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# “You Have to Learn How They Tick”

**- A Qualitative Thesis about Payment Behaviour, Trust  
and Corporate Reputation**

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*I want to thank my supervisors Dr. Tony Huzzard and Dr. Niclas Andrén for their advice and their patience.*

*Mark Scholten*

*“Research is hard work; it's always a bit suffering. Therefore, on the other side research should be fun.” (Anselm Strauss 1994)*

## Abstract

<b>Title:</b>	“You Have to Learn How They Tick” – A Qualitative Thesis about Payment Behaviour, Trust and Corporate Reputation
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<b>Key words:</b>	payment behaviour, trust, control, corporate reputation, the learning route
<b>Purpose:</b>	I want to find out whether it is possible to draw any connection between payment behaviour and corporate reputation on a business-to-business level or whether it is rather trust that is effected and if so in both cases how and why.
<b>Methodology:</b>	My qualitative research has an inductive approach and has been done by using an unstructured interview technique.
<b>Theoretical perspectives:</b>	I have used Chun’s definition of corporate reputation in combination with Bromley’s findings about the determination of reputation and some findings about payment behaviour, which I confronted with theories concerning the individual behaviour, including trust and the evolutionary theory inter alia.
<b>Empirical foundation:</b>	I have interviewed CEOs and CFOs and purchasing managers of companies of varying size.
<b>Conclusion:</b>	My research has demonstrated that there can be a connection between payment behaviour and corporate reputation occasionally with trust as a blocker in between. Bad payment behaviour can even trigger a learning route to do profitable business besides certain particularities. Decision-makers can act rather opportunistically. There is no major difference between payment behaviour in Sweden and Germany.

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# 1. Introduction

In this chapter I will introduce the topic of my thesis. After some words of introduction, I will proceed by discussing the main topics, bad payment behaviour, trust and corporate reputation, which will lead to the problem this thesis is about. What I will discuss in my thesis and what not, I will explain in the delimitations. Finally I will conclude with an overview of the remaining chapters.

## 1.1 Background

### 1.1.1 Trust versus Control

'Trust is good, control is better'

Lenin actually never said that, though many believe so (Büchmann 2007). Yet this sentence has established as a saying within the German and English linguistic usage and is actually applied very often. The frequent usage of aphorisms like the previous speaks for the common belief in the preference of the concept of control to the concept of trust.

In the current economic crisis one might think that this saying should have been applied a bit more often before. One might remember the former policy of certain American banks to almost blindly give away credits for house purchases with neither checking the solvency nor the ability of the debtor to ever pay back the loan. With the so called subprime mortgage one could loan one hundred percent of the house price (Witterauf 2008). A very large part of the private debtors of these banks were hardly able to pay the interest rate (Piper 2007). If the concerned decision-makers had put more weight to control than to trust, this financial catastrophe, which triggered the economic crisis, probably could have been avoided.

But is it really so advisable to neglect trust, and how much control do we need, when it is impossible to control everything ourselves nowadays? What is exciting is that this willingness to control everything can become pathological: An obsessive-compulsive disorder (Deister 2001).

Far away from any pathological status many authors have actually written about either the concept of trust (for example: Barney and Hansen 1994, Child 2001 and Sako 2006) or the concept of control (for example: Eisenhardt 1989, Williamson 1975, 1981, Nygaard et al 2001 and Geoffrey M. Hodgson 2004). Within the field of economy there is a battle going on about who is right and who is wrong. This economic crisis might feed the argumentation of the protagonists of the concept of control who view the individual as opportunistic or potential opportunistic, while the protagonists of trust persistently oppose to the opportunistic view of individuals.

Confusingly, some authors suggest indirectly that trust and control is rather the same. They postulate that control is trust-based and that trust is almost erased in its original organisational meaning (Grey and Garsten, 2001). I will not enter upon this in the following, because the authors concentrate on actions within companies, while I will address business-to-business relationships.

The protagonists of the concept of trust cannot be all wrong in spite of the momentary crisis, as one applies certain facilities that depend on trust on a daily basis, facilities like trade credit. If someone does not pay in time one can easily use other measures like precash or documentary payment as long as the prevailing state has created the institutional conditions for that. This is the case for the 'western' countries (Child 2001). In spite of these possibilities the most business-to-business payments still happen via trade credit (Ng 1999) so that a quantum of trust among companies must exist.

Notwithstanding there are some companies who misuse the trust of their suppliers and pay late, which causes immense trouble for even these suppliers and leaves them in a rather desperate situation leading into bankruptcy sometimes (Paul 2007, 2008). Many corporations seem to misuse their power with the purpose of paying late and they even act against the law (Paul 2007, 2008). But does that not go in line with a total loss of trust the suppliers have to that company?

Companies who try to gain each possible advantage by paying as late as possible act rather opportunistically but does that not harm a company's entire reputation and would that not



mean worse preconditions for the next businesses of the defaulting company as trust is misplaced? And does such a bad reputation spread to other possible customers?

In this connection it is very interesting to investigate how the battle for some extra interest by either late payment or suppressing payment conditions influences the concept of trust or the company's corporate reputation.

On the other hand, trade credit as a whole provided the US-economy with 1.5 trillion dollars of extra funds under the nineties according to Ng et al (1999). If that is true then it is easy to approximate that this would mean at least some billions for each western country each month as their economy is rather similar to the US's. One precondition though: the trade credit system must function including a certain level of trust. At least some hundred million Euros for each national economy if the trade credit system would be adjusted, would not that be at least one way if not the way out of the current crisis?

### **1.1.2 The Late Payment Problem – Insufficient Trust Today?**

But are the conditions in Western countries really that optimal? Can trust really be fostered between companies? According to Paul (2007) many large corporations do not play by the rules in the UK, where the larger corporations do not often pay their smaller suppliers according to the payment terms. Smaller companies often loose in the gambling game of who gets the greater part of trade credit. For the United Kingdom this late payment phenomenon has already reached a macroeconomic scale and harms the Kingdom's economy as more and more SMEs (small and medium sized enterprises) declare themselves bankrupt and even the late paying corporations often have disadvantaged (Paul 2007), when the small companies, who delivered to them before, suddenly call in the receiver.

### **1.1.3 The Advantage of Trade Credit**

The advantage of late payment lies in the greater amount of trade credit that stays with the firms and provides them with a considerable amount of extra fund (Biais and Gollier 1997; Petersen and Rajan 1995; Nilsen 1994). Vendor financing provided the US-economy with an

average 1.5 trillion dollars throughout the nineties (Ng et al 1999). It is commonly known that the battle around trade credit is very tough and that is a phenomenon that is of course not only restricted to the US or the UK, it is a matter that concerns all trading nations. In order to really gain something positive out of trade credit, a functioning trade credit management seems to be unavoidable, though especially for minor companies credit management seems to be unaffordable (Paul 2008).

The advantage of getting a trade credit appears obvious. As stated above, it provides the company with some extra funds. The advantage of giving payment credit is rather simple, too, as customers might see that as an extra service, a service which allows them to run their business a bit smoother and which can be important especially for minor firms, as they often need their scarce financial resources very badly. However, proper credit management has its ways as well to reduce the trade credit time for the customers. The usage of so called two part terms gives incentives to pay faster. The average two part term allows two percent cash discount if payment happens within 10 days and the 'original price', that means the net-price if payment happens within 30 days. (Paul 2008; Ng et al 1999). Here the incentive to pay appears quite urgent, because if one does not pay within ten days, then the remaining 20 days would approximate 36.5% interest rate on a yearly basis. Thus it is obviously cheaper not to miss the due date of cash discount. Of course there are many other payment terms, I do not want to discuss here. However, though trade credit in combination with cash discount seems to be an issue in many countries' payment terms, it is not applied in Sweden. In general payment behaviour differs much from country to country.

## ***1.2 Discussion***

### **1.2.1 Has Reputation become Unimportant?**

Thus, there exists a late payment problem at least with some firms and one comprehensible reason for that seems to be the advantageous interest that multiplies to enormous sums when one delays payment for all of one's suppliers and strictly demand prompt payment from one's customers. That probably harms trust, but what about the company's reputation?

In the literature and theory different authors, though they debate about the definition of corporate reputation as described by Hatch and Schulz (2000 'Scaling the Tower of Babel') or Balmer (2001 using the analogy of 'fog') and though some do not distinguish between image and reputation (as described by Markwick and Fill 1995), the authors still agree on the importance of corporate reputation for each company (see for instance Hall 1993, Fombrun and van Riel 1997, Chun 2005). Gardberg and Fombrun (2002) for instance describe the importance of corporate reputation like this:

"Corporate reputation is a growing factor in creating and maintaining corporative advantage due to four trends in the business environment:

- the global interpenetration of markets
- media congestion and fragmentation
- the appearance of ever more vocal constituencies
- the commoditisation of industries and their products"

Furthermore reputation is often seen as attraction for qualified and good employees (Markham 1972; IOD 1999; Hall 1993; Alvesson 2004; Cravens et al 2003), who stay loyal and are willing to do that little extra for the firm (Fombrun 1995). Fombrun (1995) even states that a good corporate reputation can reduce the risk of crisis and can ease crises more easily when they come about. Summarising, the authors could probably agree on: 'good reputation creates wealth' (Fombrun 1995, Cravens 2003), which is why reputation is that important for daily business.

Having said that, it is wondrous how little attention is drawn to the act of payment by the firms and those responsible for payment. Is it not harmful for one's own reputation to pay late? This was the initial thought behind this thesis.

### **1.2.2 Questions arise**

The question comes up whether firms act in favour of their payment or in favour of their reputation. Is there at all a possible combination between payment on the one side and trust and reputation on the other side and if so how is it structured, what does it look like? Two of the respondents, I interviewed, representing large corporations see clearly no possible combination between reputation and payment. And perhaps that influences their whole

company policy. What would happen if they were wrong? What opportunities might have been missed? And again can there be trust between companies that pay late on purpose and their suppliers? What about the unimaginable high amount of trade credit that is lost for the entire national business? How come that there is no literature connecting corporate reputation directly with payment? Thus there is an obvious knowledge gap, which is not to neglect.

### ***1.3 Knowledge Gap***

After a thorough search I could not find any articles or books that investigate a possible connection between payment behaviour and reputation. This is when I decided to carry out an explorative thesis with the purpose to fill the knowledge gap by empirical obtained data derived by deep interviews.

### ***1.4 Purpose***

Thus there is a late payment problem within the UK but do we find the same problem in Sweden and Germany? What does payment behaviour actually affect? Is it trust that is affected in first place or is there a direct connection to reputation? Is there a connection from corporate reputation towards payment behaviour as well and if so how could it possibly look like? Does corporate reputation actually suffer of bad payment behaviour? What role does the individual decision-maker play? Which concept is supposed to be better, trust or control? The purpose of this thesis is thus to give answer to the following question:

Is it possible to draw any connection between payment behaviour and corporate reputation on a business-to-business level or is it rather trust that is affected and if yes how and why?

## ***1.5 Delimitations***

This study has been derived from in depth interviews of a small number of chosen CEOs and CFOs of different companies in Sweden and Germany. These companies represent a small part of different sectors so that the results shall not be understood as too generalizable.

Furthermore the theses and models that are derived from this analysis are preliminary and need further research such as a statistical back up. The purpose of this thesis is much more to represent the view of individuals covering key positions in the interviewed companies and the outcome is based on their personal point of view and not on before made theses as they were not present. I will not make greater use of the institutional theory as I am not an expert in German law and as stated above some firms do not act according to the law nor contract anyway. Finally I have to mention that I want to concentrate myself on business-to-business relationships.

## ***1.6 Disposition***

In the next chapter I discuss the reasons why I chose a qualitative, interpretative and inductive approach and how this fits the interdisciplinary character of this thesis. In chapter three I will summarise some important theories, which I will then in the following chapter combine with my empirical information in order to analyse my empirical data. This will be a combined empirical and analytical chapter. Chapter five will present my results as well as possible consequences and it will give an outlook on possibilities for further studies.

## **2. Method**

In this chapter I want to illustrate the way I conducted this thesis. Therefore I describe why precisely this approach was chosen, why I exactly interviewed the people I did and how I made this thesis robust. Having this in mind I will start of with a discussion of the chosen epistemological view for the thesis.

### ***2.1 Why Interpretivism***

From the very beginning I found that our respondents might have very shifting attitudes towards a connection between reputation and payment and their view on trust. This turned out to be right, when I conducted my interviews. I understood that this depended on their very own social perspective of the entity they experienced and of their work life. The respondents had their own definition about what is social, what the notion of fair means, how image, trust, reputation and payment are understood and how they are connected. In order to respect and work with their own comprehensions I chose an interpretative approach. Hereby I want to stress the individuals' perceptions and their attitudes towards either paying or being paid that means in their role as either purchasers or vendors.

As mentioned above I have chosen an interpretative approach that investigates the perception of the individual. Thus, when a single one of my respondents sees a connection between payment behaviour and reputation it becomes a reality in his or her point of view. Therefore I can probably analyse the problematic experienced by this respondent. With the respondent being either a vendor or a purchaser, it might become very important for the prevailing individual that works on the other side to understand how the actions he or she takes are experienced in the business relation. One individual might be convinced that it is acceptable to form certain payment conditions, while the other individual probably does not exist under the same circumstances, which in the end makes the given conditions simply not satisfiable. This example shows why I have to illustrate the individual's perception. The individual's discernment can therefore decide whether there is a connection between payment behaviour and corporate reputation or something else.

Accordingly, in this study I try to investigate the relation between the perceptions of payment behaviour and the perceptions of corporate reputation. This makes the study take the epistemological view of an interpretivist (Bryman and Bell 2003).

## ***2.2 A Qualitative Approach***

### **2.2.1 Possible Doubts**

It might be clear already that when a study is interpretative, it is as well qualitative. However this might not necessarily be that way in this particular case, as I study a question that might appear simple: ‘Is there a connection between payment behaviour and corporate reputation?’ Eventually one might answer this question with a simple ‘yes’ or ‘no’. This type of data would comprise binary data (Körner and Wahlgren 2002), which do normally not fit in a qualitative thesis. Further doubts could arise as this study might touch on the field of finance, which is a profession that deals mostly with quantitative or with positivistic approaches. So why is it necessary that my approach is qualitative?

I believe that behind my main question lies much more complexity and answering it with just a simple ‘yes’ or ‘no’ does not reveal the complex context that the answer emerges from. Therefore I do not use any binary data. But I deal with different people, who have formed their very own perspective of the social world they live in, that means in this particular case their very own view on payment behaviour, trust and corporate reputation. It is important to me to understand why they answer in their very own way and that is why I need a method that collects in-depth information in order to understand at least a part of the social world, they live in. By that I naturally do not at all want to say that the collection of in-depth information does not happen within finance research or in positivistic approaches.

I furthermore believe that behaviour and reputation are qualitative phenomena and as such presumably very difficult if not impossible to quantify. It appears necessary to me to understand how the prevailing individual interprets the phenomena of payment mentality, trust and corporate reputation, but especially whether they recognise interdependence between these. Therefore I had to ask in-depth questions, as the topic is rather complex, and I had to

ask specific questions resulting out of the specific answer in order to fully understand their point of view. This is why I chose a qualitative method and conducted semi-structured interviews, with the chance to listen exactly to what is said and to eventually note some very simple bodily gestures as suggested by Christensen et al (2001).

### **2.2.2 Inductive versus Abductive Approaches**

According to Bryman and Bell (2003), a qualitative study is very often an inductive or an abductive study. A field of constant discussion appears here. While some authors favour the inductive approach others support the abductive procedure. Maybe the most famous dispute about whether a qualitative approach has to be abductive or inductive can be seen between the founders of the grounded theory approach: Barney Glaser and Anselm Strauss.

“While Strauss supports the pragmatically shaped social interactionist theory, which he developed dramatically further, Glaser is a supporter of the positivistic-functionalistic shaped Columbia School” (Strübing 2002, p.320).

Glaser sees major opportunities in the inductive approach, he represents much more a simple way, a ‘just do it way’ of collecting data as Strübing (2002) called it. ‘All is data’ Glaser wrote together with Holton (2004) and he stands for ‘Trust in Emergence’, the belief that theories appear through the comparison of collected data (Glaser 2007).

“...obviously the favourite data to date is qualitative. While interviews are the most popular, GT (Grounded Theory) works with any data –‘all is data’- not just one specific data. It is up to the GT researcher to figure out what data they are getting. The data may be baseline, vague, interpreted or proper-line. The data is not to be discounted...” (Glaser and Holton 2004)

Actually I do have to make some use of ‘all is Data’, as my study comprises the field of finance as well. Articles about payment are by nature mostly quantitative, still I do not adopt a positivistic approach. On the other hand Strauss, was a symbolic interactionist and thereby he was supporting the school of interpretativists, which goes in line with my approach. The dilemma is though that he is convinced that a qualitative thesis must be abductive. My task is now to manoeuvre a course between these two poles.



