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Chapter 2

DIMENSIONS OF INTER-FIRM TRUST: BENEVOLENCE AND CREDIBILITY

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ABSTRACT

Past research on inter-firm trust has noted two dimensions, benevolence and credibility. The credibility dimension of trust has been operationalized variously as a combination of honesty, reliability and expectancy; while benevolence has rarely been examined as a unique dimension. We examine the two trust dimensions with empirical data of inter-firm relationships in the software industry and find that benevolence is strongly associated with relationship performance. No association is found between credibility and relationship performance, when discriminant validity is imposed. This result has important implications, as almost all of the inter-firm empirical research on trust has been based on the credibility dimension or a global measure combining the two dimensions. The research in this chapter suggests that benevolence, where managers perceive the other firm willing to look after their firm's interests and so the collective interests of both firms moving forward, is the key to business relationship performance.

1. INTRODUCTION

Inter-firm business relationships offer an efficient and flexible way for firms to globalise their operations without large resource investments (Mattsson, 2003; Yoshino and Rangan, 1995). However, inter-firm relationships cannot develop without resource commitments based on some degree of trust between the parties (cf Morgan and Hunt, 1994). Trust is a multi-dimensional construct, which in much of the inter-firm research has been conceptualised with two theoretical dimensions (Geyskens, Steenkamp and Kumar, 1998). The dimensions are *credibility* and *benevolence*. The first dimension presents a belief that the other firm has the expertise and ability to perform (Anderson and Narus, 1990; Dwyer, Schurr and Oh, 1987). The second dimension is a belief that the other firm will treat the risking party well, under new business conditions (Andaleeb, 1995; Anderson and Narus, 1990).

Trust is considered one of the main coordinating mechanisms that shape social structure (Bonoma, 1976; Bradach and Eccles, 1989), including the nature of inter-firm relationships (Geyskens, Steenkamp and Kumar, 1998; Seppänen, Blomqvist and Sundqvist, 2007). Trust is associated with satisfaction in studies of business relationships (Anderson and Weitz, 1989). Managers that trust each other are more effective in problem-solving (Zand 1972) and more likely to undertake mutual adaptations (Klein and Kozlowski, 2000). Firms that trust each other also have greater levels of performance (Medlin, Aurifeille and Quester, 2005; Zaheer, McEvily and Perrone, 1998). Trust is an essential construct for describing actor bonds in the relationship and network framework of the Industrial Marketing and Purchasing Group (Håkansson and Snehota, 1995).

Empirical studies have generally not discriminated between the two dimensions of trust (Doney and Cannon, 1997). In most cases trust is operationalized as a uni-dimensional construct (Geyskens, Steenkamp and Kumar, 1998; Seppänen, Blomqvist and Sundqvist, 2007). Larzelere and Houston (1980) have argued that the two trust dimensions are inseparable, as each dimension relies on the other. In this argument, experience of openness and credibility within a business relationship leads a manager to attribute mutuality and benevolence to the other party in a continuing risky situation; and conversely, the attribution of mutuality allows a manager to accept the credibility of the other party and hold expectations of promised actions. This presents an interesting problem, for if the dimensions are interacting how does one conceptualise development of trust within an inter-firm context? Does a firm begin by displaying benevolence and mutuality, or openness and credibility? Alternatively, are benevolence and credibility required simultaneously?

This chapter is structured in the following manner. First, we discuss the dimensions of trust within inter-firm business relationships. Next we define a goal variable that allows an empirical examination of the multi-dimensional conceptualisation of trust. In a third section, empirical data from the computer software industry allows examination of the hypotheses. The last sections of the paper discuss the managerial implications and future research opportunities.

2. TRUST AND INTER-FIRM RELATIONSHIPS

Inter-firm research has always presumed that firms exhibit trusting behaviour based upon the perceptions, attribution and cognition of a management group, or an informed respondent (cf Campbell, 1955; Phillips, 1981). Within inter-firm relationships, managers can trust another firm, or the managers of that other firm, and so coordinate their firms' resources and activities for the purposes of collective performance and so the long-term self-interest of their firm. In this conceptualization of inter-firm relationships, the self-interest of a firm in joining with a partner firm is met by achieving the collective interests of the relationship. This suggests an appropriate dependent variable for inter-firm studies is 'relationship performance' (cf Aurifeille and Medlin 2007; Holm, Eriksson and Johanson, 1996; Medlin, Aurifeille and Quester, 2005). This construct is measured as the perceived economic value created by the coordination of activities and resources of two firms. Relationship performance captures the economic outcome of the two firms' collective interests, in the form of sales and growth of sales and market share for their combined efforts, and so provides a sound dependent variable for examining trust dimensions.

