

**CULTURAL SENSITIVITY AND ITS IMPACT ON BUSINESS RELATIONSHIP  
QUALITY**

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## **Abstract**

A firm's competitive advantage can be created through developing and maintaining long-term effective relationships with customers. To achieve successful long-term business relationships, partners need to develop and maintain a high degree of relationship quality. Although the importance and benefits of high quality relationships are widely recognised, little research has been undertaken to examine the major factors that impact on relationship quality between exporters and importers.

Internationalisation theory suggests that culturally distant exporters need to allocate significant resources to relationship building activities with their foreign customers in order to enhance mutual understanding and to help reduce the inherent uncertainties in international markets. Therefore, enhancing the understanding of, and adaptation to, differences in culture in foreign countries helps exporters reduce the "distance" between parties in export relationships. Consequently, it can be argued that exporters who are sensitive to their partners' cultures will face fewer barriers to effective communication and are more likely to achieve long-lasting successful business relationships.

This research examined the impact of two cultural factors, i.e., cultural sensitivity and ethnocentrism, on business relationship quality between developing country-based exporters and their foreign importers. Also, it explored the relationship between relationship quality and its outcome, i.e., export performance. A random sample of 297 exporting firms in Vietnam was surveyed to empirically test the theoretical model. The results indicated that the model had an acceptable fit to the data and all of the hypotheses were supported. Implications for business firms and directions for future research were also addressed.

## **Introduction**

Establishing, developing, and maintaining successful business relationships with distant partners is not an easy task. A major barrier is cultural distance. A lack of knowledge about cultural differences can create difficulties for firms. Previous research has shown that the ability of a firm to break down cultural barriers and establish close business relationships with partners is a major factor for success in international business marketing (Ford 1984). Unless exporters are sensitive to the cultural aspects of buyer-seller relationships, it is very difficult to build long-term high quality relationships. In spite of the important role of cultural sensitivity in doing business in foreign countries, LaBahn and Harich (1997) noted that little systematic empirical research has been conducted on how cultural differences combine with theories of relationship marketing in an international business setting. In addition, Patterson et al. (1998) point out that the large number of international business partnership studies in Western countries needs to be supplemented with other studies encompassing firms from different countries. This study attempted to bridge this gap by investigating the impact of two cultural factors, i.e., cultural sensitivity and ethnocentrism, on relationship quality between developing-based exporters and their foreign importers. Also, it explored the relationship between relationship quality and its outcome, i.e., export performance. The paper is organised as follows: (1) relationship quality, (2) the model, (3) the method, (4) the results, and (5) conclusions, implications, and limitations.

## **Relationship quality**

Relationship quality is considered to be the essence of relationship marketing (Jap, Manolis, and Weitz 1999) and serves as an indicator of the health and future well-being of long-term relationships (Crosby et al. 1990). It can be defined as “an overall assessment of the strength of a relationship and the extent to which it meets the needs or expectations of the parties based on a history of successful or unsuccessful events” (Smith 1998, 78).

Rapidly increasing competitive environments are forcing business firms to seek more creative and flexible ways of coping with competitors. Building collaborative relationships with customers is a means for lessening such severe competition (Doney and Cannon 1997). Such collaborative relationships are likely to rely on the quality of relationships, characterised by high levels of trust, commitment, satisfaction, and minimal opportunism. These are considered to be key dimensions of relationship quality. Several dimensions of relationship quality have been employed in previous research, such as trust, commitment, satisfaction (e.g., Smith 1998), willingness to invest, conflict, expectation of continuity (e.g., Kumar et al. 1995), and minimal opportunism (e.g., Dwyer and Oh 1987). These dimensions have received strong empirical support in the relationship marketing literature (e.g., Dorsch et al. 1998). In addition, they have been widely adopted in studies related to relationship quality (Dwyer and Oh 1987, Dorsch et al. 1998).

Relationship quality is an important aspect in maintaining and evaluating buyer-seller relationships. Therefore, several researchers have attempted to investigate possible predictors of relationship quality. For example, salesperson’s expertise and relational selling behaviour have been found to have a positive impact on relationship quality between salespersons and customers in the life insurance industry (Crosby et al. 1990). Dwyer and Oh’s (1987) study found that the quality of channel relationships is affected adversely by the degree of partners’ bureaucratization. Procedural fairness has been examined to have a positive impact on relationship quality (Kumar et al. 1995), while environmental uncertainty has a negative effect on relationship quality. Smith’s (1998) study indicated that relational bonds have a positive effect on relationship quality. Following this stream of research, this paper examines the impact of cultural sensitivity and ethnocentrism on relationship quality.