An abductive approach requires the researcher to alter constantly between theory and the collected data. I was not able to constantly discuss or compare the results of my interviews with my former co-writer at least not directly after they had been conducted, due to lack of time. To give an example: I had to carry out seven interviews in seven different towns in Germany within a week. The interviews took almost always longer than the planned single hour, this as well due to the effort to let the respondents answer as long as they liked in order to reveal some more details in their words and pronunciations while my former co-writer and I observed their bodily gestures. We tried to be as accurate as possible in order not to get back to the respondent and steal their precious time once more as we were mostly dealing with CEOs and CFOs. To make us really both understand what was said, the interviews had to be translated, which restricted time for theoretical studies between the interviews even more.

All these examples speak much more for an inductive study, because it is the nature of an inductive and not an abductive study to collect the empirical data first and not to alter back and forth from theory to data collection. As I now have hopefully shown, there was no other approach practically possible then the inductive for the thesis.

### **2.2.3 Interview as Method**

At this point I need to describe more detailed how I collected my data. In order to gather in-depth data and to somehow catch the emotions and exact verbal expressions my former co-writer and I conducted semi-structured interviews, which we recorded completely on tape. Here we tried to carry out face-to-face interviews, whenever we could, because I consider these as the in-depth interviews, which can be executed with the possibility to observe the respondent, while he or she answers. Furthermore I personally experienced a more relaxed atmosphere with face-to-face-interviews compared to phone-interviews.

Here I have to state clearly that, in spite I completed a course in medical psychology, where even body language was a topic, I am far away from calling me an expert in this field. However Christensen et al (2001) encouraged me to read the simple signs of body language. To give an example: One of my respondents carefully looked to his boss, while he answered a bit more revealing question and he was even formulating with awareness. In the end I decided not to make use of this particular answer. Yet, there were maybe handful notable situations

like this, where I did not want to exclude our notes. I am aware though of the danger of misinterpretation. Pease (1991) writes that the interviewer is interpreting a respondent by his body language to 55 percent, 38 percent by how the respondent is saying something and only to 7 percent by what he really says. As I mostly gathered our data via the translated scripts, we could minimise the risk of such interference.

I interviewed chief officers of companies, who were simply not always accessible for a face-to-face interview or my co-writer and I were not able to travel to the distant town these executives worked in ourselves. This is why we conducted some interviews by phone. Those were recorded as well. Even with the conducted phone interviews, I believe that we gathered valuable and trustworthy data.

I believe that no other information gathering technique would have been more suitable. In order to really understand the companies' and the personnel's situation in these different sectors, I found that questionnaires would never have given me a satisfactory picture. It would have been impossible to send a huge amount of questionnaires with that many questions fitting to the content of the prevailing answers. That means that my former co-writer and I would not have been able to ask resulting questions. Our respondents often spoke a whole hour long, to please our hunger for answers. I do not believe that they would have the patience to write down this amount of data, answering in such abundance. This is why we were revealing much more with our recorded interviews than a questionnaire would ever have done. So I believe that we gathered quite a huge amount data, which is necessary to understand the sectors' payment behaviour and the individuals' way of understanding it and their opinions concerning another company's reputation.

## **2.2.4 The Implementation of our Interviews**

My former co-writer and I were present in all of the interviews. This gave us the possibility that one was able to note everything he observed, while the other could concentrate entirely on the moderation. Because of this sharing of tasks, we achieved more flexibility and could if necessary liberally switch these, in case the observer had another question and of course even the moderator noticed certain actions of the respondent, which he wrote down. As we conducted the interviews in two different countries the one of us with the prevailing mother

tongue interviewed, while the other observed. In order to be able to fully understand the German interviews, and in order to perform some direct quotations out of the transcripts, the transcripts were written down translations, which were as verbatim as possible. I performed such exact translations because I do not want to quote my respondents wrongly and what is more because I wanted to be able to make deeper interpretations, which was necessary in some cases.

### **2.2.5 Table of Respondents**

To finally give an overview over the interviews I wrote the list set out below, where the synonyms of the respondents and their companies are named as well as the date the interviews took place. I also named the number of employees of the prevailing companies and the way these interviews were performed, which as said above was either face-to-face or via telephone.

To keep matters simple, I exchanged people's names by their occupation. If that was not enough to be able to differ between them, I added their nationality, company or numbers. The companies themselves were renamed after the wider sector, they can be assigned to, which was added by numbers and nationalities if there were more than one. Hereby I gave names such as: 'The German Consultant' or 'the CFO of Medical Provider One.'

Company	Respondents	Date of Interview	Employees	Kind of Interview
Medical Provider I	CEO	April 25 <sup>th</sup> , 2007	100.000	Face-to-face
	CFO (Together)			
Medical Provider II	CFO (Germany)	April 20 <sup>th</sup> , 2007	60.000	Telephone
	CFO (Sweden)	May 7 <sup>th</sup> , 2007		Telephone
Instrument provider	CFO	May 9 <sup>th</sup> , 2007	10.000	Telephone
Food supplier	CFO	April 24 <sup>th</sup> , 2007	700	Face-to-face
Contractor (GER)	CEO	April 23 <sup>rd</sup> , 2007	16	Face-to-face
Hospital (GER)	Purchase Manager and second CEO	April 25 <sup>th</sup> , 2007	1.000	Face-to-face
	CFO (Together)			
Insolvency Administrator	CEO	April 21 <sup>st</sup> , 2007	12	Face-to-face
Consultant (GER)	--	April 19 <sup>th</sup> , 2007	100.000 (assumed)	Face-to-face
Consultant (SWE)	CEO	April 3 <sup>rd</sup> , 2007	2	Face-to-face
Contractor (SWE)	CEO	April 18 <sup>th</sup> , 2007	300	Face-to-face
	CFO	April 12 <sup>th</sup> , 2007		Face-to-face
	Sales Manager	April 27 <sup>th</sup> , 2007		Face-to-face
Hospital (SWE)	Purchase Manager	May 16 <sup>th</sup> , 2007	2.500	Telephone

## 2.2.6 Reflections on my Approach

Of course it is actually difficult if not impossible to catch something that comes close to ‘the truth’ within an interview, when one should neither be too sceptical nor too believing.

Alvesson and Deetz (2000) put it like this:

“One has to manoeuvre between two fruitless positions. The first one is the naive humanism, which supposes that there are quite many emotions, experiences and

knowledge, which the researcher really can catch with his interactive abilities and the help of his tape recorder. The other one is the brusque hyper scepticism, providing that mankind necessarily is bound to rules for how to use language and conformal adapts norms for how one expresses oneself in a particular situation.” (Alvesson and Deetz 2000, p.216)

I was both sceptical and believing, but still, I think, that I have caught a version of reality at least sufficiently. Of course one searches vainly after total objectivity in qualitative studies (Christensen et al 2001, Bryman and Bell 2003), but I do not claim total objectivity while I am still able to fulfil my aim, which is to find out whether there is a connection between payment behaviour and reputation or something else. Concerning my attempt to picture the truth, my former co-writer and I tried to make the interviews as comfortable as possible for the respondents. We did so by either visiting or phoning them at their workplace, but we did, as well, offer those who wanted something to eat and drink to create as relaxed surroundings as possible. I wanted to make the respondents feel as free and as comfortable as possible. This, together with the promise that no company would be named, neither the one the respondents worked for nor any mentioned firm, plus the promise not to mention names, hopefully made the respondent answer to our questions as free as possible and in even greater detail. I have to admit that my former co-writer and I had the feeling that two of our respondents, who we interviewed together, really chose their words very carefully. They thought that they could answer our questions more completely when they participated together though we had the feeling that they were extra careful not to tell any company secrets with one watching the other. Still the content of the interview was very exciting and helpful for my thesis.

### ***2.3 General Judgement Criteria for my Thesis***

As I chose a qualitative approach I had to select the suitable judgement criteria for my thesis. I decided to choose the criteria formulated by Lincoln and Guba (1984, 1994), adding the judgement aspects of LeCompte and Goetz, which Lincoln and Guba describe under the so called aspect of ‘authenticity’. This appeared to me as more complete than restricting myself to either one or the other way to arbitrate my own essay.

Since I have time and again tried to write as understandably as possible for the readers even outside our institution (Lund University), I have attempted to facilitate the first four aspects of Lincoln and Guba's criterion 'trustworthiness' by adding the equivalent expressions of LeCompte and Goetz (1982). The latter simply adapted the terms used for quantitative studies: 'validity and reliability', to qualitative studies. I want to stress that combining these has been done before (Bryman and Bell 2003). I want to avoid the 'dispute' between these authors by using both denominations.

### **2.3.1 Trustworthiness**

#### *Dependability / Reliability (internal/external)*

I want to find out whether there is a connection between payment behaviour and a company's reputation or something else. To achieve this I interviewed representatives of companies, who had a holistic view on their company. By conducting personal interviews I wanted answers on even uneasy or uncomfortable questions concerning the companies' own behaviour. By promising anonymity both for the company and the respondents my former co-writer and I tried to create an environment which hopefully enabled the respondents to speak freely.

(External Reliability)

Every mentioned observation of insecurity or active verbal evasions my former co-writer and I made the both of us. As most of the observations were expressed verbally, we were able to catch them on the tape recorder. Because we conducted the interviews in the respondent's mother language, we translated the transcript as verbatim as possible into English. This again gave us both the possibility to make these 'verbal' observations from the same basis.

(Internal Reliability)

#### *Credibility / Internal Validity*

As mentioned above, it has been my aim to look after a connection – if there is one – between payment behaviour and the reputation inter alia of a company. If I can point out at least for one of our respondents that payment behaviour has a direct affect on corporate reputation or that there are other more direct connections so that I can answer the question about the connection between bad payment behaviour and its follows at least sufficiently for the prevailing individual.

### Transferability / External Validity

Lincoln and Guba as well as LeCompte and Goetz address the limited abilities for generalisation of qualitative approaches. This they do inter alia due to the minor amount of conducted interviews compared to the large amount of questionnaires, which usually go in line with a quantitative approach. However my results seem to give information to a greater amount of companies being in the same situation as customers as well as suppliers. Luckily I was able to interview the ‘German Consultant’, who had hundreds of clients being in the same situation and who backs some of my most important findings within the interviews. This leads to a certain degree of generalisability.

### Confirmability

Of course no one can guarantee absolute objectivity and I am surely unsatisfied with certain formulations within my co-writer’s and my questions during the interviews. And as we follow the news, we might have been preoccupied by negative news about large corporations, which had a sad climax when we started the work for this thesis. We do not want to tell any names of firms, which is part of our ethical considerations. This is why I left out appropriate references in this point. However, I identified these preoccupations and excluded them as good as I could during the whole process of this research.

## **2.3.2 Authenticity**

### Equitable Image

In order to really get the ‘right’ picture I tried different tactics. Firstly my former co-writer and I interviewed the ‘sellers’ and controlled their answers by one of their ‘customers’. We interviewed the hospitals as direct customer off the medical firms and the food supplier, for instance, inter alia in order to proof some answers. Another tactic we brought into play was to conduct interviews with different kinds of companies. Even the size or bargaining power of the companies was shifted considerably. The interviews were conducted in companies from about 100,000 employees to two for instance. We held our interviews in two different countries in order to get a more international picture of the phenomenon. By questioning the insolvency administrator we tried an approach from a negative angle that means that my former co-writer and I wondered if some of the insolvency administrator’s clients had to struggle because of the payment behaviour of their customers. Furthermore we interviewed

the consultant, who came with very valuable data from outside that means from persons knowing the different companies' situations. By his independence as third person, the consultant and the insolvency administrator were able to 'paint' the picture from a more neutral angle.

All these different approaches and the vast number of totally different companies might give a rather confusing impression. If so, I once again want to point out clearly, that the purpose of this thesis is to simply see whether there is a connection between payment behaviour and reputation or another concept. This has to contain many experiences of totally different companies. Remember that there is a huge variety of enterprises a company is dealing with on daily if not monthly basis.

At this point one could argue that I am leaving the interpretative school and that my argumentation is based too much on contextual data by enclosing third parties. I do not want to leave the course of interpretivism though follow it a bit more liberally, because I believe that there lies too much relevance in the third party data than I could neglect that completely. This is a study that is a bit interdisciplinary and therefore demanding the tolerance of even contextual data. 'All is data' Glaser and Holton mention in their article and are supported by Gummesson (2002). Or, as Haggis (2008) puts it a bit cheeky: 'Knowledge must be contextual', which he builds indirectly on articles of Bryman and Cramer (1999) and Moore et al (2003).

#### *Ontological and Pedagogical Authenticity*

I believe that it can be important for my respondents to understand my results, as it is especially important to understand the prevailing counterpart. Things might be going well right now, but the economic situations are shifting, not only for the sellers but also for the purchasers or simply for the interviewed companies in their role as buyers as well as sellers. From a pedagogical point of view it remains to say that some of my negative examples of companies, dictating payment conditions, have recently got into serious financial trouble.

#### *Catalytical and Tactical Authenticity*

As this thesis focuses on the connection between payment behaviour, trust and reputation and I am not involved in the companies' very intimate decision-making let alone the reasons why



many of these decisions are really made, I can only recommend to read my thesis and to look whether my advice are practicable for the prevailing company or not.

## ***2.4 Grounded Theory Approach***

In order to back up my thesis, I once again refer to Glaser and Strauss' grounded theory approach (1967), to compare and check, whether I fulfil the prevailing criteria. Because I have already mentioned parts of these criteria, I kept it short.

### **Theoretical Selection**

As said above, I chose respondents who could speak for the whole company and who could determine at least an important part of the companies' policies, for instance towards payment. That's why I primarily chose 'CEOs and CFOs' with the latter more engaged in the payment process. What is more, they are the only ones who can give exact information about one key element of reputation, the 'desired image'. They could and can from my point of view much more represent their company than others. Their high position as chief executive officers enabled them to speak more freely than anybody else in the interviewed companies and they had access to the most relevant information.

### **Categorising of Data**

To enable coding my former co-writer and I translated the interviews directly from the tape and wrote them down in English as verbatim as possible. This enabled me to both seek and to take over the most relevant parts of the interview into the analysis. I picked out the most important quotations by distinguishing between the categories that describe the individual's behaviour and the different outcomes this can have.

### **Theoretical Saturation**

In my opinion it is actually rather difficult to really get to the point of an objective saturation. However, my aim was from the beginning to conduct these 14 interviews in different

companies. If there was a single one showing a connection between bad payment behaviour and a resulting reaction, then this becomes a reality for this person. If there are more respondents sharing a similar experience, they endorse that particular result of bad payment behaviour. Another way of endorsing a probable result would be a certain institutionalisation or standardisation of reactions to certain behaviour patterns embedded in the firms' rules. I have to emphasise that neither my former co-writer nor I forced the interviews in a certain direction and we considered our words carefully in order not to push our respondent towards one or the other answer and to keep objective. I finally found endorsements for my results.

### **Constant Comparison**

I compared the gathered data as much as I could by finding relevant quotations to every category. I then decided which of the quotations were most relevant and summarised the remaining. But this means, as it may be the nature of an inductive approach, that I was first gathering the data and then driving the very intensive comparisons with them. Throughout whole of the time, once the interviews were conducted and translated, I was comparing the emergent data from my thesis.

## ***2.5 Choice of Interviewees***

This is an inductive thesis and as it is one of the distinctive characteristics of an inductive thesis, there is no or at least no known literature that can give a direct answer to my problem. Thus I searched competent interview partners providing me with answers concerning the matter of payment, trust and reputation. I have already mentioned, I wanted to interview executives, that means either the CEO or the head of finance (the CFO) of a company. This was done for two reasons. First I wanted to get the most correct data, certainly about 'desired image' and 'image' of other firms two key elements of reputation, which, I think, only an executive is able to answer properly and secondly these high positions might provide our respondents with extra freedom to answer our questions. They know what they are allowed to say and would not withhold relevant information, as lower positions would do, asking themselves whether their boss would allow to give this answer or not. I hoped to avoid them

telling us favourable arguments to put their company in a better light by promising anonymity from the beginning. I do believe that with lower positions the tacit question, whether ones boss would allow this answer to anyone, would inhibit free answers to these questions anyway.

I assumed that payment behaviour might be very different from nation to nation. Thus, in order to put a more international perspective on the question, what are the consequences of bad payment behaviour my former co-writer and I conducted our interviews in Sweden and Germany.

## ***2.6 Ethical Considerations***

Violating the rights of the participants is not the intention of my research, which is why I insisted of keeping all of my respondents anonymous. The objective of this paper is to contribute to social science and to the development of verifiable knowledge. Hence, before every interview I consistently informed my respondents about the confidentiality policy that I advocate, also something I would like to call a consent policy. By making sure that participation was voluntary and by offering the participants to have insight into my thesis, I hoped to make them feel more comfortable in their statements. Hereby I am able to prove that confidential information, which should not be discussed elsewhere were completely withheld and kept secret. Before we started our interviews, my former co-writer and I asked our respondents, whether they would agree to the interview being recorded. I am not reproducing any of my respondents' names; they are only referred to as representatives of a certain market sector within a country. I also mention the size of the company but neither the company's name nor competitors' names will appear in this thesis. I also promised my respondents, not to include any further companies' names they referred to as negative examples.

It remains to say that my former co-writer agreed to these ethical considerations as well so that no sensible information will be spread from his side neither.