Studies of inter-firm trust have relied directly on social psychology theory, see table one which also shows the sources of trust measures including when a measure is based on a past inter-firm study. Noteworthy in table one is the way trust is composed of two dimensions. The first dimension can be generally termed *credibility*, as there are aspects of honesty, reliability and expectancy brought to the fore. The second dimension can be termed *benevolence*.

According to Corazzini (1977), trust is a multi-dimensional psychological construct composed of factors such as; expectancy, reliance upon others, faith, surrender of control, consistency, mutuality and utility for risk. Each of these factors describes the way trust works as a personal cognitive response, with regard to an object that can exist anywhere in the *future* (cf Luhmann, 1979).

Table 1. Basis of Trust Measurement in Inter-firm Studies

Study	Dimensions *	Source of Measure Social Psychology source / *Previous Inter-firm source***
Schurr and Ozanne 1985	Reliability, honesty and fairness	Blau 1964, Pruit 1981, Rotter 1967
Anderson and Weitz 1989	Expectation/confidence, reliability and risk	Blau 1964, Pruitt 1981, Rotter 1967
Anderson and Narus 1990	Reliability and benevolence	Blau 1964, Rotter 1967
Moorman, Zaltman and Desphande 1992	Reliability, credibility and benevolence	Blau 1964, Pruitt 1981, Rotter 1967, Deutsch 1962, Zand 1972
Morgan and Hunt 1994	Confidence, integrity, reliability	Larzelere and Huston 1980
Ganesan 1994	Credibility/reliability and benevolence	*Moorman, Zaltman and Desphande 1992* **
Kumar, Scheer and Steenkamp 1995	Honesty and benevolence	Deutch 1962, Larzelere and Huston 1980, Rempel, Holmes and Zanna 1985
Andaleeb 1995	Reliability and benevolence	Larzelere and Huston 1980
Aulakh, Kotabe and Sahay 1996	Confidence, integrity, reliability	*Anderson and Narus 1990, Moorman, Zaltman and Desphande 1992*
Geyskens, Steenkamp, Scheer and Kumar 1996	Expectation and benevolence	Larzelere and Huston 1980, Rempel, Holmes and Zanna 1985
Doney and Cannon 1997	Credibility and benevolence	Larzelere and Huston 1980, Lindskold 1978
Zaheer, McEvily and Perrone 1998	Reliability, predictability and benevolence	Rempel, Holmes and Zanna 1985, *Anderson and Weitz 1989, Anderson and Narus 1990*
Liu, Tao, Li and El-Ansary 2008	Honesty and benevolence	*Kumar, Scheer and Steenkamp 1995*

*Note: "and" separates the two dominant dimensions discussed in the studies.

**Note: Italics show reliance on inter-firm study, rather than social psychology literature Table adapted from Medlin and Quester (2002).

Accordingly, the object of trust may be a person (Larzelere and Huston, 1980; Rotter, 1967) or an institution (Lewis and Weigert, 1985; Luhmann, 1979; Shapiro, 1987) and so one can distinguish between inter-personal trust (ie between individuals in buying and selling organizations) and inter-organisational trust (ie between an individual and a firm) (Zaheer, McEvily and Perrone, 1998).

However, trust is more than a psychological construct. Luhmann (1979) argued that to fully understand trust one must accept a combined psychological and sociological perspective. Trust development evolves through cognitive processes that rely upon a social structure and time (Luhmann, 1979). The acceptance of socially generated meaning is an important aspect for trust development in business relationships. Group and collectively accepted meaning provides the social structure that frames interaction (Lewis and Weigert, 1985; Luhmann, 1979). In this sense trust and social structure are involved in 'conditioning' effects on each other through time: both are involved in the generation of the other (Giddens, 1979, 1984).

A number of issues are apparent in past research on trust, within the context of inter-firm relationships, when a joint psychological and sociological construction of trust is accepted. A first issue concerns benevolence in business markets, as separating self and collective interest is a difficult task (Ekeh, 1974). For example, the present benevolence of a partner firm may only reflect their self-interests, even if their current actions are clearly not beneficial to that firm. The ambiguous nature of benevolence in business relationships lends support to Geyskens et al.'s (1998) argument that both credibility and benevolence are necessary for trust to exist, for a firm must rely upon honesty and reliability when accepting trust as the means to undertake a risky future.