## **The model**

### **Cultural sensitivity and relationship quality**

There is a general agreement that cultural sensitivity entails awareness, cultural understanding, and reduction of cultural bias (LaBahn and Harich 1997). It is defined as a firm’s learning and adaptation to its exchange partner’s national business practices (LaBahn and Harich 1997). It is noted that little systematic empirical research has been undertaken on how cultural differences combine with theories of relationship marketing in the international business setting (LaBahn and Harich 1997) and, further, few attempts have been made to explore the relationship between cultural sensitivity and relationship quality.

To achieve cultural sensitivity and successfully manage cultural differences, partners must develop a deep understanding of their respective partners' cultures. This requires substantial investment in terms of time and effort by both parties. Culturally sensitive firms are more willing to adapt to cultural differences in their partners' businesses. By appreciating and better understanding their partners' cultures, they are more likely to behave in a more appropriate and culturally sensitive way. In addition, cultural sensitivity suggests that firms are willing to respond to changes (Harich and LaBahn 1997). This also suggests that such firms will exhibit greater concern for their partners. This leads to a foundation for the development of trust in the relationship. When trusting each other, both parties can more readily overcome difficulties such as language barriers, and differing business practices. By sharing similar business values with their partners, firms foster more confidence in the continuity of the relationship and, consequently, make stronger commitments to such relationships (Dwyer et al. 1987). This also leads to a willingness to engage in the long-term development of relationships. Participants in such relationships would be more likely to achieve a very high level of commitment to, and satisfaction with, the relationships because they may perceive that such adaptations would bring future rewards. In summary, relationships oriented towards cultural understanding and the long-term could be expected to be characterised by trust, commitment, satisfaction, and minimal opportunism. Based on the above discussion, the following hypothesis is proposed:

*H1: The greater the degree of cultural sensitivity exhibited by a firm, the greater the degree of relationship quality between the firm and its foreign partners.*

### **Ethnocentrism, cultural sensitivity, and relationship quality**

Early conceptualisation of ethnocentrism has been used predominantly in the discipline of social psychology, where the concept is defined as "the view of things in which one's own group is the centre of everything, and all others are scaled and rated with reference to it" (Summer 1906, p.13). From this viewpoint, ethnocentrism is seen from an evaluative perspective, as an attitude of judging other cultures by the standards of one's own culture. Ethnocentrism can be examined through the attitudes toward in-group and out-group members (Levine and Campell 1972). In the case of orientation towards the out-group, the more ethnocentric people are, the more inferior they see the out-group; and the more they reject the out-group's values. Thus, ethnocentric people tend to be uncooperative with out-group members, distrust out-group members, and blame them for in-group troubles.

In consumer behaviour literature, consumer ethnocentrism denotes the beliefs held by consumers about the appropriateness and morality of purchasing foreign-made products (Shimp and Sharma 1987). For highly ethnocentric consumers, purchasing foreign products leads to job losses, hurts the economy, and is viewed as unpatriotic behaviour. In the context of international working relationships between exporters and importers, ethnocentrism refers to exporters self-centered bias toward their own country and against the foreign country, and it is reflected in an obligation to domestic markets and products, as well as concerns about the decline of the domestic industry (Lee 1998). In this context, this leads exporters to place a higher priority on domestic markets over foreign markets. This increases the likelihood that exporters will fail to select a good foreign partner as well as experiencing difficulties in building, and enhancing a high quality working relationship with the partner.

Highly ethnocentric exporters, who tend to value their own judgment over others, are likely to devalue what useful knowledge is supplied from, or exchanged with, foreign importers. In turn, exporters with high levels of ethnocentrism may ignore messages and merely dictate their own ideas. Without recognising the unique differences of foreign partners, such exporters would be expected to demonstrate a lack of concern for foreign partners' cultures, thus reflecting culturally insensitive behaviour towards their partners. Consequently, it is argued that a high level of ethnocentrism held by exporters will reduce their cultural sensitivity and result in less trust, commitment, and satisfaction in relationships with partners.

*H2: The greater the degree of exporter ethnocentrism, the less the degree of cultural sensitivity towards the foreign partner.*

*H3: The greater the degree of exporter ethnocentrism, the less the degree of quality of relationship with the foreign partner.*