## **3. Theory**

In this part of my thesis I will discuss the theoretical background of my thesis. I will start off by describing the different authors' views on corporate reputation, before I pick the definition I assume best. I will then discuss some of the latest articles dealing with payment mentality. Then I will focus on theories modelling and explaining the reason why the interviewed persons act as they do due to the context they act in, which is in this case their firm.

### ***3.1 What is Reputation?***

#### **3.1.1 The Different Subjects' very own Definitions**

As I have mentioned above, this is an interdisciplinary study. As such I might intertwine fields of finance and accounting, marketing and some parts of sociology and organisational theory. The problem is that the researchers of various disciplines have differing definitions of the term reputation. Fombrun and van Riel (1997) highlighted a very huge variety of such definitions comprising the perspectives of the prevailing researchers of all socioeconomic fields within an often quoted table.

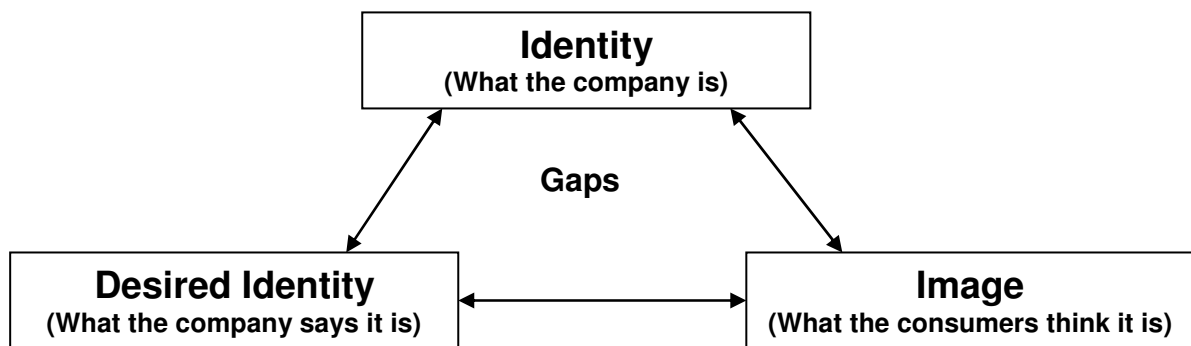
According to Fombrun and van Riel (1997) accountants define reputation as an intangible asset. Economists view it as the perception held by external stakeholders. Within marketing one sees reputation from the perspective of the customer or consumer. From an organisational behaviour point of view it is internal stakeholders building up the reputation. The sociologist sees reputation as a firm's performance in relation towards the expectation in the institutional context. For strategists reputations are based on perceptions and are difficult to handle.

#### **3.1.2 Order in the Chaos**

To be able to proceed from this point I have to make a choice and pick one definition that encompasses all relevant fields. I believe that Rosa Chun's definition of corporate reputation (2005) suffices the purpose of this thesis. She describes corporate reputation as a construct out

of ‘image’, the way external stakeholders view the company, ‘identity’, the way the internal stakeholders believe their company is like including organisational identity and corporate culture, and the ‘desired identity’, which embodies all the efforts that are made to mediate the company to the external stakeholders but as well to the own employees.

### Elements of Corporate Reputation



(Adapted from Davies and Miles 1998)

The ‘gaps’ which are illustrated in the figure above are the ‘dangerous parts’ in this model, because according to Chun reputation is damaged, if the actual stakeholder experiences a firm different to his or her expectations. This goes in line with Grönroos’ argumentation (2002) concerning the experienced (service) quality. He argues that it is better to promise too little than too much. Even Kotler et al (2002) argue that one should exceed the customer’s expectations. So ‘gaps’ cannot be that bad when the customer’s expectation is low, and the customer will be surprised with the company gaining a favourable in his point of view. However it appears obvious, that too huge gaps are not wanted, because a company would probably address the ‘wrong audience’ (customers) with perhaps too little money at call, by setting the price too low and thereby conveying a wrong image. The company would simply position itself badly. Then again this dilemma could be seen as a gap between desired identity and image and fits the model. Ergo, gaps are not always bad but it is sufficient for this thesis to state slightly incorrectly: ‘Gaps are bad.’

Summarising, one can say that the three elements determining reputation are image, identity and desired identity. One could as well assign different stakeholders to these elements. For example we have the customers who can determine ‘image’, the management who mainly

decides about the ‘desired image’, and the employees who identify themselves with the company – ‘identity’. But here I have to go a bit more into detail to avoid misunderstandings about what, I think, these elements stand for.

### **3.1.3 Image**

The most definitions about image in the literature sound like the one of Marshal McLuhan (1962). He says that:

“Image is a perception that only exists in peoples minds.”

That does not contradict its socioeconomic context, but it does not at all fill out the meaning it has for science nor for business and it needs to be clarified further in order to fit this subject.

According to Grönroos (2002) Image is perceived on different levels. Product image is the customer’s perception of a certain product (Kotler et al 2002). This perception on the ‘micro level’ again is reflecting on the whole company; that means that it plays an important part in building the corporate image (Grönroos 2002). Thus it can be the single stakeholder, which is in this case the customer, who determines reputation (more about this phenomenon later on).

There is a controversy between different authors who do not distinguish between image and reputation at all and those who do. I believe that it is necessary to separate them. Image is, as mentioned above a part of reputation and not vice versa. Image contains the outside perspective of reputation. It becomes relevant whenever external stakeholders build up their mind about a company.

As payment happens between vendors and purchasers, it is the vendors who make up their mind about payment. Thus, they determine the other company’s reputation via the element of image in this particular case. Therefore image and reputation are from the perspective of the vendors as an important stakeholder group rather similar.

### **3.1.4 Desired Identity / Desired Image / Corporate Identity**

This element of the reputation stands for everything that the company wants to be or what their chief executives try to make it look like. According to Rosa Chun (2005) it is the desired image the company wants to convey to the customer. It starts by the name or the logo (Bernstein 1994; Ind 1992; Olins 1978, 1989) and proceeds via the colour of the store, the training of the employees towards the product design. Desired identity contains all the tools the management possesses to form the image of the whole company, trying to create reputation.

### **3.1.5 Identity**

“Organisational identity is an answer to the questions ‘who are we?’ or ‘how do we see ourselves’, in other words, the employees’ perception of the organisation.”  
(Albert and Whetten 1985)

This goes pretty much in line with what Hatch (1993) writes about organisational identity. But she makes clear that there is an apparent difference, between organisational identity and corporate culture. According to Hatch (1993) organisational identity is how we, in our work role, define and experience ourselves, which is influenced by our beliefs, which are grounded and justified by (corporate-) cultural assumptions and values. In short, identity is the element of reputation influenced by each employee. This element is manipulated by the corporate culture, as a tool of the executives but even by the customers, who influence the acting of the single employee, by contacting them, because it actually happens that unsatisfied customers change the mood of the employees. This goes in line with one of Fombrun’s distinct advantages of companies with a good reputation, which was identified at the beginning of my thesis.

“Their jobs lure more applicants – and generate more loyalty and productivity from their employees.” Fombrun (1995)

### 3.1.6 Collectives determine Reputation

As in the quotation of Fombrun it appears to be clear that external as well as internal stakeholders determine the reputation. Even Grönroos (2002) sees the single stakeholder group, the 'micro' level, as responsible to decide over corporate reputation. The question is now, how they determine reputation, as single stakeholder or major part of the average stakeholders. Fortune magazine derives their league table ranking reputations of firms from averages, thus from a collection of heterogeneous representatives of firms. Fombrun and Bromley view greater limitations with this approach. Bromley (2002) puts it like this:

"Surveys of collections of people can generate data (scores and ranks) that mimic reputational data but such results should be construed as overall indices of success, as in an election, not as collective representations of the candidates."  
(Bromley 2002)

So if one company 'wins' in the league table of reputation, derived by average numbers it does not mean that every group of stakeholders is satisfied with it. It appears important that there is no stakeholder completely dissatisfied with them, because:

"Commercial and industrial companies like political candidates and other reputational entities, have as many reputations as there are distinct social groups (collectives) that take an interest in them." (Bromley 2002)

That is why it is the collective, rather than the collection, which determines reputation. Bromley defines the collective as follows:

"A collective is a relatively homogeneous group of people with a degree of common interest in a reputational entity, such as a company or a product or person. A degree of common interest and social interaction provide a basis for shared impressions, beliefs, and attitudes, such as trust and esteem, and for group action, such as boycott, a strike or a rush to buy shares." (Bromley 2002)

Thus, the determination of reputation is a question of a collective or even a single person.



### **3.1.7 One can Borrow Reputation**

It appears clear that some companies, especially of smaller scale, try to acquire reputation from others. Cravens et al write:

“With various strategic alliances and business partners, venture capitalists, underwriters, or banks connected to a dot-com start-up company, the reputation of these associated companies acted as a proxy for the reputation of the fledging company.” (Cravens et al 2003)

The example of the dot-com start-up firms is also confirmed by Kotha et al (2001). It seems that by surrounding oneself with important brands, firms actually boosts the own reputation. This is something that is not new, as many other firms have reference books, where renowned customers give recommendations for future customers.

According to Bromley (2002), smaller companies are not widely known, which is why they depend on a rather homogeneous social network of their stakeholders, helping them to communicate and influence and thus improve their reputation.

## **3.2 Payment**

The other main topic concerning the connection between reputation and payment mentality is of course payment itself. I will now examine some important issues illustrated by a number of theories that reveal the reasons for later payment.

### **3.2.1 The Advantage of Trade Credit**

It is obvious that paying something later on increases the liquid assets of a firm. Thus trade credit is a form of credit which increases the company's short term capital (Engelhardt et al 1999). The importance of that becomes clear when one looks at some figures from the US. Throughout the last decade US companies have had 1.5 trillion US-Dollars in trade credit (Ng et al 1999). In Europe the level of trade credit has an average of 25% SMEs' (Small and

medium Enterprises) second largest account payable together with bank credits after the Largest account receivable, which is with an average 30% equity capital (Lauer 1998). In the form of accounts payable trade credit exceeds the primary money supply by an average factor of 1.5 (Ng et al 1999) in the US. Thus, trade credit increases the amount of money circulating, similar to the effect of electronic money described by Fregert and Jonung (2003) but stronger.

So it is obvious that the trade credit one obtains from one's suppliers does increase access to liquid funds. But why then should one as supplier grant trade credit, when it is obviously negative for the own liquidity, because the products one sells in the role as a producer or subsequent vendor should be worth more than the 'educts' purchased. Thus, one has to grant even greater trade credit if one grants the same trade credit conditions as the previous supplier. Petersen and Rajan bring some light into the dilemma:

"Suppliers lend to constrained firms because they have a comparative advantage in getting information about buyers, they can liquidate assets more efficiently, and they have an implicit equity stake in the firms."(Petersen and Rajan 1997)

Or as Ng et al (1999) put it:

"Trade credit functions as a screening contract."(Ng et al 1999)

But trade credit is even more, for instance it is one of the services that attracts further customers and by that improves the results.

"Granting credit is an important strategic and competitive tool that plays a major role in gaining greater market share and subsequently higher profits."(Paul 2007)

### **3.2.2 Common Credit Terms**

But what payment terms are common? Although the article of Ng et al (1999) concerns the US, it appears typical for Europe as well. According to this article of Ng et al (1999) 'net 30' is the most common simple form of payment - a so called 'one part term' in the US. The slightly more complicated 'two part term' is '2/10 net 30', which grants two percent cash discount with payment within 10 days or the net amount within 30 days. The different options

a company chooses concerning variations within the duration, depends on the company's market section and sometimes their experience. While younger companies often have net payment conditions, older 'more experienced companies' use the two part term (Ng 1999).

Ng et al suggest that longer business relationships lead to certain benefits for the business partner such as loyalty bonuses. They do however tend not to lead to a directed disadvantage against new customers. If the reputation of the buyer is high, it is more likely that the vendor agrees on a bit more 'insecure' payment terms than cash payment, such as one and two part terms we discussed above.

### **3.2.3 The Late Payment Problem**

Concerning the practical issue of trade credit it is questionable whether all bills are paid according to the payment terms which means before the due date. The company that demands money could take legal action against the defaulting company immediately. This is valid in many, if not – all, European states, such as Sweden (1990:931) and Germany (§286 BGB) and according to Paul (2007) as well in the UK. But for some reason, legal steps are very seldom taken.

Paul writes about the 'Late payment Problem' within the UK. According to her this problem has already reached macroeconomic scale, concerning the entire nation and thereby weakens the economy of the United Kingdom. According to Summers and Wilson (2000) 'delayed Payment has become a major factor behind business failure' - especially for smaller Firms (Paul 2007). Within the UK only 12 % of SMEs receive payment within 30 days (GrantThornton 1996).

"Despite debates about the introduction of league tables to 'name and shame' bad payers, it is common practice, especially amongst big companies, to pay late. In 1996, 66% of the slowest payers were large businesses."(Peel and Wilson 1996 in Paul 2007)

This is confirmed by Dun and Bradstreet who state that just 10 % of large firms paid within the agreed credit terms (this percentage being only 6 % for large manufacturing companies

(Dun and Bradstreet in Paul 2007). It is a bit more delicately formulated by Pike and Cheng, who confirmed this behaviour in 2001.

Another issue is that small and medium sized companies find weaker credit conditions than large companies with banks (Vordeckers and Steijvers 2006). Only for collaterals credit is granted, which some companies, as they are for instance pure service providers, simply do not have.

Summarising one could say that small and medium companies tend to receive delayed payment by the larger companies and tend to obtain weaker credit conditions compared to the (large) corporations.

The solution Paul (2008) suggests is a better credit policy management.

### ***3.3 The Individual's Behaviour***

As any payment behaviour is a part of decision making, I would like to refer to some concepts and theories that explain the individual's acting in certain situations such as when it comes to payment.

#### **3.3.1 Bounded Rationality**

In the famous concept of bounded rationality, which was first introduced by Herbert Simon in 1957 it is said that decisions are mostly based on bounded rationality. That means that the individual is not entirely rational, when deciding. That can be due to the lack of information, as it is difficult and probably accompanied by horrendous transaction costs to continue a search for further information. Often situations in which one has to make a decision are far too complex as an optimal decision due to 'complete' information could be made. Restricted time, lack of information, incapability and other reasons lead us to worse decisions than the optimum. The individual's decision is further more influenced by his or her knowledge and

experiences. The decision-maker therefore decides based on an already made up picture of the situation. Very much of the decision making is already determined by routines he or she knows, routines already used with similar problems.

According to Herbert Simon (1957) many decisions are based on heuristics rather than solid rigid optimisation rules. Heuristics are solution processes that are not exact, like 'trial and error' and educated guesses. This might go in hand with high deliberation costs. Simon and March (1958) therefore suggest the word 'aspiration' instead of 'goal'. One just tries to satisfy an expectation and stops the search when a sufficient solution is found. Simon and March call that 'satisficing'. But more theories can help to understand the individual's behaviour.

### **3.3.2 Evolutionary Theory**

This theory is based on the assumption of bounded rationality. Nelson and Winter introduced their 'evolutionary theory' in 1982. It was inspired by the biology comprising words like genes, selection and of course evolution. At the individual's level, Nelson and Winter consider the individual's abilities, the explicit and tacit knowledge which has grown within a formed routine given by the organisation the individual works for. This routine can be an ISO-certification for instance. The individual itself develops his or her own routines fulfilling the given rules (or routines) of the company, learning explicit and developing tacit knowledge. Acting becomes much more like a reflex, without actually thinking about every single action in detail. All actions, whether they have positive or negative outcomes, are saved in the memory of the individual and in a more general way in the organisation's mind. Just like one of the simplest heuristics 'trial and error'. By a selection, comparable with 'survival of the fittest' only the companies or employees making less fatal mistakes get through and the experience is 'saved in their genes' (From a biological point of view, this is totally wrong. Experiences are saved in the brain not in the genes. Whereas selection determines which genes survive). That means as well that certain decisions are taken implicitly, without even thinking about them, on an organisational but as well on an individual level. One could say just by routine.

### **3.3.3 Principal Agent Theory**

Another theory that might explain an individual's acting in case of payment is the principal-agent-theory. According to the literature (Eisenhardt 1989, Nygaard et al 2002) the basic model of this theory, the model of principal and agent can be applied to individuals as well as to whole companies. As long as one party, 'the principal', gives an order to another party, 'the agent', and these parties have different aims, the basic conditions for the principal-agent-theory are fulfilled. Even this theory is based on the assumption that the individual is acting with bounded rationality, about this the individual has an opportunistic attitude orientated to maximise the personal utility. The information between principal and agent is asymmetric and the agent is unwilling to take a risk.

Because the agent seeks to maximise his utility and has an opportunistic attitude, he tries to exploit the information asymmetry for his own favour. That means he possibly says that the work takes longer and this increases his fee, while the principal is unable to control his acting. The solution suggested by the theory are different forms of contracts leaving the agent no space to 'betray' the principal.

Although I experienced the usefulness of the principal-agent-theory myself, I want to take distance from the general opportunistic judgement assumed for every agent. But as Eisenhardt (1989) states in her article this theory has been applied already to numerous situations being successful without copying every detail.

