

**THE IMPACT OF CULTURE ON RELATIONSHIP CREATION AND
NETWORK FORMATION IN DEVELOPING COUNTRIES**

by

Richard Fletcher

Associate Professor
School of Marketing
University of Technology, Sydney

PO Box 123, Broadway, NSW 2007
Phone 61-2-9514 3535, Fax 671-2-9514 3535
Email: Richard.Fletcher@uts.edu.au

THE IMPACT OF CULTURE ON RELATIONSHIP CREATION AND NETWORK FORMATION IN DEVELOPING COUNTRIES

ABSTRACT

Most studies on the impact of culture on the development of relationships and formation of networks in developing country markets are based on the etic approach which depends on evaluating markets by applying a set of underlying dimensions. For the most part these dimensions are based on 'western' concepts and descriptors. In addition, these concepts were based on the notion that different cultures were separated by political boundaries. These studies are likely to be unsuitable for emerging markets where ethnic boundaries are more likely to be different to political boundaries or where a number of ethnic groups are to be found within the same political boundary. Furthermore, the reliance on 'western' based cultural dimensions ignores the existence of cultural traits that are unique to a specific emerging market. For these reasons, it is proposed that an emic approach of assessing cultural drivers specific to an emerging market be used and then these markets will be clustered on the basis of cultural commonalities. This is likely to provide a more comprehensive means of assessing the impact of culture on predicting relationship creation and network formation in emerging markets.

INTRODUCTION

Culture is an important variable in relationship creation and network formation. It is likely to influence the formation of focal relationships as well as the relative importance of subsidiary relations that constitute the map of the network of relationships involved in a project. Culture also impact on each aspect of the basic network model - the actors, the activities, the transformation of resources, as well as the atmosphere in which this takes place and the interactions involved.

The issue of how applicable culture is to relationship creation and network formation in developing countries is important because it is these countries that in the new millennium are likely to account for the majority of global purchasing power, contain most of the world's population and consist of almost all the world's growth markets, as developed country markets become saturated.

To date, most research in the areas of both culture and networks has been based on studies in developed countries rather than developing countries. This research is not without its shortcomings as it used geographical rather than ethnic boundaries as the delineator of cultural difference and applied 'western' developed cultural dimensions in evaluating the nature of the impact of culture on relationship creation and network formation.

Abosag et al (2002) make the point that different cultures value relationships differently and as a consequence, the establishment, development and maintenance of relationships will vary across cultures. They argue that European perspectives on relationships mostly focus on the co-operative aspects of the exchange, the North American perspective focuses on power and conflict, and the Asian perspective (as reflected in the Chinese approach), focuses on connections through relationships.

Etic studies of culture such as those of Hall (1973), Hofstede (1991) and Trompenaars and Hampden Turner (1997) into the underlying dimensions of culture, suggest that relationships and networks are more important in developing than developed country markets. The work of Hofstede (1991) and Trompenaars and Hampden-Turner (1997)

illustrate major cultural differences between emerging and developed markets. A comparison of the 14 least developed countries with the 14 most developed countries in respect of their findings is shown in Table 1.

Table 1: Comparison of Developed with Emerging Markets

	Hofstede (developed ¹)	Hofstede (emerging ²)	Trompenaars (developed ³)	Trompenaars (emerging ⁴)
Power Distance	38	72		
Uncertainty Avoidance	58	59		
Individualism	72	24		
Masculinity	59	47		
Universalism			89	61
Affective			43	45
Specific Focus			83	69
Achievement			83	73

(Source: Fletcher and Melwar, 2001, page 11)

The significance of this analysis for emerging markets is:

- as emerging markets exhibit a much greater degree of power distance, relationships formed are more likely to be influenced by hierarchy;
- as they display a much greater degree of collectivism, co-operation rather than competition will characterise networks,

¹ Australia, Austria, Canada, Denmark, France, Germany, Great Britain, Italy, Japan, New Zealand, Spain, Switzerland, USA.

² Africa West, Africa East, Costa Rica, Guatemala, India, Jamaica, Malaysia, Mexico, Pakistan, Panama, Peru, Philippines, Thailand, Uruguay.

³ Australia, Austria, Canada, Denmark, France, Germany, Great Britain, Italy, Ireland, Japan, Norway, Spain, Switzerland, USA.

