

# Reputation Management as a Motivation for Sales Structure Decisions

The authors examine whether reputation concerns affect how manufacturers structure their sales organization. Using reputation theory, they examine whether reputation-related perceptions and beliefs affect whether a manufacturer that currently uses an outside selling organization (i.e., a "rep") intends to vertically integrate the selling function or switch to a new rep. In particular, they propose that a manufacturer's intentions to replace its current manufacturers' rep with a company sales force or a different rep is a function of its perceptions of the reputation of itself and the rep and its beliefs about how high-reputation manufacturers in the industry typically organize their selling function. Survey data support the plausibility of these reputation-based arguments as factors that influence sales organization structure decisions. These results provide some important extensions to reputation theory. The authors discuss the study's implications for both managerial behavior and the literature on channels and organizational governance.

**A**n important topic in marketing involves how manufacturers choose the structure of their sales organization (e.g., Anderson 1985; Anderson and Coughlan 1987; Klein, Frazier, and Roth 1990). Manufacturing firms often create their sales organization by outsourcing the personal selling function to an independent organization (i.e., a manufacturers' "rep"). Over time, manufacturers may decide to change their sales organization structure by vertically integrating the selling function or maintain the structure but switch to a different rep (Corey, Cespedes, and Rangan 1989; Weiss and Kurland 1997). Currently, research addressing the motivations underlying these decisions is limited in at least two ways.

A first limitation is that, though several theories have been proposed to explain manufacturers' motivations for using either a rep or a vertically integrated sales organization structure, most are tied to economic-based efficiency or effectiveness motivations (Heide 1994) with an emphasis on the role of transaction-specific assets (e.g., Anderson 1985, 1988; Heide and John 1988). Although economic motivations undoubtedly affect sales structure decisions (Powers 1987), findings by Weiss and Anderson (1992) suggest other motivations. Their results indicate that manufacturers manipulate the perceived costs of changing their current rep so

they appear consistent with their preconceived intentions to change. Thus, the decision to vertically integrate the selling function or change reps appears to be psychologically motivated, with "economic" rationales assembled as postdecision justifications.

Moreover, observations of such decisions in practice suggest the existence of specific psychological motivations—those grounded in the decision's impact on the firm's reputation. Research in management, sociology, and psychology is consistent with the idea that managerial decisions are affected by consideration of the firm's reputation (Bromely 1993; Fombrun and Shanley 1990). However, the effect of reputation on sales organization decisions has been neither theoretically proposed nor empirically tested.

A second limitation of current research on a firm's decision to outsource or integrate its selling function is the assumption that there was no structure in place and that firms select the most appropriate structure for going forward. However, the presence of a preexisting system appears to affect the system going forward (Anderson 1985; Anderson and Coughlan 1987). Furthermore, changing from one system to another is not costless. As Weiss and Anderson (1992) demonstrate, perceived switching costs indeed do deter manufacturers from switching from a manufacturers' rep to an employee sales force. Thus, it is useful to consider how firms make sales organization structure decisions, assuming a structure is already in place.

The current research builds on these ideas by examining whether reputation concerns influence how manufacturers intend to structure their sales organization. Our study focuses on manufacturers that currently use an independent sales force. We ask whether their intentions to integrate vertically or switch to a different rep are driven by reputational concerns. Reputation theory (Bromley 1993; Dranove and Shanley 1995; Emler 1990; Fombrun and Shanley 1990) guides our empirical predictions. In the following sections

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we review literature relating to reputation constructs and develop explicit hypotheses. We present the results of the empirical study and end with a discussion of its limitations, implications, and directions for further research.

Our study makes several contributions. First, we offer theoretical grounding and empirical support for the idea that sales organization structure decisions are influenced by reputation concerns. Second, we demonstrate the unique insights gained by examining a manufacturer's perceptions of its own reputation, its rep's reputation, and the reputation gap between the two. Third, we identify managerial implications that stem from our findings.

## Conceptual Background

### *What Is Reputation?*

*Reputation* is defined as "an impression of public esteem or high regard judged by others" (*Merriam Webster's Collegiate Dictionary* 1996, p. 1001). Several aspects of the definition warrant attention. First, it is important to clarify the meaning of "public esteem" and "high regard." Prior work suggests an organization is held in public esteem or high regard when it is viewed as both visible and credible (e.g., established, professional, and a stable player in the marketplace) (Fombrun 1996; Fombrun and Shanley 1990). Although individual persons may have perceptions of an organization's reputation for specific things (e.g., its reputation for fairness, quality, and good hiring practices), research suggests that persons tend to make global evaluations of an organization's reputation. Hence, reputation tends to be regarded as a unidimensional, not multidimensional, construct (Theus 1993; Yoon, Guffey, and Kijewski 1993). In accord with these ideas, we view reputation as a global perception of the extent to which an organization is held in high esteem or regard.

Second, it is useful to consider the entities whose reputations may be evaluated (Bromley 1993). In a sales organizational structure context, a manufacturer may consider the reputation of at least two entities: itself and its current rep. In the present study, we examine the reputation of both. We assess these constructs separately and examine the impact of any gap between them.

Third, it is important to specify the "other people" who judge reputations. Multiple external publics may judge an organization's reputation (e.g., industry analysts, stockholders). However, in a sales organization context the manufacturer is likely to be concerned particularly about how *customers* perceive it and its rep (whether veridical or not). Thus, we focus on the manufacturer's perceptions of the extent to which customers hold the manufacturer and its rep in high regard.

Fourth, it is important to differentiate conceptually "reputation" from the more specific term "image." Reputation and image are conceptually similar, because both reflect perceptions of an entity. However, they are conceptually distinct in several important ways.

First, an image reflects a set of associations linked to a brand or company name that summarizes a brand or firm's *identity* (i.e., what it stands for; Park, Jaworski, and MacIn-

nis 1986). Thus, United Airlines cultivates an image of friendliness, Apple an image of ease of use, Rolex an image of luxury, and Campbell's an image of home cooking. Reputation, in contrast, reflects an overall judgment regarding the extent to which a firm is held in high esteem or regard, not the specific identity it has. Thus, whereas image reflects what a firm stands for, reputation reflects how well it has done in the eyes of the marketplace. Image and reputation are distinct concepts as each can vary independent of the other. A firm can change its image through repositioning, though its reputation remains intact. Thus, the "softer side of Sears" campaign has altered customers' perceptions of what Sears stands for (its image), though it has not affected the esteem or regard with which customers view Sears. (Sears has been and still is regarded as a highly reputable firm.) Conversely, a firm's reputation may be affected negatively, even though its image remains intact. For example, a restaurant with an image of "great fast food" may be regarded as nonreputable if it is discovered that its owner is engaged in illicit activities. Notably, though, this negative reputation need not alter customers' image of the restaurant as a place that serves great fast food.

Second, the extent to which customers view a specific image as desirable is likely to be specific to a market segment. As such, a firm's image may not necessarily be desirable to customers even though they may agree that its visibility and credibility render its reputation highly positive. Thus, Rolex may have an image of luxury and a highly favorable reputation as a company, even though the image of luxury may not be desirable to all customers. In contrast, customers are likely to regard a favorable reputation as desirable no matter what segment they belong to.

### *Basic Elements of Reputation Theory and Its Link to Marketing*

Reputation theory (Bromley 1993; Emler 1990) suggests that a social entity (e.g., a person, an organization) engages in several reputation-related processes. It actively monitors reputations—both its own and others'. Evidence suggests firms indeed are interested in monitoring their own reputation (Bromley 1993; Leuthesser 1988). A well-recognized measure by Owen (1993), for example, examines the esteem with which customers hold various brands and companies. Manufacturers also may be concerned about monitoring the reputation of their rep. This idea is consistent with agency theory (Bergen, Dutta, and Walker 1992). That literature views monitoring of an agent (i.e., a rep) as important because it assumes that the extent to which a manufacturer designs an efficient contract should be linked, in part, with its ability to monitor its rep's activities.