A second issue arises concerning the roles of time and benevolence in trust development. Whilst benevolence is an attribution of collective interest and mutuality (Larzelere and Huston, 1980), to trust is to rely upon benevolence in the future. Here benevolence moves beyond fairness, as the act of stepping in to support a partner firm in a risky situation is more than fairness or justice. The act of benevolence does not ask for a reciprocal action. In other words, trust involves a risk concerning the future course of events, simply because no alternative exists but to rely upon benevolence. Importantly, this shows trust is a present psychological state concerning the *future* (Larzelere and Huston, 1980) and that the past only figures in evaluating whether one *might* trust. That is to trust, or not, can be evaluated based upon whether credibility or benevolence was displayed in the past, but to trust is another matter involving reliance upon future performance and benevolence given risk. Following this argument, trust is an *orientation to the future*.

An issue with inter-firm trust is whether a global measure, combining the two key dimensions, is appropriate. Two variations on operationalization of trust exist in the literature (see table 2). Morgan and Hunt (1994) operationalized only the credibility dimension (see table 1), whereas a further three studies developed constructs for the two dimensions of credibility and benevolence and then settled for a global construct when examining their hypotheses (indicated by ** in Table 2).

On the other hand, Kumar, Scheer and Steenkamp (1995a, 1995b), in two papers based on one empirical dataset, prepared separate measures for credibility and benevolence and then combined these with other first order constructs to generate a second order composite construct of 'relationship quality' (labelled 'Composite' in table 2). In these studies, of different samples from the USA and the Netherlands, correlations of 0.72 and 0.62 were found between credibility and benevolence (p<0.001).

Table 2. Inter-firm Trust Operationalized

	Credibilty	Global	Composite	Two Dimensons
Schurr and Ozanne 1985		*		
Anderson and Weitz 1989		*		
Anderson and Narus 1990		*		
Moorman, Zaltman and Desphande 1992		*		
Morgan and Hunt 1994	*			
Ganesan 1994				*
Kumar, Scheer and Steenkamp 1995a,b			*	
Andaleeb 1995		*		
Geyskens, Steenkamp, Scheer and Kumar 1996		**		
Aulakh, Kotabe and Arvind 1996		*		
Doney and Cannon 1997		**		
Zaheer, McEvily and Perrone 1998		**		
Liu, Tao, Li and El-Ansary 2008				*

Note: ** Indicates constructs for two dimensions prepared, but global for hypothesis examination Table adapted from Medlin and Quester (2002).

Only two studies, Ganesan (1994) and Liu, et al. (2008) appear to have provided evidence of a distinction between the two dimensions of trust. However, an examination of the wording in Ganesan's (1994) indicators of benevolence shows operationalization of another construct, rather than benevolence. Table 3 shows Ganesan's (1994) indicators and suggests an alternate attribution of the constructs to be "past/present commitment" (PPC). A re-examination of Ganesan's (1994) results supports this interpretation, with specific investments leading to evidence of PPC for retailers, while for vendors PPC is associated with satisfaction with past outcomes.

Table 3. Ganesan's (1994) Benevolence Measures

Indicator	Attribution
Vendor's benevolence	
This resource's representative has made sacrifices for us in the past	Past commitment
This resource's representative cares for us	Present mutuality
In times of shortage, this resource's representative has gone out on a limb for us	Past commitment
This resource's representative is like a friend	Present mutuality
We feel the resource's representative has been on our side	Past mutuality
Cronbach's alpha 0.88, sample size 124	
Retailer's benevolence	
The buyer representing this retailer has made sacrifices for us in the past	Past commitment
The buyer representing this retailer cares for my welfare	Present mutuality
In times of delivery problems, the buyer representing this retailer has been very understanding	Past commitment
Cronbach's alpha 0.76, sample size 52	

The results of the study by Liu, et al. (2008) are interesting as the two trust dimensions are found to have discriminant validity (chi-square 39.557, $p<0.01$, with 1 degree of freedom, sample size = 251). Liu, et al. (2008) follow the definitions of honesty and benevolence given by Kumar, Scheer and Steenkamp (1995). The indicators are given in table 4.