⁴ Brazil, China, Czechoslovakia, Cuba, Ethiopia, Hungary, India, Indonesia, Mexico, Nigeria, Philippines, Poland, Thailand, Russia.

- as they are more particularist rather than universalist, relationships are more likely to be formed for specific purposes and as a consequence, the networks are likely to be more flexible
- emerging markets are specific as opposed to diffuse context will play a greater role in relationship formation.

Many would share the view expressed by Abosag et al (2002) that although these underlying dimensions of culture have some limitations and may not explain all behaviours in a specific market, they still constitute the best framework available for comparing cultural behaviours in a business context.

This paper argues that the time has come to challenge this convenient assumption and to explore whether there might be an alternative approach that more adequately explains relationship creation and network formation in the new millennium and in so doing takes into account contemporary forces in the international business environment which were not in evidence when the etic approaches referred to above, were developed.

CULTURE, RELATIONSHIPS AND NETWORKS

Styles and Ambler (1996) found evidence of a positive linkage between the variables that predict strong relationships and export performance. Ahmed et al (1999), examine both relational exchange theory and network theory. In respect of the former, they argue that research has shown that key factors contributing to long term relationships are communication, shared norms, co-operation and reputation – in each of these culture plays a role. In respect of network theory, they point out that with the interaction approach, business relationships evolve as a result of interaction between

the parties involved and these business relationships constitute the framework within which subsequent interactions occur. Over time these interactions become routine resulting in clear roles and conduct norms for each party (Evangelista 1996). Ahmed et al (1999) go on to argue that culture is a moderating variable between the antecedent variables of a relationship and the degree of commitment to that relationship. Commitment to a relationship in turn, involves trust which is the glue that binds networks of relationships together.

Nguyen (2002) found from her investigation of the relationships between Vietnamese exporters and importers in developed countries, that culture impacts not only on the flow of information between exporter and importer but also in the way the information is interpreted. She found that the greater the cultural differences the more likely there were to be misunderstandings, barriers to communication and problems with the relationship.

A review of the IMP literature also shows that culture plays an important role in relationship formation and network creation in the international domain. The IMP Group study showed that the ability of a firm to break down cultural barriers and create close relationships with commercial clients was a major success factor in industrial marketing (Ford, 1984). This was found to apply in international marketing and Toornroos (1991) argues that here cultural distance plays an important role in establishing a positive relationship between exporter and importer. Theories of internationalisation suggest that culturally distant exporters need to allocate more effort to relationship building activities so as to compensate for the distance factor.

In essence, it is not culture but rather cultural sensitivity that influences relationship creation and network formation. This sensitivity entails awareness, cultural understanding, and reduction of cultural bias. Cultural sensitivity can be defined as a firm's learning and adaptation to its exchange partner's national business practices according to LaBahn and Harich (1997). Such sensitivity involves recognising cultural ethnocentrism, understanding the other parties culture and developing an awareness of cultural differences. Ahmed et al (1999) also propose that cultural sensitivity acts as a moderating variable between the ingredients of their theory of relational exchange (communication, trust, shared norms and reputation) and commitment to the relationship. Nguyen (2002) found that cultural sensitivity on the part of developing country exporters improved the information exchange between them and their developed country importers and in the process enhanced mutual understanding.

People have culturally determined styles and ways of doing business acquired primarily through their national culture and their business activities. It is accepted that it is easier to communicate with partners who share the same view of the world (Toornroos et al, 1993). This is consistent with reception theory which postulates that people use general patterns or codes that make it easier for them to interpret each other's behaviour (Langhoff, 1997). This is more important in the international domain because of the physical distance and cultural gap between relationship partners (Madsen, 1994). These factors involve the expenditure of more time and resources to create a beneficial relationship. Because cultural sensitivity allows people to understand the communication and behaviour of others, it plays an important role in relationship creation and maintenance.

In relationship creation and network formation involving developing countries, it is not only a willingness to be culturally sensitive that is necessary but also the ability to recognise and accommodate cultural differences. The different approaches that have evolved to classifying countries according to underlying cultural dimensions can be classified as either etic (culture general) or emic (culture specific) approaches. The former tend to be quantitative and based on large scale surveys whereas the latter tend to be qualitative and based on series of case studies. Given the problems of undertaking quantitative research in developing markets, it will be argued that the latter approach is more suitable for use in developing markets.

