

Measuring the Impact of Supplier Specific Assets and Business Culture on the Asian-Asian and Asian-Western Export Relationships

Abstract

Building on transaction cost analysis and business culture similarity, this study examines the effect of supplier specific assets and business cultural similarity on the export performance in the Asian-Asian and Asian-Western export relationships. Employing a survey design, we examine 262 export relationships using structural equation modelling. The empirical findings show that the relationship between supplier specific assets and cultural similarity have a stronger effect on the export performance in the Asia-Asian than in the Asian-Western relationships. We outline theoretical explanations for these effects in terms of the role of collectivist culture and safeguarding mechanisms across cultural business contexts. Implications for export managers are explored.

Key words: *Specific assets, Business cultural similarity, Export performance.*

Introduction and Research Aim

Cultural differences among partner firms in the international business to business context can limit the ability of an actor to judge the behaviour of their counterpart and is established as an impediment to export performance (Gesteland 2002). Empirical evidence (Griffith & Dimitrova 2014; Li et al. 2010) suggests that cultural discrepancy between international exchange partners generates transactional complications and vulnerabilities that make it difficult to nurture and manage export relationships. While much is known about the effect of organisational culture on interfirm relationships on the one hand, and about national culture on the other, there is little evidence in the literature of work that examines the links between national culture and organisational culture and the association with export performance.

Asian countries more generally, have close national cultures including stronger instinctive similarities at cognitive, social and historical levels (House et al. 2002). Tangible differences in language, local institutions, and other salient socio-culturally embedded factors make every Asian country unique (House et al. 2002). However, common cultural traits exist among Asian countries. Such national cultural characteristics reflect a collectivistic culture, based on a hierarchical set of connections, where business and personal relationships are intertwined. Furthermore, loyalty to family and group is paramount, and confrontation is avoided. These collectivistic characteristics generally define conduct in Asian cultures (Hofstede, 1980) and influence inter-personal conduct in business relationships.

When organisations collaborate with culturally equivalent partners, culturally embedded values act as antecedents for stronger relationships (Giffith & Dimitrova 2014; Cousins & Stanwix 2001). In culturally heterogeneous contexts, cultural differences create difficulties for organisations with different values and norms leading to transactional difficulties (Ribbink & Grimm 2014). The presence of cultural differences further amplifies the likelihood of potential opportunism when asymmetric specific investments are present in a relationship (Matanda & Freeman 2009; Buvik & Anderson 2002). Specific assets refer to idiosyncratic investments that have suboptimal value outside a focal relationship (Williamson, 1985).

In tandem with the developed informal institutions evident in Asian business cultures a sub-optimal set of formal institutions is also observed when compared to their Western equivalents (Peng, 2002; Khanna and Palepu, 1997). Credible legal frameworks and associated transparent governance norms are frequently lacking and impact on the smooth function of the market. Such market characteristics represent the presence of institutional voids in Asian business environs. To overcome this void and minimize uncertainty associated with exchange hazards in business transactions, Asian societies apply socio-economic permeated networks based on both weak and strong ties (Uzzi, 1999).

Asian network ties are normative structures that have strong relational embeddedness, exhibit high levels of trust (Gulati, 1998), function as informal institutions (North, 1990), and provide incentives and constraints to economic actors (Roxas et al., 2008). In contrast, and mirroring a lower imperative for reliance on social exchange norms, Western economies have well-functioning formal institutions. Western business networks are characterized by social ties that develop and dissolve quickly after they perform or accomplish a certain task (Rindfuss et al., 2004).

Despite self-evident differences in the language and other local institutions among Asian country markets, the commonality in collectivist culture is an over-riding characteristic that binds these countries and presents a regional identity from a business relationship perspective. Such socio-economic embeddedness among Asian networks represents the cornerstone of managerial and work values within Asian firms (Alston, 1989). For instance, while Chinese

and Arab countries carry self-evident differences in local institutions, both consider friendship and personal relationships as vital ingredients in their business and social life (Hutchings & Weir, 2006). These culturally embedded managerial values facilitate business interaction between business partners and counterbalance the negative impact of uncertainties (Yen & Abosag, 2016). Trust is implicit in such social exchange scenarios, limiting opportunism.

