

Trust and Commitment in International Business Relationships

by

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Abstract

While it is accepted that buyer-seller relationships play an important role in marketing, little research has been done to determine their nature and role in an international setting. This paper proposes a conceptual model to be tested among a sample of buyers (importers/distributors) and sellers (exporters) in Thailand & Australia. It also reports on the progress of a study that integrates different models of trust and commitment in international business relationships. Unlike the majority of relational studies, data will

be collected from both sides of the dyads (i.e. both importers and exporters) investigated.

1. Introduction

Relationship building and management, or what has been labelled relationship marketing, is playing an increasingly important role in the development of marketing theory. The concept has been considered by some as a "fundamental reshaping of the field" (Webster, 1992, p.1) and by others as a

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genuine paradigm shift (see Gronroos 1995; Parvatiyar and Sheth 1994). Relationship marketing is part of a developing 'network paradigm', which recognises that global competition occurs increasingly between networks of firms (Thorelli 1986, p. 47). Recent relational theories that have emerged focus on "marketing activities directed towards establishing, developing, and maintaining successful relational exchanges" instead of the traditional arms-length approach between buyers and sellers (Morgan and Hunt, 1994, p. 22).

In an international setting, business to business relationships are of particular interest because of the physical distance and cultural gap between partner firms (Madsen 1994). According to Ying (1996), culture has a profound impact on international joint ventures and many of the problems and obstacles in international partnerships have their roots in cross-cultural communication and understanding.

With few exceptions (see Aulakh, Kotabe, and Sahay 1996; Piercy, Katsikeas and Cravens, 1997; Styles and Ambler 1994; 1996), the explicit role and nature of relationships in deriving international buyer-seller partnership success has not been empirically examined. This is despite the globalisation of markets and proliferation of inter-firm marketing partnerships across national borders (Parkhe, 1993). The trend towards closer ties between sellers and buyers from different countries has been increasingly reported in both the

business press and academic publications (Ellram, 1992; Gross and Newman, 1989; Morris and Hergert, 1987). The relationships range from non-equity based co-operative alliances to formal exporter-distributor relationships and joint ventures (Johnson et al., 1996). Many manufacturers are using distribution partnerships with foreign companies to access complementary marketing skills, speed up entry into foreign markets, and reduce risks and costs of doing business in foreign markets, among other things (Contractor and Lorange, 1988). Thus these transactions can be seen as international buyer-seller partnerships.

The recognition that commitment and trust are central to successful relationship marketing has increased the search for the factors that contribute to developing, maintaining and increasing commitment and trust in the relationship. Recent development in the literature have also suggested that there is more than one type of trust (Sako, 1992) and commitment (Geyskens, et al., 1996). These different types have yet to be integrated in a single study. Further, with few exceptions (Johnson, et al., 1996; Rosson and Ford, 1982), the literature also lacks studies where data was collected from *both* sides of a dyad deemed necessary to understand the intricacies of buyer-seller relationships (Anderson, 1994; Sarkar, Cavusgil, and Evrigen, 1997). Anderson (1994) argues that single partner data is often misleading as numerous discrepancies are routinely reported between partners' answers to specific questions concerning the

relationship.

In this study we seek to i) explore the role and nature of buyer-seller relationship in an international setting, ii) integrate the different types of trust and commitment found in relationships and iii) propose a conceptual model of trust and relationship commitment in international business partnerships. In the next section the different types of trust and commitment are discussed. The conceptual model will then be presented and finally a proposed methodology will be explained

2. Different types of commitment and trust in international buyer-seller partnership.

2.1 *The nature of commitment in international buyer-seller partnerships*

Relationship commitment has been typically defined as a partner's intention to continue the partnership (Dwyer, Schurr, and Oh, 1987; Morgan and Hunt, 1994). However, the nature of commitment can be quite different depending on the motivation for initially entering into the relationship in the first time (Geyskens, et al., 1996). Of the different types of commitment identified, *affective* and *calculative* commitment seem to be most relevant in interorganisational relationships (Mathieu and Zazac, 1990). Geyskens, et al. (1996) have noted that both affective and calculative commitment are psychological states which are stable attitudes and beliefs about

relationships that arise out of interaction, but they arise from different motivations for maintaining a relationship. The need to differentiate between different types of commitment is critical as the extent to which one partner is affectively committed does not affect the degree of calculative commitment, and vice versa (Allen and Meyer, 1991). Also, the use of the general term 'commitment' to explain either of these two different aspects creates considerable confusion in the interpretation of commitment theories, models and empirical findings (Geyskens, et al., 1996).