THE ETIC APPROACH TO CLASSIFYING CULTURES

The etic approach is based on the notion that underlying cultural differences between nations are a set of variables that can be applied uniformly and which cover all dimensions of difference between one culture and another. This approach seeks dimensions of cultural variability. Studies of this kind by Hall (1973), Hofstede (1991) and Trompenaars and Hampden-Turner (1997) were all undertaken before the recent revolution in cross border communication, the accelerated movement of peoples between countries, the rising level of globalisation and the information revolution led by the Internet. Are their resulting dimensions as relevant in the new millennium as when they were originally developed?

Furthermore these approaches were derived from large scale surveys based on 'western' cultural dimensions and measured according to 'western' interpretation of measurement descriptors (ie very high; high; somewhat high; neither high nor low;

somewhat low; low; very low). It is likely that the resulting measures do not cater for the cultural reluctance of people in many cultures to provide information, to give accurate answers as opposed to what they think you would like to hear, or express definite opinions. In such circumstances, can the resulting scores truly reflect the extent of difference on these variables between respondents in one culture compared to another?

The implied assumption in these studies that all cultural variance can be explained by these dimensions, ignores the possibility that there might be dimensions that are unique to a particular culture or group of cultures. Hofstede in his subsequent research admitted this possibility when he and Bond examined the Chinese Value Survey and arrived at a 5th dimension of particular relevance to Asia – Confucian Dynamism, subsequently referred to as long term vs short term orientation.

For the most part, advocates of the etic approach identify cultural boundaries with political (ie geographic boundaries). Although beguilingly convenient, such an approach ignores the fact that a number of different ethnic groups can exist within a political boundary (eg Malay, Chinese and Indian in Malaysia), ethnic groups can flow across political boundaries (eg Chinese in South East Asia; Kurds in Iran, Iraq and Turkey); and within a political boundary there can be distinctive cultural groups as evidenced by the increasing multiculturalism in Australia and the growing urban-rural divide in many developing Asian countries. This is illustrated in Table 2 (adapted from Fang 2002, and Hu ,1994).

TABLE 2 – REGIONAL CHARACTERISTICS OF CHINESE PEOPLE

- Beijing people are straightforward
- Shanghai people are clever and farsighted
- Tanjin people are capable and seasoned
- Guangdong people are decisive and full of stratagem
- Fujian people are honest and sedate
- Shandong people are forthright and generous
- Liaoning people are reasonable and loyal
- Hunan people are open and direct
- Sichuan people are upright
- Yunan people behave in an unhurried manner
- Tibetan and Mongolian people are warm hearted but dubious

