



Diverging expectations in buyer–seller relationships: Institutional contexts and relationship norms

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ABSTRACT

Many firms assume that outsourcing partnerships may allow them to strengthen their overall competitiveness. Lured by its intuitive appeal, several enter into such partnerships, only to realize that they represent a marginal rather than a magical solution to their quest for increasing market performance. An important reason for this is the diverging beliefs and expectations held by both parties in the buyer–seller dyad. The purpose of this contribution is to develop a framework for understanding the divergences in expectations and relationship norms in cross-cultural business relationships among SMEs. We discuss four relational expectations derived from the B2B literature on relational norms for addressing these divergences: Quality, frequency and scope of communication, role specifications and coordination of work nature of planning horizons, and trustworthiness and link these to relationship performance. We explore the proposed impact of diverging relationship norms on relationship expectations using data from an ongoing field study of Danish buyers and Chinese suppliers. We link these diverging expectations to the business practices of Danish buyers and Chinese and their institutional contexts. In the concluding part of the paper, we discuss our findings and outline implications for management and academia.

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1. Introduction

With recent economic reforms, China is fast becoming the world's largest sourcing hub, as more and more companies turn to Chinese suppliers for components and manufactured goods (Jagersma & van Gorp, 2003). Increasing competition paired with the benefits offered by information technology (IT), steeply decreasing communication and coordination costs across vast distances, are fuelling this process. In addition, in the wake of the sourcing activities with China, which are primarily led by the activities of large multinational companies (MNC), an increasing number of small and medium-sized enterprises (SMEs) are sourcing components and subcontracted goods from China. This shift has induced a strong increase in the internationalization of production activities, leading to overall increased globalization of production networks (Castells, 1996; Dicken, 2003). The development has attracted a large proportion of SMEs to pursue sourcing in China in their efforts to stay at par with the changing competitive realities. In Denmark investigations show that an increasing number of SMEs outsource to China with considerable success (Knudsen, Cederquist, Henriksen, & Rasmussen, 2007).

However, global outsourcing also poses challenges. Particular for SMEs, initiating sourcing activities with China presents a challenge. SMEs have few resources compared to their larger counterparts, which also means that their resources for preparing for international sourcing and for developing international sourcing capabilities often are lacking. Research has therefore shown that international sourcing efforts are more complicated than expected (Lacity & Willcocks, 1998). Often, such complexities are addressed more broadly in terms of cross-cultural differences (Chen & Partington, 2004; Hung, 2005). These discussions, taking departure in value-based models of cross cultural differences, such as the ones associated with Hofstede (1981) or Trompenaars (1994). They typically address differences in culturally bound values rather than cross-cultural varieties of expectations to the market exchange practice. By focusing on broader and genetic societal values, such as power distance or trust, cultural approaches are of limited use in explaining more specific organizational arrangements, generated through processes of institutionalizing practices in society. Cultural explanations are obviously important, but do not deal with issues of market organization directly (Hamilton & Biggart, 1988). We recognize the value of cross-cultural research, but believe in the importance of addressing the proximate forces and mechanisms influencing the formation of expectations among buyers and sellers in business relationships more directly through the relationship norms that have been formed by the institutional contexts of firms. Expectations towards exchange partners' conduct can be expressed as relationship roles (Heide & Wathne, 2006). Relationship roles

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express a behavioural script in terms of a roster of actions that an actor expects other actors to take when interacting in a specific context, such as a buyer–seller relationship. For instance, the mutual recognition of a buyer–supplier relationship as strategic elicits a different role set of both buyers and suppliers than an operational buyer–supplier relationship.

It is our underlying assumption, that buyer–supplier relationship roles as well as role expectations are established in particular business contexts. Relationship roles are characteristic within a specific business context, where the behaviour of a buyer or a supplier is and is part of how an exchange party select particular behavioural scripts and use these in their interaction towards a particular other actor. These expectations can be expressed as expectations towards norms. Furthermore, these expectations concerning norms in role behaviour may only partly or not at all comply with what is the typical relationship role in other business contexts. We therefore suggest that a critical aspect of the challenges for SMEs sourcing internationally is rooted in divergent expectations about the conduct of buyer–supplier relationships (Kotabe & Omura, 1989). In order to understand this better we need to address how on a managerial level, diverging expectations of buyers and sellers towards exchange reflect the broader institutionalized norms of the societies to which these firms belong (Meyer & Rowan, 1977; Whitley, 1992). Relational expectations are formed prior to, and are introduced into business relationships (Dwyer, Schurr, & Oh, 1987).