Monitoring gives rise to perceptions of the extent to which the entity's reputation is good or bad. Monitoring also facilitates the development of reputation-related beliefs. Such beliefs may be described as either causal or descriptive (Fishbein and Ajzen 1975; Nisbett and Ross 1980). The former reflect the extent to which a specific action is viewed as instrumental in affecting a firm's reputation. In a causal belief statement, the observer believes that X drives Y. For example, a manufacturer may have strong beliefs that its own poor reputation is caused by its affiliation with a certain rep.

Descriptive beliefs, in contrast, reflect a set of associations tied to a social category. For example, a manufacturer may attach to its schema of "highly reputable firms" beliefs about the characteristics associated with these firms (e.g., highly reputable firms use their own sales force). Descriptive beliefs simply represent observations without reference to causality.

Writings by practitioners indicate that practitioners indeed do hold reputation-related beliefs. Lebell (1971, 1977), a practitioner-writer, writes that reputable manufacturers support the rep better and improve the rep's credibility. Similarly, Lavin (1991) of Lavin Associates, a consulting firm that specializes in consulting to reps and manufacturers, writes that the lines the rep carries affect its reputation. That these beliefs exist is also evident in our own discussions with manufacturers and reps.

In addition to monitoring reputations, reputation theory proposes that a social entity also acts to manage its reputation (Bromely 1993). Reputation management is a general phenomenon that need not occur in response to a reputation problem. In other words, whereas an entity with a poor reputation may engage in actions that enhance its reputation, even an entity with a favorable reputation may engage in actions designed to sustain or enhance its reputational standing. Although ideas regarding reputation management have not received much attention in the marketing literature, the notion that a manufacturer is concerned about managing its reputation seems plausible, because reputation perceptions are linked with outcomes deemed important to the firm (for reviews, see Bromley 1993; Yoon, Guffey, and Kijewski 1993). For example, favorable reputation perceptions have been linked with a firm's ability to survive crises (Shrivastava and Siomkos 1989), positive customer attitudes toward the company's products and salespeople (Brown 1995), enhanced buying intentions (Yoon, Guffey, and Kijewski 1993), and choice (Traynor 1983).

Ideas regarding reputation monitoring and management have not been applied directly to marketing activities, including the sales organization structure decision.<sup>1</sup> Yet, a firm's sales force is the face of the company to what is arguably its most important group of constituents: its customers. The company's survival and prosperity depends on customers' reactions to its product offering, a reaction heavily dependent on the competence of the firm's sales force. Thus, it seems important to examine whether reputation-related perceptions and beliefs (derived from monitoring activities) affect a manufacturer's intentions to change its sales organization structure by vertically integrating or by staying

<sup>1</sup>In using reputation theory to predict the intentions of a manufacturer, we often assume an analogy between an individual person and an organization. In his review of organizational theory on this issue, Rousseau (1985) suggests such analogies be made with caution. The analogy is most likely to apply in settings where a few people are key players and where a corresponding economic rationale can be developed for social-psychological processes. In our hypothesis development in the next section, we note such rationales. Our setting, as noted in the "Methodology" section, is one in which the key (though not the only) players are sales managers and sales agency heads.

with the current structure but switching reps. If so, such actions may be direct efforts on the part of the manufacturer to manage its reputation. In the following sections, we use reputation theory to offer insight into these issues.

## Hypotheses

### ***The Perceived Gap in Reputation and Beliefs as Bases for Actions***

*The gap in perceived reputation.* A fundamental principle of reputation theory is that a social entity is an assiduous monitor of its own reputation and that it actively attempts to uncover the reputations of others (Bromley 1993; Emler 1990). In a sales organization structure context, this suggests that a manufacturer may monitor customers' perceptions of both its own reputation and the reputation of its rep. Moreover, because a manufacturer may monitor the reputation of both entities, the two reputations may be compared. Social comparison theory (Festinger 1954) purports that social entities are motivated to compare their abilities and characteristics with referent others. Such referent others may provide a frame of reference against which one's own characteristics are judged (Tversky and Kahneman 1981).

Prior research indicates that social comparisons are endemic in an organizational context. They occur among persons within a firm (e.g., Sweeney, McFarlin, and Interrieden 1990), between organizational members and the firm as a whole (Dutton, Dukerich, and Harquail 1994), and among firms (e.g., Elsbach and Kramer 1996). Such comparisons are particularly likely when the dimension of comparison is viewed as important or highly relevant to the social entity. Because reputations are regarded as important and relevant to firms, we anticipate that a social comparison process regarding reputation indeed does operate among firms. The reputation of the manufacturer and the rep are comparable because, though they may be based on different things (e.g., the ability to produce high-quality products, the ability to manage customer relationships through selling), each is a perception of how well the manufacturer or selling organization has done in the eyes of the marketplace. In a sense, the reputation is the grade the customer assigns the organization or the rep. Because they do different things, the grades are computed differently, but an "A" grade still means high regard.

If a firm does compare its reputation with referent others', such monitoring may give rise to a gap between the perceived reputation of one entity (e.g., the manufacturer) and another (e.g., its rep). *Reputation gap* is defined as the distance between the perceived reputation of two entities.

The distance between the perceived reputation of the two entities has two critical components: direction and magnitude. *Direction* refers to whether the manufacturer's reputation is more favorable (a positive gap) or less favorable (a negative gap) than that of its rep. *Magnitude* reflects the extent to which such a gap (whether positive or negative) is large or small. Thus, a large positive gap exists when the manufacturer perceives its own reputation as far more positive than that of its rep. No gap exists when the manufacturer perceives its reputation as similar to that of its rep. A large

negative gap exists when the manufacturer perceives its reputation as far less positive than that of its rep. Notably, although reputation theory assumes social entities are assiduous reputation monitors, the concept of a reputation gap is an extension of the theory. Hence, the subsequent "gap" hypotheses are regarded as exploratory. Moreover, although we have found no published literature describing the extent to which manufacturers and sales reps develop perceptions of a reputation gap, that perceptions of a reputation gap are formed seems to be natural because manufacturers and reps are assumed to be active monitors of their own reputation and that of other entities. To the extent that evidence implicating effects for a reputation gap are observed, this research will be the first to establish the importance of the gap concept.

#### *The motivational properties of a positive perceived gap.*

If the manufacturer does compare its reputation with that of its rep, the existence of a positive gap may affect the manufacturer's desire to take action to manage this gap. There are two reasons to expect that a large positive gap heightens the manufacturer's need to act. First, because the manufacturer is concerned about its reputation, a perception of its rep as having a reputation significantly inferior to its own may lead a manufacturer to believe that the rep's reputation is costing the manufacturer sales and perhaps margin. Framing theory predicts that social entities are generally sensitive to monetary losses and that the effects of such losses loom larger than gains (Kahneman and Tversky 1979; Tversky and Kahneman 1991). Because manufacturers generally are averse to loss, they may be motivated to act to reduce these economic costs. Second, a reputation gap also may motivate the manufacturer with a significantly favorable reputation as compared with its rep to act because it may believe that it has outgrown its rep and is capable of either attracting a rep with a better reputation ("moving up") or performing the selling function better itself.

*The role of reputation-related beliefs.* Desire to manage a reputation, however, does not provide any indication of the reputation-management action taken. Reputation theory predicts that another factor is necessary to understand the specific actions taken to enhance or sustain a reputation. More specifically, reputation perceptions affect reputation management actions when they are consistent with reputation-related beliefs. Because our previous discussion of the gap concept explicitly focuses on reputation perceptions (of the manufacturer as compared with its rep) and not beliefs, we clarify here the concept of reputation-related beliefs.