Divergence in norms and values among partner firms increases uncertainty generally and at the organisational level can reduce alignment in managerial practices and expected behaviours. This uncertainty attribute (Leonidas et al., 2006) manifests as uncertainty in respect of the intent and trustworthiness attributed to counterparts. When exchange partners belong to similar cultures, the degree of uncertainty can diminish because similar cultural embedded managerial and work values make it easier to understand the respective business culture (Saleh et al. 2014). Such similarity brings efficiency in agreeing terms and relational embeddedness in which the prospects for malfeasance diminish (Uzzi 1996). This study argues that when exporting partners belong to similar cultures, exchange hazards associated with specific investments and business culture will reduce and result in better export performance.

Conceptual Model and Hypotheses

Asian firms belong to risk avoidance cultures, a characteristic that is reflected in their business practice (Gomez-Mejia et al. 2007). This suggests that when Asian firms invest specific assets in their exchange relationships, trust would be a critical safeguarding element. Extant empirical research (Lohtia et al. 2005) shows that trust is easy to establish when cultural values between partners are similar. In accordance with transactional cost analysis, specific investments made by an exporting firm are powerful signals that the investing firm is strongly interested in upholding and continuing the relationships (Jap & Ganesan 2000).

Asian exporting firms will find it easier to develop trust among themselves due to a common frame of reference including common management styles, institutional and legal systems, and geographical vicinity. This results in efficient handling of international business complexities such as export market fluctuation and handling other export related areas. In this manner, a better sense of unity among the Asian export partners will enforce the positive association between specific investments and export performance. Hence, the study postulates:

Hypothesis 1: There is a stronger positive association between supplier specific investments and export performance in the Asian-Asian export relationships than in the Asian-Western export relationships.

Similarity in business culture facilitates the avoidance of transactional impediments that may hinder export performance because when exchange partners have similarity in business practices (Saleh et al. 2014) it is easier to nurture and establish trust (Bianchi & Saleh 2011). For instance, Asian business concepts such as the Chinese *guanxi* and the South-Asian *jan pehchan* are practically identical (Zhu et al., 2006). Both these notions underlines the managerial familiarity and trust in promoting business interests. In accordance with transaction cost analysis perspectives, when common business culture attributes are present, they will facilitate trust-building measures, lower opportunistic and uncertainty tendencies and results in better export performance among Asian exporters in comparison with Western exporters. Based on the above arguments, this study postulates:

Hypothesis 2: There is a stronger positive association between business cultural similarity and export performance in the Asia-Asian export relationships than in the Asian-Western export relationships.

3. Empirical Setting and Measures

Using survey design methodology, we collected primary data from the textile-exporting firms of Pakistan. The unit of analysis is the relationship between the Pakistani textile-exporting firms and their most important exporting partners located in Asian and Western countries. 198 questionnaires were distributed. The total numbers of questionnaire returned were 137. Six of the questionnaires (3%) were unusable, as they exhibited excessive levels of missing data. Out of 198, 131 responses were usable, providing the study with a response rate of sixty nine percent (66%).

3.1 Measures

Supplier Specific Assets (SSA) refers to investments and adjustments made by the supplier in physical assets, time, material development, quality measures, and procedures in accordance with the relationship. In our model, we employed a four-item scale to measure *supplier specific assets (SSA)*. This scale is taken from Heide & John, 1990; 1992. *Business culture similarity (BCS)* refers to firm’s daily practices related to conducting business, managerial procedures, and decision-making behavior. To fit with our research settings, items from previous studies (e.g., Saleh et al., 2014) were used as reference. A four-item scale was employed to measure business culture similarity, way of doing business, decision-making practices, and work environment. From previous studies (Bello & Gilliland, 1997; Sousa & Bradley, 2008), we selected three items to measure *export performance (EXP)*. For all the constructs, we undertook scale purification to ensure nomonological validity and made some minor adjustments to the syntax to reflect the industrial context. All the resultingscales generated good internal reliability.