### **3.3.4 Trust**

Trust seems to be very important for all of us. Nearly every single person has an own definition of trust in one or another field. No wonder that there is a huge variety of definitions in very different disciplines. Child (2001) describes that phenomenon as follows:

"Because it is so central to human relationships, many definitions of trust have been offered. They tend to agree that trust concerns the willingness of one person or group to relate to another in the belief that the other's actions will be beneficial rather than detrimental, even though this cannot be guaranteed." (Child 2001)

The higher the trust, the easier it is to win transaction partners and the better are the conditions that can be achieved on the market (Sako 2006). Just to illustrate how different trust can be perceived and because this thesis comprises fields of finance, too, I will give an example of how banks calculate trust.

Banks calculate the trustworthiness of a customer concerning credit with a formula like the following one, which is combined with an example:

$p$  = the probability of a correct pay back for instance 97%

$y$  = the probability that the customer misuses the trust and does not repay, which is then 3%

$G(x)$  = Profit in case of repayment, for instance 1000 €

$L(y)$  = Loss in case of no repayment, e.g.: - 10000 €

So that trust equals:

$$0.97 \times 1000 \text{ €} - 0.03 \times 10000 \text{ €} = 970 \text{ € (interest revenue)} - 300 \text{ € (risk costs)} = 670 \text{ €}$$

Because the revenue lies higher than the costs, the bank would trust the customer and grant a Credit. (Coleman 1990). Of course there are many other methods to consider the trustworthiness of bank clients when it comes to credit applications, which I will not discuss here.

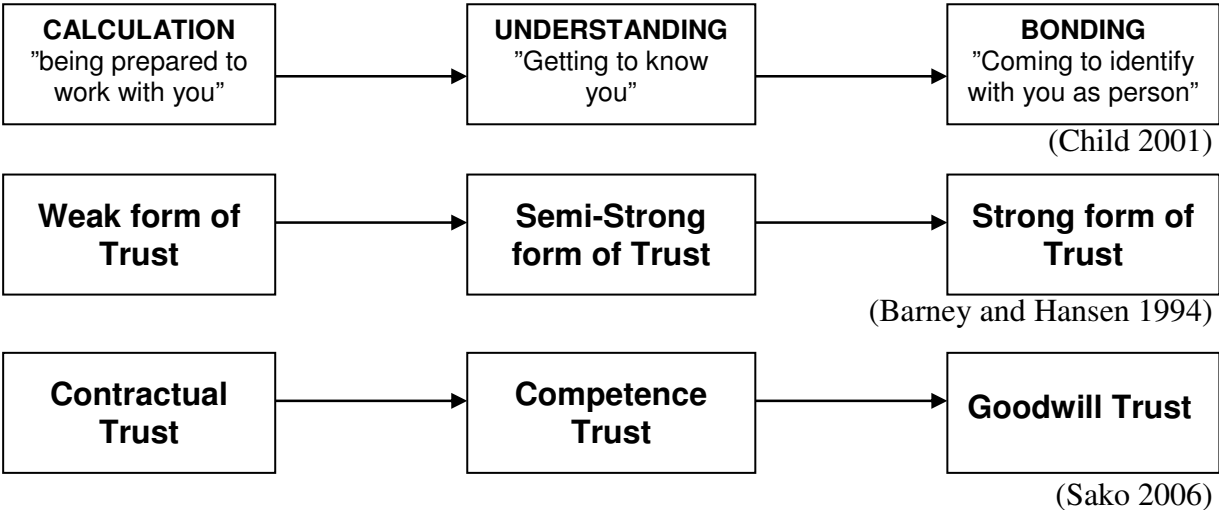
Banks themselves can be the object of mistrust. Whenever a bank for which reason ever loses trust, its clients want to withdraw their money before the bank institution declares bankruptcy. By the upcoming panic, the 'bank run', the process of bankruptcy is enforced and thereby enhanced. But let us focus on trust from a more social point of view within the business to business area.

Sako's article 'Does Trust Improve Business Performance?' (2006) fits not only that purpose but the purpose of this thesis as well. In her article Sako (2006) distinguishes three kinds of trust. *Contractual trust* relying on keeping promises and on a shared moral norm of honesty, *Competence trust* with the mutual partners understanding each other concerning professional conduct and technical and managerial standards and finally *Goodwill trust*, which is the 'highest' level of trust, that can only exist when agreement has reached consensus on the

principle of fairness. According to Sako (2006) trust reduces transaction costs, because the stronger the trust, the less safeguards are needed but only the strongest form of trust can lead to a competitive advantage. After a longer time even more costs might be reduced, which expresses in a higher return. The closer the partners work together, the higher the possibility of improvement and learning.

Child (2001) and Barney and Hansen (1994) draw a three stage model on trust similar to this as well.

The three three-step-models are drawn as follows:



Of course there is always a calculation in the beginning whether the ‘agent’ candidate will be able to fulfil the task to a level of satisfactory. But once the basics of collaboration are given, trust can be sowed and could be prospered with additional social contact or a degree of pleasing the counterpart by fulfilling the task. To enter the second phase in Child’s model one has to keep the contracts and to meet the mutual expectations. The third stage however differs a bit between Child and Sako. While Child concentrates more on alliances, Sako concentrates on normal business-to-business relationships. So it is no wonder that Child demands higher social bonds to reach his highest trust level, while Sako demands the exchange of ‘gifts’, which are constant aids for instance by providing the counterpart with valuable information.

Sako (2006) draws the following conclusions out of her survey:



“While law in certain countries may help jump-start trust relations in business, in the end ‘goodwill trust’ has to be found not by resort to law but through learning-by-interacting to fill the gap left by incomplete contracts. At the same time, gift exchange as an enhancer of trust, in the form of technical assistance for example may depend on a social norm of loose reciprocity, but in business, there is no such thing as blind faith. The process of gift exchange may be started, and can only be sustained by intense communication and monitoring of each other’s behaviour to find opportunities for continuous improvement, but these are quite different from ‘Safeguards’.” (Sako 2006)

Sako harshly criticises Williamson, probably one of the main protagonists of a contractual solution within the transaction-cost-theory (see below), for his opportunistic view. She highly recommends leaving the frameworks of safeguards and moving forward to models of trust. Child (2001) explains the greater success of the largest Japanese car builder compared to one of the two larger American car producers because of the amount of transaction cost consuming guarding measures, while the Japanese car producers simply trust their sub suppliers and affiliations, leaving them the room to decide on their own in many different matters.

It remains to say that both Child (2001) and Sako (2006) clearly point out that trust is much easier to destroy than to build up. Destroyed trust is much harder to restore than building it up from zero.

### ***3.4 A Quantum of Context***

The following theory simply does not focus on the individual though it might explain the individuals acting within a greater context.

### 3.4.1 The Transaction Cost Theory

Just as the mentioned theories above even the transaction cost theory as described by Williamson (1975) builds on the assumption that information for the decision maker is not complete. Not entirely like the theories above Williamson sees the individual as potential opportunistic not opportunistic in general.

Williamson views an economic organisation as a collection of transactions. He describes transactions as follows:

“A transaction occurs when a good or service is transferred across a technologically separable interface. One stage of activity terminates and another begins.”

(Williamson 1981)

Transaction costs emerge whenever additional costs arise that lie beyond the normal business economic calculation. Here opportunism and bounded rationality come into consideration. The decision maker has to decide with limited information, where he can obtain certain products. He has to compare the different offers, workout the contract to guard the company against the opportunistic behaviour of the other company and so on. All the activities that need to be taken in addition to normal business are transaction costs.

“The critical dimensions for describing transactions are (1) uncertainty, (2) the frequency with which transactions recur, and (3) the degree to which durable, transaction-specific are required to realize least cost supply” (Williamson 1979)

The (1) *uncertainty* appears due to the lack of complete information, the higher the *uncertainty* is, the higher is the need for contractual protection. The (2) *frequency* of transactions shall express the number of identical transactions within a certain time frame. The higher this number, the lower are the transaction costs. The (3) *asset specificity* expresses the degree to which a product or service can be used for another purpose. The higher the asset specification, the minor is the products alternative use.

With high asset specificity including considerable investment of the organisation to fulfil the contract, the organisation might get into a *hold-up* situation. The business partner wants to change the conditions, this again is unbearable for the organisation and the investment goes to

waste. One can protect each other against a hold-up situation with suitable clauses within the contract.

Even here one could criticise the opportunistic view. However, how Geoffrey M. Hodgson (2004) puts it, one should not and must not lay too much weight on the concept of opportunism, though he does not deny the existence of opportunism. In my opinion opportunism is a more negative interpreted word. But if we go back to the definition of opportunism within the transaction cost theory, it shall express maximising the own utility. Who says that positive work experience, success and social actions partly in sense of a better work performance are not maximising the very personal utility, with the individual being opportunistic on this way? I do not want to justify the opportunistic view but ask for a more general willingness to understand the transaction cost theory as a model of the context.

### ***3.5 Theoretical Discussion***

In the following section, analysing empirical data, I will make use of a combination of the theories of Chun (2005) and Bromley (2002). This means I understand reputation as a combination of the three key elements *identity*, *desired identity* and *image*. Here I make especially use of Chun's assignment of certain roles to these key elements. For example the desired identity is the way the chief executives want their company to be seen and image is the way external stakeholder groups perceive the company. At this point Bromley's theory comes into play. He postulates that single stakeholder groups or even single persons are able to determine a company's corporate reputation. But if it is a single person determining reputation then there has to be a way information about this particular experience of a company's acting spreads. This is why I examined certain channels spreading information except for the mass media because this example is in my opinion too obvious and already commonly known.

As the acting of late paying companies needs to be understood I investigate the theoretical incentive to pay late above and compare it to the empirical data in the following sections. In order to interpret the actions I want to understand how these actions are shaped. Are they

more opportunistic and or 'satisficing'? In order to understand more traditional ways of acting I apply the evolutionary theory of Nelson and Winter (1982). To furthermore make clear in which positions the different parties act I will briefly go in on the principal-agent-theory, to understand the information asymmetry in this case.

In order to be able to understand whether there is a direct connection between payment and reputation I even consider trust as possible direct candidate asking whether bad payment behaviour directly effects trust instead of corporate reputation. Sako's model concerning business to business relations - and not entirely Child's model concerning alliances and mergers - appears to be rather suitable, because it treats inter alia the keeping of contracts in order to build up trust. I understand the mutual fulfilling of a contract, as delivering according to the contract on the one side but also paying within the period allowed for payment on the other side. A further question comes into play which is whether there are other ways to deal with defaulting companies that result directly out of bad payment behaviour.

I will as well investigate whether a connection can be drawn from reputation towards payment and apply the theory of borrowing reputation of Kotha (2001) and Cravens (2003) as well as the article of Salima Paul (2007, 2008).

Concerning transaction costs I actually assign them to the controls that have to be made in order to avoid being victim of a late payment problem. Thus, saving controls and putting Sako's trust enhancers into place reduces transaction costs.

Concerning the ongoing discussion about whether the concept of control or the concept of trust is the better way I have already made some comments. Concerning my personal view of human attitudes I must say that I took distance from the picture of the learning human being, with exceptions, and tend a bit more towards an egoistic altruism (according to Berg 2004) due to personal experiences.

Below I will use the word decision-maker instead of the exact title of the prevailing person. This becomes necessary as the person taking the prevailing decision can be a chief executive, an accountant manager, the finance department, the purchase manager or even somebody else in a firm. With some decisions even a mixture of these decision-makers are the initiators. In

order to keep an overview and not to focus on the role, the deciding person has within the company; I choose to use the term 'decision-maker' in the following.

## **4. Empirical Data and Analysis**

In this chapter I combine the empirical data with the before named theories. I start off by describing behaviour. I proceed by describing the relationship between payment behaviour, trust and corporate reputation and I will finish this section illustrating a few differences concerning payment behaviour between Sweden and Germany.

### ***4.1 Behaviour of and within the Companies***

Here I simply want to show some of the reasons, why the individual - the decision-maker - acts the way he or she does. I want to demonstrate why there are benefits for the company and / or for him or her if the decision leads in one or the other direction.

#### **4.1.1 A Benefit for the Company**

As I have mentioned in the theoretical chapter, trade credit is an enormous benefit for almost all companies. That is why companies try to pay as late as possible. The CFO of the Swedish Contractor puts it like this.

“We pay at the settlement date, we don't pay before the date that we should, but we are not a bad payer! The optimal way is to pay two days after. Then they don't have the time to react to it”

The optimal payment has become that important for almost all companies that some of my respondents, pay via an electronic paying machine, which scans in the necessary data and then pays when the conditions are optimal, that means either the last day of the granted cash discount or the due date. This is practised by the large companies in which we have conducted interviews such as the Medical Providers as well as the Medical Instrument Provider. The Food Supplier has another very interesting method of payment. It has outsourced its payment

division at least the part effecting regular payments, which includes payment concerning the suppliers, so that now a purchasing office optimises the payments for them.

Even among the larger SMEs optimal payment is a daily routine and negotiations are an important part of this. Here we can even include the German Hospital, with its second CEO (who is also the Head of Purchasing) and the CFO negotiating hard to gain any possible financial benefit from trade credit.

It seems that those interviewed from the larger and medium sized companies really take part in the constant struggle to achieve better payment conditions for themselves in one or the other way. The CEO of Medical Provider One puts it like this:

“Companies ... want to win in this game, which party gets the bigger share or which party gets more or fewer days of interest.”

That seems to be like an explanation for the following statement of the other respondents. The Food Provider makes a fitting statement concerning the payment morality of his customers.

“There are some who say: ‘I’ll pay systematically with the second reminder.’”

And the Swedish Consultant points out a difference between his larger and smaller customers:

“Yes, the small customer usually pays in time. Larger organisations hold their invoices consistently for 2-4 days more, in this case we had 15 days of credit but in practice it becomes 18-19 days. It’s about interest. They have millions in their funds, so every day that they can delay the invoice is good for them.”

The Purchase Manager from the Swedish Hospital concurs:

“...one can look at a company like *a large electronics company* where one only talks about money that goes in and out. They pay late and demand their money early, that was a really big affair and I believe that it still is.”

The German Contractor who owns a very small firm talks about a negative coincidence with a larger company, too:

“...they (a large company) dictated me a period allowed for payment of 90 days. They just say that they want to administrate their bill for 90 days and pay then.”

Like the CFO of the Swedish Contractor, which is a company of medium scale, stated earlier the interest rate is of enormous importance for companies. Although his company pays in time, he describes the optimal way as paying two days late.

But again to the purpose of these statements, they reveal an important common thing I would not have expected. In Sweden and Germany those who make decisions about the company's payment politics are at least trying to maximise their utility or if not then the utility of the whole company. Thereby, according to the advocates of the principal-agent-theory and the transaction-cost-theory, these decision-makers appear to act opportunistically or at least potential opportunistically.

#### **4.1.2 Decision with Evolutionary Remedies**

It becomes obvious that the decision-makers within companies are bounded to certain rules. This does not necessarily happen consciously, but sometimes rather implicitly. The decision becomes more like a reflex for the individual, which one can see in employing machines which execute the payment as I have mentioned above. That means that one leaves a field out of hand due to routines that are programmed in machines. One could assume that single payment decisions are not verified, and this could lead to one or another minor problem, whenever things are not going as planned.

To illustrate how these machines are used the following examples are cited. Medical Provider One engages such a machine for payment but insists however that payment is a question of negotiation where different guidelines are used for every individual customer. Concerning a certain data-program the CEO of Medical Provider One states:

“And then one has a certain judgement tool, where finally the recommendations for a credit limit are coming out. And I assume, that there even information - in case of relevance and accessibility - flow in containing the experience of the vendors with one or another customer.”



The CFO of Medical Provider One continues:

“There one finds a separate tool, saving relevant information so that we have access online. But we only look for information being relevant for solvency. Much of the information stored there is irrelevant for the credit decision”

In other words routines are advising certain decisions. The individual seller or purchaser is free to do what he thinks is right, though these guidelines are available for everyone as an extra software tool on the screen including all possible information about the prevailing counterpart (which is either a seller, supplier or purchaser for the Medical Provider One). All these rules in form of guidelines are learned throughout the company’s history and saved in their ‘genes’ due to ‘Trial and Error’ - processes. In case of Medical Provider One, an entity without these routines and formalised processes appears to be difficult and involves higher transaction costs. One has to imagine that the financial department deals with an average of 4.000 payments a day. Assumably without certain rules this would turn out to be rather difficult to administrate.

Another example concurring this is the fact that Medical Provider One and Two as well as the German Food Provider employ rather drastic rules for defaulting customers such as the stop of any further delivery. The CEO of Medical Provider One stresses the importance of corresponding rules of his company:

“You can imagine the problematic in case one hasn’t a guideline when stopping to deliver to a customer.”

The CFO of the German affiliation of Medical Provider Two states the following:

“What can be is if one has permanent trouble with people (customers), then we don’t deliver anymore at all.”

Even the CFO of the Food Supplier talks about delivery stop:

“...we use a structured reminder procedure and we stop the delivery after a certain reminder level.”

