

## **Cultural Dimensions of Switching Behavior in Importer-Exporter Relationships**

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### **EXECUTIVE SUMMARY**

Most research on importer-exporter relationships focuses on the relationship development process. However, the dissolution rate for inter-organizational relationships such as joint ventures may be as high as 70% (Harrigan 1988). Understanding how and why institutional relationships end would be a first step towards maintaining and enhancing worthwhile existing relationships.

This paper seeks to provide a contingency framework to analyze the dissolution of buyer-supplier (importer-exporter) relationships in an international context. The focus of the manuscript is on examining the moderating effect of national culture on the decision of importers and exporters to end their existing relationships.

The manuscript is organized as follows. First, the stages of relationship building and international relationship marketing literature as it relates to the importer-exporter dyad are reviewed. Second, four streams of literature focusing on the breakup of relationships are examined, resulting in the identification of two major factors driving relationship termination. Third, the moderating role of national culture in the termination of importer-exporter relationships is examined using Hofstede's (1980) dimensions resulting in a series of research propositions. Finally, the implications of this framework are discussed.

### **Literature Review**

Dwyer, Schurr and Oh (1987) posited four stages that firms move through in relationship building: 1) exploration or evaluation when buyers evaluate the competencies and motivations of potential suppliers, 2) expansion when the buyer chooses a partner and presents a purchase order, 3) commitment when cooperative interactions intensify (Ford 1980), and 4) institutionalization when norms and routines for the relationship are developed. This manuscript assumes the existence of a fifth stage, dissolution, in which the relationship is terminated. On an international level, institutional relationships are affected by cultural differences (Hokansson and Wootz 1979), and cultural compatibility has been found to be an important element affecting the length of the relationships involved (Karunaratne, Johnston and Rao 1996).

Literature involving relationship termination can be found in four different disciplines: 1) romantic relationships, 2) agency-client relationships, 3) consumer behavior, and 4) inter-organizational relations. A detailed review of the literature from these areas suggests that there are two major components of switching behavior: 1) internally-triggered switches which capture both the intra-organizational factors of the parties involved as well as the inter-organizational dynamics of their relationship (or endogenous factors) and 2) externally-triggered switches in which the factors affecting termination are external environmental (or exogenous) factors (Ring and Van de Ven 1994).

### **The Moderating Role of Culture**

In previous studies (e.g., Parkhe 1991; Child, Markoczy and Cheung 1992), national culture has been shown to moderate the relationship between structural variables and the performance of joint ventures. Park and Ungson (1997) suggested that societal norms and values play an important role in the durability of institutional relationships. According to Spekman and Johnston (1986), the proper level of analysis for institutional relationships is at the organizational level. Each organization's culture will have a dominant imprinting from its national environment. National culture is the set of collective beliefs that distinguish people of one nationality from those of another (Hofstede 1980). The four main dimensions of national culture that were identified by Hofstede (1980) are individualism/collectivism, power distance, masculinity/femininity, and uncertainty avoidance.

Each of these dimensions, as defined by Hofstede (1980), is examined in the context of internally-triggered and externally-triggered switches and the moderating influence of perceived dependency of the parties involved in the relationship (exporters and importers). The following propositions are therefore posited:

P1: If switching conditions are internally triggered, the tendency for one of the parties in an exporter-importer relationship to switch out of the relationship will depend upon the levels of individualism, power distance, masculinity, and uncertainty avoidance exhibited by the parties to the relationship.

More specifically:

P1a: There will be a high likelihood of internally-triggered switching if the dyadic partners both exhibit high levels of individualism, power distance, masculinity, and/or uncertainty avoidance.

P1b: There will be a moderate likelihood of internally-triggered switching if one dyadic partner is high and the other dyadic partner is low in individualism, power distance, masculinity, and/or uncertainty avoidance.

P1c: There will be a low likelihood of internally-triggered switching if both dyadic partners exhibit low levels of individualism, power distance, masculinity, and/or uncertainty avoidance.

P2: The impact of the levels of individualism, power distance and uncertainty avoidance of the national cultures of the parties to a relationship on an internally-triggered switch will be moderated by the perceived dependency of the parties involved in the relationship.

P3: If switching conditions are externally triggered, the tendency for one of the parties in an exporter-importer relationship to switch out of the relationship will depend upon the levels of individualism, power distance, masculinity, and uncertainty avoidance exhibited by the parties to the relationship.

More specifically:

P3a: There will be a high likelihood of externally-triggered switching if at least one of the dyadic partners exhibits high levels of individualism, power distance, masculinity, and/or uncertainty avoidance.

P3b: There will be a low to moderate likelihood of externally-triggered switching if both of the dyadic partners exhibit low levels of individualism, power distance, masculinity, and/or uncertainty avoidance.

### **Implications and Conclusions**

The study of national culture and its impact upon institutional relationships between exporters and importers will help firms looking to develop these types of relationships to make better strategic partner decisions as well as enhance their existing relationships. Both partners should constantly monitor both their internal organizational and operating external environments, and make timely adaptations and adjustments to contextual changes. Firms interested in maintaining relationships should develop a strong and independent organizational culture characterized by low levels of individualism, power distance, masculinity, and uncertainty avoidance.

**Subject Keywords:** Cross-National Research, Relationship Termination

# Cultural Dimensions of Switching Behavior in Importer-Exporter Relationships

## INTRODUCTION

### The “Relationship Marketing” Paradigm

The “relationship marketing” paradigm conceptualizes marketing as an exchange relationship marked by interaction between marketers and customers. According to this approach, marketing is not a discrete, transaction-oriented function, but a continuous, long-term oriented relationship-building process (Gronroos 1994). Marketing is often intrinsically based on repeat purchasing behavior rather than on discrete transactions (Dwyer, Schurr and Oh 1987). Relationship marketing stresses the importance inherent in the building of lasting trust-based relationships with the customer. Dwyer, Schurr and Oh (1987) distinguished between discrete transactions and long-term relationships by bringing in the analogy of a “one-night stand relationship” versus “a long lasting marriage.”

