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Reassessing supplier reputation in international trade coordination – a German and Australian perspective of global organic food networks

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Abstract

Uncertainties are especially high among importing firms and for products with sensitive and 'critical' quality characteristics in a societal context, such as food. While much recent literature on this issue has focused on the implementation of standards and certification systems, I argue that reputation also plays an important role for trading firms in mitigating uncertainties across large distances. Reputation may or may not reflect reality and is based on public (e.g. media) and networked (from individuals) information. This article draws on Convention Theory in a case study based on qualitative interviews among organic food importers to Germany and Australia. I first show that the degree of their public exposure implies specific risks and strongly influences importers' coordination strategy. I then go on to examine how, in these firms' supplier relations and risk management, not only the reputation of (potential) suppliers counts, but also the reputation of supplier countries and institutional systems such as standards and certification bodies. Intensive involvement and first-hand experience with certifiers and suppliers in exporting countries can, in some cases, cause firms to challenge their existing beliefs. I conclude that a good reputation is still essential for (improving) market access, even when basic prerequisites such as legally mandatory certification are fulfilled.

Zusammenfassung

Unsicherheiten sind unter importierenden Unternehmen für qualitätssensitive Produkte, wie zum Beispiel Lebensmittel, besonders hoch. Während sich die jüngere Literatur zu diesem Thema auf die Umsetzung von Standards und auf Zertifizierungssysteme fokussiert hat, wird in diesem Beitrag argumentiert, dass auch die Reputation von Handelspartnern für Unternehmen wichtig ist, um Unsicherheiten über große Distanzen zu reduzieren. Reputation wird dabei durch öffentliche und vernetzte Information begründet. Die hier dargestellten Ergebnisse basieren auf einer empirischen Fallstudie von Importeuren für biologische Nahrungsmittel nach Deutschland und Australien und werden mithilfe der *Convention Theory* ausgewertet. Zunächst wird gezeigt, dass das Ausmaß der öffentlichen Wahrnehmung bzw. die Abhängigkeit des Importeurs von öffentlicher oder vernetzter Reputation spezifische Risiken beinhaltet und seine Koordinationsstrategien stark beeinflusst. Anschließend wird untersucht, inwiefern für diese Importeure in Handelsbeziehungen und beim Qualitätsmanagement nicht nur die Reputation der potentiellen Lieferanten eine Rolle spielt, sondern auch das Ansehen der Lieferantenländer und entsprechender institutioneller Systeme wie zum Beispiel Standards und Zertifizierungsstellen. Intensive Beteiligung und Erfahrungen aus erster Hand mit Zertifizierern und Lieferanten in Exportländern können in manchen Fällen Firmen dazu veranlassen, ihre bestehenden Ansichten infrage zu stellen. Abschließend kann gesagt werden, dass eine gute Reputation noch immer essentiell für den Marktzugang ist, auch wenn Grundvoraussetzungen, wie beispielsweise die gesetzlich verpflichtete Zertifizierung, erfüllt sind.

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1. Introduction

The food industry has been particularly affected by bad press in the media over the past years (*Jaffee and Masakure 2005*), well-illustrated by events in early 2013 when three scandals broke across Europe within the space of a few weeks (horse meat mislabelled and sold as beef in deep freeze lasagne, conventional eggs mislabelled and sold as organic, toxic corn entering the EU as cattle and pig feed). This damages not only the reputation of the firms involved, but creates a general mistrust among end consumers in terms of which products they feel can be bought and consumed safely.

However, the question of who is to blame is not easy to answer as division of labour and complexity along value chains increase. From the sourcing of raw materials to the end consumer, products and their components are increasingly produced, processed, traded and marketed through various channels in different geographical and institutional environments (*Fig. 1*). In general, the past decades have seen a significant increase in the number of possible suppliers of a certain product due to sinking transportation costs, improved logistics and communications systems in addition to highly competitive labour wages (*Grant 2000*). A large share of these new suppliers are located in developing countries and are looking for business opportunities by producing for western markets (e.g. *Dannenberg 2012, Dolan and Humphrey 2000*). One could argue that this process leads to advantageous increased competition on both the price and the quality dimension. On the other hand, this rapidly growing pool of new and mostly unknown suppliers confronts buyers with more (complex) information to be handled and less transparent supplier systems across borders and continents (e.g. *Dietsche and Braun 2008, Gereffi et al. 2005*). In short, a firm's transaction costs rise to tackle the increased uncertainties regarding the right choice of suppliers and the quality and traceability of products and production processes.

The level of complexity and uncertainty in trade coordination depends on the product and the firm's position within the value chain (*Fig. 1, Gereffi et al. 2005*). Regarding product types, uncertainties are especially high among firms that trade high value and 'high risk' products with critical and sensitive

product specifications that become the focus of general public debates (*Trebbin and Hassler 2012*). The food industry is a good example of this in terms of increased concerns regarding food safety; a notable sector within this industry is that of organic food.