We incorporated two control variables. *Time duration (TD)* represents the length of the time that an exporter has been doing business with a foreign buyer, indicating international exposure, and familiarity with buyer’s business environment. *Annual export volume (AEV)* refers to the worthiness of the foreign buyer. Annual export volume in export relationships reflect the stake, leverage of business partner, and consequently affect the structure of business relationships (Heidi & John, 1992). In our model, we incorporated the natural logarithms of the length of the relationship and exporter’s annual dollar sales to the focal buyer.

3.2 Validation of constructs

In the first stage, we ran the unrestricted measurement model simultaneously across the two groups. The three factors measurement model showed valid discriminant validity and the model’s indexes $\chi^2/df=1.91$, GFI=0.90, CFI=0.96, IFI=0.96, TLI=0.94, and RMSEA=0.06 endorse an acceptable fit (Hair et al. 2006). Based on these statistical fit indices, the measurement model is appropriate for the statistical application in both the groups. Each construct’s individual composite reliability (CR), average variance extracted (AVE) and Cronbach alpha values were within the prescribed limits. Hence, the two groups exhibit the same factor structure and the identical baseline SEM model is applicable for each sample population.

Table 1. Individual Constructs and Measures

Constructs/Scales	The constructs’ items measured on 7-Point Likert scales with end points including strongly disagree and strongly agree
SSA	SSA1: Our firm has invested extensively in production equipment to fulfil the order required for this customer. SSA2: Our firm has invested a lot of time and resources to get the required export quality standards for this customer. SSA3: Our firm has made significant investments in developing specific material used solely for this customer. SSA4: Our firm has made special modifications in our production processes for this customer. SSA5: Our firm has developed special business procedures and guidelines for this customer.
BCS	BCS1: The business culture of this customer is quite similar to that of our firm. BCS 2: The way of doing business of this customer is quite similar to that of our firm. BCS 2. The decision-making practices of this customer are quite similar to that of our firm.

	BCS 3. The work environment of this customer is quite similar to that of our firm.
EXP	EXP1: The export profitability of our firm has increased by exporting to this customer. EXP2: The export revenues of our firm have increased by exporting to this customer. EXP3: The export efficiency of our firm has increased by exporting to this customer.
Time Duration	Exporter's length of the relationship with focal buyer (natural logarithm)
Annual Export Sales	Exporter's annual export volume with focal buyer in the relationship (natural logarithm)

4. Empirical Analysis and Results

To test our hypotheses, we applied two-group analysis. The structural equation model showed an overall goodness of fit for the model in both the groups. The SEM model's indexes $\chi^2/df=1.77$, GFI=0.89, CFI=0.95, IFI=0.95, TLI=0.94, and RMSEA=0.05.

For hypothesis 1 our two-group analysis results show that supplier specific assets have a stronger positive effect on export performance in the Asian-Asian exporting relationships ($\beta = 0.374$, $p < 0.001$) than in the Asian-Western exporting relationships ($\beta = 0.299$, $p < 0.001$). These comparative results show that supplier specific assets have a positive and significant effect on export performance in both the groups.

For hypothesis 2, our empirical results show a visible difference between the Asian-Asian and Asian-Western exporting relationships. The business cultural similarity has a stronger and significant effect on export performance in the Asian-Asian exporting relationships ($\beta = 0.287$, $p < 0.020$), whereas it has a weak and insignificant effect on export performance in the Asian-Western export relationships ($\beta = 0.152$, $p < 0.073$).