The relationship-marketing paradigm is particularly relevant to industrial and services marketing (Gronroos 1994) where relationship factors have a particularly strong influence on buying behavior (Bonoma and Johnston 1978). A key strategic concern is to build dependable, on-going ‘buyer-supplier’ partnerships. Relationship building is an investment that will yield dividends in the long run. In the individualistic capitalist mode of thinking, cooperative behavior can be rationalized as the long-term synergistic maximization of mutual self-interest (Gerlach 1992), since both cooperating parties seek to strategically gain from their relationship vis-a-vis their competitors.

However somewhat antithetic to the relationship concept itself is the fact that institutional relationships can crumble due to a lack of inertia (Dwyer, Schurr and Oh 1987). Extending Dwyer et al.’s analogy, either partnering firms can go out of business (death), or they can switch to new partners (divorce and remarriage). Even as dissolution rates for cooperative inter-organizational relationships such as joint ventures are around 70% (Harrigan 1988) and increasing, most of the contemporary research in relationship marketing focuses on the relationship-building process without providing insights into the potential for the dissolution of such relationships. The literature emphasizes that if partners are carefully chosen on the basis of their capabilities and motivation (e.g. Ford 1984, Stump and Heide 1996), the costs of opportunistic behavior can be reduced, and lasting relationships can be built. However, these evaluations, or the context in which the evaluations were made in the first place, may change over time (Low 1996), thus establishing the potential for opportunistic behavior. Studying how and why relationships end will in turn help to maintain and enhance existing relationships.

This paper seeks to provide a contingency framework to analyze the dissolution of long-held buyer-supplier relationships in an international context. In the arena of international relationship marketing, the terms buyers and suppliers can be used interchangeably with the terms importers and exporters respectively. The focus of the paper is on exploring the moderating effect of national culture on the decision of importers and exporters to end existing relationships. The primary motivation for termination of relationship itself can be due to endogenous (to the organizations involved) and/or exogenous (environmental) factors.

The paper is organized as follows. First, the stages of relationship building and international relationship marketing literature pertaining to the importer-exporter dyad are reviewed. Second, four streams of literature surrounding the dissolution of relationships are reviewed from which two major economic factors driving the termination of relationships are derived. Third, the moderating role of national culture in the termination of importer-exporter relationships is analyzed using Hofstede’s (1980) dimensions and propositions are posited. Finally, the implications of the framework are discussed.

## LITERATURE REVIEW

### **Stages of Relationship Building**

Dwyer, Schurr and Oh (1987) presented a four-stage process of relationship building between buyers and suppliers. The first is the exploration or evaluation stage when buyers evaluate the competencies and motivations of potential suppliers. Suppliers are evaluated not only on their technical and marketing capabilities (Wilson and Moller 1988), but also on their willingness or motivation as well as adaptability to the buyer's demands (Ford 1984, Stump and Heide 1996). By carefully assessing potential partners, buyers can reduce transaction costs such as the costs of uncertainty of potential partners' efficiency in the future and the costs of opportunistic behavior (Wilson and Moller 1988).

The second stage of relationship building is the expansion stage when a buyer, after evaluating potential suppliers, actually chooses one and presents a purchase order. This stage is the beginning of an interaction process that should result in long-term bonding. This interaction consists of the following components: exchange both formal and informal, adaptation to the buyer's needs and attitudes, and coordination to ensure smoother operations, to respond in an 'ad hoc' manner to environmental changes, and to handle conflict situations (Wilson and Moller 1988).

The third stage is the commitment stage when the intensity of cooperative interaction increases (Ford 1980). This stage is reflected by the reduction of socio-cultural distance, increased quality of communication, and trust building, thus creating a social bond (Ford 1980). Also, buyers and suppliers create structural bonds and make offsetting investments to create high switching costs (Wilson and Moller 1988).

The fourth stage is the institutionalization stage when norms, process routines, and governance structures are created to guide the relationship (Wilson and Moller 1988, Ford 1980, Hakansson 1980). The cooperative interaction between buyers and sellers can sometimes evolve into a "command interaction" (Campbell 1985) marked by high switching costs due to the buyer's domination of the suppliers' costs and technology (Ford 1980). Borrowing the marriage analogy used by Dwyer, Schurr and Oh (1987), we can compare the four stages of buyer-supplier relationship building (i.e., exploration, expansion, commitment, and marriage) to the stages of marital relationship building (i.e., acquaintance, courtship, commitment, and marriage).

A fifth stage of relationship building, namely that of dissolution, is hereby proposed to be an integral part of the relationship process and serves as the primary focus for this paper. To put this in perspective from a cross-cultural perspective, the literature on international relationship marketing must come into play.

### **International Relationship Marketing**

The need for international relationship marketing arises as companies, trying to break into certain foreign markets, need to take a long-term view and build personal contacts with local nationals (Ford 1984). Building cooperative relationships between buyers and suppliers in the international context is even more challenging than in a domestic setting. In the international relationship building process, cultural differences of various types must be addressed (Hakansson and Wootz 1979).

There are several studies that deal with importers' perceptions of exporters' capabilities based on the country of origin (e.g., Ghymn and Jacobs 1993, Deng and Wertz 1995, Seshadri, Rao, Jou and Erramilli 1996), and the multi-attribute perceptual gap between importers and exporters (Katsikeas and Al-Khalifa 1993). These studies can be thought of as mostly focusing on the exploratory stage of the relationship building process. In the later stages of expansion and commitment, international interaction is heavily influenced by cultural exchange (Wilson and Moller 1988). Adaptations need to be made not only to product capabilities or organizational practices, but also to attitudes and values (e.g. Wilson and Moller 1988, Ford 1984). Karunaratne, Johnston and Rao (1996)

designed a cultural exchange framework to investigate the cultural compatibilities of interacting parties (exporters and their import agents) and posited that cultural congruency reduces agency costs in the relationship building process.

### **Dissolution of Relationships**

The literature on the dissolution of relationships can be found in four different disciplines (romantic relationships, agency-client relations, consumer behavior and inter-organizational relations, e.g., joint ventures). To consider the ending of relationships as the obverse or flip side of building relationships would be overly simplistic (Dwyer, Schurr and Oh 1987, Baxter 1983). In the context of romantic relationships, Baxter (1983) observed that the ending of relationships have a steeper slope in the sense that they occur more quickly than the process of relationship building. She also noted that endings are usually unilaterally initiated as opposed to the bilateral initiation indicative of the relationship formation process.