Organics reflect the broader processes of globalisation in the way that food is produced, traded, marketed and consumed, including an increasing professionalisation, industrialisation and fragmentation with a division of labour on a global scale (*Pimbert et al. 2001*). It has been the fastest growing food sector over the past decade with areas under organic management having tripled since 1999 (*Willer and Lernoud 2013*), a 170 % market expansion since 2002 and continuous double digit growth rates in sales turnover (*Sahota 2013*). In addition to the above, the growing number of firms and producers indicate that organics has moved away from being a niche phenomenon. A large array of new players have joined the market vying for their share of the pie. For instance, today, the largest share of organic products is sold through conventional supermarkets, discounters and large retailers in the large consumer markets such as the EU or the US (*Bernzen 2012, Fitch Haumann 2011*).

Regarding the position of a firm along the value chain (*Fig. 1*), high uncertainties are prevalent among importing companies, as I argue, due to the increased geographical, but sometimes also due to institutional and cultural, distances and differences from their direct suppliers. Lacking this proximity, which is presumed to support and enhance economic exchanges that are based on trust and reciprocity (*Dannenberg 2012, Glückler 2005*), importers may be especially vulnerable to opportunistic behaviour.

In this paper, I argue that reputation is a key point of reference to reduce these uncertainties across larger geographical distances and examine the relevance and impact of reputation from the perspective of firms importing organic food products into Germany and Australia. The rest of this paper is structured as follows: After an introduction of the theoretical concepts of value chain analyses and reputation, I will address the following questions on the basis of insights drawn from Convention Theory (CT). First, what is the perceived reputation of one's own firm, which type of reputation is it based on (public, network) and what are the major risks which threaten an established