Table 2: Two-Group Analysis Results

Coefficients	Asian-Asian Group	Asian-Western Group	Results
H1: <i>SSA-EXP</i>	$0.374 < 0.001$	$0.299 < 0.001$	Supported
H2: <i>BCS-EXP</i>	$0.287 < 0.020$	$0.152 < 0.073$	Supported
Relationship Duration	$-0.100 > 0.10$	$0.143 > 0.10$	Not significant
Annual Exports Sales	$0.053 > 0.10$	$-0.025 > 0.10$	Not significant
SEM model statistics: $\chi^2/df = 1.77$, GFI = 0.89, CFI = 0.95, IFI = 0.95, TLI = 0.94, RMSEA = 0.05.			

4.1 The effects of control variables: In both the groups, relationship duration and annual export volume have insignificant association with export performance (see table 2). The predictor variables maintains the exploratory power when relevant control variables are implemented, demonstrating a satisfactory robustness of the model.

5. Results, Discussion and Contributions

Our results demonstrate that investments in specific assets has a positive effect on export performance in both Asian-Asian and Asian-Western relationships. Empirically, the coefficient difference between the Asian-Asian exporting relationships vs. the Asian-Western exporting relationships is low in magnitude and statistically insignificant ($0.374 - 0.299 = 0.075$). This minor statistical variation may indicate that other factors such as future export possibilities determine Asian textile suppliers/manufacturers regarding specific investments. Further, the results support the notion that culture or cultural factors play an inconsequential role in decisions about specific investments. It is important to realize that a majority Asian textile manufacturers compete among themselves to get a larger market share of European, USA and emerging Asian export markets. In relation to maintain market share with strategic exporting partners, specific investments made by Asian textile manufacturer accentuates their long-term commitment and maintaining competitive advantage in export relationships.

The results support our reasoning that business culture similarity reduces frictions in international transactions and facilitates export relationships. As predicted, business culture similarity has a stronger positive association between business culture and export performance

in the Asian-Asian exporting relationships than in the Asian-Western exporting relationships. The coefficient difference between the Asian-Asian and the Asian-Western exporting relationships is substantive ($0.287 - 0.152 = 0.135$) and demonstrate that similarity in business culture affects export performance.

The managerial implications cut across two important areas. Firstly relationships across Asian – Western contexts carry an additional relational impediment. The poor alignment between trust within the export relationship on the one hand, and between legal and regulatory architecture on the other present potential gaps in the effective interaction of these export partners. These gaps are articulated well here and serve as a window into relational effectiveness across these cultural contexts. Managers should attend either to trust building or legal and regulatory safeguards or a combination of these to mitigate the potential relationship harming gaps that are identified.

Secondly, Asian – Asian export relationships carry efficiencies that we attribute to the assimilation of management practice and associated norms. They also carry potential limitations characteristic of embedded network architectures. Socially embedded ties will assist in the continuation of export relationships over time. However, such ties may also limit flexibility in export relationship development and result in ongoing export relationships that are attributed more to a legacy effect than open market sourcing for the best export opportunities. Managers should assess their current export relationships in terms of access to appropriate markets and the alignment of their actual exporting with their strategic objectives as a firm.

Collecting data from a single export industry and administering survey from one side of the export relationships are the key limitations of this study. In order to augment the validity of the model and the key findings of this study, future studies should extend this work by collecting data from a number of export industries from different countries. This will help in augmenting the study's results and a better insight about the role of cultural factors in export relationships.

References

- Alston, J. P. (1989). Wa, Guanxi, and Inhwa: Managerial Principles in Japan, China and Korea. *Business Horizons*, 32(2), 26-31.
- Bianchi, C & Saleh, A 2011, 'Antecedents of importer relationship performance in Latin America', *Journal of Business Research*, vol. 64, no. 3, pp. 258-265.
- Buvik, A & Anderson, O 2002, 'The impact of vertical coordination on ex-post transaction costs in domestic and international buyer-seller relationships', *Scandinavian Journal of Management*, vol. 21, no. 1, pp. 41-60.
- Cousins, P & Stanwix, E, 2001, 'It's only a matter of confidence! A comparison of relationship management between japanese and uk non-japanese owned vehicle manufacturers. *International Journal of Operations and Production Management*, vol. 21, no. 9, pp. 1160-1179.
- Gomez-Mejia, LR, Haynes, KT, Nunez-Nickel, M, Jacobson, KJL & Moyano-Fuentes, J 2007, 'Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills', *Administrative Science Quarterly*, vol. 52, pp. 106-137.
- Griffith, DA, Lee, HS, Yeo, CS & Calatone, R 2014, 'Market process adaptation: Antecedents, factors and new product performance implications in export markets', *International Marketing Review*, vol. 31, no. 3, pp. 308-334.
- Gulati, R. (1998). Alliance and Networks. *Strategic Management Journal*, 19(4), 293-317.