These are just examples of several rules or guidelines that the interviewed decision-makers are confronted with on a frequent, partly daily basis. What I want to demonstrate by this is that almost every company, if not exactly every company, is part of the rough selection process, which could be called 'survival of the fittest'. These partly rough, routines, rules or guidelines emerged through the experience of the firm and bias the individual's decision. Some of these rules can be seen as safeguards made to build up a certain level of control.

### **4.1.3 Sudden Power of the Principal and the Relating Behaviour**

I just want to go in briefly on the Principal-Agent-Theory. First of all it strikes that, when it comes to payment principal and agent change their roles. At once the information asymmetry looks more favourable for the former principal, the customer, who now can choose to hesitate with payment within institutional boundaries or by playing out the advantage of a stronger market position, of power over the former 'agent', the supplier. This he would be more likely to do as he is potential opportunistic as explained above. That this can actually happen even outside the law was illustrated by the postulations within the Article of Salima Paul (2008) in the theory chapter and I will get back to that case later.

But what kind of payment behaviours did my respondents tell me about and what is practised in Sweden or Germany. Concerning the interviews that have been conducted I could hear about basically three types of payment behaviours:

#### *1. Payment according to the contractual conditions*

Here the customer uses every possibility within the contract to gain as much share as possible. Cash discount is used heavily in Germany, while it seems not to be practised in Sweden. So if the customer is not able to pay within the time margins of cash discount, they pay at the due date. However, the customer seeks the best and the most profitable way of payment.

All my respondents see themselves belonging to this category, if a bill is not paid, which is seldom then this has a comprehensible reason. The CFO of the Medical Instrument Provider sees it like this:

“Well, we deal with millions. – And there cash discount is absolutely worth it. It doesn’t matter whether one has got a big or a small bill. We always try to draw cash discount, if possible. If it expires the date of cash discount, then we use the full 30 days, because then we want to bind the capital as long as possible with us, if the maturity for cash discount has expired. But else we do try to draw cash discount, if we can draw cash discount. And I think the major part of firms here in Germany does it.”

All German respondents answered rather like The CFO of the Medical Instrument provider, though the smaller ones do not deal with millions. In Sweden the respondents answer quite similar, when it comes to their payment.

The Swedish Consultant says:

“We pay in time, definitively!”

The CFO of the Swedish part of Medical Provider Two says:

“We try to pay accordingly to the terms that are valid.”

The other Swedish respondents proclaim rather the same.

## 2. Reduced Payment

Each single respondent except for the consultants, who do not provide the customer with goods but rather intangible services, tell about the reduction of payment. The CFO of the German affiliation of Medical Provider Two states this:

“If services weren’t fulfilled entirely, or if there are quarrels, we reduce the bill (for the customer). If the service is not fulfilled we wouldn’t succeed anyway (in front of court)”

The German Contractor is confronted with a rougher behaviour, concerning reductions, of one of his main customers, *the town*, he states this:

“Then the bill is simply diminished but without telling:’ we have cancelled item 12, and diminished item 14 by three hours, because we don’t believe that. There one

could have been searching faster or you dawdled there.’ – No, the bill is just diminished, the money is transferred and I have to call *the town* or enquire in writing, why bill so-and-so was diminished by 130 €. Then some when after a few weeks, you get a paper:’ We have crossed out this-and-that because of this-and-that happening.”

Even the Swedish Contractor faces these problems, though they are not that severe as the CEO explains:

“But it happens that the customer believes that: ‘No, here they haven’t made what they said they would’. This is mainly in the end of the project, when they ... have some items that they won’t pay for.”

According to my interviews, the former principals, the purchasers act quiet similar when it comes to the problem of price reductions. Whether this happens simply due to tactics that might reduce the bill appears doubtful and this is not like this in many cases. However some customers reduce payment with the simple purpose to save money. In this way I understand the example of the German Contractor who even illustrated the urgency of some municipalities to save money during the interview.

### 3. Delayed Payment

On this behaviour in particular I want to concentrate in this thesis. To investigate all shapes of payment behaviour at great length would certainly break the margins of this thesis. As I have mentioned parts of this particular behaviour before and intend to do so after, I will keep myself short.

Not all respondents have problems with late payment, though the examples are still stressful. I already mentioned the example given by the German Food Supplier who has customers generally paying with the second reminder.

Another good example lies in the constant conflict between the German Contractor and *the town*, which is a very important customer for him:

“In general I calculate with ten days, that the money needs until it is transferred onto my account. But even if I today write a bill to *the town*, then I shouldn't make myself the illusions that money arrives within 3 weeks.”

So, one can say that the former 'principal' misuses the opportunity that the new shaped information asymmetry gives to act in his or her own favour at least in some cases. The decision-maker acts opportunistically when he or she does so. How deep the problem of late payment really goes, I will describe in the next part, addressing the 'late payment problem'.

#### 4.1.4 The Late Payment Problem

Not all respondents have problems with delayed payment, at least not all within the countries Sweden and Germany. It is named by several respondents, though, that there have been problems with firms within the Mediterranean countries. But here measures like prepayment or document exchange are taken to deal with the problem.

However there are situations within both countries, Sweden and Germany, in which decision-makers of companies with more power - or of companies of larger scale - play out their power against minor agents or providers. An example that shows this quite clearly is the following of the German Contractor, who is the head of a small company and who deals with *the town*, a huge municipality in Germany. The respect for that important customer becomes rather obvious:

“In case of *the town* or even the big customer from *another town*, I would always try to talk with them personally. And, I think, I would never send a reminder or never just a nicely formulated letter to remind. But I would never try to take really serious actions like: 'Here you get the reminder, if the money is not on my account within ten days, then so-and-so.' Then they have got the possibility to let you 'starve to death', without you being able to defend yourself. 'I'll starve him out now!'”

That this does not happen just occasionally illustrates the remark of the German Consultant:

“Organisations, even the state, often pay much too late.”

Incentive

He later continues:

“The problem appears with the companies of small and medium scale, that means up to 500 employees, who are in need of every order and often don't have this information and who don't have that power. So when they do deliveries for *that large detergent corporation* or a *certain large steel company* or these corporations and the deadline is not held, they do not dare to send a reminder, because they are afraid of losing orders.”

The German Contractor reveals as well that it is almost a habit not to accept the recommended payment terms.

“It is said by the chamber of commerce and by the guild that one should try to get a prepayment, but in our business, one doesn't like to see this. The customers say: 'No you build it in and then I receive a bill, but I will not pay by beforehand.'”

According to the German Insolvency Administrator not granting prepayment in form of so called A-accounts, often caused insolvency of firms. After filling an insolvency petition by the defaulting company, the insolvency administrator almost always demands prompt payment of due bills. The shock over the insolvency of the supplier is rather big even for the customers, who often recognise the dilemma first when the insolvency administrator takes legal action.

But even on the Swedish site the late payment problem occurs. The CFO of the Swedish Hospital states:

“One can look at a company like the *large producer of electronics* where one only talks about money that goes in and out. They pay late and demand one's money early, that was a really big thing and I believe that it still is.”

A bit later he gives a possible explanation why a smaller company would not have the chance to act in the same way.

“But of course the reputation gets spread, if one has a small company that waits with the payment then one will get a hard time in the future.”

It is noticeable that the tactic to achieve more shares by delaying the payment on purpose is more likely to happen when larger companies meet smaller companies. Thus it seems to be that some large corporations misuse their power to delay payment and this partly beyond the legal limitations. So here once again the statement in Salima Paul's article (2007), that larger companies oppress the minor companies, seems to be applicable to at least some cases in Sweden and Germany, too.

Thus once again some decision-makers act rather opportunistically. One important trailblazer for this behaviour seems to be the power of the corporation the decision-maker works for, so that the context a person acts in has decisive influence on his or her choice. For this choice the decision-maker within the larger company has obviously a larger toolbox. To this toolbox belong professional negotiations, electronic paying machines and purchasing offices, as mentioned above, which are the outcome of a modern credit management policy. And there are some SMEs, naturally the smaller ones, who do not have and or cannot afford the credit management policy as recommended by Salima Paul (2008).

But still one important question remains. The question whether there is a connection between payment behaviour of a firm and its corporate reputation.

If we now admit the theory of Bromley (2002) that it is collectives rather than collections of stakeholders who determine corporate reputation and if we furthermore understand the suppliers as a stakeholder-group then this group will certainly get a negative impression of these companies and municipalities who pay late. So according to Chun's definition of reputation (2005) these suppliers can build their own image of the company, which is the way corporate reputation is perceived from the outside, so that the corporate reputation of the prevailing company is affected via image as key element of reputation according to the model of Davies and Miles (1998) in Chun (2005). Thus, this is just another example demonstrating that bad payment behaviour can affect image and thereby (via image as key element of corporate reputation) even reputation. One possible precondition for that though could be that the bad perception of the company spreads and the question remains whether reputation is always affected directly or if bad payment behaviour triggers another reaction.

## **4.2 The Direct Way towards Reputation**

Before I begin to go into the concept of reputation I have to make clear that there is one basic prerequisite and this is that an individual's or a small group's point of view about the payment behaviour of a certain firm must spread to other individuals inside the field of at least one stakeholder group in order to be able to shape the reputation of the paying firm at least to a certain degree. This is according to Bromley (2002) enough to determine the reputation of a corporation, because for Bromley it is rather the collective than the collection that decides about the reputation of a company.

The problem now is how it actually can happen that the question of interest - the question about good payment behaviour or bad payment behaviour of a company – spreads within at least one stakeholder group. The answer is quite easy. There are either certain private arrangements or certain public facilities that have the purpose to provide companies with information. These facilities act as a catalyst. Once important information is attained, it will be spread. So one can say that these facilities can be seen as 'reputation enhancers' because they spread information rather quickly.

The respondents designated basically three of these arrangements or facilities: Namely the guild or occasional meetings within the same service sector, the own company's network and probably most effective the credit enquiry agencies.

### **4.2.1 Occasional Meetings**

It happens that one meets each other within one service sector. These meetings can be organised by the guild but can be rather loose informal meetings, too, like for instance on an exhibition. Here all kinds of information are spread. One talks for example about the same suppliers and the same potential customers. The concept of mouth-to-mouth propaganda is showing its affectivity in two directions: a real informative way and a misleading way.

The German Insolvency Administrator has experienced the power of mouth-to-mouth-propaganda. The firms he administrates often got to know the negative affect of this device and stresses its importance.



“Mouth-to-mouth-propaganda is one of the most important things.”

The German Food Supplier tells me about the way his customers meet and how information spreads on their conventions:

“Classically they meet each other again and again, they talk with each other and of course they are talking about their suppliers as well. ... And they are talking among equals of course much more open and say: ‘Oh, there and there we have got a problem’ Well, such a reputation spreads. ‘There I had a problem, but they were solving this for me.’ Or: ‘Talk to that one, he can do it.’ Well, this is like that of course, but there our trading segment is no special exception or nothing unusual but (this is) a mechanism one finds everywhere, as well in good as in bad. A customer who is dissatisfied passes it on as well”

But misleading information can be spread as well, like the Purchase Manager and Second CEO of the German hospital states:

“Well, a colleague who rings and says: ‘Well, I know, you are in negotiations with him. Keep your hands off because of this and that.’ Well, then one has to see, what one does with that (information). It might get wrong or even vice versa, that they have caused the trouble (themselves), so that it was just a kind of tit-for-tat answer or something like that.”

Even on the Swedish side the respondents told me comparable examples for the multiplication of information. The CFO of the Swedish Contractor company puts it like this:

“It can take a while, but if one has a contract then many different companies are meeting up, subcontractors and sellers. If there is somebody that is a notorious bad payer, then it will get spread in some way or another. There are always rumours circulating, false or right.”

Thus there is one way to spread information by occasional or organised meetings of company members, although the quality of the information spread might be a bit doubtful.

With this section I want to show up mechanisms that spread information outside a bought service like the one of payment agencies and outside a network, which is the topic of the next section.

#### **4.2.2 Networks**

Of course information about payment behaviour gets spread throughout the concept of network as well. Here companies work often very close together, so that reliable information gets spread within their network. That the information is reliable appears logical because if one would provide the own network with wrong information one would probably harm oneself. Naturally my respondents have also made their experiences with networks. Here are some of their statements.

The Sales Manager of the Swedish Contractor talks about the general information their network provides them with, especially abroad. He states the following:

“It can be in a specific project where we have different partners, for example abroad where our local partners (who are situated) there have information. In a small and local network like this we can exchange information and experiences, but not on an all-embracing level.”

Just concerning the characteristic of spreading information throughout the network, the Second CEO of the German Hospital talks about different networks which are attributed with different levels of cooperation. Only on the closest level, he says, one gets reliable information.

“Within the association (closest network), if one asks, one will get an honest answer. In other cases according to these things (general information) one holds back.”

The German Contractor has a very interesting kind of network. He works together with two former colleagues from his master school, who are actually competitors though through some geographical separation it happens very seldom that they have common customers within the territory of the prevailing other firm. Hence, a direct competition just between them is very

seldom. They do not only work together when it comes to the acquisition of valuable machines, they do as well exchange information about larger customers. The German Contractor names this example:

“Sometimes these building contractors, who offer various buildings at once, who act as general contractors ... They build ten houses – I talked about this, this morning with a colleague, with whom I bought a machine as well. – He has build with these contractors ten semi-detached houses. He built five houses at first then three, then two – this is the way it should be. The first five were built without any problem. Everything went according to the plan. The whole story (with these five) went fine. Then with the following three the first sneering remarks appeared: ‘Some faults here, some faults there.’ And with the last two houses the real big problems came up, when he almost didn’t want to pay at all afterwards.

That’s the typical thing you get to hear. In the beginning the building contractors say: ‘Everything is all right! Peace on earth and hallelujah. It functions.’ And when you then notice that we approach the end of the building project, then they try to compensate, what they missed in the beginning. ...

And they (the contractors) know exactly, when these ten houses are ready, then other companies are waiting for the next ten houses. I don’t know why, but it happens again and again that these building contractors and all these existing housing associations make trouble again and again and we make the same mistakes again and again and we come a cropper again and again. ...

There are a few though, where it goes without problems. But again and again it happens like this that these building contractors begin to go nutty after a few years. Then you simply have to part company from them.”

(I apologise for the colloquial expressions, but the respondent was using them and I think it was wrong to leave them out.)

This example shows that payment behaviour can not only damage the reputation of a single firm but also an entire business field. As decision-makers act with bounded rationality and decisions are made to just ‘satisfice’ the need according to Simon (1957) the German Contractor will not choose to work with housing agencies, if he has a chance to work with others. In this particular case something very interesting happens if one applies the evolutionary theory. By ‘trial and error’ experiences of another person (in this case the colleague) the German Contractor forms his routine, the routine not to choose any housing agency in the first place.

For this network one has to assume that no more deals are made with housing agencies, because of the experience of a single member of his network. The assumed transaction costs to find the right housing agency appear too high for the prevailing decision-maker of this network. That means that a single person, as member of the network, telling about the experience with housing agencies, can determine the reputation of a whole business section through the concept of network.

It appears to be quiet similar in Germany and Sweden, so that no real difference can be found between networks within these countries. Of course the other respondents are engaged in networks as well.

But networks and loose meetings are of course not the only channels through which this kind of information is spread. One further pretty important channel are professional organisations who specialised in financial questions.

### **4.2.3 Credit Enquiry Agencies**

Possibly the fastest way of spreading information - mostly concerning solvency but as well concerning the payment behaviour of other firms - are credit enquiry agencies. Information is provided against a certain fee, which is not that high according to the German Consultant who speaks favourable about those agencies:

“Well, there are several possibilities for the one who wants to protect himself a bit. This one has to collect information about the solvency and about the trustworthiness of one’s customers before delivering goods with a bill containing a period of allowed payment of 30, 60 or 90 days. In doubt I do get nothing. Well, there one has to built up one’s own system in order to build in an own controlling system and one has to or can use credit enquiry agencies like a *national credit enquiry agency* or *another national credit enquiry agency* there is a whole palette of private organisations who provide data about the payment behaviour of firms. This starts in this way that these firms ask new founders on phone: ‘What is your return? How big is your profit? Are there any peculiarities?’ They try to attain information by this on their own. Many companies refuse to answer but if another party starts questioning this credit enquiry agency with them responding: ‘He refused to give us information’, it is always a negative criterion.”

These agencies are specialised on different geographical areas. There are some who are international, others function nationwide and there are even some regional credit enquiry agencies.

My respondents have all had contact with credit enquiry agencies in one or the other way.

Concerning the Medical Provider One the solvency of almost every customer is checked, when a deal is made, though there are exceptions:

“Well, the known big German and European credit agencies deliver us information. To these we have got a hotline connection, so that we can draw the relevant information about the solvency very fast. This is added by an internal system in which we document the payment experience with every customer, so that we can see graphically very fine, in which field of a matrix the customer is positioned. Is he somebody paying too late on a regular basis or is he somebody paying his bill early. This is combined with the information from the sales departments, where the customer adviser can add his information, so that the whole is giving a picture which leads to a recommendation about the solvency of the customer, expressed in a number.” (The CFO)

Here two things are shown. Concerning the individual decision-maker, it appears clear that he is offered to follow the routines of the company, so one can say that his decision is influenced by rules. But the aspect that is more interesting here is the speed in which this information is available for the decision maker, which is virtually the speed of light, as modern broad band connections use light to transfer data. So if somebody is late with his payments it will pop up directly on the screen of the decision-makers information system. This seems to be very important for decisions as the Medical Provider One is not starting greater projects with companies that are very close to bankruptcy as this might endanger the completion of the entire project.