Previously, we identified several classes of reputation-related beliefs. We focus here on *descriptive beliefs*—specifically, the extent to which the manufacturer strongly believes that highly reputable firms use their own sales force. We focus on this belief variable for two reasons. First, beliefs about the practices of highly reputable firms may serve as a frame of reference, prototype, or example of "best practice." Thus, whereas the rep may provide one frame of reference against which the firm's reputation is judged, the practices of highly reputable firms may provide another frame of reference against which reputation-related sales organization structure issues are considered. Second, this be-

lief variable provides a fairly strong test of reputation theory. Although firms may intend to act in a manner consistent with what they believe causally affects their own reputation, it is not obvious that descriptive beliefs about what highly reputable firms do are sufficiently salient or important to affect such intentions.

*Perceptual gap-belief consistency.* If reputation does affect sales organization structure decisions in a manner consistent with reputation management theory, we should find that reputation perceptions are more likely to affect those reputation management actions that are consistent with reputation-related beliefs. We therefore expect that the reputation gap and beliefs about the efficacy of reputation-related actions jointly affect the reputation-management actions intended by the manufacturer. Thus, the more a manufacturer perceives that its own firm's reputation is better than the reputation of its rep (i.e., there is a positive gap), the more the manufacturer should manage this reputation gap in a manner consistent with its reputation-related beliefs. The more strongly it believes that highly reputable firms use their own sales forces, the more it should manage this reputation gap by doing what it believes highly reputable firms do—using a vertically integrated sales organization. Specifically, we expect the following:

H<sub>1a</sub>: The manufacturer's intentions to vertically integrate increase with combined increases in (1) the positive gap between the manufacturer's perception of its own reputation and that of its rep and (2) its belief that highly reputable firms use their own sales force.

Whereas H<sub>1a</sub> focuses on belief-consistent reputation management actions, a direct implication of the theory is that a manufacturer should be less likely to perform belief-inconsistent reputation management actions. If a manufacturer perceives a large positive reputation gap and strongly believes that highly reputable firms use their own sales force, one action inconsistent with this belief is to change reps. It should therefore *not* manage this gap by doing something different from what it believes reputable firms do (e.g., change reps). Thus, to the extent that switching reps is a viable action, we should observe the following:

H<sub>1b</sub>: The manufacturer's intentions to switch to a new rep decrease with combined increases in (1) the positive gap between the manufacturer's perception of its own reputation and that of its rep and (2) its belief that highly reputable firms use their own sales force.

### **Decoupling Reputation Perceptions**

The following sections extend our analysis of reputation perceptions and beliefs in two ways. First, although the gap concept provides an interesting extension of reputation theory, it focuses only on the relative difference in direction and magnitude in reputation perceptions between the manufacturer and its rep. It therefore ignores the absolute level of reputation perceptions of the manufacturer and/or its rep. Two different gaps could be equal in magnitude and direction yet represent vastly different reputation levels for both the manufacturer and its rep. Second, the gap concept obfuscates the distinction between the effects of the manufacturer's reputation and those of the reputation of its rep. As

such, it is difficult to tell whether perceptions of the manufacturer's reputation and the rep's reputation each interact with beliefs to affect sales organization structure intentions or whether the reputation of one entity (the manufacturer or the rep) plays a role and the other does not. We explore these issues in the following sections.

*The rep's reputation and the manufacturer's beliefs as bases for actions.* A manufacturer's motivation for taking reputation management actions is likely to surface when its rep's reputation is perceived to be poor or low. The notion that a rep with a poor reputation would motivate a manufacturer to manage this situation actively is consistent with the "fundamental attribution error" (e.g., Ross 1977). Specifically, social entities tend to attribute negative outcomes that accrue to another entity (e.g., sales below expectations achieved by the rep) to that entity's internal characteristics (e.g., the rep's motivation or ability), as opposed to external sources (e.g., unfortunate extraneous circumstances). Thus, if a manufacturer perceives the rep's reputation as poor, it is likely to view the rep as solely and causally responsible for disappointing results. The manufacturer may fail to consider whether there might be mitigating circumstances (such as an economic downturn) or whether the manufacturer itself is at fault (by missing delivery deadlines, for example). In short, the manufacturer may blame reps with poor reputations for negative outcomes. Second, a rep with a poor reputation also may motivate a manufacturer to act because the manufacturer may fear that this poor reputation may "infect" its own reputation.

If the rep's poor reputation does motivate the manufacturer's desire to take reputation management actions, consistent with reputation management theory, we anticipate that the manufacturer's beliefs about the extent to which highly reputable firms use their own sales force will affect how it acts. If the manufacturer perceives the rep as poorly reputed and it strongly believes that highly reputable firms use their own sales force, it is likely to vertically integrate. It should not do something different than what it believes reputable firms do (i.e., change reps). Thus, we expect the following:

- H<sub>2a</sub>: The manufacturer's intentions to vertically integrate increase with combined decreases in the manufacturer's perception of its rep's reputation and increases in the manufacturer's belief that highly reputable firms use their own sales force.
- H<sub>2b</sub>: The manufacturer's intentions to switch to a new rep decrease with combined decreases in the manufacturer's perception of its rep's reputation and increases in the manufacturer's belief that highly reputable firms use their own sales force.

*The manufacturer's reputation and beliefs as bases for actions.* We also might question whether the manufacturer's perception of its own reputation and its beliefs affects its reputation-management actions. The general applicability of reputation theory to sales organization structure decisions would be quite powerful if manufacturers' actions also were affected by these reputation-related variables. Again, extant theory provides some interesting perspectives on this issue.

Because firms are assumed to be active reputation monitors and because they have an implicit desire to manage

their reputations, we might expect that a manufacturer's motivation to change its current rep relationship might be strong when it perceives its own reputation as poor. However, we do not believe that a manufacturer with a poor reputation attempts to enhance its reputation by changing its sales organization structure. Several factors motivate our reasoning.

Note that a manufacturer may attribute a poor reputation to either external factors or its own (poor) efforts. Let us take each situation in turn. First, it is highly likely that a manufacturer will attribute a poor reputation to external factors. This is predicted on the basis of social entities being biased in the extent to which they attribute success or failure to themselves or others (Myers and Bach 1976). If a poor reputation is attributed to external factors, it is questionable whether this poor reputation is managed through changes in the selling function. A poor reputation perceived to be caused by external factors might be due to external circumstances or the actions of any one of several agents with whom it has direct contact (e.g., suppliers, financial institutions, distributors, its selling partners). Thus, although a firm with a poor reputation indeed may engage in reputation management activities, it is most likely to engage in actions directly related to those entities viewed as causally responsible. Only in some cases may the rep be viewed as the causal agent. In those other situations, the most effective action is not to change the selling organization structure, but rather to engage in reputation management activities that are most directly relevant to the offending party.

Second, even if the manufacturer does attribute its poor reputation to its own efforts, it may be motivated not to act and to stay with its existing rep, because staying with the status quo seems like a safe option. Taking on the selling function internally (e.g., by vertically integrating) would seem to be a relatively ineffective method of enhancing a manufacturer's reputation, because its reputation is already poor. Furthermore, a manufacturer might not believe that switching reps has the potential to enhance its reputation because its own poor reputation might make it difficult for the manufacturer to attract a more reputable rep.

In contrast, we believe that a manufacturer is motivated to manage its reputation through its sales organization structure when its current reputation is highly favorable. First, because successes tend to be attributed to oneself, a manufacturer with a favorable reputation is likely to perceive that its own actions are responsible for its reputational success. Because it has been responsible for garnering a positive reputation, it should be equally capable of sustaining it in the future. Second, firms that believe they are esteemed highly by customers may see themselves as actual or potential members of the broad category of "highly reputable" firms. Research in both individual (Tajfel et al. 1971; Taylor, Crocker, and D'Agostino 1978) and organizational contexts (Dutton, Dukerich, and Harquail 1994; Dutton and Penner 1993) suggests social entities wish to perceive themselves as belonging to a group. Moreover, if a social entity views its actual or ideal self-identity as consistent with a social category, it is motivated to act to maintain or preserve its association with such a group so as to differentiate itself from outgroup members (i.e., nonreputable firms) (Kelley 1988; Taylor et al. 1978).

