THE IMPACT OF THE COUNTRY-OF-ORIGIN EFFECT ON TRUST IN BUSINESS RELATIONSHIPS

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Abstract
It is the purpose of this paper to analyse how trust is formed within business relationships in cases in which the buyer’s firm stems from a developed economy that has a positive country-of-origin image (COO) whereas the seller’s company emanates from a developing nation with a negative country-of-origin image. This examination concentrates on the importance or potentially the unimportance of this country image to the buyer. Furthermore, the reasons why a buyer decides to work with a partner from a country with a positive COO image and conversely, why a buyer does not work with a potential partner that comes from a country with a negative image.

Within this paper both quantitative and qualitative research methods are discussed in order to investigate this topic. The decision to use qualitative methods was made because when investigating trust, it is important to focus on the subjects who provide the data. In order to understand in which cases trust is formed when a buyer is confronted with a seller from a country with a negative or positive COO image, the emotions of the individual involved in this process need to be analysed. In order to obtain an insight into the emotions of individuals, this research uses in-depth interviews. Due to the interactive nature of interviews, researchers can get access to the subjects’ emotions towards the formation of trust as well as the attitudes and perceptions of the interviewee.

Key words: Business Relationships, Trust, Country-of-Origin Effect
Introduction

This research seeks to examine the impact of the country-of-origin effect on trust within business relationships between buyers from countries with positive country images and sellers from countries with negative COO images. In order to investigate this topic, first the importance of trust within business relationships is discussed. This is followed by the interrelationship between trust and the country-of-origin image that indicates why these constructs can have an impact on each other. Finally, the methods for investigating this research topic are offered.

Business Relationships

In marketing, exchange constitutes a voluntary transaction of products or services in return for financial resources (Bagozzi, 1975). In the case of repeated transactions between two or more parties, exchange relationships are established between buyers and sellers (Halinen, 1994). In such instances, transactions take place within the relationship, which makes the management of these relations essential (Ford, 2006). Levitt (1983) argues that the initial transaction simply represents the starting point of the relationship between two companies. Its development depends on the management. Especially in business marketing, significant attention is given to these buyer-seller relationships (Turnbull & Valla, 1986). Nevertheless, companies must closely examine whether a relationship actually represents an advantage before investing valuable resources, as some clients might not turn out to be as profitable as expected (Zolkiewski & Turnbull, 2002).

Yet, many researchers argue that relationships comprise a possibility for cost cuts, as sellers can build up relationships with their existing clients by investing less financial resources than with new buyers (Berry, 1983). This has made relationships one of the most salient concepts in marketing (Kotler & Levy, 1969). However, Morgan and Hunt (1999) emphasize that relationships may turn into non-reciprocal interactions and in such a case, have to be terminated before they lead to an exploitation of one party’s resources.

Relationships are built up over time by shifting from one level to another through an interaction approach (Håkansson & Sharma, 1996). Throughout this process they are supported by trust (Dwyer, Schurr, & Oh, 1984). The relationship develops further to the next stage once the partner’s expectations are met (Grönroos, 1982). There are many different ways in which partners can manage their relationships (Young & Wilkinson, 1997). An advantageous way is offered by Naudé and Buttle (2000), who argue that high relationship quality can be achieved by partners through focusing on trust. Hence, due to the dynamic nature of relationships the level of uncertainties is reduced over time (Turnbull & Valla, 1986). It remains to be examined how uncertainty can be reduced once the seller company is based in a developing economy. This might lead to a lack of trust and the relationship might not shift to a higher stage, but never develop further from a single transaction (Macneil, 1980).

Ganesan (1994) notes that firms should not oversee the competitive advantage that can be achieved through relationships. To add real value they require scarce and difficult to imitate resources, which are precious to the seller’s partners (Kotler & Armstrong, 2008). In order to maintain a beneficial relationship managers should constantly ask themselves what their partners can do for them and what they can do
for their partners (Ford, Håkansson & Johanson, 1986). This means that sellers need to verify whether they meet their partners’ requirements as well as their own objectives (Turnbull, Ford & Cunningham, 1996). Most importantly, firms should constantly appraise the value that their relationships add to the bottom line in order to ensure they remain useful (Halinen, 1994). Such an examination will lead to a sorting-out process during which partners will evaluate the benefit of the relationship to their business and will decide whether or not to continue the partnership (Wilkinson, Young, Welch & Welch, 1998).

Such long-term relationships as described above are common for business services (Yorke, 1990). Business services are provided by personnel with a high status and detailed knowledge in a narrow area such as law or accounting (Yorke, 1988). In most cases business services firms focus on long-term relationships with their clients to increase profitability (Halinen, 1994). This is the case due to a number of differences between products and services such as intangibility, people intensity, interactive nature of service processes, customised character of services, and ambiguity inherent in the service exchange, which affects the exchange relationship (Zeithaml, Parasuraman & Berry, 1985). Especially people intensity is a major factor that leads to an increase in relationship development in the business services market (Doyle, Corstjens and Michell, 1980).