It seems that affective commitment has received most of the attention in past relationship marketing literature (see Anderson and Weitz, 1989; Morgan and Hunt, 1994). When a partner's underlying motive to maintain a relationship is a generalised sense of positive regard for and attachment to the organisation, it is said to have affective commitment towards the organisation (Geyskens, et al., 1996). The motivation comes from the desire to continue the relationship because the firm likes the partner and enjoys the partnership (Kumar, Hibbard, and Stern, 1994). In Thailand we expect affective commitment to be especially important. During qualitative interviews conducted in Thailand in February 1998, one Thai importer (agent) of Australian specialist tapware and safety systems expressed it: "...*first a strong personal relationship must exist, then the business relationship will be strong*". Or as one Australian exporter of computer software expressed:

"People do business with people in Thailand".

Calculative commitment, on the other hand, is the extent to which partners perceive the need to maintain a relationship given the significant anticipated relationship termination costs associated with leaving (Geyskens, et al., 1996). This type of commitment is a result of firm's calculation of costs and benefits from the partnership including the assessment of relationship investments and the availability of alternatives to replace the foregone investments (Allen and Meyer, 1991). Because this type of commitment is based in the perceived structural constraints that bind the firm to its international partner, it mirrors a negative motivation for continuing the partnership (Geyskens, et al., 1996). As one Thai import agent put it: *"Their brand (of chemicals) is well known in Thailand, it would be difficult for us to introduce a new brand"*. The effects of calculative commitment has been researched in the channel literature (Geyskens, et al., 1996; Kumar, Hibbard, and Stern, 1994) but it has largely been ignored in studies of international buyer-seller partnership (Aulakh, Kotabe, and Sahay, 1996; Sarkar, Cavusgil, and Evirgen, 1997).

2.2 Different types of trust in international buyer-seller partnership

Trust has been included in numerous relationship studies conducted in both domestic (see Anderson and Weitz, 1989; Anderson and Narus, 1990; Morgan and Hunt,

1994) and international (see Aulakh, Kotabe, and Sahay, 1996; Johnson, et al., 1996; Larson, 1992) settings. Most studies concentrated on two key components of trust - a cognitive component, derived from confidence in the reliability of a partner, and a behavioural component, derived from confidence in the intentions, motivations, honesty, or benevolence of a partner (Ring and Van De Ven, 1992). As was the case with commitment it is important to differentiate between different types of trust according to motivations. Sako (1992) has identified the existence of three types of trust in inter-firm relationships. They are *contractual trust*, *competence trust* and *goodwill trust*.

Contractual trust is said to exist when the partners adhere to specific written or oral agreements (Sako, 1992). All business transactions rely on 'contractual trust' for their successful execution. Partners rely on written or oral agreements to produce, deliver certain amount of goods within a certain period in return for payment. These agreements reflect the partners' confidence in buying or selling the product from the other partner. However, reliance on oral agreements rather than written ones is considered to reflect more 'contractual trust' (Sako, 1992).

A second type of trust is concerned with the expectation that a partner will be able to perform its role. As technical and managerial competence are the prime issues in this type of trust, Sako (1992) refers to it as competence

trust. The confidence in other partner's competence in performing what it is supposed to perform gives the firm a sense of assurance in transacting with the other partner.

A third type, goodwill trust is more diffuse in that it refers to mutual expectations of honesty and benevolence. During our interviews one Thai importer stated: "*Sincerity and understanding are most important - once this happens things will happen...*". According to this notion of trust, partners trust each other based on a belief that each firm will behave in a fashion that is beneficial to both the partners (Sako, 1992). Also, the partners will do more than is expected of them through contractual agreements. This conceptualisation of trust is consistent with previous inter-firm relationship research (Morgan and Hunt, 1994).

The ability to distinguish between *contractual*, *competence* and *goodwill* trust is important in international buyer-seller partnerships. Firms in international business may misunderstand each other in different situations and the relationship will suffer. If a failure in meeting product delivery standards is viewed as a breach of contracts, firms may stop doing business on moral grounds, whereas if the failure is attributed to some unexpected problem with the partner firm, the firm may be more understanding and give the partner a second chance. Also taking initiatives (or exercise discretion) to exploit new opportunities over and above what is explicitly promised will differentiate

goodwill trust from contractual trust (Sako, 1992).

The three types of trust described above exist more or less in all buyer-seller relationships. But the extent to which each firm may wish to rely upon any of them differs from relationship to relationship. Goodwill trust will differentiate harmonious long-term relationships from the short-term relationships.

Given the different motivations associated with different types of trust and commitment, we believe that there are important differences in their antecedents and consequences. This is reflected in the conceptual model in Fig. 1 and discussed below.