In the study of client-agent relationships, various reasons for switching have been identified. Doyle, Corstjens and Michell (1980) identified dissatisfaction with agency performance and changes in the client and agency's marketing policies and management as some of the major factors in the decision to switch. Buchanan and Michell (1991) found that account variables (such as client size, age of the account and previous account switch), organizational variables (such as account size and agency size), and industry variables (such as industry risk) were some of the structural factors underlying switching decisions. Changes in top management, organizational structure, and environmental uncertainty have been mentioned as some of the other important variables in predicting failure in agency-client relations (e.g. Michell 1987, Michell and Sanders 1995).

In the consumer behavior literature, switching of products and brands by consumers is addressed as "variety seeking behavior" (Van Trijp, Hoyer and Inman 1996). These authors classified variety-seeking behavior as "true variety seeking behavior resulting from intrinsic motivation" and "derived variety seeking behavior resulting from extrinsic motivation." "Intrinsically motivated switches" (Van Trijp et.al. 1996) are those sought for the purposes of bringing variety and stimulation (McAlister and Pessemier 1982). "Extrinsically motivated switches" (Van Trijp et.al. 1996) may be externally imposed (e.g., a stock-out) or freely selected due to "situation-specific preferences" (p. 282). On the basis of an empirical study involving Dutch consumers, Van Trijp et.al. concluded that variety seeking behavior is more likely to occur: (1) for products that evoke *lower* rather than higher levels of involvement, (2) when the perceived differences between brands are small, and (3) when customers do not have a strong preference for a brand. Thus, level of involvement, availability of alternatives and the absence of a strong preference emerge as important predictors of brand switching behavior.

Economic reasons appear to have the greatest impact on the termination of joint ventures. Joint ventures will be unstable if the contributions of the partners are asymmetric over time (Porter and Fuller 1985). Park and Ungson (1997) empirically identified the following economic reasons for joint venture termination: direct competition between partners, overlap in product-market scope, and issues in technology transfer.

On the basis of an empirical study of joint ventures having at least one U.S. partner, Geringer and Hebert (1991) concluded that dissolution is highly correlated with the perceptions of the parent firms as to how the ventures performed relative to their initial objectives. Blodgett (1992) cited unequal ownership shares (inter-organizational factors) and host country policies (external factors) as some of the major reasons for renegotiating joint ventures. In the context of marketing channel relationships, Robicheaux and Coleman (1994) posited that the internal (organizational factors) and external political economies (environmental factors) form the antecedents of channel relationship structure.

Ring and Van de Ven (1994) explained that cooperative inter-organizational relationships can terminate as a result of either endogenous or exogenous factors. According to the authors,

Cooperative inter-organizational relationships may terminate for exogenous reasons (e.g., a natural disaster, a shift in a political regime, the death or sickness of a party) or for reasons endogenous to the organizational parties (e.g., a shift in organizational commitments, structural

arrangements, or performance; completion of the business deal; or a “falling out” among the parties). (p. 107)

Ring and Van de Ven (1994) also proposed that the imbalances between formal and informal mechanisms used to govern inter-organizational relationships would increase the likelihood of dissolution. Another major reason for switching mentioned in the literature (e.g. Low 1996) is that the transaction cost equation can change overtime. As mentioned earlier, firms enter into partnering relationships in order to minimize transaction costs in the first place. Over time, it is possible that, for either of the firms, the costs of partnership can exceed the benefits derived from being in the relationship, thus forcing them to explore other alternatives (including the search for a new partner). Such switching behavior is not easy, and it entails switching costs or relationship termination costs which would include, among others, the relationship dissolution expenses, the relationship-specific assets, any collateral damage, the partner’s residual punitive capability, and the perceived replacement costs (Scheer and Smith 1996).

### **Switching Behavior**

On the basis of a review of the extant literature, there appear to be two major components of switching behavior, namely, the internally-triggered switch and the externally-triggered switch. The internally-triggered switch captures both the intra-organizational factors of the involved parties and the inter-organizational dynamics of their relationship. In other words, this relationship termination is caused by “endogenous” factors (Ring and Van de Ven 1994). On the other hand, the externally-triggered switch represents relationship termination brought on by “exogenous factors” (Ring and Van de Ven 1994) or external environmental variables. These two switches are explained below with examples.

In the internally-triggered switch, importers (or exporters) end or scale back relationships due to the perceived inability of their partners to meet their expectations with respect to such variables as price, delivery, or quality. Rigidity of expectations along channels tends to increase with time (Ford 1980). Moreover, the age of the relationship does not reduce opportunistic behavior (Johnson, Cullen and Sakano 1996). The potential for suppliers to default on their promises (Gronroos 1994) increases in the international context as they operate in a different organizational context than the importers. A relationship can be broken off because of a single failure in delivery (Ford 1984). Unforeseen events may take place in the context of the partner’s organizational environment that were not anticipated during the evaluation stage which can make joint problem solving or conflict resolution techniques inadequate. Although comprehensive relationship marketing involves employee empowerment (Laskin and Evans 1994), problems can arise from employee unrest or managerial defection. The judgment call for the partnering firms in such situations is whether to increase their offsetting investments and structural bonding with the failing partner or to act opportunistically and switch to another firm (thus breaking a promise in turn for a one already broken). Although termination of relationships for varying from the contract can be considered ‘normal’ behavior, firms in long-term relationships can make informal adjustments that allow flexibility for some deviations from the contract requirements. Joshi and Stump (1996) provided the example of a retailer unwilling to impose contractual penalties on a manufacturer for late deliveries since “they know the manufacturer will be accommodative when the retailer impinges on the contract at some later time period” (p. 130).