### **Relationship quality and performance**

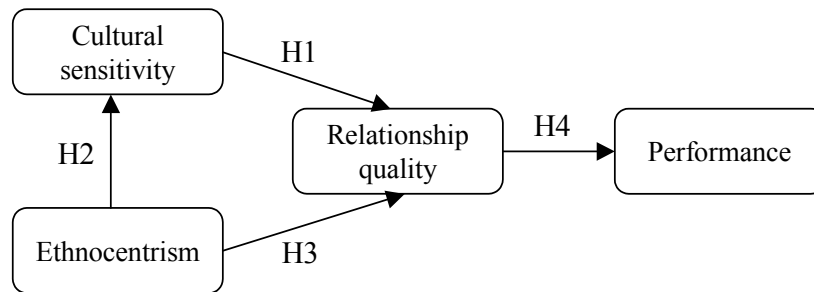
Performance in international marketing channels is defined as “the accomplishments – real and perceived – that have resulted from the manufacturer-distributor relationship” (Rosson and Ford 1982, p.61). A number of performance measures have been proposed in the literature. There are two approaches to measure performance, i.e., objective and subjective measures. The first approach is based on financial indicators which includes such measures as return on investment, profits, margins, sales, sales growth, and asset turnover. The second approach is employed to measure a firm's absolute and relative performance on tasks, such as market share, new product development. This study focuses largely on the firm's performance in dealing with its specific partner and, therefore, employed the latter approach. Geringer and Hebert (1991) found that objective and subjective measures of performance correlate highly.

A high level of relationship quality is likely to have positive consequences for the relationship. The benefits of a high level of relationship quality should translate into the economic performance for both partners. A high quality relationship means that the foreign customer has confidence in the relationship performance because efficient transactions such as shortened response time, advantages in logistics management, and in marketing programs contribute to the firm's efficiency and effectiveness in serving their markets. In turn, these can create a strong market position which will be reflected in the firm's performance. When conditions required for good relationship quality are met, an exporter or a foreign importer (or both) is more likely to be attracted to an existing relationship, and such relationships can be expected to continue in the future. As a result, agreement on such matters as decision making, and mutual dependence should increase, moving the relationship closer to long-term partnership. Previous research shows that long-term partnerships lead to increased mutual profitability (Anderson and Weitz 1992) and enhance the performance outcomes in buyer-seller relationships (Noorderwier, John, and Nevin 1990). Likewise, Kalwani and Narayandas (1995, p.14) found that “maintaining close relationships with customers in the long-run lead to high profitability through better understanding and servicing of customer needs”. Suppliers who develop better relationships with their foreign customers are likely to enjoy superior performance in terms of ultimate outcomes

such as sales and share of customer business (Leuthesser and Kohli 1995). Based on the above, the following thesis is proposed:

*H4: The higher the level of relationship quality between an exporter and its foreign importer, the higher the level of performance in their relationship.*

**Figure 1: The theoretical model**



## Method

### Sample

The empirical setting for this research was Vietnam. Vietnam was selected because it is a developing country. In addition, the government has been encouraging exports by several export promotion programs. To test the model, a random sample of 297 firms in Ho Chi Minh City, the major commercial city of Vietnam was surveyed, via the partial self-administered method. Eligible participants in the study were local firms that were engaged in exporting. The sampling frame was based on the most recent Directory of Vietnamese exporting firms (1999-2000) in Ho Chi Minh City. This sampling frame consists of about 4,500 exporting firms.

### Measures

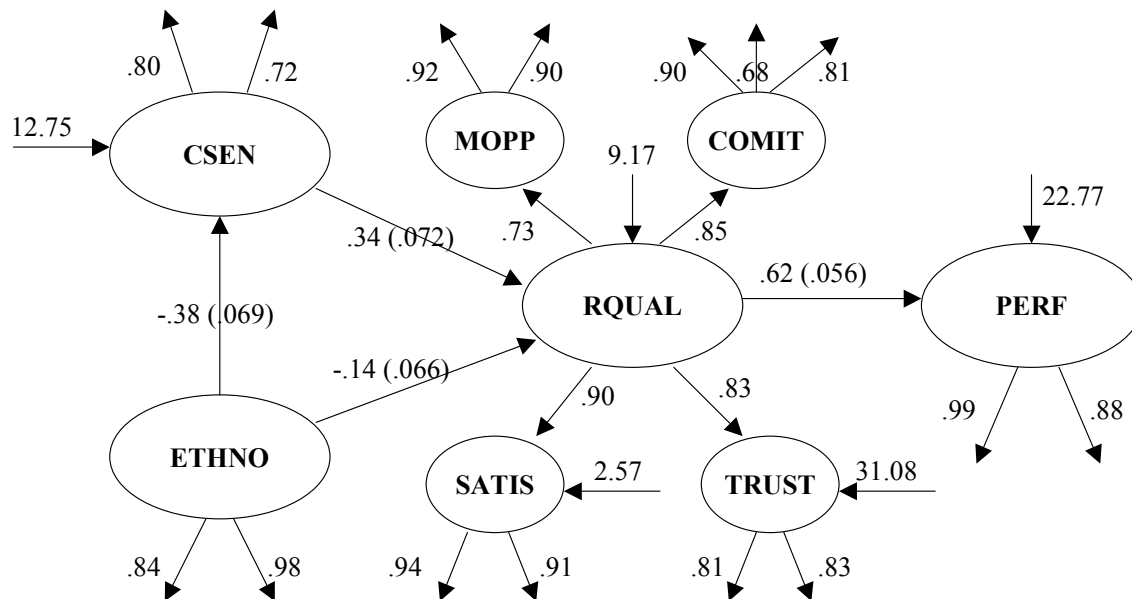
The scales used in this study were largely based on previous studies in the relevant academic literature, with some modifications for the specific research setting. There were four constructs in the models, i.e., cultural sensitivity, ethnocentrism, relationship quality, and performance. Cultural sensitivity (denoted by CSEN) was measured by using LaBahn and Harich's (1997) scale. CSEN consists of 8 items. Ethnocentrism (ETHNO) was measured by 6 items based on Lee's (1998) measures. Relationship quality (RQUAL) is a second order construct with four components, i.e., trust (TRUST), commitment (COMIT), satisfaction (SATIS), and minimal opportunism (MOPP). Twenty two items of trust, i.e., honesty (hon, 12 items) and benevolence (ben, 10 items) developed by Kumar et al., (1995) were used. Commitment (COMIT) was measured by using Kim and Frazier's (1997) scale. Commitment comprises three components, i.e., continuance commitment (con, 6 items), behavioural commitment (beh, 10 items), and affective commitment (aff, 7 items). The satisfaction scale (SATIS) developed by Gaski and Nevin (1985) was used. The satisfaction scale consists of seven items. Minimal opportunism