If increases in the manufacturer's perception of its reputation do increase its desire to manage its reputation actively, we anticipate that the manufacturer's beliefs about the extent to which highly reputable firms use their own sales force will affect how it acts. Consistent with reputation management theory, the manufacturer should act in a manner consistent with its reputation-related beliefs. Thus, the more the manufacturer perceives itself as highly reputed *and* the more strongly it believes that highly reputable firms use their own sales force, the more it is likely to vertically integrate. It should not do something different than what it believes reputable firms do (i.e., change reps). Thus, we expect the following:

- H<sub>3a</sub>: The manufacturer's intentions to vertically integrate increase with combined increases in the manufacturer's perception of its own reputation and its belief that highly reputable firms use their own sales force.
- H<sub>3b</sub>: The manufacturer's intentions to switch to a new rep decrease with combined increases in the manufacturer's perception of its own reputation and its belief that highly reputable firms use their own sales force.

## Methodology

### Context and Sampling Strategy

We gathered data from managers in the electronic components industry. Several factors motivated the selection of this industry. First, sales organization structure is regarded as an important factor that determines marketplace success in this industry. The industry context therefore provides an opportunity to observe the potential impact of reputation-based motives on sales organization structure decisions. Second, this industry is characterized by intense competition, a wide range of product offerings, and diverse subenvironments (creating variation on crucial variables). Moreover, researchers (e.g., Anderson 1985) have noted considerable variation in the usage of rep and direct sales forces in this industry. Third, because work on sales organization structure typically has focused on economic motivations, using an industry for which economic motivations for sales structure decisions are strong creates a relatively severe test of the reputational motive.

With the cooperation of two trade associations and a major industry publication, a random sample of 1209 companies known to use manufacturers' reps was drawn from two trade association mailing lists. Pretested surveys were sent to the district sales manager in each firm who was in a position to indicate the firm's intention in relation to the rep. These managers serve as the manufacturer's liaison to the rep and strongly influence the organization's view of the rep. They are responsible for determining the future of the rep's relationship with the manufacturer (Gibbons 1988), and they are the critical decision maker regarding sales organization structure decisions. Because our respondents are knowledgeable and influential regarding the rep organization, they satisfy Campbell's (1955) criteria for key informants. Callbacks and a follow-up mailing resulted in 258 responses. One hundred forty-three of the 1209 firms were subsequently identified as "out of business." Hence, the re-

sponse rate was estimated conservatively as 24%. Comparison of early and late respondents, in which later respondents are taken as representative of nonrespondents (Armstrong and Overton 1977), revealed no statistically significant differences in the descriptive characteristics of these groups.

Reps are local entities, and manufacturers typically cover a marketplace by patching together a network of reps, all operating in different geographies or with different customer bases. The questionnaire asked respondents to choose one current rep organization in the sales manager's district and respond with this rep and its customers in mind. Three versions of the survey were distributed in equal proportions. Each asked managers to respond regarding one of their better, midrange, or poorer reps, respectively. This procedure was designed to create variation in the dependent variables. Returns came back in approximately equal proportions to the three distributed questionnaires; of the 258 returned questionnaires, 90 focused on a poorer-performing rep, 84 on a midrange rep, and 84 on a best-performing rep. Overall, the threat of nonresponse bias appears minimal.

The questionnaire was developed using extensive pretesting. The survey was administered personally to a district sales manager from each of five different manufacturers. The survey minimized halo effects by allowing indicators of the constructs to be separated by several other questions. For example, seven pages of questions separated the scales measuring managers' perceived reputation of the rep and their intention to use a direct sales force. The pretest revealed that respondents could respond easily to the measures and the survey instrument.

### Measure Development

Measures of all constructs were developed using guidelines recommended by Nunnally (1978). The domain of the relevant construct first was specified. Items subsequently were drafted on the basis of their mapping with the construct's conceptual definition. Most of the items are recorded on a seven-point agree-disagree format. Items were pretested for clarity and appropriateness using a pilot sample of five district sales managers and were rewritten if necessary. Combined, the three hypotheses reflect the two dependent variables we describe next.

### Dependent Measures

*Intention to integrate vertically.* The manufacturer's intention to integrate the selling function (INTEGRATE) was indicated by a six-item scale (Cronbach's alpha = .90). These items index the manufacturer's seriousness about dispensing with its rep and setting up a direct sales force in the near future (two years or less). An example of an item from this scale is, "We will convert this territory to a direct sales force in the near future."

*Intention to change reps.* The manufacturer's intention to change to a different manufacturers' rep (CHANGEREPA) was assessed by a separate four-item scale (Cronbach's alpha = .90) tapping the manufacturer's seriousness about switching reps over the near term (two years or less). Extensive pretesting indicated this could be operationalized as two years or less. An example of an item for this scale is, "In

this district, we intend to do our sales through a different rep within the next two years.”

Managers' responses to the CHANGEREP and INTEGRATE scales were orthogonal ( $r = .002, p < .48$ ). This empirical result is consistent with pretest respondents' comments that they did not necessarily view these as either-or decisions. The statistical independence of these two measures is also consistent with the idea that consideration of both options can proceed in parallel for some time. The statistical independence of these two measures is important, because if these were either-or decisions, empirical support for the second part of each of the three hypotheses (e.g.,  $H_{1b}$ ) could be considered redundant with the first part (e.g.,  $H_{1a}$ ). That the constructs are orthogonal suggests that statistical support or rejection for either part of the hypothesis is possible.

### Independent Variables

*Perceptions of the manufacturer's reputation.* The manufacturer's impression of how customers perceive its own reputation (OWNREPUTAT) was assessed by a seven-point semantic differential scale consisting of five pretested items (e.g., “How do buyers in this sales territory view your company at this time?” [unstable; stable]). Operationally, firms with more favorable reputations believe their customers perceive them as highly regarded, professional, successful, well-established, and stable. These items are not designed to assess whether the manufacturer has a reputation for anything in particular. Nor is it evident what actions, attributes, or signals the manufacturer may possess or employ to create the impression of having a favorable reputation. Thus, consistent with the unidimensional perspective on reputation (e.g., Yoon, Guffey, and Kijewski 1993), this measure captures generalized reputation perceptions. Reliability of this measure is reasonably high (Cronbach's alpha = .84). Therefore, all items were summed to form a composite index.

*Perceptions of the rep's reputation.* The manufacturer's impression of how customers perceive its rep's reputation (REPsREPUTAT) was assessed using the same five items in response to a question about how customers view the manufacturers' rep. Reliability of this scale is also high (Cronbach's alpha = .86), and items were summed to form a composite index. The extent to which a manufacturer perceives its rep to have a poor reputation is measured with a reverse scale of REPsREPUTAT. We call this variable REPs-DEFICIT. It is used in our statistical test of  $H_2$ .

*Perceptions of the reputation gap.* The measure of the gap between the perception of the manufacturer's reputation and that of its rep (GAP) was assessed by subtracting REPsREPUTAT from OWNREPUTAT. The coefficient alpha for this difference score is .80, as calculated using the method of Peter, Churchill, and Brown (1993).

*Beliefs about what reputable firms do.* The manufacturer's belief that highly reputable firms use an integrated sales force (BELIEF) was indicated by a set of four questions that asked managers to rate on a 1–7 disagree/agree scale the extent to which they believe the most established and successful firms use their own sales force and the extent to which

they believe firms that use their own sales force are regarded with confidence and are taken seriously (e.g., are reputable). An example of this item is, “Customers in this business have more confidence in firms which have their own sales force” (1 = disagree; 7 = agree). The reliability of this four-item scale is adequate (Cronbach's alpha = .75). Because there is no consensus in this industry about whether using a direct sales force signals a firm's reputation, there is considerable variation in our data set on this belief variable.