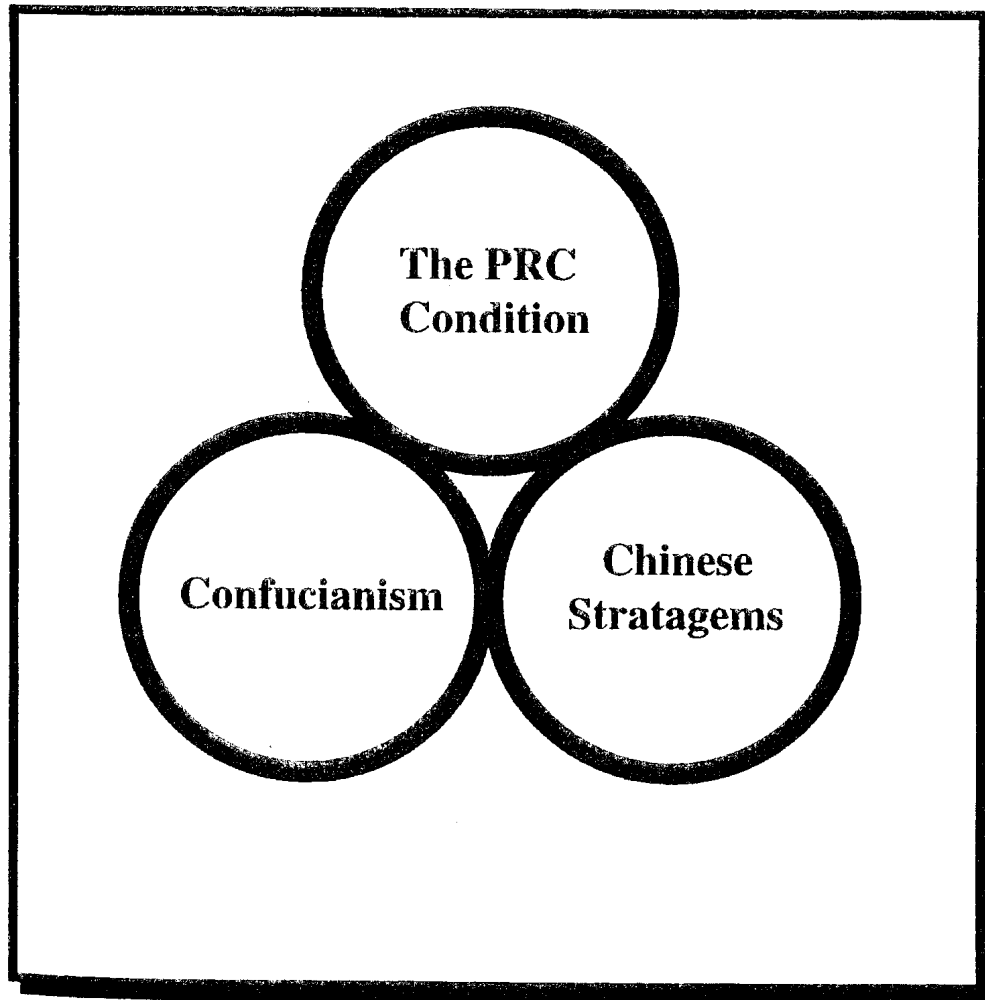
Therefore to align cultural groups with national boundaries provides a questionable basis for predicting cultural variables that may need to be taken into account in developing relationships with parties in emerging markets.

THE EMIC APPROACH TO CLASIFYING CULTURES

Unlike the etic approach which seeks dimensions of cultural variability, the emic approach is culture specific. It endeavours to seek the idiosyncracies of individual cultures in order to understand how relationships and networks might operate, the appropriate forms of interaction and the most effective negotiating behaviours to employ when dealing with executives in that culture. Advocates of this approach like Fang (1999) argue that an emic approach is necessary to discover the indigenous cultural values that underlie people's behaviour in that culture. As an example, Fang

modelled the business culture of China on the basis of three forces – the PRC condition, Confucianism and Chinese strategems.

FIGURE 1: A FRAMEWORK OF CHINESE BUSINESS CULTURE



A
c

To discover the first of these forces – condition, it is necessary to examine the prevailing political ideology; the extent of economic planning and government involvement; the existing legal framework and its application; the state of technology

in the market and the attitude towards innovation; the nature, equity and average level of income distribution; magnitude of resource endowment including infrastructure and capital; exposure to international influences; and the rapidity of change in the society. These factors are a reflection of the underlying culture.

The second of these forces can be described as religious underpinning and social mores. In his discussion of Confucianism, Fang (1999) highlights several factors and these can apply to other cultural groups. These are morality and trust; the role and obligations on self in interpersonal relationships; the strength of family orientation; respect for age and hierarchy; requirement to avoid conflict and create harmony; and dignifying rather than diminishing the other party (face).

The third of these forces, (categorised by Fang as 'Chinese strategems') can apply to other cultures as all cultural groups have culturally influenced negotiation tactics and approaches to strategic thinking. In some societies these may be based on winning by subtlety rather than confrontation, in others on winning via cooperation and in others by winning via direct confrontation. In all cases these strategic approaches influence relationship formation and network creation. Whilst the ten Chinese negotiating tactics listed by Seligman (1990)⁵ may not apply in all cultural groupings, there could well be other tactics instead. In manuals on negotiation, mostly based on research carried out in 'western' countries, negotiation strategies are either based on game theory (focus on maximising the outcome for the individual party via manipulation resulting in a 'win-lose' or 'zero-sum' game) or on social exchange theory (relationships between the parties are co-operative and the aim is to maximise benefits

for all those involved on a ‘win-win’ basis). Fang (1999) argues that in China, both strategies are employed jointly, whereas in the ‘west’ the use of one strategy usually precludes the use of the other. This reflects a characteristic of many Asian cultures that can complicate relationships between them and western organizations. This characteristic, which can lead to accusations of unreliability and deception, has been tentatively labelled ‘tolerance of ambiguity’.