“It is not like this that we check the solvency of our suppliers in the same way as we check the solvency of our customers. We do it, when we plan to order bigger orders, which proceed over a few years. This is normal with the building of real estate, there we do it. With normal suppliers no solvency check is done.”(CFO)

Even on the Swedish side one often makes solvency checks by the same international credit enquiry agencies and some nationwide credit enquiry agencies.

The Swedish Hospital uses a credit enquiry agency that operates nationwide listing all suppliers for state owned companies, which includes the Swedish Hospital. The Purchase Manager states:

*“We use a nation wide credit enquiry agency, where they have free credit-research. ... We do check our suppliers, because it is very important where the tax-money goes to. That is why we have to do this appraisal. ... It is done with each purchase, and then it is the accounting-department that does the payment.”*

Even the Swedish Contractor uses the services of a credit enquiry agency. He describes the usage of these services as follows:

*We use an international credit enquiry agency, it is something like a certain national credit enquiry agency that we also have for our customers abroad. One gets their data about whether they are good payers or not. ... One can get the latest accounts, key figures and the balance sheet. It differs depending on what countries the company that one looks for is situated. They often have a figure information telling that they, for example, pay five days late or ten days. One can also subscribe certain companies, so that one gets a permanent update concerning changes. Then they say something like: ‘The average payment for this company has gone up with...’.”*

These quotations shall demonstrate that it happens with almost a self-evidence - that it happens without saying - that the solvency and payment behaviour is controlled by the interviewed firms. Again one can not find differences between Sweden and Germany concerning the usage of credit enquiry services.

Thus, this is another way of spreading information that can shape a companies reputation. Attaining these information has deeply gone into the routines of almost every decision-maker. It serves the control measures, which Sako (2006) named ‘safeguards’. These agencies can actually provide very important information as long as one picks the right ones. One can say that the provided information are correct, otherwise the law in Sweden and Germany allows the decision-maker to sue the information providers. The speed with which these information

spread is enormous. So one can say that this way of spreading and attaining information is the safest and fastest one and that has consequences as I am going to explain in the next section.

#### **4.2.4 The Relevance of Credit Enquiry Agencies' Information**

Just to demonstrate how fast payment information can be spread and how easy a single person can step into a trap that triggers a bad reputation (at least concerning payment), I want to add another recitation of the German Constructor who once went into considerable trouble after one of his accounts was garnished.

“The tax office blocked the account, but I got the letter, that there existed difficulties, three days later. That means they blocked the account on a Monday and I got to know that I had problems with my account on Thursday. ... By then I had sent out a check to pay a delivery of material. And this check was presented at the bank on Wednesday and was neglected because the tax office had blocked the account. ... And then there was really big trouble. They immediately told a *national credit enquiry agency* and what ever their names are (the names of further credit enquiry agencies) that a check bounced. ... But what was most important, the sum the tax office seized wasn't even that high, that I wasn't able to pay it, but I would just have to drive to the bank and fill in the remittance form, then this sum would have been paid and then everything would have been alright again. ... I didn't have a computer then to see online what was up on the account. (He rang the bank) I said: 'Was anything neglected there?' And he said: 'Oh, well, yes, we neglected a check with check number so-and-so.' I immediately looked in my book. I thought: 'Oh no!' and this person really opened Pandora's Box. Really something like 'check fraud' and all the other things he accused me for. When I filled in this check I did it to the best of my belief and thought that this was functioning.”

So it was a single person, who decided to accuse the German Contractor

“This has been a point where some bills were due but I still had the line of credit on my open account, which I still had on my overdraft credit. But the bank simply doesn't care whether you are one million in the plus or 10.000 in the minus. – If the account is put a writ on (garnished), then, in the same moment, everything that is withdrawn is blocked, no matter whether you have money on the account or not. I myself thought I had money on the account, which I actually had in this

case. But even if I had money on the account they would still not have accepted the check. They should just have called me.’ There is a problem. Just come over, we must solve this. We have to pay the tax office. Then the account is open again.’ – They didn’t do it.”

This shall illustrate how easy it is to come into trouble and obtain a bad payment reputation at once and one can recognise that this incident really is important for the German Contractor, as he talks much and emotionally about his experience. So in the German Constructor’s point of view, this has been a minor, a solvable problem. But the story goes on:

“... A colleague of mine, a journeyman of mine drove a van into the ground – a total loss. And then I needed a new transporter with which we drive to the different building sites. And then I enquired with a *German Car Manufacturer* – and *the German Car Manufacturer* and *another German Car Manufacturer* have the same leasing bank, I think – and they fetched information and saw immediately:’ Oh, there has been an unaccepted check.’ And so it was done and they said, as well:’ No, we are not interested.’ By luck a seller of a *French Car Manufacturer’s retail shop* was calling me:’ I heard, you had a car accident and you need a new transporter.’ I said:’ How did you get to know about that?’ So he said:’ Well, one got to know it, you know.’ He didn’t want to tell, where he had his source. So I told him:’ I need a new car, leasable.’ So he said that he was going to see whether this is possible and would talk to his boss, or with the leasing bank. And so he talked to the *French Car Manufacturer’s bank*. And the *French Car Manufacturer’s bank* said:’ This has been a non-recurring mistake (the unaccepted check).’ And then I had to... The car itself... I traded in the old transporter, which had a scrap value of 4000 €, I think...- I traded it in and had to add 3000 € cash. And so they said:’ That’s enough for us. Hereby a deposit of so-and-so many percent is paid for the new car and thereby you are creditworthy again and you have a *French brand’s car* as transporter by now.’ Because the *French Car Manufacturer* said:’ It is alright.’ while the *German Car Manufacturer* said:’ No, it is not alright’.”

This segment puts light on two points. It shows the serious consequences of a negative information that is spread by credit enquiry agencies. But it shows as well that in single cases the reputation as a ‘bad payer’ is put up too fast, so that it becomes negative for the information receiver, in this case the German Car Manufacturer who loses a customer and the German Contractor who is not allowed to lease a car of this German car brand.



One can understand the decision-maker of the German Car manufacturer who is bound to his routines which arose over decades of experience with customers. Either the individual seller is really not allowed to act outside these rules or guidelines or he just chooses the safe way. In case he is allowed to sell the car to the German Contractor he probably makes a satisficing decision. However the decision-maker of the French car brand bases his decision on the concept of trust and can make the deal in this case.

Thus in section 4:2 I described three different channels spreading payment information and possible consequences. I did not mention the mass media though, which appears rather obvious. In these cases one can see that there is a direct connection between payment behaviour and reputation. These different channels function as catalysts or enhancers on a direct way to reputation however there can be blockers as well. One of these blockers is the concept of trust.

### ***4.3 The Way via Trust***

One can argue that payment behaviour of a firm has direct influence on the concept of trust and not directly on reputation, because the individual's, the decision-maker's trust is misplaced in the first place and then actions result out of the disappointment. Certainly that is right in many cases. However I have mentioned above that this is sometimes wrong. When negative information by the credit enquiry agencies comes in, businesses are inhibited or entirely stopped. This is a question of daily business for some decision-makers and happens without being emotionally effected in any way and without even thinking about trust. A very good example that demonstrates this is the German car seller, who refused to sell a car on credit. It is simply a question of control and not of trust for some decision-makers and it often deals about evolutionary routines instead of an emotional involvement.

But the respondents do not always inform the credit enquiry agencies directly when the customer's payment behaviour is not as it should be. There is a huge amount of even very drastic measures the prevailing decision-maker could choose. One of them is certainly to engage a collection agency, though all the respondents did not choose this approach, as this is

regarded as the end of trust in a business relationship. If the payment problems become serious many respondents choose lawyers, who take care of the defaulting money instead of collection agencies. But one prefers other methods, which do not harm the valuable trust that much. There is no need to go in deeper in every measure a company can pick to react on overdue payment as this would surpass the limits of this thesis. However one approach is interesting as it does not harm the trust in the first place. It is taken by all respondents: A banal conversation, probably a stage before the trust is damaged.

### **4.3.1 The Stage of Dialogue and Excuses**

Throughout the time all of the respondents have established different routines to deal with an occurring payment problem. According to Child (2001) and to Alvesson (2004) personal contact is essential to foster trust, which is why accounting managers take exclusively care of their own group of customers or, depending on the situation, only a single, very important customer at a time. Even other personnel are immensely important for the personal contact and in this way the building of trust. The CEO of the Swedish Contractor gives an example:

“It’s really important to build up a relationship and to do a good work. It can also be that the municipal (one of the customers) says: ‘We want this mechanic, Kalle, because he is always here and he is really good!’”

So if payment problems occur with the customers, and the mutual trust shall not be harmed, many respondents choose a measure involving the personal contact and ask the customer why this problem arose before they would alarm a credit enquiry agency. Child (2001) states that it is by far easier to destroy trust than to build it up. This is why the respondents prefer to call their customers to ask them for the reason why he or she did not pay accordingly.

The CFO of the German affiliation of Medical Provider Two says:

“And when people pay later, we call them.”

The CFO of Medical Provider One explains a bit further:

“If the customer pays a bit later, then I wouldn’t say that he gets a certain reputation but he is rung up by the credit collectors, who try to find out, the reason for this and what we can do that this won’t happen in the future.”

So in his point of view reputation is not damaged in the first place but it is asked why the customer is over due with his payments. The CFO of the German Food Provider states this

“We actually want to go in a partnership with the customer. And we try to accompany the customers on their troublesome ways and the things they have to cope as big kitchens constructively. ... In this case, with the exceeding of a due date, we first try to solve the problem within a conversation”

The German Contractor puts it like this:

“I would rather try to speak ‘an open word’ with the customer (then to engage a lawyer): ‘please tell me frankly: how does it look like for you financially? What can we do?’ Then I would prefer some smaller payments so that I have got the money at last.”

The CFO of the Swedish part of Medical Provider Two stresses the importance of the personal contact as a fosterer of trust. He states:

“Personal contact is very important. The seller stands for the name of the company, he is representing the company and it is about building up trust in front of the customer and keeping up a good partnership. This is very important, very big, very important. He is the fine tuning knob, he represents”

Concerning payment problems the CFO of the Swedish Hospital draws this scenario of negative payment behaviour.

“In the public-section, just as in the private, there are many discussions and meetings and one tries to reach an agreement. In the worst scenario one has to go to the enforcement officer or go to court, but I believe that nobody wants to get there.”

But some when ends the conversation and the trust is spoiled as the Swedish Consultant remarks:

“If there are only problems, the business relationship is not based on trust, and then it is no use to have a partnership because everything is dependent on a good relationship. If I have to call for months or weeks to get the money, then it’s not a good customer to work with.”

All the quotations show that the respondents first of all try to solve problems within a conversation. One seeks the personal contact to the other decision-maker and tries not to harm the mutual trust in the first place. The respondents even explain reasons why the counterpart probably has not paid. This shows that they already have build up that much trust towards the customers, that they excuse and defend their customers, though they are ‘occasionally’ defaulting. The CFO of the German Medical Instrument Provider excuses her defaulting customers:

“Bills just stuck somewhere on the internal way, so that they don’t arrive at the place where action is taken, which is the accounting department, which then has to pay that. (It may be) that some decontrols are missing. (It can happen) that customer don’t have money - that can happen sometimes or that there are still reclamations, which then of course have to be made clear before and naturally the customer doesn’t pay, if he then perhaps thinks, that he has a claim on some credit or some work hasn’t been debited correctly. Or maybe 10 parts have been charged although he received only 8 or something like that can be the cause (for late payment).”

Comparable to this quotation all the respondents show a certain level of understanding for their customers’ payment behaviour. However this has limitations as the CFO of the German Medical Instrument Provider carries on:

“Customers who don’t pay at all - well there we have the procedure that we send three reminders, then it is threatened with the juridical collection proceedings and then, if nothing happens, it is decided whether a default summon is put up, which means whether we go to the county- or national court. If the customer is paying badly, that means very sluggish, so that we have to threaten each time, then we demand precash from the customer.”

What is interesting here is that when trust is misplaced, the evolutionary and institutional routines take over immediately and the conditions for the customer weaken, because now the customer has to precash. That shows that trust can be affected, when a certain level of

disappointment is reached so that lower levels of trust replace the higher levels or that trust towards a company becomes completely absent. Needless to say, that all other respondents have a certain reminder procedure as well formed after their evolutionary experiences and here no major difference can be found between the decision-makers on the Swedish and on the German side.

Something that is interesting is that in some cases within the routines of firms it seems to be possible to recover the misplaced trust. The CFO of the German Medical Instrument Provider proceeds:

“And if the customer then wants to take up business relations with us again, then he can do this, but has to do pre-cash. And if it works out fine in the future, so that he pays in time, and gets his products then, then we decide in each single case, whether we take up the customer again as ‘normal’ customer, so that he first gets the products and pays later, like everyone else or if it stays like this.”

So this speaks in a way against the difficulties to regain trust as proclaimed by Sako (2006) and Child (2001). Thus, even the regaining of trust can be regulated and can be contained in the routines of a company. By the way, some respondents would call these routines ‘professionalism’ as the CEO of the Medical Provider One tells me.

#### **4.3.2 Different Categories of Trust?**

But what level of trust concerning the three three-stage-models of Sako (2006), Child (2001) and Barney and Hansen (1994) is necessary so that the decision-maker does not take the direct way to the credit enquiry agencies and thereby influences or shapes the financial reputation of the prevailing company? And does not that level of trust, if it has influence on tolerating bad payment behaviour, inter alia depend on how important the single counterpart- or partner- company is for the own success or survival?

The German Consultant tells me about his experience regarding a categorisation concerning the importance of companies:

“Well, there are organisation themes dividing the customers in A-, B-, C-, D-categories, defining exactly, who is an important customer, who is less important, who is not important at all. One can say: ‘According to this I’ll categorize our services and perhaps my payment behaviour.’ This one will find within all fields: It is like that within the classical advertising but as well in the modern call-centres. They even have created data programs able to categorize customers, one can mark customers with. So, when he (that certain customer) rings again, he will be connected to the waiting line automatically and positioned lower.”

I made the same experience on the hunt for my interviews in Sweden.

The German Food Provider seems to have these categories as well, though not that drastically as mentioned by the Consultant. But the CFO mentions something about different deals with different companies.

“The public payments are either done by the municipalities or the churches as payer. These are actual facilities that do not get bankrupt. ... While we offer periods allowed for payment, which are commonly a bit longer in the social area, let’s say a standard of around 14 days, the standard case for the gastronomy is 2 or 3 days on the other side. ... There are individual customer agreements which differ from that clearly. The longest period allowed for payment we have got in the company is 60 days.”

Thus there are different payment terms the decision-maker can take according to the assumed ability to pay. At the same time this has to do with trust. Obviously the decision-makers have more trust in certain companies than in other, smaller companies as some of the gastronomies consistent with the example from the German Food Provider. Though, this trust appears to be more like a general belief in the ability to pay and it does not really concern the relation between two companies. In other words one can say that the payment conditions are more a question of importance of the prevailing firm for the own company. Still the three-stage-models make sense and detect a relation between companies as long as they keep their mutual agreements for instance according to Sako’s (2006) contractual trust. Even according to Child (2001) one does not leave the field trust, as in this case there is still a rather personal contact possible between the Food Provider and the small customer, so that at least the lowest stage of Child’s model is fulfilled as well in spite of the categorisation. A trust of another quality though.

What is furthermore done by many respondents to achieve trust, I will illustrate in the following.

### 4.3.3 Gifts

Many of my respondents visibly try to reach the highest level of trust, according to Sako's model, which is the so called '*Goodwill trust*'. One instrument to achieve this highest level is according to Sako (2006) the permanent exchange of gifts, which means constantly helping each other for instance by the exchange of information.

The CEO of Medical Provider One explains this striving after a higher level of trust best while he even describes the institutional limitations these efforts are accompanied with:

"Well, I think one exchanges information about trends, one gives each other feedback about the experiences with the products one has purchased and sold mutual – quality feedback. I think this is common and is practiced. Hereby one helps us by explaining us whether something was good or bad. Further, I think there is a clear cut between business partners, which also reach into the compliance area: Laws, cartel laws and these things. I do believe that one has to take care of the limits very strongly, but on the technical usage field, there is certainly a big cooperation. Customers are reporting to us about their research directions, about product ideas to animate us, to prepare us for the production of material and of feedstock."