### Control Variables

We included several variables known to affect organizational structure decisions in all statistical tests as control variables. We also included other variables thought potentially to affect intentions to vertically integrate or switch to a different rep as controls. We describe the specific control variables and the rationale for their inclusion next.

*Transaction-specific assets.* Transaction-specific investments stabilize relationships by putting both parties at risk for losses from potential opportunistic behavior (Heide and John 1988; Weiss and Kurland 1997; Williamson 1985). This contrasts with de novo contexts, in which the anticipation of investing in specific assets can result in vertical integration (Anderson 1985, 1988; Williamson 1985). The existence of transaction-specific assets should reduce the manufacturer's intention to vertically integrate or switch reps. We examined two types of transaction-specific investments: (1) the extent of the rep's transaction-specific investments in the manufacturer and (2) the extent of the rep's transaction-specific investments in the manufacturer's customers. The former (MANTSA) was indicated by a seven-item scale (e.g., “This rep has invested a lot of time and effort to learn all the ins and outs of my organization”; Cronbach's alpha = .88), whereas the latter (CUSTSA) was indexed with a four-item scale (e.g., “This rep builds a lot of value into our product line by providing special services to buyers”; Cronbach's alpha = .82). All items were measured using seven-point agreement scales.

*Rep performance.* Another reason for maintaining the current rep relationship is the rep's performance. Therefore, we included the performance of the rep as a control variable that was based on the three categories of rep performance (poor, midrange, best) employed in the questionnaires. Using poor rep performance as a basis, we constructed two dummy variables. MIDPERF is 1 for a midrange-performing rep and 0 otherwise, and BESTPERF is 1 for a best-performing rep and 0 otherwise.

*Manufacturer size.* Large manufacturers may have the resources both to exit current rep relationships and to set up a direct sales force. We employed a two-item index of the manufacturer's size (SIZE) to account for this effect ( $r = .67$ ). A sample item is, “Please circle the number which best describes how buyers in this sales territory view your organization at this time” (seven-point Likert scale, anchored small/large).

*Exit cost.* A major consideration in a firm's ability to vertically integrate is the cost of exiting the rep relationship and the cost of setting up a direct sales force. A six-item, seven-

point agreement scale (EXITCOST) measures these costs (Cronbach's  $\alpha = .84$ ). A sample item is, "We face very high barriers to switching over to a direct organization."

*Ability to find qualified reps.* The manufacturer is more likely to switch to a different rep if the manufacturer perceives that other qualified reps are available and are willing to represent the manufacturer. To account for this possibility, a two-item index (OURPICK) of the ability of the manufacturer to find other qualified reps was employed ( $r = .61$ ). For example, one of the items asked subjects to indicate their agreement with the statement "Our line is so desirable we could have our pick of manufacturers' reps in this territory." Both items were measured using seven-point agreement scales.

*Satisfaction with the current rep.* Manufacturers that are satisfied with their current rep should be likely to remain with that rep. Consequently, we included a five-item, seven-point agreement scale (SATISFACTION) in all statistical models. A sample item from this scale is, "We are very dissatisfied with this manufacturers' rep" (reversed item). Cronbach's  $\alpha$  for this scale is .92.

In summary, we included several control variables in our statistical tests. These include variables identified in prior literature as relevant to organizational structure decisions, several of which are economic in nature (i.e., transaction-specific assets, rep performance, size, exit costs, and ability to find qualified reps). The correlation matrix for the scales is presented in Table 1.

## Results

### Measure Validation Procedures

Prior to testing the hypotheses, the multi-item measures were subjected to a series of validity checks. First, we conducted item-to-item total correlations and exploratory factor analysis. Each item appeared to belong to the appropriate domain, and none exhibited significant cross-loadings. Therefore, no items were deleted from further analysis. We then subjected the entire set of items to a confirmatory factor analysis. Following Gerbing and Anderson (1988), we estimated a measurement model in which every item was restricted to load on its a priori specified factor, and the factors themselves were permitted to correlate.

We obtained maximum likelihood estimates of the measurement model using EQS. The overall chi-square statistic for the model was significant ( $\chi^2(1219) = 2226.54, p < .001$ ), as might be expected given the size of our sample (Bagozzi and Yi 1988). However, the comparative fit index (CFI = .89; Bentler 1990) and the root mean square residual (RMSR = .066) represent evidence of good model fit. Each factor loading is significant at the .01 level. The global measurement model thus provides satisfactory evidence of the unidimensionality of the measures. The coefficient alpha for each item set also provides satisfactory evidence of reliability.

Next, we estimated a set of additional models in which the individual factor correlations were restricted to unity one at a time. We compared the fit of these restricted models

with that of the original model. The various chi-square difference tests are all significant and provide evidence of discriminant validity (Bagozzi, Yi, and Phillips 1991).

### Tests of the Hypotheses

The results of the hypothesis tests are shown in Tables 2 and 3. Before testing each hypothesis, we estimated two baseline models, each of which included only the relevant dependent variable (e.g., INTEGRATE, CHANGEREPA) and the control variables. Subsequently, we added the reputation variables to each baseline model and reestimated the model. By comparing the baseline and full models using an F statistic, we can examine the explanatory power of the reputation variables. As shown at the bottom of Tables 2 and 3, the models with the reputation variables added significantly to the explanatory power of the baseline models in all cases. Therefore, we present only the estimation results of the models that include the reputation variables.

H<sub>1</sub> predicts that the manufacturer's intention to vertically integrate (H<sub>1a</sub>) or switch reps (H<sub>1b</sub>) is determined jointly by the perceived reputation gap between the manufacturer and its current rep and its belief that reputable firms use a direct sales force. To test the two parts of this hypothesis, we estimated two multivariate models using intention to vertically integrate and intention to switch reps as the dependent variables. The independent variables included the interaction between the gap in reputation perceptions and the belief variable (GAP  $\times$  BELIEF) and the control variables. In addition, we included two other sets of variables. First, because the gap measure is a difference score, spurious correlations may result from the correlation of the component measures (REPsREPUTAT and OWNREPUTAT) with the gap measure. We add the two component measures in this statistical test to control for this possibility. Second, although there is no theoretical rationale for proposing direct effects of these reputation-related variables, we included the variables composing the interaction term to avoid possible specification error.

The test of H<sub>1a</sub> corresponds to the interaction term (GAP  $\times$  BELIEF) having a significant and positive effect on the manufacturer's intention to integrate the selling function. Noting the results in column 1 of Table 2, we see that the coefficient for the interaction between GAP and BELIEF is positive and significant (.222,  $t = 4.96, p < .01$ ), thereby supporting H<sub>1a</sub>. Specifically, as both the gap in reputation perceptions and the belief that highly reputable firms use their own in-house sales forces increase, manufacturers' intentions to engage in vertical integration also increase. Of the control variables, only the exit cost variable is significantly related to the intention to vertically integrate ( $-0.261, t = -5.21, p < .01$ ).