Table 4. Honesty and Benevolence Indicators

Honesty trust (Cronbach's alpha = 0.810)
HT1 We believe that the supplier will keep the promises they make to our firm on time
HT2 We believe that the supplier is competent to keep the promises they make to our firm
HT3 We believe in the supplier because it has a good reputation
Benevolence trust (Cronbach's alpha = 0.777)
BT1 Though circumstances change, we believe that the supplier will be ready and willing to offer us assistance and support
BT2 When making important decisions, the supplier is concerned about our welfare
BT3 When we share our problems with the supplier, we know that they will respond with understanding
BT4 In the future, we can count on the supplier to consider how its decisions and actions will affect us
Source: Liu, Tao, Li and El-Ansary, 2008

The results of Liu, et al's, (2008) study show that honesty trust is associated positively with contract control ($\beta = 0.690$, $p<0.000$) and positively with relational norms ($\beta = 0.582$, $p<0.000$), while benevolence trust is associated negatively with contract control ($\beta = -0.334$, tural equation model has a Chi-square to degrees of freedom ratio of 1.349 and a Goodness of Fit Index of 0.946. These results suggest that credibility and benevolence are likely associated with relationship performance.

The next section develops hypotheses to empirically examine the two dimensions of trust.

3. HYPOTHESES

Trust within business relationships is important in the development of mutual and collective interests. Whether firms coordinate their resources and activities efficiently and effectively depends very much on the level of trust exhibited between the managers of the firms. Effective and efficient coordination between the firms requires mutual adaptation of resources and activities to allow economic performance of the relationship. Evidence to date suggests that higher degrees of trust between managers and partner firms lead to greater degrees of coordination, which improves relationship performance (Aulakh, Kotabe and Arvind, 1996; Holm, Eriksson and Johanson, 1996; Medlin, Aurifeille and Quester, 2005). This suggests that each of the two trust dimensions is associated positively with relationship performance:

H1: The higher the levels of credibility of a partner firm in a business relationship the higher the relationship performance.

H2: The greater the levels of perceived benevolence of a partner firm in a business relationship the higher the relationship performance.

The next section provides a discussion of the methodology chosen to examine the hypotheses.

4. EMPIRICAL TESTS

Relationships between business software principals and their distributors were chosen as the empirical setting. The sample frame was prepared from Australian Government web sites listing software firms from a wide variety of vertical markets. Each firm was contacted by telephone and their relationships discussed with a CEO or Marketing Manager. A specific relationship was qualified on the basis of being important to the firm's strategy, being arranged only by the two firms, requiring continuous interaction between the firms, and not being an end client relationship. The business-to-business nature of the relationships and the existence of set market boundaries according to country or region meant that expectations of market performance and competition were easily gauged. This meant that measurement of relationship performance was enhanced by the sample being based on a specific and easily defined 'value net' (Möller, Rajala and Svahn, 2005; Parolini, 1999).

The final convenience sample consisted of software principals for 95 business relationships. Following the two-step approach suggested by Anderson and Gerbing (1988) construct measures were prepared by conducting factor analysis using the Maximum Likelihood method. The measurement approach for the 3 theoretical constructs in the model is described in Appendix I. New indicators were prepared for benevolence in an attempt to gain greater discriminant validity with credibility, however, the correlation between benevolence and credibility remained high at 0.78, indicating an issue with discriminant validity. The Kaiser-Meyer-Olkin Measures of Sampling Adequacy ranged between 0.736 for 'relationship performance' and 0.733 for 'credibility'. The correlation matrix and final measurement model, along with Cronbach's alpha are displayed in appendix II. The t values of the measurement parameters are all significant at the 95% level of confidence (see appendix II).

In a first step, a model was prepared with Maximum Likelihood regression using the Lisrel 8.80 software (Jöreskog and Sörbom, 1996). In this model the correlation between the two trust constructs was constrained to 0.70, so as to achieve discriminant validity. The result was that H1 was not supported (β = - 0.05, t = - 0.36); while H2 was supported (β = 0.65, t = 4.46). The Goodness of Fit Index was 0.90 and the Adjusted Goodness of Fit Index was 0.83. The RMSEA of this model was 0.093 with a 90% confidence interval extending from 0.048 to 0.14. The Chi-square statistic of 45.39 with 25 degrees of freedom was acceptable and significant (p = 0.00754) (Bentler 1990).