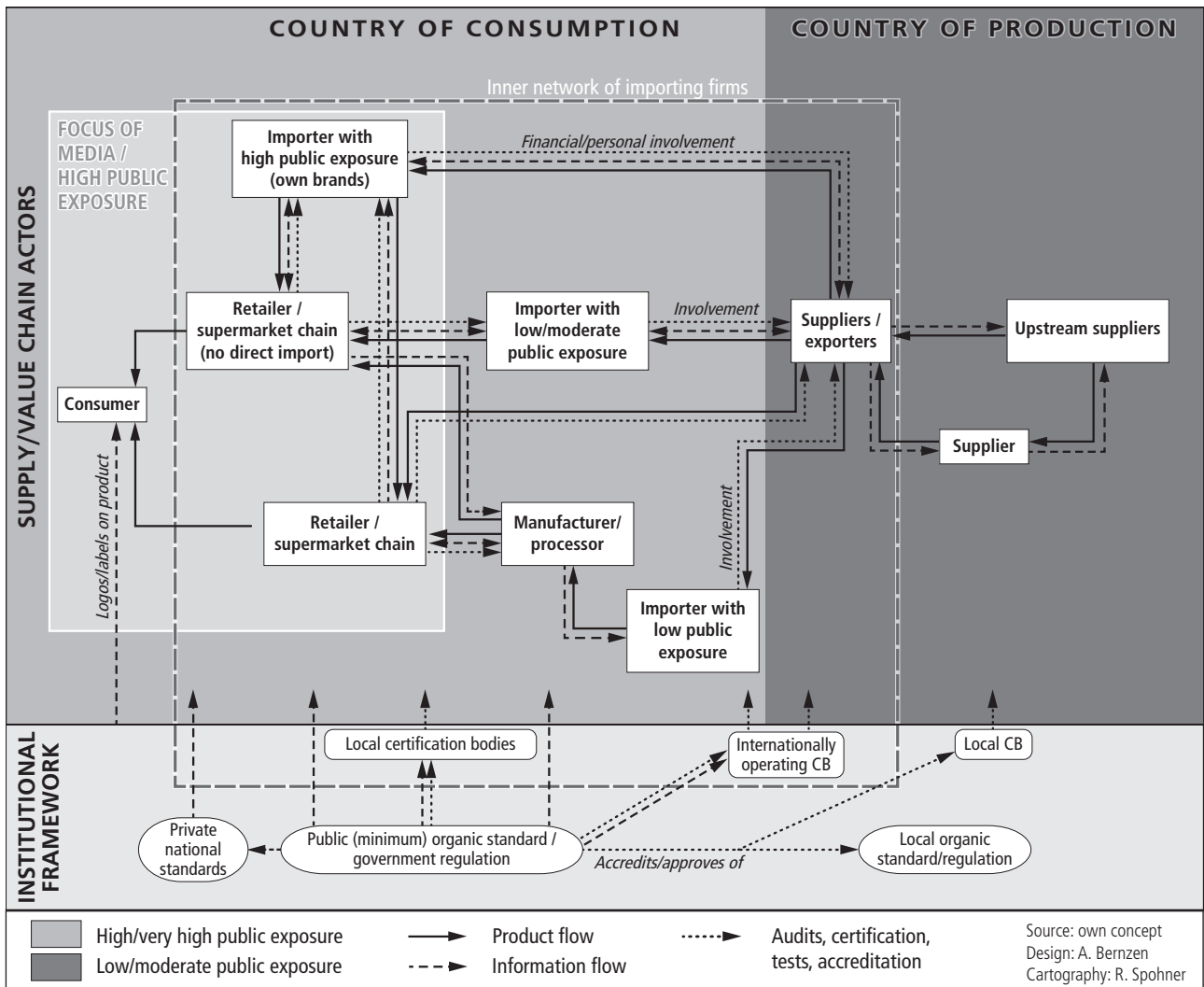


Fig. 1 Public exposure and broader network of importing firms along international value chains of organic food (schematic, simplified)

high reputation? Second, I will look at the perceived reputation of existing and potentially new suppliers. This also includes the reputation of its immediate cultural setting and institutional framework, i.e. the country, the standard it is certified against, and the certification body conducting the audits (Fig. 1). I argue that reputation is influenced by (a) the source of reputation (public, network) and (b) the importing country. The hypothesis here is that own (personal) experience can fundamentally change existing reputations that have previously been formed primarily through the media and third parties. I will also explain how reputation leads to certain measures of trade coordination, including new supplier selection and degree of vertical integration. I conclude that a good reputation is still essential for (improving) market access, even when core criteria such as legally mandatory certification are fulfilled.

2. Theoretical approaches of reputation and value chain coordination

How do buyers overcome uncertainties and minimise the risk of opportunistic action by their suppliers? How can the latter gain trust and secure their position on the market? Within the field of Economic Geography, different concepts have been adopted and developed that provide analytical frameworks for the analysis of global economic exchange and coordination mechanisms in international value chains. Many studies – in particular those applying Global Commodity Chain, Global Value Chain or Global Production Network approaches – have highlighted the role of public and private product and process standards in governing international trade and increasing transparency and traceability along the value chain (e.g. Dolan and Humphrey 2000, Franz and Hassler

2010, Ouma 2010). Some scholars of Economic Geography and business management have also drawn on Principal Agent Theory (e.g. Dannenberg 2012) or network approaches (e.g. Braun and Dietsche 2009, Kühlmann 2009) to address issues of opportunistic behaviour and conflicting interests in global value chains. However, studies focusing on intangible factors that influence a buyer’s decisions regarding preferred suppliers have been scarce.

One such intangible factor is reputation, or Corporate Reputation (CR), which has also been termed an intangible asset (Falkenreck 2010). It has been defined as “the expectation of future performance based on the perception of past behaviour” (Glückler 2005: 1732), or to “represent publics’ cumulative judgements of firms over time” (Fombrun and Shanley 1990: 235). To measure reputation, I here adopt the conceptualisation by Schwaiger (2004), which has been found to deliver the most valuable results in recent research (Sarstedt et al. 2013). It sees reputation as a two-dimensional attitudinal construct of both cognitive and affective elements, i.e. an (individual) stakeholder’s objective knowledge and subjective perceptions about the firm, and his emotional mindset (Schwaiger 2004, Eberl 2006). But how are these perceptions and judgements created? Glückler and Armbrüster (2003) argue that the communication channel is crucial for the credibility of the reported (reputational) information. They distinguish between public and networked reputation which differ in terms of their diffusion, scope and reliability (Table 1).

Much of the existing literature exploring reputation has taken place in the context of stakeholder interests and comes from the disciplines of Economics and Business Management (e.g. Falkenreck 2010, Suh and Houston 2010, Sarstedt et al. 2013, Fombrun and Rindova 2000), though it has also found its way into Economic Geogra-

phy (e.g. Farole et al. 2011, Glückler 2005, Patchell 2008). In the context of supply chain coordination, extant studies on reputation have shown that a good reputation has a variety of advantageous outcomes or consequences. These include, e.g., increased customer commitment, loyalty and word-of-mouth, improved satisfaction and customer acquisition (for a literature overview, see e.g. Sarstedt et al. 2013). Furthermore, reputation may reduce the risk of opportunistic behaviour among suppliers as it would put the latter’s good reputation at stake (Shapiro 1983, Kühlmann 2009). As a perceived antecedent to trust (Suh and Houston 2010), reputation would also lower transaction costs required for negotiations and monitoring among suppliers (Bergh et al. 2010). However, some scholars have noted a research gap regarding the impact of reputation on buyers’ decision-making processes (Eberl 2006, Falkenreck 2010) and claimed that more studies were needed that investigate the manner in which judgements are formed among different kinds of stakeholders (Gabbionetta et al. 2007).