The test of H<sub>1b</sub> corresponds to the interaction terms (GAP  $\times$  BELIEF) having a significant and negative effect on the manufacturer's intentions to change reps. Column 2 of Table 2 shows that the coefficients of the interaction term (GAP  $\times$  BELIEF) is significant and negative ( $-0.183, t = -3.87, p < .01$ ), thus supporting H<sub>1b</sub>. Thus, manufacturer's intentions to switch to a new rep decrease with combined increases in the positive gap between the manufacturer's per-



**TABLE 1**  
Correlation Matrix of Scales<sup>a</sup>

Scale	1	2	3	4	5	6	7	8	9	10	11	12
1. Manufacturer's intention to integrate the selling function (INTEGRATE)	1.0											
2. Manufacturer's intention to change to a different rep (CHANGEREPI)	-.01	1.0										
3. Manufacturer's perception of its own reputation (OWNREPUTAT)	.03	-.02	1.0									
4. Manufacturer's perception of its manufacturers' rep's reputation (REPsREPUTAT)	-.17	-.26	.31	1.0								
5. Difference between manufacturer's perception of its own reputation and its rep's reputation (GAP = OWNREPUTAT - REPsREPUTAT) <sup>b</sup>	.19	.22	.50	-.67	1.0							
6. Manufacturer's belief that highly reputable firms use an integrated sales force (BELIEF)	.53	-.01	-.02	-.13	.10	1.0						
7. Extent of the manufacturer's transaction-specific investments in the rep (MANTSA)	-.17	-.54	.04	.27	-.22	-.11	1.0					
8. Rep's specific investments in the manufacturer's customers (CUSTSA)	-.18	-.47	.01	.29	-.26	-.13	.57	1.0				
9. Costs of exiting the rep relationship and setting up a direct sales force (EXITCOST)	-.37	.07	-.12	.07	-.15	-.22	-.03	.06	1.0			
10. Ability of the manufacturer to find and attract other qualified reps (OURPICK)	-.01	-.02	.30	.13	.11	-.00	.13	.10	-.08	1.0		
11. Manufacturer's size (SIZE)	.15	-.06	.31	.08	.16	.11	.06	.13	-.26	.29	1.0	
12. Manufacturer's satisfaction with its rep (SATISFACTION)	.26	.70	-.06	-.38	.29	.18	-.73	-.64	-.02	-.06	-.03	1.0
Mean	2.15	2.67	5.31	5.11	.199	2.99	3.99	4.45	4.54	4.42	3.52	3.19
Standard Deviation	1.35	1.58	1.04	1.22	1.33	1.20	1.26	1.27	1.39	1.28	1.28	1.48
Low	1.0	1.0	1.5	1.0	-4.17	1.0	1.25	1.0	1.0	1.0	1.0	1.0
High	7.0	7.0	7.0	7.0	5.67	6.75	6.67	7.0	7.0	7.0	7.0	7.0

<sup>a</sup>Correlations | > .12 significant at  $p < .05$  for  $n = 258$ .

<sup>b</sup>The gap measure is negative for 108 of the 258 respondents.

**TABLE 2**  
**Unstandardized Estimation Results for H<sub>1</sub>**  
**(t-statistics in parentheses)**

<b>Independent Variables</b>	<b>Hypothesis</b>			
	<b>H<sub>1a</sub></b>		<b>H<sub>1b</sub></b>	
	<b>Dependent Variables</b>			
	<b>INTEGRATE</b>		<b>CHANGEREPA</b>	
	<b>Manufacturer's</b>		<b>Manufacturer's</b>	
	<b>intention to</b>		<b>intention to</b>	
	<b>integrate the</b>		<b>change to a</b>	
	<b>selling function</b>		<b>different rep</b>	
CONSTANT	1.48	(1.84)	-1.84	(-.40)
GAP Difference between manufacturer's perception of its own reputation and its rep's reputation	.492	(.773)	.172	(.26)
BELIEF Manufacturer's belief that highly reputable firms use an integrated sales force	.441	(7.80)**	-.147	(-2.52)**
GAP × BELIEF	.222	(4.96)**	-.183	(-3.87)**
MANTSA Extent of the manufacturer's transaction-specific investments in the rep	-.017	(-.22)	-.021	(-.26)
CUSTSA Rep's specific investments in the manufacturer's customers	.011	(.17)	-.041	(-.57)
EXITCOST Costs of exiting the rep relationship and setting up a direct sales force costs	-.261	(-5.21)**		
OURPICK Ability of the manufacturer to find and attract other qualified reps			.034	(.59)
SIZE Manufacturer's size	.057	(1.02)	-.056	(-.95)
SATISFACTION Manufacturer's satisfaction with its rep	-.133	(1.71)	-.714	(8.66)**
OWNREPUTAT Manufacturer's perception of its own reputation	-.114	(-1.85)	-.441	(-.58)
REPsREPUTAT Manufacturer's perception of its manufacturers' rep's reputation	1.14	(1.83)	.427	(.659)
MIDPERF	-.089	(-.51)	-.151	(-.80)
BESTPERF	-.133	(.66)	-.038	(-.18)
Adjusted R <sup>2</sup>	.42		.53	
F	16.60**		24.94**	
F statistic for baseline model comparison	35.4**		8.6**	

\**p* < .05 (2-tailed test).

\*\**p* < .01.

ception of its own reputation and its rep and its belief that highly reputable firms use their own sales force. Of the control variables, only the manufacturer's satisfaction with its current rep is significant and negatively related to the likelihood of changing reps ( $-0.714$ ,  $t = -8.66$ ,  $p < .01$ ).

The process of testing the remaining hypotheses is identical to the method described previously. In particular, to test  $H_2$  and  $H_3$ , we estimated another set of multivariate models. The results are shown in Table 3. The dependent variables include the intentions to vertically integrate and to switch

**TABLE 3**  
Unstandardized Estimation Results for  $H_2$  and  $H_3$   
(t-statistics in parentheses)

Independent Variables	Hypothesis			
	$H_{2a}/3a$		$H_{2b}/3b$	
	INTEGRATE Manufacturer's intention to integrate the selling function		CHANGEREPA Manufacturer's intention to change to a different rep	
CONSTANT	5.93	(4.36)**	-3.14	(-2.27)*
OWNREPUTAT Manufacturer's perception of its own reputation	-.647	(-3.49)**	.633	(3.25)**
REPsDEFICIT Manufacturer's perception of the extent that its rep has a <i>poor</i> reputation	-.663	(-3.82)**	.584	(3.21)**
BELIEF Manufacturer's belief that highly reputable firms use an integrated sales force	-1.09	(-3.02)**	1.16	(3.09)**
OWNREPUTAT $\times$ BELIEF	.217	(3.75)**	-.190	(-3.15)**
REPsDEFICIT $\times$ BELIEF	.227	(4.29)**	-.178	(-3.20)**
MANTSAs Extent of the manufacturer's transaction-specific investments in the rep	-.019	(-.25)	-.022	(.27)
CUSTSAs Rep's specific investments in the manufacturer's customers	.020	(.28)	-.042	(-.57)
EXITCOST Costs of exiting the rep relationship and setting up a direct sales force costs	-.249	(-4.97)**		
OURPICK Ability of the manufacturer to find and attract other qualified reps			.035	(.60)
SIZE Manufacturer's size	.054	(.96)	-.053	(-.91)
SATISFACTION Manufacturer's satisfaction with its rep	-.13	(1.64)	-.716	(8.67)**
MIDPERF	-.122	(-.69)	-.139	(-.75)
BESTPERF	-.148	(-.74)	-.032	(-.15)
Adjusted R <sup>2</sup>	.41		.53	
F	16.08**		24.88**	
F statistic for baseline model comparison	20.2**		4.96**	

\* $p < .05$  (2-tailed test).

\*\* $p < .01$ .

reps. The independent variables are the interaction among the reputation perception variables and beliefs (OWNREPUTAT  $\times$  BELIEF and REPsDEFICIT  $\times$  BELIEF), the individual components of the interaction terms (OWNREPUTAT, REPsDEFICIT, BELIEF), and the control variables.

