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The impact of cultural differences on buyer–supplier negotiations: An experimental study

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ABSTRACT

In today's global economy, an ever-increasing number of companies are dealing with international partners, instigating a need to understand the impact of cultural differences on business interactions. Using Hall's distinction of high- and low-context culture, this study investigates the direct and moderating effects of cultural differences in dyadic buyer–supplier negotiations. Theory is developed regarding the impact of culture on joint profits, juxtaposing Transaction Cost Economics and the Relational View. The theory is tested with a negotiation experiment. Participants, classified by their country of origin, negotiate prices and quality levels for three products. This study finds that cultural differences within the negotiation dyad reduce joint profits when compared to dyads of participants with similar cultural backgrounds. Cultural differences also moderate the impact of trust and bargaining strategy on joint profits. Overall, this study concludes that cultural differences, as encountered in day-to-day business interactions in global supply chains, significantly impact negotiation outcomes.

1. Introduction

In today's global economy, it is important for businesses to be aware of cultural differences, particularly in buyer–seller interactions. As an increasing number of firms are dealing with buyers and suppliers abroad (Homburg et al., 2002), many are learning that they need to take different cultural traits into account when negotiating across borders. These differences impact behavior and understanding of situations (Gelfand and Christakopoulou, 1999).

Increased awareness of potential issues in a negotiation context allows firms to have more successful interactions in the long run and helps avoid misunderstandings (Brett and Okumura, 1998). Furthermore, awareness of the impact of cultural differences can enable firms to negotiate more effectively, resulting in greater cost savings and profits. Thus, there is both a business and an academic need for a better understanding of the impact of cultural differences arising when buyers and sellers differ in nationality, or when "cross-cultural dyadic sales interactions" occur (Mintu-Wimsatt and Gassenheimer, 1996, p.20).

Although a growing body of literature has focused on the influence of globalization on supply chains (Cannon et al., 2010; Cheung et al., 2010; Flynn and Saladin, 2006; Naor et al., 2010; Power et al., 2010), there is a gap in the literature regarding theory on how cultural differences impact buyer–supplier relationships. Studies have compared cultures in countries such as the United States and Germany (Kaufmann and Carter, 2006) and in regions such as Asia (Naor et al., 2010; Power et al., 2010), but have not developed or tested theory with regard to how cultural differences impact buyer–supplier interactions. Therefore, this study addresses this gap in the extant theory by investigating the following research questions: Do cultural differences between a buyer and supplier reduce the joint profit outcome of supply chain negotiations? Do cultural differences moderate the impact of trust and bargaining strategy on joint profit outcomes?

More specifically, this paper contributes to the international operations management literature by juxtaposing two underpinning theories, the Relational View and Transaction Cost Economics. The paper leverages these theories to develop new hypotheses regarding the impact of cultural differences in buyer–supplier relationships. The two underpinning theories provide opposing and seemingly contradictory perspectives on buyer–supplier relationships. They can be reconciled by incorporating the presence or absence of cultural differences. In addition, the study addresses the recommendation of Pagell et al. (2005, p.388), who emphasize that studies should extend beyond the question of "whether culture matters" to investigate "how culture matters", thereby, furthering the discussion regarding the impact of culture on buyer–supplier relationships.

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The new theory, in the form of hypotheses regarding the direct and moderating effects of cultural differences on buyer–supplier negotiation outcomes, is tested through the use of a behavioral experiment. Building on a design by Pruitt and Lewis (1975), a negotiation scenario is developed that mimics a common buyer–supplier environment with information asymmetry and the resulting potential for one party to behave opportunistically. The use of dyads provides the opportunity to assess joint profits. This is important because joint profits, defined as the sum of the individual profits realized by the two parties involved in the negotiation, are a measure of overall supply chain performance. The pairings of buyers and suppliers are formed based on the national background of the participants resulting in same- (from similar cultural backgrounds) and mixed-cultural (from different cultural backgrounds) context dyads.

In sum, this study contributes to the field of operations management in three ways. First, juxtaposing two prominent theories regarding buyer–supplier relationships, the Relational View and Transaction Cost Economics, yields important new insights. Each of these theories has been used in isolation with regard to a wide range of supply chain questions. Positioning them side-by-side is a valuable exercise. Second, a foundation-based model to address the impact of culture in an international buyer–supplier relationship is developed and grounded in the Relational View and Transaction Cost Economics theory. The theoretic model provides testable hypotheses regarding the impact of cultural differences on supply chain joint profits. Third, the study tests theory on the impact of cultural differences in buyer–supplier dyads, a topic that has not yet received attention in the international operations management literature. As suggested by Bendoly et al. (2006), the current study goes beyond traditional methodologies by using an experimental simulation to capture behavioral aspects in the global buyer–supplier relationship as well as to draw inferences about causality in this context. This provides an important alternative perspective to the literature and contributes to the growing body of research using experimental data as methodology (Siemsen, 2011).