The externally-triggered switch is driven by changes in the global environment or the operating national environment of the partnering firms. In this case, sweeping changes in the economic, social, technological, or legal environments can take place making the exporter’s or importer’s cost structure noncompetitive, thus pressurizing either of the parties to switch in order to remain profitable. Inclusion of a low cost neighboring country into a free trade area can leave low cost suppliers in countries outside the free trade area in a disadvantaged position. An international norm or regulation recommending the strict enforcement of physical environment standards can automatically make some firms unfit. Thus, the externally-triggered switch can be looked at from an organizational ecological perspective where certain suppliers will be “selected out” (Bruderer and Singh, 1996) by a changing environment. However, Darwinian theories do provide for species variation that implies that strong willed importers and exporters can still pull together for the purpose of influencing the

environment. Firms can actively lobby their governments by forming political groupings to exclude them from changes or to give them time to make adjustments. The judgment call for the importing firm in this switch situation is whether to maintain the relationship in a dramatically altered cost scenario by trying to restore the supplier's competitive position, or to act opportunistically and switch in order to avoid the huge investments of time and money that will be needed to influence and offset the environmental changes.

### THE MODERATING ROLE OF CULTURE

Studying the termination of long-term relationships requires a balanced approach that considers not only economic factors but also the relevant socio-cultural factors. This is due to the fact that alliance behavior has both economic and social dimensions (Saxton 1997). In previous studies (e.g., Parkhe 1991, Child, Markoczy and Cheung 1992), national culture has been shown to moderate the relationship between structural variables and the performance of joint ventures (Park and Ungson 1997). Park and Ungson (1997) contended that informal institutions such as norms and values of a society play an important role in the durability of joint ventures. Norms form an essential part of the cultures of groups and organizations and typically reflect the central cultural values in which they are embedded (Mannix, Neale and Northcraft 1995). Park and Ungson (1997) urged the study of the role of the nationalities of the involved parties in the following manner:

An evaluation of any cross-border joint venture should consider the nationalities of each partner and specifically how the values and institutions embedded within these nationalities lead to potential cooperation in the presence of potential competition between two partners (p. 284)

Moreover, switching for new economic opportunities can entail high "emotional" or "psychological costs," especially after several years of interaction thus requiring the study of the influence of cultural norms on switching behavior. Ring and Van de Ven (1994) suggested that:

The level of motivation and commitment to a relationship is an inverse function of the anxiety associated with needs to (a) feel included, (b) sense predictability in the responses of others, and (c) feel secure in that things are as they appear. Termination of a relationship implies that some or all of these needs have gone unfulfilled. Therefore, it is not only in the economic but also in the *psychological* best interests of the organizational parties to find ways to preserve their socially embedded relationship. (p. 107).

Switching conditions entail judgment calls that have "human factor" implications (Zahra 1987) such as restructuring and job termination. Judgment calls in these situations are made not only on the basis of economic criteria, but also on personal values and individual aspirations (Zahra 1987, Andrews 1980). Emotional costs also include the loss of reputation, as the parties involved in dissolution might not be looked upon as attractive partners by others (Park and Ungson 1997). The tendency to maintain or switch relationships in the face of such emotional costs would most likely depend on the cultural norms of the interacting firms.

The use of culture as a moderating variable in turn brings the question of the appropriate level of analysis. Culture of the exporting and importing firms can be thought of at four different levels of analysis: the individual, the buying group, the organization, or the society at large. Arguments abound in the literature as to the relevance of each of these levels. In some cases, certain *individuals* on both sides would be singularly responsible for building and maintaining long-term exporter-importer relationships. Such relationships may wither when key individuals move to other organizations. Sometimes, individual inter-personal affinities might be strong enough for individual agents to change sides and act on behalf of the other company (Ford 1980). The top management or other individuals of the decision making group then must step in to restrain the individual agent and force adherence to those actions considered to be in the firm's best interests.

Buying and selling decisions are usually made in *groups*, therefore, the buying center or the buying group should be the focus of attention as opposed to the individual (Woodside, Taylor, Pritchett and Morgenroth 1977). Exporting and importing firms attempt to reduce cultural distance by setting up local offices and employing local nationals in their selling and buying groups as their businesses grow (Ford 1980). Thus, there are two different frames here. One is the general frame of the organization, and the other is the local frame of the buying group (Wilson and Moller 1988). The more heterogeneous or multi-cultural the organization, the more independent the buying group will be, with a lot of learning potential (Wilson and Moller 1988).

Relationship analysis should occur at the organizational level (Spekman and Johnston 1986). The composition of the buying group and the group's "independent" local cultural frame only seek to serve the ultimate interests of the *organization*, and hence its global frame. Organizations can have their own cosmopolitan cultures distinct from those of the society or of the individuals and groups within the organization (Dawar, Parker and Price 1996).

National or societal culture can have a significant effect on the culture of organizations. Indeed, nations create competitive advantages by means of their own unique organization of their economic activities (Porter 1990). Each organization's culture will have a dominant imprinting from its national environment. Thus, a managerial frame, in turn, would include the generalized and internalized variables of the *society* in question (Wilson and Moller 1988).

The focus of this paper is on the effect of national or societal culture on switching behavior. National culture is the set of collective beliefs that distinguish people of one nationality from those of another (Hofstede 1980). It is "a central organizing principle of employees' understanding of work, their approach to it, and the way in which they expect to be treated" (Newman and Nollen 1996). Hofstede's (1980) indices capture societal cultures in a robust manner. The four main indices are that of individualism-collectivism, power distance, masculinity-femininity, and uncertainty avoidance. Although Hofstede's indices are not a dichotomy in the sense that the value of these indices can range from low to high across a continuum, the paper considers societies and their respective organizations to possess high or low levels of each of the four cultural indices. For example, the U.S. is generally regarded as a society with 'high' levels of individualism. Likewise, Japan is regarded as a highly collectivistic society. Hofstede's dimensions are a means to identify the commonalities that make specific groups of nationals *relatively* homogenous within and heterogeneous without (Ralston, Gustafson, Cheung and Terpstra 1993). His indices are widely used in various cross-cultural studies at different levels of analysis. Rao and Rallapalli (1996) used these indices in a study of inter-cultural sales teams. The level of analysis for which the indices were used is that of the *group* or the sales team. Karunaratne, Johnston and Rao (1996) employed the indices to study cultural interactions between the exporting firm and the importing agent. In this case, the pertinent levels of analysis were the *firm* and the *individual*. Dawar, Parker and Price (1996), Chow, Shields and Chan (1991) and Shackleton and Ali (1990) utilized Hofstede's indices at the level of the *society*. Thus, Hofstede's indices are widely used at all levels of analyses in cross-cultural research. Kale (1995) contended that national culture will shape organizational culture along with the culture of a firm's employees. He pointed to the evidence in the literature (e.g. Lessem 1990) to suggest that "established firms depict organizational cultures which in turn reflects the values, beliefs, and goals of the national culture of the country" (p.446). Thus, national culture leaves its imprint on individuals, groups and organizations.