The test of  $H_{2a}$  corresponds to the interaction term (REPsDEFICIT  $\times$  BELIEF) having a significant and positive effect on the manufacturer's intentions to integrate the selling function. The results shown in column 1 of Table 3 support this hypothesis. Specifically, the interaction between REPsDEFICIT and BELIEF is significant and in the hypothesized positive direction (.227,  $t = 4.29$ ,  $p < .01$ ). The test of  $H_{2b}$  corresponds to the interaction term (REPsDEFICIT  $\times$  BELIEF) having a significant and negative effect on the manufacturer's intentions to change reps. As shown in column 2 of Table 3, the interaction is indeed significant and negative (-.178,  $t = -3.20$ ,  $p < .01$ ). Thus, as the manufacturer's perception of its rep's reputation decreases and its belief that highly reputable firms use an integrated sales force increases, the likelihood of vertically integrating the selling function increases and the likelihood of changing reps decreases.

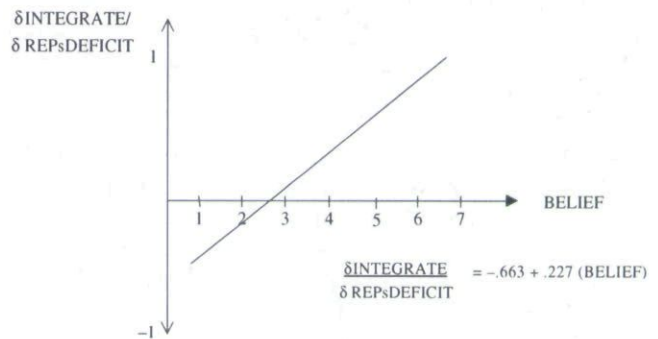
The test of  $H_{3a}$  corresponds to the interaction term (OWNREPUTAT  $\times$  BELIEF) having a significant and positive effect on the manufacturer's intentions to vertically integrate, whereas the test of  $H_{3b}$  corresponds to the interaction term having a significant and negative effect on the manufacturer's intentions to switch reps. Support for  $H_{3a}$  is found in column 1 of Table 3. The coefficient for the interaction between OWNREPUTAT and BELIEF is positive and significantly related to the manufacturer's intention to vertically integrate (.217,  $t = 3.75$ ,  $p < .01$ ). Column 2 of Table 3 shows that the estimate for the same interaction is significant and negatively related to the intention to change reps (-.190,  $t = -3.15$ ,  $p < .05$ ).

Of the control variables, only the exit cost variable is significantly related to the intention to vertically integrate (-.249,  $t = -4.97$ ,  $p < .01$ ). Only the manufacturer's satisfaction with its rep is related significantly to its intention to change reps (-.716,  $t = -8.67$ ,  $p < .01$ ).

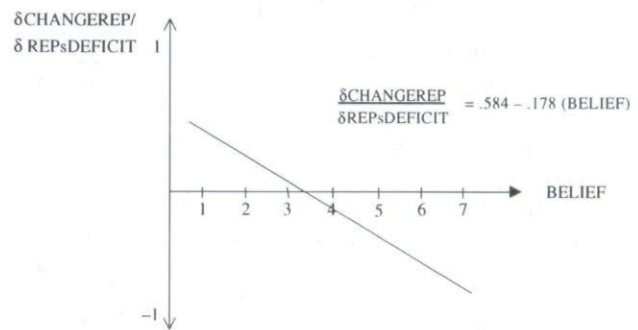
Although the data support each of the hypotheses, the results in Table 3 suggest that the reputation-related variables exert a direct effect on the dependent variables. Because of the presence of the interactions, however, these direct effects can be interpreted only within the context of the interaction (Friedrich 1982). As an example, the direct effect of REPsDEFICIT on the manufacturer's intentions to vertically integrate is not monotonic over the entire range of BELIEF. This can be seen by taking the partial derivative of the regression equation with respect to REPsDEFICIT and plotting the resulting equation (Schoonhoven 1981). In Figure 1, Part A, we show that for low levels of BELIEF ( $<.663/.227 = 2.92$ ), an increase in REPsDEFICIT actually has a negative effect on the likelihood of vertical integration, whereas this effect is positive for relatively high levels. In Figure 1, Part B, we show the direct effect of REPsDEFICIT on intentions to switch reps. Here, for low levels of BELIEF ( $<.584/.178 = 3.26$ ), an increase in REPsDEFICIT actually has a positive effect on the likelihood of switching reps, whereas this effect is negative for relatively

**FIGURE 1**  
**Manufacturers' Intentions Across the Range of Beliefs**

**A: The Effects of Beliefs (BELIEF) on the Relationship Between the Rep's Reputation and Intentions to Integrate (INTEGRATE) (from Table 3)**



**B: The Effects of Beliefs (BELIEF) on the Relationship Between the Rep's Poor Reputation (REPsDEFICIT) and Intentions to Change Reps (CHANGEREPS) (from Table 3)**



high levels. Therefore, although these direct effects are interesting, they can be understood only within the context of the interaction.

Using the same method, a similar set of results can be obtained to demonstrate that the direct effect of OWNREPUTAT on both intentions to vertically integrate and to change reps is not monotonic over the entire range of BELIEF. For low levels of BELIEF ( $<.647/.217 = 2.98$ ), an increase in OWNREPUTAT actually has a negative effect on the likelihood of going direct, whereas this effect is positive for relatively high levels. However, for low levels of BELIEF ( $<.633/.190 = 3.33$ ), an increase in OWNREPUTAT actually has a positive effect on the likelihood of switching reps, whereas this effect is negative for relatively high levels. We discuss these direct effects more fully in the "Discussion" section.

## Discussion

### Summary

The purpose of this research was to determine whether reputation concerns influence how manufacturers that current-

ly use an independent sales force intend to structure their sales organization. Relying on reputation theory, we suggest that manufacturers both monitor and attempt to manage their own reputation and that decisions regarding the structure of the sales organization are driven by these reputation-related processes. Specifically, we hypothesize that manufacturers that currently use an independent sales force develop perceptions of their own reputation, the reputation of their rep, and the reputation gap between the two and that these perceptions work jointly with their beliefs about what reputable firms do to influence their sales organization structure intentions.

We hypothesize and find that as the gap becomes more positive, such that the manufacturer's reputation exceeds that of the rep, *and* the manufacturer's beliefs that highly reputable firms use their own sales force increase, the manufacturer's intention to change its sales organization structure by vertically integrating the sales force also increases. This action reflects a consistency between manufacturers' reputation perceptions and their beliefs. As predicted by reputation management theory, manufacturers are unlikely to switch reps, because that would be inconsistent with their beliefs about what highly reputable firms do.

Decomposing the gap into its constituent elements, we propose and observe that perceptions of the reputation of the rep and perceptions of the reputation of the manufacturer also motivate reputation management actions. Interestingly, the effects of these perceptions, along with their beliefs, are asymmetric, because manufacturers consider their own reputations differently than that of their rep. As the perception of the rep's reputation becomes poorer, the manufacturer is likely to be increasingly motivated to manage this reputation problem, because the rep's poor reputation may affect the reputation of the manufacturer negatively. The way in which it manages the rep's reputation problem depends on its beliefs about what highly reputable firms do. As the manufacturer's beliefs that reputable firms use their own sales force increase, it is likely to solve this reputation problem by vertically integrating the selling function. In contrast, it is unlikely to choose an alternative course of action such as switching reps.

When it comes to the manufacturer's perception of its own reputation, the effects are reversed. Those who count themselves highly reputable appear ready to imitate what they believe is the choice of highly reputable firms. Thus, as the manufacturer's perception of its own reputation becomes more positive, it appears to be increasingly motivated to engage in reputation management activities, and it appears to choose those actions that are consistent with its beliefs. Accordingly, manufacturers with more favorable reputations have greater intentions to vertically integrate the selling function and lower intentions to switch reps as they increase their belief that highly reputable firms use their own sales forces. This phenomenon, in which firms come to resemble one another by a process of imitation, has been labeled "mimetic isomorphism" in the organization theory literature (Galaskiewicz and Wasserman 1989).