We use information from interviews conducted within an ongoing study of Danish buyers and their interactions with Chinese suppliers to empirically ground and develop the framework. Our focus is on understanding differences in relational expectations prior to engaging in exchange. We use the relationship marketing literature on norms in business relationships to flesh out the dimensions in which expectations manifest themselves as internalized managerial assumptions. Rules and norms are internalized in the dispositions of managers and often they are unaware that their business practices are social constructs rather than universal laws of business conduct (Nightingale, 2003; Zucker, 1987). We seek to understand the roots of these divergences, by nesting them in the dominant values of their institutional contexts, to address how the business and market exchange patterns of a specific business context may be imprinted and reflected in the practices followed by business managers from this particular context.

We begin by presenting our conceptual model. Next, we vest the constitution and reproduction of these norms in the wider institutional context of nation states and, finally, we apply this framework to understand how socio-cultural divergences unfold across dimensions of behavioural norms important for buyer–seller relationship governance.

2. Relational expectations, institutional contexts and relationship norms: a conceptual framework

How does the institutional context influence the relationship expectations held? In our view, managerial expectations towards new relations are formed by help of those experiences buyers and sellers have obtained through interacting in a network of business partners. Research on business networks, relationship governance and norms often treat forms of economic organization as pertaining to universal laws (Jansson & Ramström, 2005). However, a growing number of scholars find that universal models of economic organization seldom square with empirical reality, as rationality – seen as the process by which humans individually and collectively seek to master or make sense of reality – is the product of internalized value, rather than the result of a universal evolution of the human mind (Redmond, 2004). Plural and diverging forms of rationality are to be expected and are indeed found across institutional contexts (Aguilera & Jackson, 2003; Whitley, 1992). Previous research suggests that institutional contexts have a strong role in guiding exchange, and points to variations across

business environments (Griffiths & Zammuto, 2005). Business managers are socialized to a specific set of role expectations which are molded by an institutional context (Whitley, 1992). Scott (1995) suggests that institutions have three pillars, namely the regulative (what is allowed), the normative (what is seen as desirable), and the cognitive (what is conceivable) pillars. The regulatory pillar highlights the nature of rules that shape economic activity and the degree to which there is a correspondence between the stated rules and their implementation. The normative pillar highlights the dominant values and beliefs that critically shape the interactions between individuals and organizations in a society while the cognitive pillar is reflective of the underlying assumptions that influence economic activity. These dimensions mutually influence each other. Secondly, as Scott (2006) suggests, institutions are by no means pillars of consensus. Varying levels of conflict may exist within them. We agree with Kostova (1997) in defining institutional distance as the degree of divergence that exists on the regulatory, the normative, and the cognitive dimensions between host and home country institutions.

Regulative issues may reflect how a number of aspects in the buyer–supplier practice are influenced by the rule and implementation of legislative institutions. For instance, they reflect the stipulation and enforcement of contracts as an important trait of market organization in business-to-business settings. Normative issues concern the ideals strived for in exchange partnerships. One such issue may be norms on quality, delivery and flexibility as they are expressed explicitly (for instance through excessive use of industry norms) or implicitly (through tacit expectations of what constitute an attractive buyer or a competent supplier). Cognitive issues concern what roles and activities a supplier or a buyer may conceive to have for the other party in exchange. For instance, suppliers (and buyers) may be conceived as partners for product development, as potential competitors or as allies in broader systems of exchange (as witnessed in Japanese production networks) (Nishiguchi, 1994). Together these internalized norms form the expectations held on buyer–supplier relationships in a particular institutional context.

Our focus in the present study is on the role expectations of managers involved in buyer–seller relationships. Notably, we focus on these expectations in terms of the norms regarding role behaviour that SME managers have grown accustomed with from the institutional context from which they origin. Managers develop expectations as they accumulate experiences and engage in trial and error learning processes in relationships with domestic buyers and suppliers. As partners initiate and develop exchange relationships, these provide the foundation for the development of relationship-specific norms in the evolving relationship. Subsequently, as a part of the ongoing learning process of managers, the norms developed in a specific buyer–seller relationship affect their belief systems and contribute to molding future expectations towards exchange parties and their own role in the relationship, forming expectations, which reflect the business context in which they are formed. A basic premise of our analysis is the recognition that the institutional distance between the West and the emerging economies to which much outsourcing is directed is large. Scholars have noted that emerging economies differ from the developed economies in terms of their institutional efficacy as exhibited by an ineffective or an inefficient legal system, weak protection of intellectual property, and/or policy uncertainty stemming from governmental action (Shaker, Ireland, & Michael, 2000).

Some of these issues have been addressed in relation to the concept of psychic distance in cross-cultural business relationships (Conway & Swift, 2000). Psychic distance concerns the degree of perceived foreignness by decision makers and how this relates to their perception of risk from conducting business in a socio-cultural context different from their own. It is a concept “...intended to express the perceived impact of cultural similarity in different dimensions such as language, business habits, cultural environment, legal environment, etc.” (Hallén & Wiedersheim-Paul, 1989). Psychic

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