Thus, the influences of reputation and trust are of high importance. In this context, I argue that one should consider the reputation not only of trading partners along the supply chain (i.e. firms; buyers/suppliers) but also of objects or entities which are a constitutive part of the business and the institutional framework, such as standards, certification bodies, logos and brands (e.g. Veloutsou and Moutinho 2009, see Fig. 1). Overarching and relevant to all is the reputation a given country has among actors of a certain industry.

A conceptual approach beyond marketing literature that specifically addresses reputation as one basis of decision-making and coordination is Convention Theory (CT). This framework, which has its roots in French Sociology of the late 1980s, has proven useful in recent studies due to its conceptually differentiated treatment of uncertainty rather than codifiability

Table 1 Public versus networked reputation (Glückler 2005)

	Public reputation	Networked reputation
Diffusion	Public, i.e. broadcasting over media, business press	Network, i.e. communication within trust relations (word of mouth)
Scope	Theoretically unlimited, i.e. public	Limited, by membership in a personal network
Reliability	Thin information, i.e. low reliability due to unknown origin of judgment	Thick information, i.e. high reliability due to trusted contact towards the origin of judgment

or complexity (as in GVC) and its ability to grasp the role of intangible factors such as reputation or trust (Ponte and Gibbon 2005, Reynolds 2004). CT posits that actors have different value systems which define how they assign value (or worth) to a person or an object (Rosin 2007). Of the six conventions originally categorised by Boltanski and Thévenot (2006 [1991]), five have proven useful for studies in the agri-food sector (Reynolds 2004, Rosin and Campbell 2009), including industrial convention, where worth is measured through statistics and measurable, standardised information; civic convention (social and/or environmental welfare, mutual norms) and market (price, competitiveness). The two types of convention that are of interest to the questions in this paper are domestic convention and opinion convention. The former captures the idea of a networked reputation (Table 1), as “people’s worth depends on a hierarchy of trust based on a chain of personal dependencies” (Boltanski and Thévenot 1999: 370). Typical relevant actions associated with this convention are trust, pursuing long-term relationships, personal invitations or recommendations. Opinion convention, also referred to as the World of Renown, explicitly refers to the way in which actors justify their actions by referring to someone’s value (worth) that has been determined on the basis of fame or his public reputation (Table 1). To point out the difference to the domestic convention, Boltanski and Thévenot (1999: 371) stress that within the opinion convention worth is “based on nothing other than the number of individuals who grant their recognition. It is hence entirely unrelated to the realm of personal interdependencies [...]”. Brand names, for instance, are often used when evaluating objects. Public opinion and renown are thus essential in this context.

3. Methodology

In this paper, the role of reputation is analysed from the perspective of firms in Germany and Australia that import organic products into their respective countries. Doing so helps to achieve more comprehensive results by considering a broader spectrum of western consumer markets. Both countries are highly developed pluralistic market economies that feature high degrees of urbanisation and corresponding urban lifestyles among consumers. However, Germany and Australia do feature some striking structural, physio-geographical and market-related differences (Bernzen 2012). With regard to the regulation of the organic sector, it is important to understand that Ger-

man traders must abide by EU law which stipulates that all products sold under the organic label must be – at least – certified for the EU market (mandatory certification against EC eco-regulation). In Australia, on the other hand, certification is voluntary, but one must be able to prove that the product is equivalent to the new domestic organic standard (AS 6000). This results in quasi-mandatory certification against one of the seven national private standards, or for imports, one of the larger international ones. These two regulatory systems reflect the two countries’ varieties of capitalism, with Germany as a coordinated, and Australia a liberal market economy (Hall and Soskice 2001).

I focused on qualitative research methods for the purpose of our study. Data was collected during semi-structured, guided interviews with selected relevant supply chain actors, namely decision-makers (buyers, quality managers) of firms based in Germany and Australia. The companies interviewed ranged from large retailers, manufacturers (with and without own brands), supermarkets and wholesalers, to small traders and agents. Thus, I included firms with varying degrees of public exposure, or, in other words, firms that differ with regard to their primary reliance on public and/or networked reputation respectively. Overall, I defined four levels of public exposure that a firm can have (low to very high). Their criteria and the respective number of firms I interviewed per country are depicted in Table 2. In terms of the firms’ product range, they included seasonal and non-seasonal, fresh and dry, plant- and animal-based products; some offered a wide product assortment while others were very specialised, e.g. trading tea or coffee only. Furthermore, I also considered the share of a firm’s turnover that is generated by sales of organics, interviewing a balanced number of importers that commit their business 100 per cent to organics, and those that do not.