(MOPP) was measured by using Lee's (1998) scale. This scale comprises 13 items. Finally, performance (PERF) was measured by 10 items based on Raven, McCullough, and Tansuhaj's (1994) scale. The questionnaire was initially prepared in English and then translated into Vietnamese by an academic who is fluent in both languages. Back translation was undertaken to ensure the equivalence of meanings.

### Data analysis and results

The data was analysed by using covariance structure modelling via the AMOS\_4 program. All measures used were first refined via Cronbach's alpha and exploratory factor analysis and then tested by confirmatory factor analysis. The results showed that all of these measures satisfied for the requirements of scale reliability and validity (unidimensionality, convergent, and discriminant validity). Some items of these measures (TRUST, MOPP, and COMIT scales) were deleted due to low factor loadings in the exploratory analysis. Summates was used to run the structural equation models<sup>1</sup>. It is noted that some scales were unidimensional but two summates were used. A synthesis of the detailed analysis undertaken indicated that the proposed model had an acceptable fit to the data (Chi-square = 216.74, df = 82, p = .000, CFI = .957, GFI = .913, RMSEA = .075). In addition, it revealed that all of the hypotheses are supported. This is shown in Figure 2.

**Figure 2: Structural results (standardised estimates)**



Chi-square = 216.74; df = 82; GFI = .913;  
CFI = .957; TLI = .945; RMSEA = .075

<sup>1</sup> Detail analysis and the covariance/correlation matrix will be provided if requested.

## Conclusions, implications and limitations

The overall objective of this research was to develop and test a model of the antecedents and consequences of relationship quality. This study found that the exporters' cultural sensitivity positively affects the quality of a relationship between exporters and importers. The exporter's efforts to sensitise with partners' cultures would result in the partners' beliefs that the exporter is willing to adapt and behave appropriately towards exchange partners' cultures. Therefore, the importer partners are likely to trust and commit to a working relationship with the exporter. Exporting firms, exhibiting a low level of cultural sensitivity, may find it hard to build a quality working relationship. There is a need for Vietnamese exporters to be aware and sensitive to the environments of foreign markets, and thus, reduce cultural business barriers.

Secondly, ethnocentrism negatively affects cultural sensitivity and the quality of relationship between exporters and importers. Exporters with a high level of ethnocentrism would keep their own judgment and are unwilling to acquire the cultural norms from exchange that are considered to be different to theirs. Such exporters would be insensitive to partners' cultures and fail to have a high quality working relationship. Therefore, such exporters should be encouraged to be more open-minded by lowering their level of ethnocentrism in order to absorb, appreciate and understand the unique cultural differences between them and their foreign exchange partners.

Finally, relationship quality positively impacts on performance. A high quality relationship enables an exporter and its foreign importers enjoy the long-term benefits of the relationship.

There are a number of cautions in interpreting the results. Firstly, the results were built on information from only one side of the dyad. An exporter's point of view might be different. It would be of great value to have data from the other parties in the dyad. Secondly, caution should be exercised in generalising the findings to other contexts since only one city in one developing country was sampled. Replication and extension to other developing countries is a direction for future research. Finally, the cross-sectional design employed inhibits strong inference regarding the direction of the causal relationships of the construct. Longitudinal research designs would better enable researchers to make inferences about the causal consequence.

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