## HOFSTEDE'S NATIONAL CULTURAL INDICES

### Individualism and Collectivism

Individualism (Hofstede 1980), as a cultural construct, measures the importance placed on the welfare of the individual as opposed to the group. The importance of the group is reflected in collectivism. In individualistic cultures, "people look after themselves and their immediate family members only," whereas in collectivistic cultures, "people look after the interests of larger groups and collectivities in exchange for loyalty" (Hofstede 1980, p.390). In individualistic societies, individuals "can pursue private interests irrespective of their bearing on the interests of others, whereas in collective societies, obligations toward collective well being supersede the

pursuit of personal gains” (Parsons and Shils 1951). Wagner (1995) equated collectivism with “cohesiveness, commitment, or conformity” and where person-group relations are perceived as enduring and important (p. 154). On the other hand, individualism is based on the assumption that person-group relationships are fleeting in nature (Wagner 1995, p. 154). “Selfishness” for individualists means attending to personal objectives and ignoring group interests, whereas “selfishness” for collectivists implies catering to group interests even at the expense of personal desires (Wagner 1995). Individualists will value cooperation only when it leads to the attainment of personal benefits that cannot be achieved by working alone (Wagner 1995).

The thesis that individualism does not bode well for relationship formation or maintenance is not new. Horney (1937) held that individualism carried the seeds of potential hostility that pervade all human relationships. The advantages of collectivism, in creating stable long-term relationships, has been studied in detail in the Japanese contexts by various authors (e.g., Gerlach 1992). The norms of reciprocity are more prevalent in collectivistic Japan than in the individualistic U.S. (Johnson, Cullen, Sakano and Takenouchi 1996). The ‘Guanxi’ or ‘special relationship’ in the context of China, another collectivistic country, always involves a reciprocal obligation (Leung, Wong and Wong 1996). On the basis of an empirical study of college students, Wagner (1995) concluded that collectivists cooperate more than individualists. Kale (1995) stated that during the review process of transnational strategic alliances, collectivistic societies will tolerate the pitfalls of their partners with the focus of the review process being the long-term survival of the relationship. On the other hand, “cultures with high individualism are more prone to opt out of unsatisfactory relationships than low individualistic cultures, and one would expect more frequent dissolution of transnational strategic alliances among firms from high individualistic cultures compared with those from low individualistic cultures” (Kale 1995, p.447).

When both the importers and exporters hail from individualistic cultures, although there is cultural congruency which bodes well for relationship formation (Karunaratne, Johnston and Rao 1996), the chances for cultural adaptation of the respective buying and selling teams of importers and exporters (Rao and Rallapalli 1996) are limited. When adversity arrives in the form of an internally-triggered switching condition, individualistic importers will not hesitate to switch, and would in fact expect their individualistic exporters to appreciate their stance as internalized values of individualistic cultures do not support norms of reciprocal obligation when there is no mutual benefit. Thus, the psychic costs of switching are low in this scenario.

When importers hail from individualistic cultures, and exporters hail from collectivistic cultures, the cultural incongruency provides more opportunities for cultural adaptation. Adaptation can range along a continuum from a complete adaptation to the other party’s values and beliefs or a complete insistence on one’s own cultural standards (Kohls and Buller 1994). The interaction of importers and exporters having different cultural values can give rise to interesting learning opportunities, but only to a limited extent. This is because complete adaptation is not possible when importers and exporters hail from their own firmly entrenched disparate cultures. Hill and Levenhagen (1995) contended that when a formalized mental frame such as a cultural mind-set is already existent, learning becomes mostly ‘single loop’ or of the first-order. In first-order learning, the focus is on convergence and adaptation. Any major overhaul of values and beliefs requires ‘double-loop’ or ‘second-order’ learning which requires explicit top management initiation and guidance (Hill and Levenhagen 1995). Some of these linear first-order adaptations might find their way into the organization at large, but the dominant frame of the organization is not expected to change. As interactions between importers and exporters that vary widely on the levels of individualism and collectivism expose each other to the differences in cultural norms, the norms of collectivistic obligation will no longer be alien to the individualistic partner. Even though the individualistic temptation to switch during an internally-triggered switching condition is a factor, the norms of collectivist obligation filtered into the importers’ (or exporters’) organization will potentially cause them to ‘flirt’ with the idea of tolerating slack because of unpredictable circumstances. Thereby, this would strongly suggest against switching from their collectivistic partners during an internally-triggered switch. On the other hand, the collectivistic partner would be exposed to the individualistic demands on ‘mutual gain’ and hence most likely collaborate to remove inefficiency conditions and other inter-organizational aspects underlying this type of switch. When both importers and exporters hail from collectivistic cultures, their collectivistic mental frames would be reinforced in their relationship thereby placing pressure on importers not to switch.

To sum up, individualism and collectivism as cultural constructs are construed to be negative and positive factors respectively in maintaining relationships. It is expected to be sufficient if one of the interacting parties has a collectivistic orientation. Park and Ungson (1997) contend that to the extent one or both partners in a joint venture are strongly concerned with norms of reciprocity, informal institutions such as values, beliefs and norms will resolve disputes, reduce opportunism and facilitate cooperation (p. 285). They also empirically established that U.S.-Japanese joint ventures are less likely to dissolve than U.S.-U.S. joint ventures.

Of course, the extent to which any relationship breaks up would depend to a certain extent upon the nature of the perceived dependency between the parties to the relationship. In this case, one would certainly expect that the more perceived dependency between the parties, the less likely that the level of national individualism of the home countries would have an effect upon the potential for an internally triggered switch. It is therefore likely that perceived dependency will have an effect upon switching behavior.