Given the lack of support for the association between credibility and relationship performance a final model was prepared with the Maximum Likelihood method (see figure 1). A strong association was found betwe

0.64, t = 6.20). The Chi-square statistic for the final model (9.79 with 8 degrees of freedom) is not significant (p = 0.27988) (Bentler 1990). The RMSEA of the final model is 0.049. Steiger (1989) considers any value less than 0.05 as a "very good" fit. These measures suggest that the model has a "correct fit". That is, the hypothesis constraining the parsimonious model complies with the observed phenomena. H2 was supported (see figure 1).

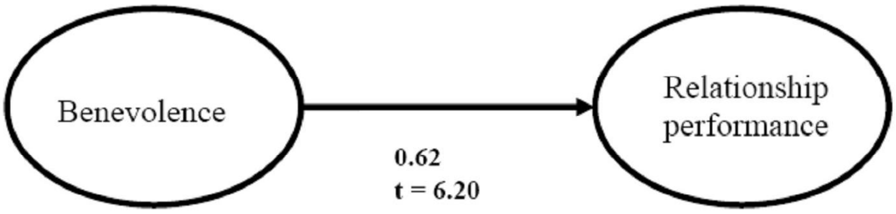

Figure 1. Final Structural Equation Model.

5. DISCUSSION

Benevolence, where managers perceive the other firm willing to look after their firm's interests moving forward, is shown to be strongly associated with perceptions of the performance of inter-firm relationships. This result contributes to the theory on trust within business relationships in at least three ways. First, the results highlight the role of benevolence in achieving relationship performance. The variation in support for the two hypotheses is an interesting result, with only benevolence significantly associated with relationship performance when discriminant validity is preserved. It seems counter intuitive that credibility is not associated with relationship performance. We suggest that managers assess evidence of benevolence to determine whether the partner firm is willing to adapt and change coordination to achieve collective economic outcomes. Presumably when a partner firm is seen to be benevolent managers are willing to adapt their resources and activities to the other firm. This adaptation of the firm's resources and activities towards the needs of the partner firm leads to greater levels of efficiency and effectiveness and so greater economic outcomes.

Second, the association between benevolence and relationship performance indicates how collective interest constructs are important in explaining business relationships. Business relationships are a combination of firm self-interest and collective action: there is individual and coordinated performance by the participating firms and the intent of a collective economic gain leading to private gain. The purpose of business relationships is to achieve a firm's self-interest through the collective interest of the business relationships (Medlin, 2006). Benevolence indicates a collective interest and relationship performance is a collective economic outcome. The role of benevolence in achieving relationship performance highlights this combination of self and collective interest in business relationships.

Third, without a collective outcome, such as relationship performance, the processes and purpose of inter-firm trust and coordinated economic activity have little meaning. In terms of the development processes for trust, the empirical evidence in this chapter suggests that increasing benevolence is associated with greater relationship performance and that over time the meeting of collective outcomes allows the partners to attribute credibility to the other party. This explanation of trust development through time is interesting, for it suggests that benevolence is more future oriented (ie future loaded) than is the credibility dimension.

The explanation also shows credibility to be somewhat more past loaded than the benevolence dimension. There is a reliance on the past to assess credibility, while attributions of benevolence are future oriented.

CONCLUSION

Managerial Implications

The managerial implications of the research presented in this chapter are threefold. First, the positive and strong role of benevolence is now clear with regard to achieving relationship performance in business relationships. However, which actions and commitments of resources are considered acts of benevolence is a contextual issue that deserves careful thought. The issue here is that two firms in a business relationship operate from different network positions and so necessarily have different contexts (cf Halinen, 1998; Medlin, 2003). The research by Malhotra (2004) shows this issue again. Managers of a partner firm do not take the same perspective on the act of benevolence. The resolution of this impasse, so that trust can be built through acts of benevolence, is open communication between the managers from each party. Only in this way can a manager understand the acts and resource commitments that are considered to be supportive of the other firm.

Second, since building trust is based on benevolent acts, managers need to prioritise the strategic importance of their firm's business relationships. Benevolent acts require resources to ensure open communication and also resources for meeting the needs of the partner firm. As a result, benevolent acts necessarily demand making a choice between competing opportunities. Resources are scarce and are likely already in use, so that providing a solution to a partner issue will require adaptation of a resource applied in some other relationships. This means managers will need to understand the strategic importance of each business relationship, and this knowledge and understanding will provide the alternate sources of resources and how a solution can be configured.