3. Conceptual Model

3.1 Antecedents of trust

Theories of buyer-seller relationships have emphasised the importance of trust in inter-firm relationships (Anderson and Weitz, 1992; Morgan and Hunt, 1994). Trust plays such an important role in inter-firm relationships that some researchers argue that trust is the major factor in the formation of strategic partnerships between firms (Madhok, 1995). We posit that the determinants of goodwill trust for a focal firm ($GOODWILL_{FF}$) in an international buyer-seller partnership includes cultural sensitivity ($CULTURE$) towards the partner firm, partner firm's goodwill trust towards the focal firm ($GOODWILL_{PP}$), length of the relationship ($TIME$), two-way

communication (COMMUNI) between partners and the partner fit (PARTNER FIT).

When transactions cross cultural boundaries, the effects of cultural differences have the potential to pervade the relationship. Culture as a kind of mental programming represents a set of shared values legitimating social practices (Haugland, Grohaug, and Reve, 1997). Some researchers have demonstrated the role of culture in distribution channel relationships (Johnson et al., 1993); in international joint ventures (IJV) (Johnson et al., 1996); and in international strategic alliances (Lorange and Roos, 1993). Johnson, et al. (1996) termed the cultural tailoring as "cultural sensitivity". According to the authors cultural sensitivity provides a foundation for trust development in partnerships. For example, in dealing with Thais, the Australia side of the partnership will need to appreciate fundamental Thai cultural concepts of '*Kreng Jai*' (restraining one's own self interest, where there is potential for conflict or confrontation, in order to maintain a good relationship); '*Hai Kiad*' (to always show honour and respect); and '*Sam Ruam*' (sensitivity to display of strong emotions, and especially important not to display anger).

Goodwill trust has a reciprocal effect. Researchers suggest that trust in inter-firm partnership possess a self-fulfilling quality (Johnson, et al., 1996). Authors have compared business partnerships to marriages as choosing the proper partner is crucial to the partnership success

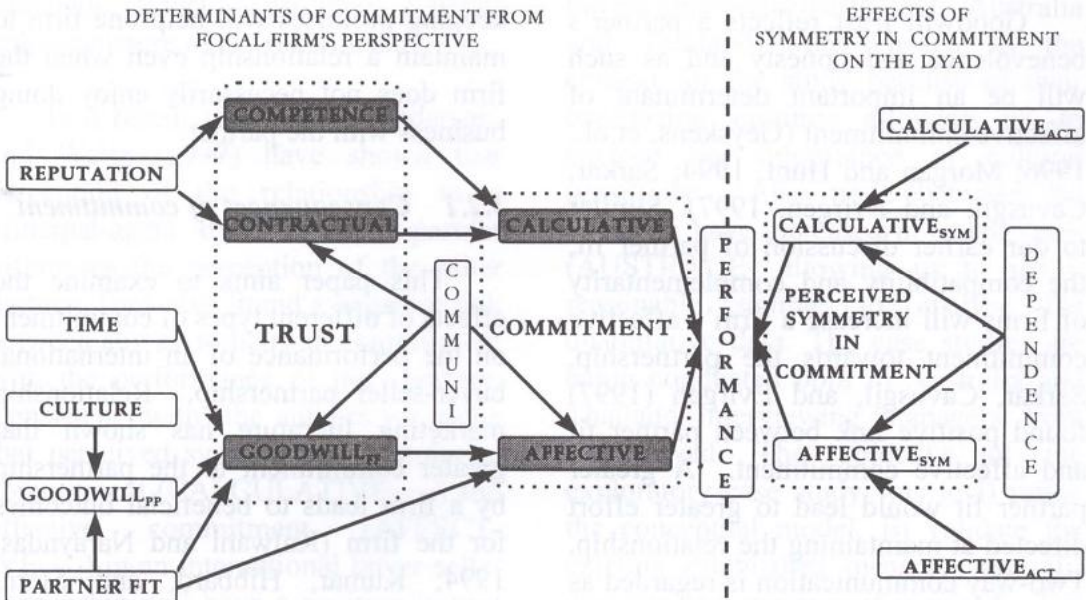
(Geringer, 1991). Sarkar, Cavusgil, and Evrigen, (1997) have found a positive linkage between partner fit and firm's trust to the relationship. They conceptualised partner-fit having two key components: compatibility of goals and objectives, and complementarity of resources. In similar conceptualisation, Johnson, et al. (1996) noted that similarity of partner goals and objectives between partners influences partnership success.

It provides the basis of co-operation between the partner firms (Geringer, 1991).