Maintaining a relationship during an externally-triggered switching condition involves more risk than an internally-triggered change as this type of change directly involves the operating environment of the partners. In the externally-triggered switching condition, it is a question of “bottom-line” conditions (Kale 1995) that one would expect from a relationship. Individualism, and even ‘strains’ of individualism filtered into the collectivistic organization (as a result of mutual interaction and adaptation) will dominate the decision making process to switch. Partnering firms (importers or exporters) from highly individualistic societies will switch to prevent the chances of being selected out by the environment no matter whether the partnering firms come from collectivistic societies or not. A limited understanding of the collectivistic obligation as a result of first-order learning is insufficient to maintain the relationship under this condition of extreme adversity. Moreover, collectivistic firms (importers or exporters) will also switch when their partners come from individualistic societies. It is only when both interacting parties are collectivistic that attempts will be made to influence the environment such as involving respective governments in negotiations thereby facilitating the evolution of a new ‘organizational species,’ (borrowing the terminology from organizational ecology) to withstand the environmental adversity underlying an externally-triggered switching condition. In other words, even if one of the interacting parties is individualistic, an externally triggered switch will take place. In this case, since the externally-triggered switch is brought about by national or global environmental changes, the likelihood of perceived dependency to affect the process will be lessened.

### **Power Distance**

Power distance (Hofstede 1980), as a cultural variable, captures the acceptance of hierarchies of power in a society. Hofstede defined power distance in the following way: “Power distance can be defined as the extent to which less powerful members of organizations within a country accept the unequal distribution of power” (p. 390). People in high power distant societies follow the organizational hierarchy in a rigid manner, tend to centralize decision making, and do not believe in participative management (e.g. Wong 1985, Tayeb 1988, Newman and Nollen 1996). Newman and Nollen (1996) contended that the efficacy of participation is dubious in high power distance cultures as participative management will be viewed with fear, distrust and disrespect (p. 756). High power distance does not facilitate either dialogue or dissent (Gottlieb and Sanzgiri 1996), and the emphasis on harmony is basically against dissent or conflict, which as a matter of fact can result in creativity and change (Overvold 1987). While workers in Japan, a country with high power distance, are allowed to express their opinions on improving efficiency conditions though a process known as kaizen, they are not encouraged to propose ideas that contradict the basic practices or disturb harmony (Taka and Foglia 1994). At the organizational level, high power distance would pose a barrier to effective communication, thus underutilizing the potential for interaction. This would occur because power distance has an inverse relationship to a society’s openness to objective sources of new information (Dawar, Parker and Price 1996). Except for close associates, high power distance implies a general distrust of others (Dawar, Parker and Price 1996). Firms belonging to cultures with low power distance will focus more on equity and fairness, whereas firms belonging to cultures with high power distance will resort to the use of coercion to influence their partners (Kale 1995). Low power distance is also associated with decentralization that gives everyone a say in decision making (Nakata and Sivakumar 1996). To

sum up, low power-distance will facilitate effective and fair interaction, whereas high power-distance will foster an environment of distrust and coercion. Thus, low power-distance is conducive to the maintenance of relationships.

In an internally-triggered switching condition, if both the interacting parties have low power distance, then there will exist tremendous opportunities for enhanced communication in order to inquire into the causes underlying the switching condition and devise steps to rectify both intra-organizational and inter-organizational causes. Again, borrowing from cultural adaptation theory (e.g. Kohls and Buller 1994), if at least one of the parties has a low power-distance, then there is the opportunity for the other party to understand the need for a 'barrier free communication.' Such a communication can facilitate a meaningful enquiry into the causes of the internally-triggered switching condition and allow for remedial action to prevent or minimize the chances of a recurrence of such an adverse situation. Finally, when both parties come from societies with high power distance, the ineffective communication, distrust, and lack of willingness to share information will make it difficult to indulge in productive conflict resolution techniques. Again, the propensity to switch will be affected by the perceived dependency between the partners to the relationship.

On the other hand, for an externally-triggered switch, both parties will have to come from societies with low power distance to embark on detailed negotiations involving strong information sharing and the generation of new ideas to muster the economic and political resources that are necessary to coax the environment. Even if one of the interacting parties (importers or exporters) belongs to a society with high power distance, the mutual forthcoming required will be absent thus preventing detailed discussions on how to overcome adversity. The partnering firm coming from a society with high power distance will either attempt to 'coerce' (Kale 1995) the other party to get the maximum out of the changed situation (if it has higher power) or simply accept the changed situation (if it has lower power) without attempting to find solutions to preserve relationships. In other words, even if one of the interacting parties has a high level of power distance, switching will take place. The effect of mutual dependency would again be lessened in an externally-triggered switch.

### **Masculinity and Femininity**

Masculinity (Hofstede 1980, p. 390), as a cultural construct, measures "the value placed on material things, power, and assertive behavior as opposed to the value placed on people, and nurturance" which is captured by femininity. Masculine cultures "value achievement and abhor failure, whereas feminine cultures value affiliation and view failure as much less important" (Newman and Nollen 1996). Examples of masculine countries include Japan and the United States. Feminine countries are exemplified by Scandinavian countries such as Norway and Sweden. Societies with high masculinity display a pattern of assertiveness and aggressiveness (Kale 1995). Aggressive bargaining has been found to contribute negatively to building cooperative relationships (Perdue and Summers 1991). Firms belonging to countries with high masculinity will precipitate conflicts whereas firms in low masculinity countries will prefer harmonious reconciliation (Kale 1995). Kale (1995) stated that "while the bottom line would be important for both masculine and feminine societies, firms in feminine societies will place greater emphasis on non-monetary factors like bonds of inter-personal friendship and the psychic aspects of relationship" (p. 448).

In an internally-triggered switching condition, if at least one of the parties is feminine, the psychic costs of switching (e.g., the emotional costs of potential unemployment and loss of security and association) will be high for the other interacting party due to first order learning and the resultant linear adaptation and understanding of the other party's concerns. If both parties belong to societies with high masculinity, then the emotional costs of switching will be low due to mutual lack of attention to relationship aspects. In this case, the effect of perceived dependency may be lessened by the nature of the societal characteristics inherent in masculinity/femininity.