Further, for a benevolent act to be understood the adjustments in resources must be applied in a timely fashion according to the agreed needs of the partner firm. Noteworthy, in this discussion is that benevolence is a strategic issue and so the decision will be judged by the giving firm on the basis of self and collective interests.

Finally, managers should note that benevolence is not only about giving resources and time to a business relationship. Benevolence is one act in a series of acts that make up the interactions which build a business relationship. Benevolence today can increase the economic performance of the business relationship and this can lead to both firms increasing their resource base. Importantly, a stronger partner can afford to be benevolent, so that the first firm can free resources for a competing demand in a future time. When business relationships are viewed across time, benevolence can be seen as part of the reason for the flexibility and adaptability of business relationships and the networks they form. Benevolence is one part of how firms remain adaptable in fast changing environments.

Future Research

Future research based on specific measures for benevolence and credibility offers the opportunity to understand more clearly the mediator constructs in the development of business inter-firm relationships. Most research on trust has not applied measures for benevolence, rather measures have tended to be global or of credibility. Given the empirical results presented in this chapter researchers will need to re-consider past research on the basis of specifying benevolence. The more specific construct of benevolence, as compared to the general notion of trust, offers an opportunity to understand more clearly how business relationships develop.

The results in this chapter also suggest interesting future research opportunities concerning the role of credibility within inter-firm relationships. In fact, the evidence from Morgan and Hunt (1994), whose trust indicators are based on credibility, is that commitment is associated with credibility. While Liu, et al. (2008) found that credibility was associated with contract control. There remains considerable research opportunity to understand the role of credibility in developing business relationships.

Finally, trust remains one of the most examined constructs in the area of inter-firm research for as good reason. The shape of the global firm networks that accomplish economic output are partly determined by the decisions of managers who must act without full knowledge of the future. In this context of uncertainty trust remains a required element. Where trust is high and managers are benevolent, rather than opportunistic, the possibility of complex inter-firm arrangements is greater and the quality of economic output is higher and of greater value.

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APPENDIX I

Construct Indicators

Construct	Indicators	Source	Response Anchors
Credibility	HT-1 The other firm usually keeps the promises they make to our firm. HT-2 The other party is truly sincere in their promises. HT-3 Our partner is perfectly credible.	Developed for this study. Larzelere and Houston 1980 Rodriguez and Wilson 1995	9 point scale Strongly agree to strongly disagree
Benevolence	BT-1 In the future we can count on the other firm, to consider how its decisions and actions will affect our firm.	All developed for this study	9 point scale Strongly agree to strongly disagree
	BT-2 Though circumstances change, we believe the other firm will be ready and willing to offer us assistance and support. BT-3 When making important decisions, the other firm is concerned about our firm's welfare.		

Construct	Indicators	Source	Response Anchors
Relationship Performance	Consider all of the costs and revenues with the Focus Relationship. Relative to your firm's expectations in the focus market, what has been the performance of the inter-firm relation on the following dimensions? 1. Sales, 2. Sales growth, 3. Market share growth	Holm et al 1996	9 point scale Extremely strong to extremely weak

APPENDIX II

Correlation Matrix

	HT-1	HT-2	HT-3	BT-1	BT-2	BT-3	Perf-1	Perf-2	Perf-3
HT-1	1.00								
HT-2	0.90	1.00							
HT-3	0.84	0.83	1.00						
BT-1	0.51	0.53	0.42	1.00					
BT-2	0.69	0.70	0.62	0.61	1.00				
BT-3	0.57	0.58	0.43	0.67	0.72	1.00			
Perf-1	0.38	0.31	0.27	0.58	0.47	0.45	1.00		
Perf-2	0.45	0.43	0.38	0.59	0.50	0.48	0.92	1.00	
Perf-3	0.37	0.37	0.28	0.53	0.41	0.43	0.84	0.89	1.00

Measurement Model

Construct	Item	Lambda	t-value	R^2
Credibilityt (α = 0.946)	1 2 3	0.95 0.95 0.88	12.29 12.20 10.72	0.90 0.90 0.77
Benevolence (α = 0.851)	1 2 3	0.76 0.86 0.82	8.34 10.06 9.33	0.58 0.74 0.67
Relationship Performance (α = 0.957)	1 2 3	0.93 0.99 0.90	11.79 13.29 11.25	0.86 0.98 0.81

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