point is as follows: trustworthiness as a customer advantage and contract-awarding criterion is dependent on the homogeneity or heterogeneity of the suppliers product, service, or performance in general as well as of whether the objects of a contract to be agreed upon are standardized goods with a low degree of specificity or whether they are goods which can only be specified with a high degree of specificity after the conclusion of contract. The latter presents itself especially in the case of customized production as well as for complex services, the contentual constellation of which can only be set after the placement of an order. Expressing this hypothesis in concrete terms can be carried out as follows:

- Trustworthiness plays an especially large role as a customer advantage if the goods and services are extremely homogeneous; meaning the extreme case in which there are no differences in quality, costs or time (case 1). This is the case for the deliveries of standard parts, commodity chemicals and high-standardized industrial goods where there are almost no possibilities for differentiation and other competitive advantages are hard to achieve. There are possible connections here between the temporal advantage of delivery time in connection with a high significance of the trustworthiness.

- In case 2, trustworthiness plays a rather important role, too, namely if the agreed good or service is very inhomogeneous and can possibly only be specified after the conclusion of contract. This concerns for example the creation of complex large-scale plants or buildings, complex infrastructure projects, management, legal and tax counseling and similar service packages.

A kind of U-curve can be formed by these two theses which shows the meaning of the argument of Trustworthiness (as a competitive advantage) dependent on certain types of goods and the supplier-customer-relations connected to them:
The „trustworthiness curve“ shows that this competitive advantage has different degrees of relevance in different business situations and it indicates connections to categories of product/service packages (Engelhardt/Kleinaltenkamp/Reckenfelderbäumer, 1993). An empiric examination is yet to be carried out.

A second hypothesis is related to the relevance of availability of the contracted object for the buyer. The higher the need of availability, the more important is trustworthiness as an evaluation criterion in the choice of a supplier. Probably this is true for the need of availability due to technical or functional requirements (the case of spare parts), due to financial requirements (the case of necessary liquidity), or due to psycho-social requirements (the case of image and reputation risks).

The third hypothesis stated here claims that trustworthiness is a major issue in vertical marketing setting when there is a longer supply chain and the analyzed customer has to fulfill his own promises towards the next stage in the vertical supply chain etc. In these cases we propose that trustworthiness is a matter of stability of the supply chain on each level of the chain.

4. Need for Research and Managerial Implications

If one assumes that the differentiation, structuring and conceptualization of the trustworthiness construct was carried out in a practical manner (Laag, 2005) then in the next step, various research questions still remain to be clarified, the results of which are expected to have by all means fruitful implications for business-to-business marketing.

First of all, studies are to be carried out for the different types of business-to-business marketing transactions and relationships with regard to the way customers perceive the construct and under which circumstances the trustworthiness of the supplier and/or his representatives is of special relevance. After the investigation of the trustworthiness signals from a customer’s point of view – the next step in the author’s research project - the instruments which are at a supplier’s disposal in order
to signal trustworthiness remain to be analyzed. In business-to-business marketing this means: under strict consideration of the derived demand, since, in the end, this is a kind of trigger for the “degree of need for trustworthiness”.

Considerations on trustworthiness give some comfort to businesses and managers worrying about their competitiveness in quality, price/cost, or time. They implicate that there is more than one possible “road to Rome”, and even in the case of certain disadvantages in comparison to competitors, or in a “tie” situation with regard to quality, total cost of ownership for the customer, and time, one argument for preferability and thus a positioning factor lies in the trustworthiness required by the customer. It contains a chance to achieve competitive advantages even if one doesn’t hold the position of cost leader or does not offer the most progressive product. Trustworthiness can “tip the scales”, if a supplier can – in the case of corresponding customer decision-making behavior – signal the following to them: “We keep our promise; you can rely on us!” Or if in business-to-business marketing – faced with the multi-leveled vertical markets and thus derived demand – a business is able to communicate just as the DHL logistics company formulated it in one of their campaigns: “We keep your promise!”

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