TOLERANCE OF AMBIGUITY

Applying an emic approach to many Asian countries points up that long term-short term orientation may not be the only Asian dimension of culture that earlier etic approaches to cultural classification overlooked. Another possible variable is tolerance of ambiguity. Although sometimes included with uncertainty avoidance, tolerance of ambiguity is different from it in that it reflects the common situation in many Asian cultures where a strong tendency towards one extreme of a bipolar dimension (such as individualism) does not preclude its opposite (of collectivism).

As an example, whilst in Chinese society the absence of a well functioning legal framework stimulates behaviours that are indicative of collectivism such as ‘guanxi’ and network formation, the Chinese with their focus on the family and money oriented behaviour also display individualistic traits.

⁵ Controlling the location and schedule; exploiting vulnerabilities; guilt tripping; instilling shame; playing off competitors; using intermediaries; feigning anger; revisiting old issues; invoking the law; and raising and lowering expectations

Asian cultures are characterised by a situation accepting orientation (Leung, 1992) and people in them react in a flexible manner. Asian cultures also accept uncertainty and disorder as natural phenomena (Lamposki and Eden, 1996) and cope with situations on an individual or communal basis as circumstances require. This can be attributed to their high context, the nature of religious observance and social philosophy and also the 'yin-yang approach to life.

Cultures in Asia are high context where most of the meaning resides in the context of the utterance rather than in the utterance itself. Because the meaning is contextual the degree of commitment is likely to be qualified by the context and this often creates ambiguity. It results in the meaning attached to positives and negatives being different to that in the 'west'. In these cultures, a 'yes' may mean nothing more than 'I hear what you are saying' and 'no' may not mean a definite negative but rather 'it is under consideration' or 'I am not in a position to make a decision at present'.

Underscoring such ambiguity is the nature of religion in Asia. Apart from Islamic societies, Asian cultures are not monotheistic and are influenced by a number of religions or gods. Confucianism deals with human relationships; Taoism with life in harmony with nature and Buddhism with people's immortal world (Fang, 1999) and Hinduism has many gods to choose from. These can be viewed more as philosophies than religions and in some cultures, people follow the philosophies of several.

Many Asian cultures are characterised by the 'yin-yang' principle and simultaneously reflect elements of both the female (water, weak, dark, soft, passive) and the male

(fire, strong, bright, hard, active). Fang (1999) illustrates this in applying the ‘yin-yang’ principle to the six values of Confucianism as follows:

- *Moral cultivation* is both positive (life-long learning, commitment, self regulation of behaviour) and negative (rejection of law as rational, relationships related to immediate context rather than to wider society).
- *Reliance on informal relationships* is both positive (allows things to get done) and negative (discourages establishment of strong institutions),
- *Family orientation* is both positive (enabled Chinese culture to endure and the survival of hardships) and negative (creates nepotism, corruption),
- *Value of age and hierarchy* is both positive (handing down wisdom to the next generation) and negative (discourages the young giving their views),
- *Maintenance of harmony* is both positive (assists dispute resolution) and negative (considers individual rights as of low importance),
- *Face* is both positive (a self regulating moral mechanism) and negative (stultifies the demonstration of genuine feelings)

The above suggests that there may exist another dimension of cultural variance that is unique to Asian countries that can impact on the formation of relationships, the creation of networks and the continuance of networks once formed. This has been styled as tolerance of ambiguity.

A MIDDLE PATH TO CLASSIFYING CULTURES

Considering the above, there may well be a middle ground between the etic approach of global variables of cultural difference and the emic approach of viewing cultures in terms of their idiosyncratic natures. In this alternative approach, it may be possible to

apply the emic approach to individual cultures and then on the basis of perceived commonalities, cluster cultures into groups. Such an approach would provide general guidance to firms when contemplating cross border relationships without the shortcomings exhibited by the etic approach of ignoring unique cultural differences of major importance. Although based on attitudinal dimensions rather than specifically on cultural differences, Ronen and Shenkar (1985) in their clustering of countries point the way in this connection. They came up with the following clusters: Nordic; Germanic; Anglo; Latin American; Far Eastern; Arab and Near Eastern.(the four countries that did not fit into any cluster were classified as independents).