By concentrating on these 'gifts' the CFO of the German food provider sees a unique selling position in providing extra services for the customer:

"We are an organisation putting value on a partnership relation as well in the direction to the customer. ... We do try to define our market position in the field of quality leadership and say: 'we can do a little bit more than delivering food to the customer. More, we can give you support in your business procedures, in your operative problems, in the leading of your canteen kitchen, that means in the management, in the field of cost management, calculations, controlling, employment keys, proceeding organisation, electronic data processing – well an own product organisation we offer you, such data programmes – even consulting

services. That means we can do much more in this field and want a long term partnership with the customer. We even offer seminars and symposiums and subject events or we have a customer advisory council, who gives us advice in topics in order to get better. ... . If we wouldn't be better in our basic performance (service), offering better services and offering a better customer communication in this field, then we wouldn't get along in the competition. In order to have competitive advantages you need somewhere an unique selling position, if one doesn't have this one is replaceable."

Even the Swedish Contractor puts much value on exchanging information the CEO mentions the ISO-certification his company has. This certification requires a feedback questionnaire the customer has to fill in. By the exchange of information even in a classical business with short term relations some 'gifts' are made and contribute as such to an increase of trust.

So one can say that high level of trust especially with 'important' customers is something the respondents actually strive for in both countries Sweden and Germany.

#### **4.3.4 Trust as an Inhibitor of Spoiling Reputation**

To finally answer the question at what stage one seems to lose the trust appears to be rather easy. Though one is probably striving to increase trust certain actions simply disappoint and reduce trust. So that of course there is a way backwards and the last stage before a company finally gets into mistrust and one probably informs the credit enquiry agencies is obviously the first, the lowest stage of trust. And I think to the purpose of this thesis Sako's denomination fits best - *Contractual Trust* - because when a company does not pay in time, reduces payment or does not pay at all, the prevailing decision-maker breaks the contract and risks trust.

So one can see trust as an inhibitor, a hold back for the decision-maker not to spread negative information about the defaulting company. As stated in section 4.3.1 'the stage of dialogue and excuses', it is the relationship between the prevailing decision-makers that must be disappointed first. Like the Swedish Consultant stated some when one does not want to call the defaulting customer any longer or some when one is running out of excuses for the debtor as the CFO of the German Medical Instrument Provider states in the same section. So once it



is enough, and the customer's payment behaviour becomes simply intolerable, the decision-maker can be forced to act against the defaulting company either due to the rules and evolutionary routines of the company or by a contractual clausal within the treaty with a credit enquiry agency. In other cases like in the case of the German Food Supplier, who is not giving any information about his customers to credit enquiry agencies, the network provides the channel of spreading the bad information of the defaulting company. No matter through which channel, the reputation will be spread but trust can inhibit the direct way to the facilities and arrangements that spread trust.

But there is something else as well!

#### ***4.4 “You Have to Learn how They Tick”***

Once trust is absent there are still alternatives that enable the decision-maker to go on with business. One combined measure is to stop delivery until all due bills are paid and to go on with business but demand prepayment or proceed with bank guarantees as I have already mentioned above. Many respondents use this way of payment when it comes to deals within countries having a bad payment rumour. The respondents have drawn their evolutionary consequences in form of routines, which give them some extra control or as Sako names it 'safeguards'. These are experiences drawn out of numerous 'trials and errors' of the respondents trading with firms situated in countries from these areas.

The CFO of the Swedish Contractor puts it like this:

“One has to handle it in a good way! If we have for example national characteristics we mustn't think that we can change them just like that. But we can say that we would like to sell more towards reimburse, then we get a more secure trade. It can be that we have to lower the prices, because the credit gets lower, but it is more secure. It can be a negotiation procedure. It can also be that Swedish companies have these problems, but it's safer, because of the processes abroad, to have this approach. Then one can say that the seller wants to satisfy the customer.”

Thus, one can try to use the institutional solution, a solution within a framework that is secured by international law. This of course as mentioned above happens as well on a domestic market.

Beyond that juridical way there seem to be many businesses that never reach a trust building process and lie beyond keeping payment laws or contracts exactly. Still the respondents experience these businesses as profitable.

Some customers seem to misuse their contracts concerning payment on a constant calculable basis. Like the German Food Supplier stated above:

“There are some who say: ‘I’ll pay systematically with the second reminder.’”

Others like my Swedish and German respondents have made their experience with customers who pay two or more days late on a constant basis. But some respondents are even accepting to take more like the German Contractor, when he tells about his business relationship with *The City*:

“In the beginning it was bad. Meanwhile it is almost ok, because you have to know how they tick (operate), how they work over the years. So that they deal with a bill faster, when one is talking to them. But for a very long time bills were not paid, not even if they were one year old. Let’s say, I write a bill and send it to the municipality. Then that might have been 20 bills, after that probably 15 are paid somehow close to the due date, something like five (bills) remain. From these five, two are paid after discussion:’ Yeah, all right’. Then something (some items in the bill) is stroke out. “

I later got to know that it took about a year that the last bill was paid, although only partly. By the way, the German Contractor regards *The City* as one of his most important customers in spite of these difficulties. Thus, one can say that in many cases the decision-maker simply has to learn about the payment behaviour of the other company and can obtain a valuable customer if he manages to understand how they ‘tick’.

## **4.5 Reputation affects Payment**

I have demonstrated some ways of how payment behaviour affects reputation above and will now investigate whether it is possible to see a connection in the opposite direction that means, whether reputation can affect payment as well.

### **4.5.1 Credentials – Borrowing Reputation**

Concerning the earlier mentioned mistreatment of minor companies one has to wonder why firms do accept a treatment like that and why the prevailing decision-makers do not dare to take legal steps against the defaulting company? Of course this depends partly on the market situation so that in deficiency of customers one is willing to accept ‘everything’. But there is another important reason involving corporate reputation, which are the credentials famous companies can give. It is practised since a long time that companies try to get credentials from their renowned customers saved in books or on their homepage in order to impress other customers or even banks. The reason why firms do so is summarised quite well by the German Consultant:

“It will always strike positively if one can present some names with a good image (as credentials); one works for, especially when presenting the own business plans, concepts and when one negotiates with banks. Image has various effects, which one doesn’t think about in the beginning. ... Many might not recognise how important this is, but I see this in my surety applications and concepts. There it is asked permanently: ‘With whom are you working together? Who are your customers? Who are your suppliers?’ and if then names appear, that one got a positive impression of, then this facilitates much.”

One can find many articles for the IT sector confirming the importance of credentials. Cravens et al (2003) and Kotha et al (2001) are just two of those, who find that a company can borrow reputation by surrounding itself with other renowned corporations, which are the famous customers of the company. But borrowing reputation is a phenomenon that is not just restricted to the IT sector.

At this point I am afraid that I cannot deliver further fitting quotations but I can assure that the interviewed companies - all except for one – have a link with famous customers on their

homepage, and that although they do not belong to the IT sector. It remains to say that the German Contractor has no homepage which is why one cannot find a list with credentials on the internet though he has a reference book instead.

Summarising references and by them the borrowed reputation appear to be important for firms, in order to negotiate with banks and to lure more customers. The list of renowned customers itself stands for one kind of collaterals in bank negotiations as named by Vordeckers and Steijvers (2006) and the prevailing company is willing to give quite much for some performance pushers from outside, such as - in case of some SMEs - not sending reminders and not daring to take legal steps against a non paying 'reputation deliverer'. As already named above by the German Consultant:

“They do not dare to send reminders.”

Thus, one could say that the image of the famous corporations affects payment and according to Chun (2005) image is one of the three fundamentals of corporate reputation. That it is image here that is effected appears obvious because it concerns external stakeholders as the suppliers who do not attain their charges.

So this explains one way of how especially smaller, less powerful companies can become a bit more dependent on larger 'name giving' companies. Taking a closer look at smaller companies it becomes clear that they do not have enough budget for a proper advertisement at all. So the prevailing decision-maker 'satisfices' by simply advertising via word-of-mouth and a list of references of renowned firms helps his or her company to convince potential customers, banks and probably suppliers and could even help as argument pertaining to recruitment.

But what is furthermore so important about it – at least for this thesis - is that reputation allows the prevailing decision-maker, who is responsible for the payment within larger firms, to hesitate and by that to gain a financial advantage for the assumingly larger renowned corporation. So this is one example of how corporate reputation can influence payment negatively and of course rather directly as it is the prevailing decision-maker (of the larger firm) who takes advantage of the own corporate reputation without trust being a blocker.

## 4.5.2 Payment for Product Image

Sometimes it can be reasonable for the prevailing decision-maker to pay faster for the good quality and / or the rareness of a product. It is imaginable that one pays earlier for a limited brand product in order to get it, before a competitor would buy it. Such a time pressure can be experienced for instance, when it comes to auction sales, like the recent record concerning the bidding for a painting (<http://news.bbc.co.uk/2/hi/entertainment/7399921.stm> ,BBC-World 2008 which illustrates the highest bidding ever for a painting of a living artist).

This is as well experienced by our respondents, though less dramatically. Still the customers pay in time but if possible at the last day allowed for payment. The incentive to pay in time for good quality is highlighted by the CFO of the Medical Instrument Provider:

“I think, when customers know, that they are getting a good product, then they are willing to pay the price for that with pleasure. .... This has also to do with the company's image. If the company appears properly to the outside and the products correspond to that, what we promise, our image gets better as well, we become more credible and I think; then the customers are more willing to pay.”

Thus, good quality and a good product image advertise for the whole company here and as such they influence the company's corporate image positively according to Grönroos (2003) and Kotler (2002). Thus, this quotation shows product image and corporate image effecting payment behaviour. If a company achieves its aim that well, so that there seems to be almost no 'gap' between desired image and perceived image, two key elements of reputation seem to be perceived very similar. In other words the sent out image, the desired image, appears to be perceived as product image in almost - if not entirely - the same way. Thus, according to the model of Chun (2005) gaps are very small and that has a positive effect on the company's corporate reputation.

Hence, in this case one could say: Good corporate reputation can trigger good payment behaviour, so that corporate reputation can affect payment positively.

But this reciprocal connection between corporate reputation and payment does not happen directly though instead via the concept of trust. It appears obvious that good experiences between two companies and their decision-makers foster trust and a good product image is

perceived when the product fits or exceeds the expectations of the purchaser. So that he or she feels that it is necessary not to disappoint the expectations of the counterpart concerning payment. Thus, a good corporate reputation can trigger a better payment via the concept of trust, and this time the effect is pointing in the opposite direction of the connection between corporate reputation and payment.

#### ***4.6 Differences between Sweden and Germany***

It is problematic to characterise a whole nation's payment habit by just 14 conducted interviews. If one takes common beliefs and habits into account, then one certainly has to distinguish even between people from region to region. The people from northern Sweden are often characterised as having some different habits than the people from southern Sweden. And not too long ago there have been two Germanys with two different political systems leaving their mark on the people, let alone that Germany consisted of different people speaking 200 different languages (or very strong dialects) in the 19<sup>th</sup> century. This and the need for further political control over the government after the Third Reich led to a federal state form of the German state. Within a federal republic the parliaments of the federal states need to have a certain self-determination and this is done by different resources only administered by the prevailing federal state and not the state as a whole. This excursion appears necessary to understand that institutional facilities are often based in history and politics and are not created primarily for economical interests.

The problematic from the beginning of this section shall illustrate that the statements, made are not generalizable, however they are still the impressions of my respondents.

To illustrate some of the institutional differences between nations and between federal states just within Germany the statement of the German Food supplier might fit:

“One has got a slightly different legal margin in Holland let's say the business law is formed a bit differently even concerning the structures and ways to push through things concerning charges and getting in charges. But one can push through

things much faster than one will ever be able to do it in Germany ... Every country has its own hygienic laws, food laws and, and, and... there the EU gives a norm but there are still some things that are difficult. ... The EU law helps of course in such things, as it turned down many hindrances, although one or the other thing stays national law in international cases or at least national usage of law. There I do not even have to move around in the EU but cross the border between two federal German states. Although we have an organisation which is allowed and certificated as meat production business within the EU, the restrictions are slightly different (between the federal German states). And that one has got 16 times only in Germany.”

And the Sales Manager of the Swedish Contractor sees more difficulties within German regulations.

“It is more bureaucratically in Germany, with documentation that is asked for and also dividing prices into different sub-prices. And there are many demands on declaration of details that we think is unnecessary. “

Thus, there are more rules in Germany and more ways to pay including cash discount, an incentive to pay, that Swedish firms do not seem to use at least my respondents, who are positioned in different business sectors, do not.

One actually does not see any major differences when it comes to the payment behaviour of firms but German municipalities seem to have a weaker payment mentality than Swedish municipalities.

## **5. Conclusion**

In this section I summarise my results. I start of presenting an overview of how payment behaviour can trigger certain reactions. Then I demonstrate some reciprocal effects, I describe the individuals acting concerning payment and proceed with a comparison of the different reactions towards bad payment behaviour. This is followed by some suggestions for the firms involved. I continue with a brief comparison between Sweden and Germany and conclude with an outlook over ideas for further research.

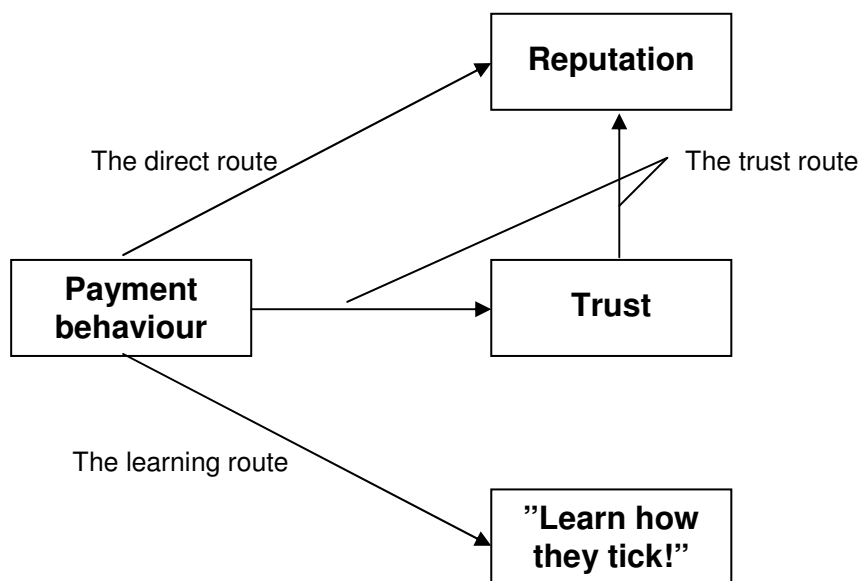
### ***5.1 Payment Behaviour***

As this is an interpretative paper first of all I would like to stress once again, that this thesis is based on the experience of my respondents. This means that it is less generalizable compared to a positivistic thesis and its results need further research in order to make general rules.

However, I have shown that there can be a direct connection between payment behaviour and reputation. Against earlier assumptions, individuals who interact with my respondents appear to be potentially opportunistic. This does of course not concern each and every single person. Still there is a rather opportunistic climate in the business-to-business field. This contradicts the argumentation following the concept of trust while it supports the protagonists of the concept of control - but more to that point later on.

In order to explain the results concerning the connection between payment behaviour, reputation and trust as well as a way that differs from these concepts, I illustrate the results in the following figure.





### 5.1.1 The Direct Route towards Building Reputation

There can be a direct connection between payment behaviour and reputation. Whenever a decision-maker has many business partners who are replaceable and under the precondition of the decision-maker's potential opportunism, it happens naturally that some business-partners are replaceable. Depending on the amount of these partners this can happen much more as a routine or better as a reflex (concerning evolutionary rules). So that for instance somebody acts according to a guideline including an index. When this index is reached, one has to follow a formalised procedure, which probably contractually includes alerting one or another credit enquiry agency. This goes in line with parts of the agency theory.

The decision-maker can as well regard it as necessary to inform other business friends, partners including colleagues within the same trading sector or other network partners in order to warn them. As stated above there are many channels that spread valuable information about the payment behaviour of firms. And bad payment behaviour can lead to immediate consequences for the defaulting party like losing the ability to lease a product as a payment modality for instance.

Additionally concerning the time for dealing with each and every defaulting customer would cause extra effort that the decision-maker is not willing to take as this becomes probably for time consuming and the defaulting company is probably ascribed to a lower category. The

result is to be seen as a more ‘satisficing’ and in some cases necessarily ‘satisficing’ decision according to Simon (1957).

### **5.1.2 The Trust Route**

According to the evolutionary principle ‘trial and error’ my respondents collected good experience with some of their customers. That has led to a certain mutual understanding and the building of a certain level of trust. Once this level is reached one is even willing to defend one’s own customers, so that when the customer defaults one still tolerates that up to a certain level. Whenever this level is surpassed though, one has the possibility to spread bad information about the customer via the aforementioned channels (credit enquiry agencies and so on) even with the purpose of warning others. And one sometimes decides to ‘name and shame’ the former customers in this way.

Thus, the trust of the decision-makers functions as a barrier and first after the trust is misplaced one chooses to take measures against the customer which can include informing a credit enquiry agency. The reputation of the defaulting party is not affected in the first instance.

### **5.1.3 “Learn how They Tick”**

But of course there are other business relations as well, where the decision-maker simply has to learn about the particularities of the single company. These particularities are a disadvantage in the business relationship and one has to figure out how to make the relationship work with a positive financial outcome in the end. One considers reputation in this particular way secondarily if at all.