In total, 26 firms were interviewed in Germany and 19 in Australia between February and October 2010. The results in this paper, however, are based on those 15 interviews with companies from each country which best addressed the issue of reputation. A follow-up standardised questionnaire was sent to the same companies to reconfirm trends drawn from the qualitative material. Clearly, these results are not of a representative nature. Nevertheless, it is a viable method to explore the complex interconnections between a firm’s trade coordination on global markets and its reputation within its network in more depth. Complementary interviews with industry experts and stakeholders, e.g. from certification bod-

ies, independent research institutes, consumer boards, legal advisors and government representatives were conducted to better understand the broader context of the importers’ activities (8 in Germany, 11 in Australia).

4. The “invisible importer”? Public exposure and reputation risks among importing firms

“As importers, we just don’t have a name on the public market. We don’t appear anywhere. Our [product] may be packaged and labelled under fifty different brands, but at the end of the day, it is always the brand owner’s [reputation that is damaged], not ours” (German importer, moderate public exposure, translated from the original German quote, DE-IMP7).

With the exception of a few supermarket chains and retailers who import directly and (larger) importers whose branded products also carry the firm’s name, most importing firms have a rather low exposure on public markets, as illustrated by the quote above and shown in *Figure 1*. This fact is mirrored in the number of firms interviewed as shown in *Table 2*.

When commenting on the factors that they feel have the most influence on the reputation of their firm, including

those that could potentially damage it, my interviewees elaborated on quality, responsibility and, to some degree, performance indices. (However, responses varied somewhat between high- and low-exposure firms; *Table 3*).

Similarities among all types of firms regarding quality indices are a certification against a reputable (organic) standard and a reliable and consistent supply (volume- and quality-wise). Second, with regard to demonstrating responsibility, transparency regarding the business and sold products are very important. The latter aspect, though, is much more significant to upstream (“invisible”) suppliers who rely much more on networked reputation. These firms are usually required to provide their customers (e.g. supermarkets) with highly detailed information regarding not only their own firm’s business conduct, but also information on the name, location, certification status etc. of their upstream suppliers (“traceability back to the source”).

Firms with high and very high public exposure emphasise and publicly communicate the fact that the quality of their products offered meets higher standards than the minimum required by law, thus differentiating their brands from other players on the market. This is also true for supermarket chains which sell only very little organics in terms of their total

Table 2 Firms’ levels of public exposure; number of interviewed firms in dataset per level (source: own data)

Criterion/ public exposure	Own stores (retail)	Sell branded product (own or private label)	Firm’s name = brand name	Reputation relies on public or network	Typical firm type	No. of interviewed firms in Germany	No. of interviewed firms in Australia
Very high	Yes	Yes	Partly	Public	Supermarket chain, retailer	2	3
High	No	Yes	Yes	Public / networked	(Large) manufacturer with own brand	2	3
Moderate	No	Yes	No	Networked (some public)	Manufacturer for private label, wholesaler for branded products	6	6
Low	No	No	No	Networked	Trading agents, importer/ wholesaler for fresh produce, processor of raw ingredients	5	3

Table 3 Reputation indices and bases for firms trading in organic products (source: own data)

Indices	Bases of reputation	Significance for firms with high/very high public exposure	Significance for firms with low/moderate public exposure	Risks
Quality	Certified against (minimum or higher) organic standard(s)	High	High	Contamination, loss of organic certificate, fraud, listing on "black list"
	Reliable and consistent supply (quality and quantity of product)	Very high	Very high	Supply shortages, variations in delivered quality
	Offer product with higher quality than the minimum required (by law), i.e. "image product"; also regarding level of residues in tested product	Very high	Average	Confusion among consumers regarding organic quality due to multiple standards and logos, contamination, negative media report/scandal
	Tradition in trading organics, high expertise	High	Very high	Employers without adequate expertise on the specifics of organics
Performance	Long-term business operations (economic stability)	High	Very high	
	(Part of) large (international) firm	Size relevant on domestic market	Average	
Responsibility	Ethical and social, environmentally friendly business conduct	High	High	Behaviour that risks integrity, credibility, honesty
	Transparency regarding business and suppliers, traceability to the source	High	Very high	Sourcing from unknown suppliers in case of supply shortages

revenue share. As our interviewees argued, they offer organics as an important "image product" for strategic rather than for profit-making reasons.

At the same time, featuring organics is connected to some specific potential risks for these firms. First, sourcing sufficient volumes of consistent quality organic product is much more difficult than in the conventional sector. This means that in cases of supply shortages, the shelves may have to stay empty. Large supermarkets in particular believe that this could have a negative impact on their reputation among consumers:

"Availability is not easy. [...] you've got to have core lines that [...] are there for the customers and on a regular basis. So disappointment is not something that customers deal with very well"

(Australian supermarket manager, very high public exposure, AUS-IMP18).