CONCLUSIONS AND FUTURE RESEARCH

Using emerging markets as an example, this paper has shown that the traditional etic approaches to classifying cultural differences may be due for revision. It is suggested that an emic based approach to exploring cultural differences of ethnic groups be adopted and that this be followed by a clustering of such groups based on culturally influenced commonalities. Such an approach may provide a better basis for predicting underlying cultural differences when embarking on relationship creation and network formation with parties in developing countries.

REFERENCE LIST

Abosag, I., Tynan, C. and Lewis, C. (2002) "Relationship Marketing: The Interaction of Cultural value Dimensions", Academy of Marketing Annual Conference, 2-5 July, *Nottingham Business School*

Ahmed, F.U., Patterson, P.G. and Styles, C. (1999) "The Determinants of Successful Relationships in International Business", *Australasian Marketing Journal* 7 (1) pp. 5-21.

Evangelista, F. U. (1996), "Linking Business Relationships to Marketing Strategy and Export Performance", *Advances in International Marketing*, 8, pp. 59-83.

- Fang, T (1999). *Chinese Business Negotiating Style* Sage Publications, Thousand Oaks. CA.
- Fang, T. (2001) "Culture as a Driving Force for Interfirm Adaptation", *Industrial Marketing Management*, 30, pp. 51-63.
- Fletcher, R. and Melewar, T.C. (2001), The Complexities of Communicating to Customers in Emerging Markets, *Journal of Communications Management*, 6 (1), pp. 9-23.
- Ford. D. (1984). "Buyer-Seller Relationships in International Industrial Markets", *Industrial Marketing Management*, 13 (May), pp.101-112
- Hall, T.T. (1973) *The Silent Language*, Anchor Press, NY.
- Hofstede, G. (1991), *Cultures and Organizations: Software of the Mind*. McGraw-Hill, London.
- La Bahn, D.W. and Harich, R.K.(1997) Sensitivity to National Business Culture: Effects on US-Mexican Channel Relationship : Effects on US-Mexican Channel Relationship Performance. *Journal of International Marketing*, 5 (4), pp. 29-51.
- Langhoff, T. (1997), The Influence of Cultural Differences on the Internationalisation Processes of Firms, in *The Nature of the International Firm*, Bjorkman, I. And Fosgren, M. (Eds), Handelshojsskolens Forlag: pp.135-160.
- Lamposki, K. and Emden, J.B. (1996), *Igniting Innovation: Inspiring Organisations by Managing Creativity*, John Wiley, New York.
- Leung, K. (1992), Decision Making in Westwood, R.I. (Ed), *Organisational Behaviour: Southeast Asian Perspectives*.pp. 343-361, Longman, Hong Kong.
- Masden, T.K. (1989), Successful Export Marketing Management: Some Empirical Evidence, *International Marketing Review*, 6 (4), pp.41-57.
- Nguyen, T.T.M., (2002) A Study of Quality in Export Markets: The Case of Developing Country-Based Exporters and Foreign Importers, PhD Thesis, *University of Technology, Sydney*.
- Ronen, S. and Shenkar, O. (1985), Clustering Countries on Attitudinal Dimensions: A Review and Synthesis, *Academy of Management Review*, 10, pp.435-454.
- Seligman, S.D.(1990).*dealing with the Chinese: A Practical Guide to Business Etiquette*, Mercury, London.
- Styles, C. and Ambler, T. (1996), A Relational Explanation of Export Marketing Performance, in *Marketing for an Expanding Europe*, Beracs, J.,Baner, A. and Simon, J. (Ed).25th EMAC Conference, Proceedings Vol.II, Berlin.

Trompenaars, F. and Hampden-Turner, C. (1997), *Riding the Waves of Culture*, 2nd Ed. Nicholas Brealey Publishing Ltd, London.

Toornroos, J-A. (1991), The Concept of Distance in International Marketing, in Paliwoda, S.D. (Ed), *New Perspectives in International Marketing*, Routledge & Co, London.

Toornroos, J-A and Moller, K.E. (1993), The Cultural Factor and the Formation of International Business Relationships in Industrial Markets, in *Advances in International Marketing: Industrial Networks*, Sharma, D.D. (Ed). Greenwich Connecticut, Vol 5: pp. 107-121.