Now - this is of major importance because it obviously lies beyond any ‘safeguards’ or trust, which means that books of theories arguing about the right contract or the right level of trust are neglected totally here and a third way, a from time to time rather chaotic way (see the example between the German Contractor and *The City*) is chosen in which the vendor has to study the payment habits of the purchasing company in order not to get defaulting him- or

herself. Or as the German Contractor called the process of gaining sufficient experience with the business partner: 'One has to learn how they tick!'

I will call this third way the 'learning route' below.

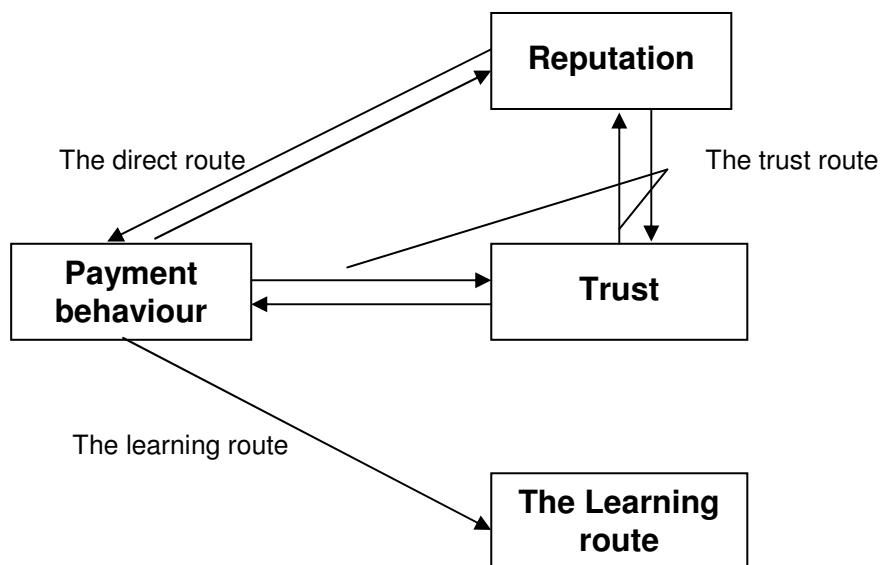
One could argue that the learning route ('learning how they tick') is simply another way of allowing trust, a low form of trust though. If one would use the word 'trust' in a common sense that would certainly be right. The only problem then is one considers a huge amount of definitions throughout all sections including a common use of this word, while it fits the purpose of this thesis naturally to concentrate on a more socio-economical one, which is here the one of Sako (2006). According to her article the lowest form of trust is defined as keeping the contract conditions mutually. Additionally one should keep in mind that this third way is not a foster ground for further trust. It is more a coexisting of firms and does not initialise a low form of a trust building process.

On the other side one could argue that the decision-maker in any way has to have some information, and by that has to learn about the other company in order to avoid total losses. This is proclaimed by the protagonists of the concept of control, namely the protagonists of the principal-agent-theory and the transaction-cost-theory. But in that way the decision-maker would have to apply one or another safeguard. Though, as one can imagine these safeguards would be considerably low. In case of *the city* the German Contractor often risks making unprofitable businesses. Thus the contractual ways can not be applied here as there are not sufficient measures taken guarding oneself against the opportunism of the prevailing counterpart. One simply seems to adapt to the situation without any safeguard devices.

Thus once again this route appears to stand on its own and seems to be a new route, a 'learning route'.

## 5.2 Reputation effecting Payment

The direct connection between payment behaviour and corporate reputation as well as the connection via trust as a possible slow-down that dampens a direct effect can as well function reciprocal as illustrated below.



### 5.2.1 Reputation effecting Payment Directly

The example of reference lists shows that it is possible to borrow reputation of renowned corporations. The prevailing decision-maker of the famous companies has often the power to take advantage out of this situation and pay later. That would once again make him or her act opportunistically. Thus a good reputation can influence the payment behaviour negatively. That this actually happens one can see in both countries Sweden and Germany.

This process happens rather directly and not via trust, because firms often already know that the prevailing famous company does not pay in time. Thus the contracts are not fully kept by the defaulting part and this on a regular basis ('Larger organisations hold their invoices consistently for 2-4 days more...' according to the Swedish Consultant). This acting prevents the business partners from reaching the lowest level of a trust building process, which is according to Sako (2006) the level of *contractual trust*. So without trust the connection

towards payment is rather without a hinder and happens directly that means it appears natural for the renowned purchaser to act this way.

This negative acting might feel alright for the prevailing decision-maker as his or her experience so far has been without negative consequences. This is just another way to see evolutionary theory taking place as this decision is assumingly based on a very personal level of 'Trial and Error'.

### **5.2.2 Reputation effecting Payment via Trust**

As I have highlighted in the section 4.5.2 corporate reputation can have a reciprocal effect on payment behaviour via the concept of trust. One strives rather to have a good business-relationship to the supplier of a quality product. Here the decision-makers on both sides decide to take steps towards each other. The vendor starts by delivering good quality and meets or exceeds the contractual conditions so that the purchaser is willing to pay in time and fulfil the contract from his side. On this way they have reached at least the lowest level of trust, the *contractual trust* if not *competence trust* and by that they have created a foster ground for higher levels of trust.

In other words, once trust has been build up it seems to function as an enhancer for payment as one is willing to pay faster than for a comparable low quality product.

### **5.3 The Different Routes**

Below I have summarised the different routes that are connected with payment behaviour combining them with their effects, the possible directions the routes can take and a short explanation about these routes – my findings.

<b>Routes connected with Payment Behaviour</b>	<b>Effecting</b>	<b>Possible directions</b>	<b>Explanation</b>
<b><i>The Direct Route</i></b>	Reputation	Back and forth	Payment behaviour can effect reputation but reputation can as well effect payment behaviour
<b><i>The Trust Route</i></b>	Reputation indirectly via the concept of trust	Back and forth	Payment behaviour
<b><i>The Learning Route</i></b>	The learning route	Only found evidence suggesting a dead end	Finding a way or undergoing continuous attempts to achieve and / or maintain a profitable coexistence with the absence of trust. Reputation not effected - if - secondarily

## ***5.4 The Individual***

According to my respondents the individual still acts rather opportunistically concerning other firms. This is a hindrance to a trust building process. However this does not mean that the individual, the decision-maker is opportunistic as a person. He or she is just trying to fit in into a complex system of different rules and guidelines which were established within the firm during an evolutionary process over time. Due to the Social-Impact-Theory of Latané (1981, Schwabe et al 2001) the stronger the group is, the stronger is the willingness of the individual to act conformingly. That means one is willing to overtake and to accept the rules and guidelines given by the company's experiences collected throughout the years.

That does not necessarily mean that the more or less imposed guidelines and rules contradict trust but it helps explaining why one or the other decision-maker takes decisions confirm to the company rules that are probably not confirm with the guidelines of fostering trust even though he or she might have the freedom not to follow the guidelines entirely. One reason the decision-maker does not leave the conformity is probably a certain degree of satisficing.

However many companies have decided for one or another measure that fosters trust. One of the best ways to foster trust is probably the personal contact as mentioned above. Some employees are only responsible for one customer in order to give the own company a more

personal face. One employs inter alia accountant managers for that purpose according to Alvesson (2004) and Child (2001).

### ***5.5 Contract or Trust – Safeguards versus Enhancers***

As I argued in the beginning of this paper trade credit is something very important and increases the amount of money that circulates in the whole society. So even if there is a third route - that of learning - trust still seems to be the most profitable way for all. It appears rather obvious that when every party keeps the margins of the payment conditions and trust is not misused firms are more willing to grant a trade credit. And according to Ng et al (1999) this could provide billions for an economy because then more money would be circulating and the stately economy would be better of. Vice versa, when trust is betrayed permanently, like in the articles of Paul (2007, 2008), these extra funds are lost and after all the national economy is suffering.

But as Sako (2006) states in her article, trust should not be seen too blue-eyed. One can easily see what happens when no safety measures are taken at all at the bank crisis in the US, which triggered the momentary low point in the trade cycle.

According to the information of my respondents, one still has a rather opportunistic attitude towards payment. However one should try to sew trust because the outcome can be a competitive advantage according to Sako (2006) and if not a contribution to strengthen the economy as it makes trade credits more secure.

So the question whether one should decide oneself for safeguards or trust enhancers has a clear tendency towards the enhancers of trust in my opinion, however not entirely without safeguards. I will address this topic in the section 5.5 and 6 again.

## **5.6 Evaluating the Routes to Reputation**

As I have discussed above, trust appears to be the best way, though one has to be careful and one should not trust blindly. And obviously safeguards are accompanied by too high transaction costs. But there is still the third route, the learning route. So whenever the best way, trust, is not given then one could still decide oneself to choose the learning route, learning about the habits of the other company. The obvious advantage is that a business could run and be profitable even without the common safeguards, even without trust as it is defined by Sako and Child. Just remember the example of the car seller! The *German car seller* was not able to make a deal, while the *French car seller*, obviously having less strict safeguards, could sell a new car. And another example happened the German Contractor. He permanently has to ring *the city* in order to get his money but he still makes a profit and names *the city* as one of his most important key account. Of course, even this method has its traps and one should really understand how the counterpart 'ticks' before one agrees to a deal.

## **5.7 Lessons for Practise**

It is always advisable to collect as much information about the potential business partner as possible. In the beginning the 3 S-model (*signalling, screening, self-selection* (Akerlof, 1970)) might help and information is easy to obtain as there are many credit enquiry agencies, who give information against a minor fee. However this fee might be worth it as it provides the decision-maker with valuable information about the payment behaviour of the counterpart and shifts the equilibrium of the information asymmetry a bit further to a favourable side for oneself. By this, one can calculate the own costs better and reduces possible transaction costs.

Larger corporations should not misuse their position and pay late, as this already destructs the lowest form of trust, which is according to Sako (2006) the so called *contractual trust*. Furthermore the destruction of trust might lead to a late payment problem as described by Paul (2007, 2008) and this would have negative consequences for the whole society as explained above. Sako furthermore suggests that one should foster trust so that one can reach



the highest level of trust and thereby gain competitive advantages. Thus keeping agreements fulfilling or exceeding the other ones expectations and the permanent exchange of relevant information and other 'gifts' lead over (Sako's) *competence trust* towards *goodwill trust*. And *goodwill trust* gives the company even competitive advantages according to Sako.

Smaller companies who naturally have a minor budget should take the gathering of information very serious and adapt to the prevailing customer. One should calculate carefully and rather accept the strange behaviour (*the city*) of some important customers and learn how they react, than missing the opportunity of an in the end profitable business.

Nowadays the economic situation is marked by a slowdown. This is the reason why one probably has to accept customers who are difficult in their payment habits more generally. In spite of taking up the toolbox of 'safeguards' one should first of all try to understand the customer and learn 'how they tick'. If this business is after all profitable, one should keep it up. And this could be the feeding ground for trust if not now, then in better times.

In the end one should not to ask oneself the question: 'Can I afford this customer?' The right question would be whether the customer is profitable for the company or not. Though, this again is necessarily in a way opportunistic.

## **5.8 Sweden and Germany**

I could not find relevant differences concerning a better or weaker payment habit of either individuals within firms in Sweden and Germany. In both countries an institutional precondition for 'jump start' trust is given. That means that one finds a sufficient legislative that should save the prevailing decision-maker in business from far too defaulting companies. The solvency laws in both countries are very strict.

What is alarming though is that state institutions such as the German municipalities do not pay accordingly. The Swedish municipalities on the contrary seem to pay as they are supposed to, which is postulated by the respondents at least. Breaking the rules at least

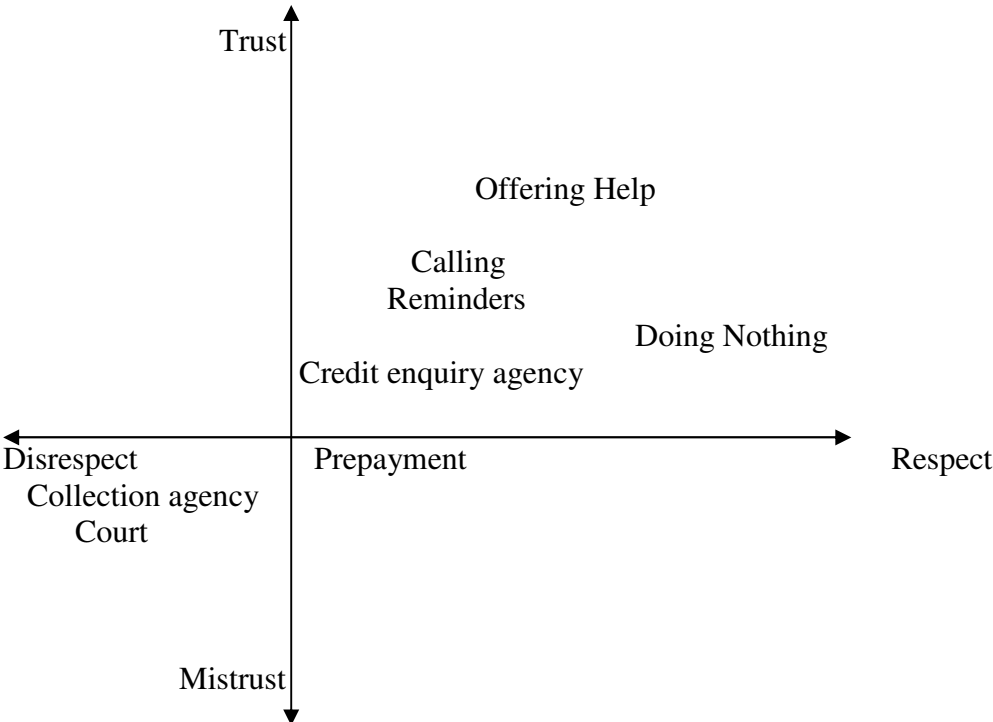
slightly seems to be daily business of some larger corporations in both countries though one is still far away from a late payment problem as described by Paul (2007, 2008). So that not every large corporation brings smaller companies into trouble, though this occurs.

An incentive to pay is cash discount, which is not used in Sweden according to my respondents. Cash discount could as well be seen as a punishment for those who pay late. To pay 1.5 or more percent above the cash discount price means an effective interest on a yearly basis of over 30 percent. Thus cash discount could be one further measure to prevent a late payment problem, which seems to be absent in Sweden.

**5.9 Ideas for Further Research**

During my interviews I came across some very usable measures that can be taken in case a company defaults, depending on whether one can trust or can not trust the defaulting party or whether one needs to be careful or not for not harming a valuable business relation.

**Respect pattern**



When a company does not need to care for a business relation the decision-maker can act rather determinedly in order to receive the charged money. I called that behaviour disrespect in the figure above because at this stage not even the slightest respect for a business relation is left and one chooses to take measures, which only weaken the business relation. Just think of engaging a collection company which is probably using doubtful measures to attain the charged fee. Choosing a measure that leads in into the court would end up many business relations as well. At the same time one does not have left any trust for these companies one faces within a lawsuit. Taking legal actions one possibly thinks that it would be better to sue the other company instead of getting no money at all. But that obviously does not serve the business-relationship. One picks this method, when things are already grounded and one does not put any value in proceeding with the business relationship. Other measures can be taken when the respect is very low, almost not existent but still away from a willingness to take revenge or to harm the other company. As such there was the example above that the cooperation with credit enquiry agencies happens like usual business. In that sense one does not disrespect the other company at all but the respect concerning the business relation hardly exists. 'Offering Help' is a measure that for instance the German Food Supplier is taking with some of his customers. He offers a huge amount of services to facilitate the business of running a large kitchen for the customer and thereby helps the customer to get out of any defaulting trap. This method clearly speaks for much more respect and a higher trust in the customer as well.

But as stated above this model is quite preliminary, it is intended as a suggestion for further studies. It needs to be backed up with a more positivistic approach and should be statistically tested. It is questionable whether respect and disrespect are the right variables and of course there are much more measures to investigate, a whole palette of juridical defaulting measures, taken to get the money in the end.

Research involving the institutional aspects a bit more and a study of for payment behaviours in certain business fields could also yield interesting findings. Moreover, it would be interesting if the learning route could be statistically tested, too.

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### **6.3 Webpages**

<http://dspace.mit.edu/bitstream/handle/1721.1/1462/175a.pdf;jsessionid=987CEB5A8692889DC735F92902065176?sequence=1> (Sako 2006)

<http://news.bbc.co.uk/2/hi/entertainment/7399921.stm>

<http://www.groundedtheory.com/>

[http://www.hss.de/downloads/081016\\_Argumentation-kompakt.pdf](http://www.hss.de/downloads/081016_Argumentation-kompakt.pdf) (Witterauf 2008)

<http://www.qualitative-research.net/fqs-texte/2-04/2-04glaser-e.htm> (Article Glaser (2004)↑)

<http://www.qualitative-research.net/fqs-texte/3-04/04-3-22b-e.htm> (Strauss quotation)

<http://www.sueddeutsche.de/finanzen/634/426391/text/>