Complementarity in an international buyer-seller partnership denotes that each firm contributes unique strengths and resources valued by partners (Dymsza, 1988). Previous studies have shown that partner complementarity is an important determinant of partnership success (Jain, 1987). Consistent with Sarkar, Cavusgil, and Evrigen (1997), we argue that partner fit, as measured by their complementarity and compatibility, affects partner's goodwill trust for both focal firm and the partner firm.

The role of communication in inter-firm relationships is well articulated in the literature (Anderson and Weitz, 1989; Anderson and Weitz, 1992; Anderson and Narus, 1984; Morgan and Hunt, 1994). Sarkar, Cavusgil, and Evrigen (1997) found that two-way communication in an international buyer-seller partnership increases mutual trust in the partnership.

Figure 1. Conceptual framework of international buyer-seller partnership performance



Note: All paths have positive (+) sign unless otherwise marked.

In contrast to goodwill trust, competence trust is associated with one partners managerial and/or technical competence. Hence, partner's reputation (REPUTATION) to be competent will be a major determinant of competence trust (COMPETENCE). The same will apply to partner's contractual trust (CONTRACTUAL). Reputation is relied upon more often for contractual and competence type trust than of goodwill trust (Sako, 1992). As contractual and competence trust deals with the partner's credibility, not benevolence, reputation for fairness will influence contractual and competence trust. Anderson and Weitz (1992) also found similar results.

Contractual trust develops as a result of partners adhering to their written and oral agreements. Greater two-way communication will also influence contractual trust as increased effective communication will help firms in a partnership to abide by their agreements.

3.2 Antecedents of commitment

As discussed above the underlying motivation for maintaining a relationship with another firm can be different and as such the antecedents of them will also be different. In this section the antecedents of calculative commitment (CALCULATIVE) and

affective commitment (AFFECTIVE) are discussed.

Goodwill trust reflects a partner's benevolence and honesty and as such will be an important determinant of affective commitment (Geyskens, et al., 1996; Morgan and Hunt, 1994; Sarkar, Cavusgil, and Evirgen, 1997). Similar to our earlier discussion of partner fit, the compatibility and complementarity of firms will increase a firm's affective commitment towards the partnership. Sarkar, Cavusgil, and Evirgen (1997) found positive link between partner fit and affective commitment. A greater partner fit would lead to greater effort directed at maintaining the relationship. Two-way communication is regarded as an important element in building commitment in a buyer-seller relationship (Anderson and Weitz, 1992; Anderson and Narus, 1984). Anderson and Weitz (1989) argue that firms achieve co-ordination by sharing information through frequent two-way interchanges and this nurtures confidence in the continuity of the relationship and reduces dysfunctional conflict. Higher levels of and more effective communication will result in better understanding between exchange partners and as such result in a higher level of affective commitment in the relationship.

As calculative commitment is the result of a calculation of costs and benefits which includes the assessment of relationship specific investments and the availability alternatives to replace the investments, contractual and competence trust will have a significant

impact on this type of commitment. Partner's competence in performing certain role and their credibility in keeping promises will help one firm to maintain a relationship even when the firm does not necessarily enjoy doing business with the partner.

3.2.1 Consequences of commitment

This paper aims to examine the effects of different types of commitment on the performance of an international buyer-seller partnership. Relationship marketing literature has shown that greater commitment to the partnership by a firm leads to beneficial outcomes for the firm (Kalwani and Narayndas, 1994; Kumar, Hibbard, and Stern, 1994; Morgan and Hunt, 1994). This has also been suggested in cross-border partnerships (Beamish 1988; Madhok, 1995). However, when different motivations of commitment are considered the link between commitment and performance become complex in nature. Affective commitment is said to have a more positive effect on performance than calculative commitment (Kumar, Hibbard, and Stern, 1994). This may be the result of norm of reciprocity. According to Kumar, Hibbard, and Stern (1994) affective commitment reflects reciprocity by desire, whereas calculative commitment does not engender feelings of reciprocity and has few benefits for the firm.

3.3 Perceived symmetry of commitment and its outcomes

Studying dyadic relationships,

some researchers have called for collection of data from both sides of the dyad (Anderson and Weitz, 1992; Anderson, 1994). This gives a better holistic picture of the relationship.