Second, there are (albeit minor) issues with organic product labeling. In Germany, due to the strict EU import regulations, obligatory certification and highly complex labeling laws, some firms fear that if they do not comply with these they will risk being sanctioned. Furthermore, but particularly in Australia, retailers fear that the high number of different organic standards/logos may cause confusion among consumers in terms of their opinion of the product's quality, ultimately leading to a mistrust of the organic brand altogether. Yet, the greatest risk and fear of firms with high public exposure is that their firm will get negative media coverage. This is because for them, ultimately, reputation relies on the goodwill of the public. While supermarket

chains, discounters and other retailers have the opportunity of influencing their reputation through direct, consumer-oriented marketing measures at their stores, they also argue that “you cannot let such a small product segment of your business ruin your reputation” (former German supermarket manager, DE-IMP27) – and, like large brand manufacturers, take strict measures in their supply chain coordination as a consequence, which is also felt by upstream suppliers:

“...what retailers are scared of most is negative press. Much of what we do today and many of those partly exaggerated quality management requirements that now exist and are making life extremely hard for producers also, are really based mainly on this fear of negative headlines in the media. And so this has to be top priority” (German importer, low public exposure, translated from German original quote, DE-IMP4).

In contrast, the largest number of importers remain “invisible” to the public and end consumers, in other words these firms rely on building a strong reputation as a supplier of organic products within their network to establish and maintain their position in the industry. Thus, apart from demonstrating high quality and responsibility indices as noted above, it is extremely important for them to perform well, gain expertise in the specifics of organics and use this to build strong networks. It may also help them to commit to strong ethical and environmentally-friendly business standards. It is not so much the media that pose a threat to these firms, but rather the risk of losing their good name by repeatedly delivering bad quality products to their customers – perhaps even by neglecting due diligence – or through negative reports spread by word of mouth. The latter is a critical threat as the organic sector, in comparison to the conventional sector, is still much smaller in terms of the number of players involved, thus news spreads much faster.

5. Supplier reputation and value chain coordination

5.1 Networked reputation of supplier firms

Which factors generate a supplier’s reputation among “visible” and “invisible” importers, and how does this influence the value chain coordination of the latter? First of all, suppliers’ reputations are based on networked information but also, as relationships become more established, on their own experience with the

firm that they have gathered over time. To gain a good reputation, a supplier must continually demonstrate similar quality, performance and responsibility indices as outlined above for importing firms (*Table 3*). However, when importers are looking for new suppliers, certain attributes cannot be experienced *ex ante*, and in most cases importers will ask other players within their network which impressions they have of potential new trading partners prior to deciding whether or not to engage their services:

“With suppliers, particularly, if you hunt the globe for stuff, you are generally looking for some kind of referral. I will always ring someone else that’s buying from them and say: Hey, can they supply, are they genuine, have you had any problems, what are your thoughts?” (Australian manufacturer and brand owner, moderate public exposure, AUS-IMP1).

This is where the “invisible” supplier’s networked reputation is crucial, as he will only in few cases dispose of an internationally disseminated public reputation, and will only be recommended to new buyers if he has proven his positive qualities to others. Some importers in our study even argued that they would not trade with a firm that they had no other (external) reference on.

The data also suggest, however, that it is not only the networked reputation of the firm itself that influences importers in their selection of new suppliers. Especially where few networked references are available, the reputations of (i) the country a new supplier is from, (ii) the standard it is certified against, and (iii) the certification body (CB) which tests and controls the firm’s compliance with the standard have a major impact on the supplier’s assumed business conduct or product quality. These reputations and assumptions, combined with personal experience (from past transactions), reveal some key uncertainties among importers and have a decisive impact on the way they coordinate trade relations with suppliers abroad. By reading the empirical material (interviews) through a CT lens, one can identify typical ways in which importers justify their value chain coordination by referring to reputational issues.

5.2 Reputation of supplier countries

Two geographic regions were most elaborately discussed in terms of their reputation by the importing firms I interviewed. First, Asia – and China in particular – as an overall challenging or difficult region to

source from; and second, the so-called ‘western’ nations such as the US, Canada, New Zealand, Australia, and Western Europe. The latter group of countries was generally perceived to have a good reputation as countries of origin among Australian and German firms. Yet, a differentiated look at these regions’ reputations from the German and Australian perspective, respectively, shows some striking variations and decisions made in trade coordination.