During an externally-triggered switching condition, partnering firms (importers or exporters) from societies with high masculinity will switch no matter whether the exporters are feminine or not. This is because of the relatively high value that masculine societies place on monetary achievements that are threatened severely due to the changed competitive scenario as a result of environmental changes underlying the externally triggered condition.

Also, as discussed earlier, the chances of ‘second order ‘ learning to take place are low. Moreover, even feminine importers will switch when their exporters are masculine. Only when both parties are feminine, efforts will be made to stick to the relationship due to the reinforcement of mutual beliefs in maintaining the relationship. One would again expect that the effect of mutual dependency would be lessened in the externally-triggered switch.

### **Uncertainty Avoidance**

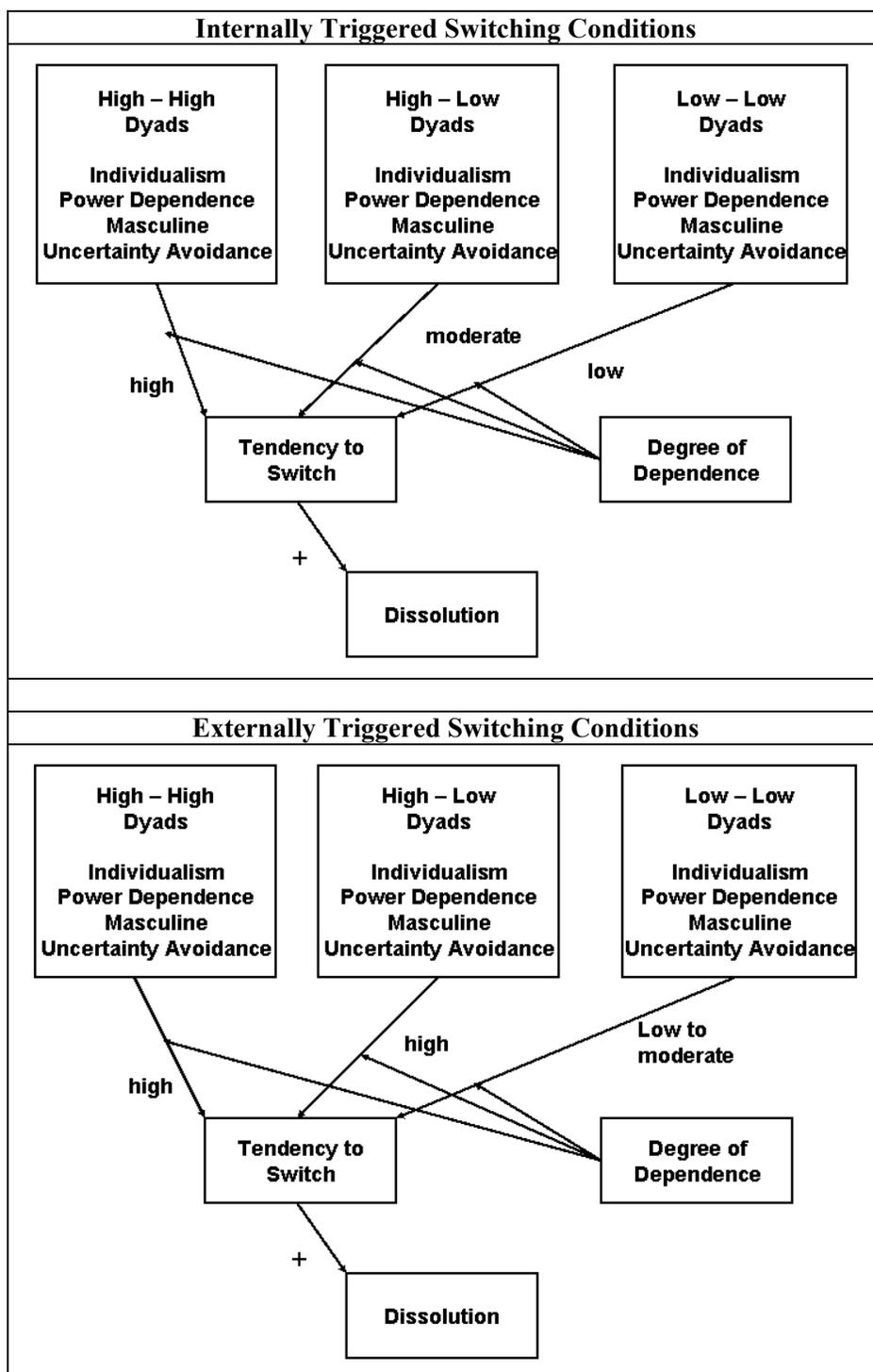
Uncertainty avoidance (Hofstede 1980), as a cultural construct, measures the extent to which people in certain societies try to avoid uncertain, and risk taking situations by adopting strict codes of behavior. Hofstede (1980) defined uncertainty avoidance as “the extent to which the members of a culture feel threatened by uncertain or unknown situations (p. 390).” Societies with low uncertainty avoidance are more risk taking (Nakata and Sivakumar 1996) and exhibit greater acceptance of dissident behavior. Cultures with high uncertainty avoidance tend to be distrustful of new ideas or behaviors because of their low tolerance for ambiguity (Dawar, Parker and Price 1996). Societies with high uncertainty avoidance also place more importance on rules as a means to avoid risk (Dawar, Parker and Price 1996). Uncertainty avoidance is inversely related to the level of openness in a society (Dawar, Parker and Price 1996). On the basis of an empirical study of managers from Latin Europe, which is high in uncertainty avoidance, Schneider and DeMeyer (1991) concluded that higher uncertainty avoidance countries respond “forcefully and extremely” to environmental uncertainty and threat by resorting to major restructuring aimed at reducing uncertainty (Newman and Nollen 1996). Societies with high uncertainty avoidance will design elaborate control systems to account for losses and gains (Kale 1995). On the other hand, societies with low uncertainty avoidance will show greater tolerance in accounting for rewards and losses and will tend to attribute poor performance to environmental factors that are uncontrollable (Kale 1995, p.446). Thus, low levels of uncertainty avoidance are conducive to the maintenance of relationships.