- Hair, J., Black, W., Babin, B., Anderson, R. and Tatham, R. (2006). *Multivariate Data Analysis*. (6th ed). Pearson Education Inc: New York.
- House, R, Javidan, M, Hanges, P & Dorfman, P 2002, 'Understanding cultures and implicit leadership theories across the globe: An introduction to project globe', *Journal of World Business*, vol. 37, pp. 3-10.
- Hutchings, K. and Weir, David, (2006). Understanding Networking in China and the Arab World: Lessons for International Managers. *Journal of European Industrial Training*, 30(4), 272-290.
- Jap, SD, & Ganesan, S 2000, 'Control mechanisms and the relationship life cycle: Implications for safeguarding specific investments and developing commitment', *Journal of Marketing Research*, vol. 37. No. 2, pp. 227-245.
- Leonidas, CL, Barnes, BR & Talias, MA 2006, 'Exporter–importer relationship quality: The inhibiting role of uncertainty, distance, and conflict', *Industrial Marketing Management*, vol. 35, pp. 576-588.
- Li, Y, Xie, E, Teo, H & Peng, MW 2010, 'Formal control and social control in domestic and international buyer-supplier relationships', *Journal of Operations Management*, vol. 28, no. 4, pp. 333-344.
- Lohtia, R, Bello, DC, Yamada, T & Gilliland, DI 2005, 'The role of commitment in foreign-japanese relationships: Mediating performance for foreign sellers in japan, *Journal of Business Research*, vol. 58, no. 8, pp. 1009-1018.
- Matanda, JM & Freeman, S 2009, 'Effect of perceived environmental uncertainty on exporter–importer inter-organisational relationships and export performance improvement', *International Journal of Business Review*, vol. 18, pp. 89-107.
- North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press: Cambridge.
- Ribbink, D. & Grimm, CM 2014, 'The impact of cultural differences on buyer-supplier negotiations: An experimental study', *Journal of Operations Management*, vol. 32, pp. 114-126.
- Rindfuss, R. R., Choe, M. K., Bumpass, L. L. and Tsuya, N. O. (2004). Social Networks and Family Change in Japan. *American Sociological Review*, 69(6), 838-861.
- Roxas, H. B. G., Lindsay, V., Ashil, N. and Vactorio. A. (2008). Institutional Analysis of Strategic Choice of Micro, Small and Medium Enterprise: Development of a Conceptual Framework. *Singapore Management Review*, 30(2), 47-72.
- Saleh, MA, Ali, MY & Julian, CC 2014, 'International buyer behaviour-commitment relationship: An investigation of the empirical link in importing', *International Business Review*, vol. 23. No. 2, pp. 329-342.
- Uzzi, B. (1996). The sources and consequences of embeddedness for the economic performance of organizations: The networks effect. *American Sociological Review*, 61(4), 674-698.
- Williamson, O. E. (1985). *The economic institutions of capitalism*. New York: The Free Press.
- Yen, D.A.-W., Abosag, I., 2016. Localization in China: How guanxi moderates Sino–US business relationships. *Journal of Business Research*, 69(12), 5724-5734.
- Zhu, Y., Nel, P. and Bhat, R. (2006). A Cross Cultural Study of Communication Strategies for Building Business Relationships. *International Journal of Cross Cultural Management*, 6(3), 319-314.