“Western” countries have a very good reputation among Australian importers. This is based on public and networked reports as well as own (mainly long-distance) experience with suppliers in these countries. The latter are believed to have an understanding for high quality products, good business ethics, and, moreover, understand the specifically strict requirements posed by the Australian Quarantine and Inspection Service (AQIS) at the Australian customs. Thus, these countries are preferred supplier countries to Australian firms, and their standards are all accepted by national Australian regulations for organic imports. German firms, on the other hand, do not mention much the US or Canada as supplying countries, which may be related to the fact that the EU and US organic standards have only recently been mutually recognised as equivalent; and the fact that most products grown in North America can also be sourced in Europe. Looking at Europe, though, German importers differentiate much more between the reputations of individual European countries/regions. With a reputation based much more on own (proximity-related, hands-on) experience than in Australia, there is a lively debate within the importers’ community on whether or not Southern European countries have reliable and integer suppliers. While some rely on products from these regions (also counter-seasonally) and fulfill their local customers’ product quality demands, a considerable number of the interviewees reported that the reputation of countries such as Italy, Spain, or Greece was damaged as imported goods have repeatedly been found to contain high residue values, there were apparent cases of fraud, and, finally, many of these countries were on major German discounter Aldi’s list of ‘high risk’ suppliers. Suppliers from Northern Europe are perceived to represent more often the core values of organic (agricultural) production. Measures taken by German importers to overcome these uncertainties are (apart from asking for recommendations on suppliers) increased testing of products imported from these areas, either on-site or samples in (in-house) laborato-

ries. Sourcing from more than one supplier per product has also become a popular strategy.

Among suppliers in developing and emerging nations, China’s reputation stands out as the overall most critically regarded one both among German and Australian importers. Some firms were also concerned regarding South American and African countries as well as India and Bangladesh, but to a lesser extent, which is why I will focus on China in the following text. Major issues associated with these countries relate to quality (e.g. contamination, lax audits) and responsibility indices (e.g. differences in business mentality, high risk of fraud). Before commencing trade with China, much of this negative reputation is generated through public channels who report on food scandals (e.g. melamine in baby milk), and through a firm’s network to some extent. The firms I interviewed propose three main strategies to mitigate the (assumed) reputation-related risks: (i) a ‘no-China’ policy, i.e. refraining from sourcing from China. In the case where China seems the only alternative (e.g. availability or tradition of certain products, e.g. certain types of tea; supply shortages elsewhere, financial constraints), firms either (ii) import certified product, often combined with additional tests, or (iii) engage in high-intensity cooperations with producers in China. This is particularly so in the third case where my data suggest that shifts and changes in the mutual reputation between firms occur through experience.

The degree of vertical integration or the ways and depth of involvement importing firms show in “high-risk” countries depend on various factors. Given that importers from all levels of own public exposure demonstrated personal and financial investment in production countries, the public exposure and type of their customers, their firm’s dedication to organic value systems, and as *Ponte and Gibbon (2005)* have also pointed out, size and available capital are the most important explanatory variables. Thus, it is mainly importing firms with “high” exposure (*Table 2*) selling directly to supermarkets and retailers who had a very high level of financial investment and ‘hands-on’ commitment in production countries. Committed low- or moderate-exposure importers generally had a critical minimum business volume, frequently included organic values within their business culture and sold directly to retailers. All this should not obscure the fact that, despite little direct involvement in countries of production in organics, large supermarket chains, such as the German companies Rewe, Edeka or Aldi, or

the Australian companies Coles and Woolworths, have some of the most stringent monitoring systems – they cannot afford any scandals that ruin their reputation.

Overall, German firms invested more financial and personal resources than Australian firms. High-involvement measures aimed at building long-term partnerships among German firms included part-ownership of production sites, own subsidiaries in supplier countries, sending own staff or trainers familiar with the local culture and language, and/or frequent visits. While some Australian firms cover their suppliers' costs for certification or offer training regarding organic farming methods or intelligent marketing strategies, most of the firms I interviewed opted for the coordination type (ii) as mentioned above. Two firms stated that they import Chinese products through German trading firms, as these have a high reputation for quality management systems. One explanation for this finding may lie in their take on standards and certification systems.

5.3 Reputation of organic standards and certification bodies

The reputation of international standards and certification bodies mirrors to some extent the reputation of certain countries or economic regions. It is thus no surprise that the reputation of public organic standards from highly developed countries is very good among Australian importers. For example, the EU, US, Japanese and IFOAM organic standards are among those with the largest geographical dissemination (also in terms of the number of certified operators) and are accepted as 'equally reliable' as the Australian domestic standard (see *Bernzen 2012* for an in-depth discussion). Accordingly, the reputation of CBs certifying against these standards, e.g. in Europe or in the US, is that they are reliable, strict and large enough to meet AQIS requirements. A pragmatic approach to supplier and/or product selection is thus to look for one of these standards for imported products. In combination with three large and four smaller local Australian certifiers (each with an own standard and logo) and the non-existence of a singular 'government' logo, the number of variations in terms of organic logos on products offered to Australian consumers is very high.