In the following section, a brief review is provided of Transaction Cost Economics and the Relational View in the context of negotiations. Based on this foundation, the model is formulated and hypotheses relating to cultural differences are derived. In Section 3, the research methodology is explained, followed by results in Section 4. Section 5 discusses the study's findings, including managerial implications and limitations, followed by a conclusion in the final section.

2. Theory and hypotheses

2.1. The Relational View and Transaction Cost Economics in buyer-supplier negotiations

The current study juxtaposes two overarching theories, Dyer and Singh's (1998) Relational View (RV) and Williamson's (1975) Transaction Cost Economics (TCE), as a foundation for development of hypotheses regarding cultural differences in buyer–supplier relationships. RV and TCE have each been used individually as an explanatory theory to ground hypotheses in the context of buyer–supplier relationships. However, each theory on its own only provides an incomplete justification for the expected behavior in international buyer–supplier negotiations. The two theories together provide a more powerful grounding for hypotheses regarding buyer–supplier relationships. This is because RV and TCE each offer a different perspective and in combination are critical to positioning and understanding the impact of cultural differences in negotiations.

More specifically, the Relational View is an extension of the Resource-Based View and argues that a firm can best develop competitive resources through relationships with other firms, such as buyers and suppliers. RV therefore emphasizes the close, collaborative relationships between buyers and suppliers as the key to sustainable competitive advantage. Transaction Costs Economics, on the other hand, views buyer and supplier relationships as adversarial and emphasizes the costs and problems of such market interactions. Transaction costs are the costs associated with sourcing in the market as opposed to producing the good or service in house (Waldman and Jensen, 2007). Originating with the work of Coase (1937), when a firm purchases an input for production in the marketplace, there are costs beyond those attached to the price of the input itself. These transaction costs include the search for the appropriate supplier, the contract negotiation, quality control and the actual delivery of the product (Waldman and Jensen, 2007). This study focuses specifically on the buyer–supplier negotiation aspect of market transactions, which involves a level of interdependence between the parties (Brett, 2007).

Buyer–supplier negotiations are fraught with the TCE elements of information asymmetries, bounded rationality and the potential for opportunism. Firms never have complete information, nor do they have the skills and time to attain that information. So there is often asymmetric information between the parties to a negotiation. Managers also have cognitive limits in terms of analyzing and processing information, which is referred to as bounded rationality (Williamson, 1979, 1981). Asymmetric information and bounded rationality provide the potential for opportunism, which Williamson has described as "self-interest seeking with guile" (1979, p.234). Managers of companies may act deceptively as they negotiate contracts, for example, by withholding or distorting information. They may also renege on the negotiated agreement. This grows even more complex as supply chains now span the globe, requiring businesses to conduct negotiations with both domestic and foreign partners.

RV and TCE generate opposite predictions regarding the degree to which buyer–supplier relationships are collaborative or contentious. With regard to international buyer–supplier relationships, incorporating the notion of cultural differences can reconcile these differences. In the absence of cultural differences, firms typically adopt the Relational View and focus on the positive aspects of a collaborative relationship. However, in the presence of cultural differences, the involved parties are more likely to adopt an adversarial relationship, as predicted by TCE. Therefore, in the context of buyer–supplier relationships, where cultural differences may or may not be present, both theories are needed to provide a comprehensive grounding.

2.2. Culture, cultural differences and joint profits in negotiations

Culture provides characteristics of identification for members of a (social) group (Brett, 2007; Rivers and Lytle, 2007). Culture manifests itself in shared values, beliefs, and traits, providing a set of rules and guidelines assisting its members to interpret people, their behavior and situations (Brett and Okumura, 1998; Hofstede, 1985). Cultural characteristics provide grounds for the interpretation of actions within a context (Rivers and Lytle, 2007). Different countries and nationalities typically are associated with distinct cultures, so that cultural differences may readily arise in today's global economy.

Hall's (1976) dichotomous operationalization captures the essential elements of culture associated with countries or nationalities. Hall distinguished between low- and high-context cultures. Low-context cultures focus on direct/explicit (often verbal) communication; i.e., messages are communicated directly. In a negotiation context, participants often probe by asking questions to