Several additional aspects of the results also deserve highlighting. First, the notion that reputation perceptions affect specific reputation management actions when they are consistent with reputation-related beliefs appears quite gen-

eral, as we observed support for the proposed interaction for the manufacturer's reputation perception variable, the rep's reputation perception, and the gap between the two. Furthermore, support for the GAP  $\times$  BELIEF interactions also appears quite strong, as it was observed even when we controlled for the individual variables that constituted the gap measure.

Second, it is notable that the proposed interactions proved significant even when we included a host of additional variables that might explain intentions to engage in vertical integration or switch reps. Some of these variables are economic in nature and have been posited previously as motivators of sales organization structure decisions (e.g., perceived exit costs, transaction-specific investments). Others are more specific to the performance of the rep (e.g., satisfaction with the rep, rep performance), and still others reflect other external constraints affecting these decisions (e.g., ability to find qualified reps). It is also notable that the models that included the reputation variables represented a significantly better fit to the data than the models that excluded them.

Third, although the results indicate how perceptions and beliefs jointly affect reputation management actions, the direct effects provide additional insight into how perceptions and beliefs individually affect such decisions. For example, as shown in Figure 1, the effect of increases in the manufacturer's perceptions of the rep's reputation on going direct depends on beliefs about what reputable firms do. When manufacturers strongly believe that highly reputable firms use their own sales force, intentions to vertically integrate become higher because the rep's reputation is perceived to be poorer. This is consistent with H<sub>2</sub> (Figure 1, Part A). However, when manufacturers do not strongly believe that highly reputable firms use their own sales force, intentions to vertically integrate become lower as the rep's reputation is perceived to be poorer. What would the manufacturer do in this case? Figure 1, Part B, resolves the issue, showing that when beliefs are weak, the more the rep's reputation is perceived to be poor, the more manufacturers intend to switch reps. Thus, although manufacturers are motivated to act when their rep's reputation is poor, they do so in a manner that is not inconsistent with their beliefs. This same result pertains to the situation in which the manufacturer's own reputation is the focus. Thus, the direct effect results reinforce the argument that consistency between reputation perceptions and beliefs guide action.

Fourth, it is notable that the reputation variables we examined here appear to affect manufacturers' intentions to engage in a fairly drastic sales organization structure change—specifically the decision to vertically integrate the sales force. Although it might appear that manufacturers should solve a reputation problem with a rep by simply switching reps, that they choose a more costly and intensive course of action when they believe that highly reputable firms use their own sales force is suggestive of the power of reputation-related concerns on sales organization structure decisions.

### **Limitations**

This study, like most, is subject to limitations. The principal shortcoming is the use of intentions as opposed to behavior as the object of study. Unfortunately, studying actual behav-

ior poses practical constraints. These include the fast rate of personnel turnover in industries and the difficulty of discovering the correct point in time at which to observe actual behavior. Intentions do not correspond perfectly to eventual behavior; however, they tend to become self-fulfilling. For example, a manufacturer that secretly intends to terminate its rep relationship may fail to support the rep, thereby damaging the rep's performance and increasing the manufacturer's incentive to terminate the relationship. A second limitation is our use of cross-sectional data, which limits our ability to determine empirically the causal relations implied in our hypotheses. Third, our empirical study is conducted within a single industry (for the reasons discussed previously), which limits the generalizability of our results. Therefore, additional study of these reputation-related variables in the context of other industries is warranted. Another limitation involves our use of key informant data. Although care was taken to ensure that our key informants were chosen in accord with Campbell's (1955) criteria, a multiple informant method might be employed in the future to reduce any informant biases that may arise in this research context.

### **Further Research**

The findings here, if replicated when the previously mentioned methodological problems are resolved, are suggestive of a host of additional research to extend our findings. First, the concept of a reputation gap appears to be a significant factor that affects intentions to engage in vertical integration and therefore may be a basic factor affecting interorganizational relationship continuation. Both the gap concept and its implications for relationship continuation, though exploratory in the present research, are extensions to reputation theory. Research that further examines the reputation gap concept seems warranted.

Second, because reputation perceptions are assumed to influence belief-consistent reputation management actions, it is useful to examine the interaction of reputation perceptions with beliefs other than the one examined here. For example, a natural implication of the theory is that when a manufacturer perceives the rep as having a poor reputation, it likely may switch reps when it believes that highly reputable firms use reps. Although this research did not examine explicitly this belief variable, the results observed here are not inconsistent with this idea. As Figure 1 indicates, for example, when the manufacturer does not believe that highly reputable firms use their own sales force and when it perceives its rep's reputation as poor, it is likely to manage its affiliation with a reputation-deficient rep by switching reps. Research in the future should extend the present study to investigate the interaction of reputation perceptions with beliefs about reps.

Third, because beliefs seem to be important factors that guide the nature of reputation management actions, additional research that catalogs the types of reputation-related beliefs would be useful. We focused on descriptive beliefs, so additional study that incorporates causal beliefs would be useful.

Fourth, whereas our study focused on the manufacturer's intentions to vertically integrate or switch reps, a more basic set of issues regarding the extent to which reputation-

related variables affect intentions to terminate the relationship with the current rep appears to be important. This would require identifying a belief variable that directly maps onto beliefs about termination. One belief of interest is the manufacturers' belief that they can "climb the ladder of reps" in the sales district. This terminology was suggested by a manufacturers' rep during preliminary interviews. Although this idea is speculative, manufacturers that strongly believe that it is possible to climb the ladder of reps may intend to terminate a relationship with a rep when they perceive that their own reputation exceeds that of their rep. They, in turn, may choose a rep whose reputation better matches their own. Further, enhancing their own reputation may give rise to a reputation gap between the manufacturer and the new rep, which subsequently motivates the search for a rep with an even more favorable reputation. Thus, more reputable sales agencies may be paired with even more highly reputable, and hence highly demanding, manufacturers, which may terminate them if they are perceived to have not kept pace with the manufacturer's reputation.

If a better understanding of reputation factors affecting termination decisions is derived, manufacturers' reps may benefit by monitoring their manufacturer's reputation perceptions, their own reputation perceptions, and relevant manufacturer's beliefs. A manufacturer that perceives its own reputation as good (or the rep's reputation as relatively poor) and believes reputable firms use a vertically integrated sales force may be expected to be recruiting personnel (often in a clandestine fashion) and looking for office space in the sales district. When the manufacturer does not believe reputable firms engage in vertical integration, it may be expected to hold discrete conversations with other reps in the same district. (The latter activity is often easier to observe, because it is a ready basis of gossip at trade association meetings.)

Fifth, given the important role of reputation perceptions in our study, additional research that examines how the manufacturer forms reputation perceptions appears warranted. What data do they use and what biases enter the collection and processing of information relevant to reputation assessment? How veridical are assessments? How malleable are they to, for example, political processes within the manufacturer? And how can the rep influence—or indeed manage—the process by which manufacturers assess reputations as viewed by customers? Because the rep is the primary link between customers and manufacturers, reps should be able to manage the manufacturer's impression to some extent. These findings suggest it is to the rep's advantage when the manufacturer believes customers think highly of the rep—and less highly of the manufacturer.

This research is a first and exploratory step in the study of the effect of reputation on sales force organization. The results suggest that reputation may have an important impact beyond (rather than in place of) more traditional explanations. If so, reputation can be expected to influence other strategic marketing decisions. Traditionally, customer esteem and regard has been studied in terms of its impact on marketing outcomes, such as sales and margins. These results suggest that reputation significantly affects not only marketing outcomes but also marketing strategy. That repu-

tation plays a role in marketing strategy and outcomes raises an even broader question that deserves research attention. Namely, in what ways do companies manage their reputations? Because companies must manage their reputation on

a daily basis, further research should explore the various dimensions of reputation management and identify the behaviors of firms that are useful in maintaining or increasing their reputation.

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