While Australian importers focus above all on importing certified product, and preferably with a reputable standard, many German firms not only debate

the reputation of a standard, but also whether a CB is reputable. Here, proof that they meet the minimum standards for EU certification is mandatory, and accordingly the German government logo for certified organic products has earned a solid reputation among consumers since its introduction in 2001. Yet, especially firms with high and very high public exposure and experience in production countries criticise the standards for being too lax, too flexible in terms of the possible interpretations and point out various loopholes which pose a risk in their point of view. It is frequently these same firms who also pay much attention to the choice of CBs, as networked reputation and some own experience seem to paint a heterogeneous picture of how integer and thorough CBs – especially those operating in other countries – conduct their audits. All in all, even though most firms are certified to meet the minimum standards for sale on the EU market, and only some suppliers demand higher standards (e.g. private standards by organic farmers associations, Soil Association or Biosuisse standards for some imported commodities, or company-own standards), almost all firms conduct tests of the purchased product in-house or commissioned to third parties – they do not rely fully on the certification system overseen by their government.

6. Conclusions

Using the domestic and opinion conventions from CT to unpack the concepts of networked and public reputation in economic action, the above discussions have given an insight into the multiple ways that reputation affects a buyer's decision-making processes (as called for by *Eberl 2006, Falkenreck 2010*) and value chain coordination processes across larger distances. During the interviews that I conducted with Australian and German importing firms it became clear that reputation plays an important role for the large majority of firms when it comes to selecting new suppliers. While further research on this issue should also consider the opinions of a broader variety of actors in the value chain in addition to importers, my findings do support those of other reputable scholars who have pointed out that reputation leads to positive word-of-mouth and benefits customer acquisition (*Sarstedt et al. 2013*). Yet, not only the 'solid' and reliable networked reputation is a decisive reference point, but also the reputation of the country of origin of the firm in question in addition to the standard and certification body the supplier is using. A given reputation also

seems to influence a firm in the choice of how externalised or internalised product quality management is carried out (degree of vertical integration).

However, my findings somewhat oppose those of *Suh* and *Houston* (2010), who see reputation as a given antecedent to trust, and that of scholars arguing that it lowers transaction costs required for negotiations and monitoring among suppliers (e.g. *Bergh et al.* 2010). The data presented show that even when the reputation of a supplier has been deemed 'reliable' by their network, this does not lead to a complete relationship of trust between buyer (importer) and supplier. In line with findings by e.g. *Dannenberg* (2012), the interviewed downstream firms with high public exposure rely above all on public reputation among the media and end consumers and take extensive measures to avoid media scandals. The indices that originally substantiate a supplier's reputation (such as quality, performance and responsibility indices) are continuously tested and/or supported, particularly – but not only – in business with "risky supplier countries". This is particularly crucial as the vulnerability of product brands has been shown to be much more noticeable in the food and drinks industry; and what *Wilkinson* (2002: 335) has argued for sports brands may now also seem applicable to supermarket and high-end organic brands, namely that "the brand is transferred from the product to the firm itself and identified with life-style aspirations".

The variations between German and Australian importers regarding the foci and generation of the suppliers' reputation and that of supplier countries and standards or CBs suggest that 'geographical and institutional distance does matter' and touch on the debate of whether reputation as an intangible asset is only confined to a local area or can be transferred to global markets. It has been indicated for the wine industry that a "territorial collective reputation" is important (*Patchell* 2008: 2366). But would an Australian importer be more critical of European organic standards and CBs if they were closer, both geographically and institutionally? Also, the example of some German firms' high involvement in Chinese agricultural production sites illustrates that intense contact and communication can render existing negative reputations into more positive ones. It can, however, also reconfirm existing doubts and concerns. I suggest that further research to strengthen the hypothesis that experience changes reputation should focus more intensively on a longitudinal (evolutionary) perspective than was possible in this research approach.

Glückler and *Armbrüster* (2003) argue that networked reputation bridges uncertainty that is related to the lack of formal institutions such as legislation, standards and certificates. Yet, the preceding analysis shows that uncertainty exists also where formal institutionalisation is given. A good reputation is still essential for (improving) market access, even when core criteria such as legally mandatory certification are fulfilled. Thus, not only formal and legal requirements set by states, firms and organisations, e.g. in the shape of codified product standards or market-based, i.e. price-related, arguments, are decisive for a buyer's decision regarding supply chain coordination.

In the context of international trade coordination analyses in Economic Geography, I argue that CT is one suitable complementary framework to GVC literature with which not only market logics and institutions based on industrial values, but also less tangible aspects of trust, reputation, altruistic values and business mentality can be captured. Also, CT stresses the fact that coordination need not be reduced to one type of coordination, as suggested by *Gereffi et al.* (2005). Rather, firms can employ different conventions at the same time. Power relations within the value chain, on the other hand, are better captured within GVC frameworks. Overall, I conclude here by calling for a greater inclusion of 'informal' or 'intangible' factors into existing concepts. Using CT can assist in this endeavour by showing how something intangible (reputation) is then expressed in very tangible actions.

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