In a recent study Ross, Anderson, and Weitz (1997) have shown that perception of the relationship in a principal-agent dyad, by one partner influences the perception of the other partner. They also found a negative link between any asymmetry in commitment with the performance of the partner. Consistent with the authors we argue that perceived symmetry in calculative commitment ($CALCULATIVE_{SYM}$) and affective commitment ($AFFECTIVE_{SYM}$) in an international buyer-seller partnership will have a positive impact on the partnership performance. The antecedents of perceived symmetry include actual symmetry in calculative commitment ($CALCULATIVE_{ACT}$) and affective commitment ($AFFECTIVE_{ACT}$) and dependence of one partner over the other. If a partner feels that they are more committed than the other partner in the relationship, this gives rise to the fear of opportunistic behaviour which reduce the day-to-day functioning of the relationship (Ross, Anderson, and Weitz, 1997). Dependence on the other partner works the same way and increased dependence on a partner reduces a firm's perceived symmetry in commitment.

4. Exploratory study

As a preliminary step in empirically testing the model in Figure 1, an

exploratory study is currently being conducted amongst several dyads of Australian sellers (exporters) and Thai buyers (importer/distributor). Australia and Thailand were chosen as the context for the study because of their contrasting cultures allowing us to explore the importance of cultural sensitivity. Also trade between the countries have increased in recent years (AUSTRADE) allowing us to get a reasonable sample to analyse the quantitative data. The case studies are being conducted *both* in Australia and Thailand interviewing managers from each dyad. The objective of the exploratory case study was to i) refine the conceptual model, ii) validate the existing established measures and iii) develop new measure if required. The approach to the case studies were followed from Winklhofer and Diamantopoulos (1996). Each dyad was the unit of analysis and the perception of the respondents from both partners from the dyad was analysed for their similar/dissimilar views of the relationship. Then the results were analysed across dyads. This exploratory study found support for the existence of different types of trust and commitment in international buyer-seller partnerships. Some key findings from the study are:

- Cultural sensitivity to the international business partner is important. Greater understanding and also perceived efforts to understand the partners culture improves partner's trust in the relationship.
- Trust evolves over time. The

longer the relationship, the greater the mutual goodwill trust between firms.

- Successful relationships are usually characterised by high goodwill trust between partners.
- Affective commitment has a stronger positive impact on partnership performance than calculative commitment.
- Similar goals and objectives increases firms' goodwill trust and commitment to the relationship.

5. Methodology

"Dyadic researchers are under an almost ironclad obligation to study interaction from the perspective of both partners in a dyad" (Anderson, 1994, p.449)

Following Anderson's (1994) suggestion, the *unit of analysis* for such a study should be the dyad. Dual informants from a dyad provide the key to developing valid, objectively generalisable insights into dyadic relationships (Anderson, 1994). Previous research where dyadic data was collected from both partners in a relationship (see Anderson and Weitz, 1992; Johnson, et al., 1996; Ross, Anderson, and Weitz, 1997), supports the selection of dyad as the unit of analysis.

The *sample* should contain at least 120 matched dyads (120 Australian

sellers and their buying firms from Thailand) to allow for rigorous statistical analysis.

Data collection procedure will involve a self-completion questionnaire mailed to the Australian Managing Directors or the Marketing Executive responsible for the particular venture into Thailand. The contact address of their counterpart from Thailand will also be sought. Following the receipt of the contacts of the Thai respondents, a similar questionnaire will be mailed to the Thai managers involved in the particular dyads. The questionnaire will ask respondents about their firm's relationship with the counterpart from the other country. The wording of the questionnaire will be changed to account for the buyer and seller firms.

Measures for constructs will be adapted from existing literature. A pilot study will be conducted *both in Australia and Thailand* before the actual survey to test the measures. Table 1 provides a summary of possible sources of different measures.

Data analysis first will involve testing for metric equivalence as suggested by Mullen (1995) and Singh (1995). Then for model estimation and testing of hypotheses, a recursive system of equations via a series of least square regression will be used. This method has been successfully used by Ross, Anderson, and Weitz (1997) in analysing dyadic data.

Table 1. Sources of measures

| Measures | Sources |
|--|-------------------------------------|
| Cultural sensitivity | Johnson et al. (1996) |
| Goodwill, contractual and competence trust | Sako (1992) |
| Partner fit | Sarkar, Cavusgil and Evirgen (1997) |
| Reputation | Anderson and Weitz (1992) |
| Calculative and affective commitment | Geyskens et al. (1996) |
| Perceived and actual asymmetry in commitment | Ross, Anderson and Weitz (1997) |
| Dependence | Ross, Anderson and Weitz (1997) |

6. Conclusion

The importance of behavioural factors in international business relationships makes it necessary for both parties to improve their knowledge and skills regarding how to handle this relationship more effectively and efficiently. Understanding the relationships is clearly an important issue given the heightened interest in

global marketing research among practitioners, governments, and academics. Our model helps to set a framework/agenda for future research in international marketing. However, when the challenges of cross-country inter-firm relationships are met, firms involved in international business relationships will benefit from these types of research.

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