Importers and exporters get into long-term relationships to avoid uncertainty in the first place. However, the relatively unpredictable nature of internally-triggered and externally-triggered switching conditions forces importers to re-evaluate their relationships. When both the interacting firms are from societies that are low in uncertainty avoidance, then the relationship will be maintained during an internally-triggered switch due to their mutual tolerance in “accounting for rewards and loses” (Kale 1995). When either of the two parties belong to societies that are low in uncertainty avoidance, they will not switch during an internally-triggered switching condition no matter whether the partnering firms are low or high in uncertainty avoidance. This is because of the first order learning effects as explicated earlier in regards to other cultural indices. Only when both the importers and exporters are high in uncertainty avoidance, will an internally-triggered switching take place. Perceived mutual dependency will again have an important effect on the likelihood of this type of switch.

In summary, the internally-triggered switch can either be driven by the internal economy and polity of either of the partnering firms. The externally-triggered switch is driven by the external polity and economy of either of the partnering firms. However, during an externally-triggered switching condition, both the interacting parties will have to be highly risk-taking in order to maneuver their way out of sweeping environmental changes. In other words, both parties will have to possess low levels of uncertainty avoidance. Even if one of the parties belongs to a society with a high level of uncertainty avoidance, its basic requirement of accountability for losses and gains will foster an externally-triggered switch. In other words, even if one of the interacting parties is high in uncertainty avoidance, switching will occur.

As a result of the preceding argumentation, the hypothesized relationships can be seen in Figure 1.

FIGURE 1



The following propositions are therefore posited:

P1: If switching conditions are internally triggered, the tendency for one of the parties in an exporter-importer relationship to switch out of the relationship will depend upon the levels of individualism, power distance, masculinity, and uncertainty avoidance exhibited by the parties to the relationship.

More specifically:

P1a: There will be a high likelihood of internally-triggered switching if the dyadic partners both exhibit high levels of individualism, power distance, masculinity, and/or uncertainty avoidance.

P1b: There will be a moderate likelihood of internally-triggered switching if one dyadic partner is high and the other dyadic partner is low in individualism, power distance, masculinity, and/or uncertainty avoidance.

P1c: There will be a low likelihood of internally-triggered switching if both dyadic partners exhibit low levels of individualism, power distance, masculinity, and/or uncertainty avoidance.

P2: If switching conditions are externally triggered, the tendency for one of the parties in an exporter-importer relationship to switch out of the relationship will depend upon the levels of individualism, power distance, masculinity, and uncertainty avoidance exhibited by the parties to the relationship.

More specifically:

P2a: There will be a high likelihood of externally-triggered switching if at least one of the dyadic partners exhibits high levels of individualism, power distance, masculinity, and/or uncertainty avoidance.

P2b: There will be a low to moderate likelihood of externally-triggered switching if both of the dyadic partners exhibit low levels of individualism, power distance, masculinity, and/or uncertainty avoidance.

## IMPLICATIONS AND CONCLUSIONS

Empirical validation of the framework presented in Figure 1 should proceed first with examining specific pieces, as the testing of the whole framework at once would require a huge effort considering the different combinations of countries involved. In order to test the framework, definitions for operationalization of the key study constructs, internally-triggered and externally-triggered switching, are provided by Ring and Van de Ven (1994, p. 107). It should be recalled again that this paper assumes that organizations, although not necessarily monolithic, have a dominant frame of cultural thinking derived from their respective societies of origin. Certainly the indices developed by Hofstede (1980, 2001) can be used for measurement of national cultural dimensions. With the increasing attention paid to transnational companies, it is possible that organizations can have multiple frames derived from multiple cultures with no particular one being dominant. Studying the switching behavior of these transnational firms would also be worthwhile.

One important underlying characteristic of the discussion in this paper is that the maintenance of relationships is analyzed *post hoc*. That is, long-term relationships are already assumed to exist between the interacting parties, and what is examined is the potential for serious strain. Thus, the collectivistic “in-group” notion is also extended to include the other party, regardless of whether it is collectivistic or not. This may not always happen in practice. Certain cultures, although collectivistic, will not extend the “in-group” attitude outside their own cultures. For instance, Johnson, Cullen and Sakano (1996) reported that Japanese firms (in spite of their collectivistic orientation) in fact act more opportunistically in international joint ventures than their individualistic American counterparts. Therefore, certain cultures, even when characterized by positive attitudes for maintaining relationships like low power distance or low uncertainty avoidance, might not have the same attitudes for an “out-group” relationship. This behavior calls for more investigation.

Another area for further examination is that of the fifth dimension of national culture that was added by Michael Bond to the other four identified by Hofstede, Confucian Dynamism. This long-term versus short-term focus may also have a bearing on the parties to a relationship. While this dimension was not addressed in the present paper, it merits additional consideration in future empirical research. One last consideration, given the previous discussion, involves the nature of the possible importers involved in these relationships. Merchant importers may be less inclined to focus on long-term relationships than non-merchants. Future research could examine differences in the types of partners to the relationships under investigation.

The major implication of this paper is that relationships once formed should not be taken for granted. Both partners should constantly monitor both their internal organizational and operating external environments, and make timely adaptations and adjustments to contextual changes. Also, firms interested in maintaining relationships should develop a strong and independent organizational culture characterized by low levels of individualism, power distance, masculinity, and uncertainty avoidance. This independent culture should be fostered the strongest at the interface level of the interacting organizations, namely, the international purchasing and sales departments. Special efforts are necessary in developing an independent organizational or sub-unit culture if the national culture is contradictory. Training seminars for employees working at the interface, formal and informal interactions with employees from the other culture and organized exchange programs are some of the steps that can be taken toward this effort. Apart from relationship maintenance, this paper also has implications for relationship termination especially triggered by changes in the external environment. Only when there is a congruency in the four national cultural dimensions (collectivism, low power distance, femininity and low uncertainty avoidance) that enhance relationship maintenance, will it even be worthwhile for importers and exporters to conceive of ways to save the relationship. Otherwise, during an externally triggered switch due to environmental factors, interacting international firms are better off by terminating their relationship.

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