Further personalisation of the services themselves takes this to an even higher level (Lovelock, 1983). Intangibility, people intensity, as well as the interactive and customised character of services create uncertainty. Hence buyers of professional services are often insecure about what they will receive once they have purchased a service and therefore seek for means to reduce the involved level of risk (Gummesson, 1981). Hence, in comparison with product purchases, it has become more common for buyers of services to build up relationships that enable the reduction of high uncertainty (Williamson, 1979). In order to achieve this reduction, trust has been regarded as an important concept.

**Trust and the Country-of-Origin Effect**

There are numerous definitions of both concepts, trust and the country-of-origin effect. The most relevant to this study have been selected below.

Trust has been defined as the belief that one partner will fulfil another partner’s needs (Anderson & Weitz, 1989). As Blois (1999) notes, with their description Anderson and Weitz have provided a very open sense of trust. It could be argued that this definition brings to light the ambiguity of trust.

Nagashima (1970) offered the first definition for the country-of-origin effect in 1970 (Parameswaran and Pisharodi, 2002). He described this construct as “the picture, the representation, the stereotype that businessmen and consumers attach to products of a specific country. This image is created by such variables as representative products, national characteristics, economic and political background, history and tradition” (Nagashima, 1970, p.68). What is important in his definition is that he defined the COO as a stereotype. Many other researchers have built upon this description.
Parallels between the two constructs

There are many parallels between the two constructs that were identified in literature review. These similarities show why the country-of-origin effect could have an impact on trust.

Firstly, norm-based trust focuses on the shared values within a group of individuals e.g. within one culture (Parsons, 1951). Once similarities between two different groups have been identified, trust is likely to be established. Likewise, the COO effect is strongly based on such values. When evaluating a country of origin buyers look at a number of cultural attributes such as a country’s national characteristics, history and tradition, economic and political background (Nagashima, 1970). Furthermore, political and military hostility, customs and traditions, music, food and tourist attractions are included in the country-of-origin image (Shimp, Samiee & Madden, 1993). This shows that shared values play an important role to establish trust as well as a positive country-of-origin image. This leads to the following purchasing preference. Norm-based trust has shown that members of a particular in-group tend to have a preference to conduct business with each other and exclude outsiders (Light, 1984). Equally, the COO effect can lead to a preference towards conducting business with ones in-group and thus make purchases from domestic producers more likely than from foreign manufacturers (Nagashima, 1970; Lillis & Narayana, 1974; Bannister & Saunders, 1978; Cattin, Jolibert & Lohnes, 1982). These findings show that both, trust and the COO effect, display a preference toward in-group behaviour that share the same values.

Both concepts are built on a cognitive component meaning that existing knowledge and experience is processed and applied. Interpersonal trust is cognitive in cases in which the trustee applies rational thinking in order to create trust (McAllister, 1995). In addition Simmel (1950) argues, that trust can be established through previous experiences with a partner. This is similar to the country-of-origin effect. When industrial purchasers seek to evaluate products this is often done by rational thinking when taking into consideration previous experience obtained in connection with one particular country of origin. Based on what has been learned from the past due to repeat purchases either positive or negative evaluations are made (Samiee, 1994). This shows that both constructs have a cognitive component that is based on experience. Trust is of importance, once one party lacks sufficient knowledge about the other party (Simmel, 1950) because it bridges the knowledge gap by accepting potential harm. Correspondingly, the COO effect is strongly related to the lack of knowledge. Once a buyer does not have sufficient product knowledge the country-of-origin stereotype is a popular tool to overcome this gap to evaluate the product quality (Cattin, Jolibert & Lohnes, 1982; Laroche, Papadopoulos, Heslop & Mourali, 2005). These findings show, that cognition, in terms of applying knowledge and experience, is important to the examination of both constructs.

Furthermore, image is an important factor for this examination. Inter-organizational trust is formed by the image or reputation of an organization. It is based on the organization’s past behaviour (Sztompka, 1999). Similar, what constitutes reputation for an organization, on the other hand is the image for a nation. In order to evaluate products from a country, the past performance of its products are evaluated to make an inference for the future. This shows that for both, trust and the COO effect, image is of salience.
Both, trust and the country-of-origin effect are related to risk. According to Sydow (1998) trust is the willingness to accept a certain amount of risk, as there is an element of uncertainty due to the lack of knowledge. Thus trust includes risk. So does the country-of-origin image. Once purchases include foreign produce the perceived risk increases due to uncertainty about quality and problems in case the products need to be returned to the manufacturer (Cline, 1979). This signifies that both constructs are interrelated to risk.

Seventh, change plays an important role in examining the relationship of these two phenomena. As mentioned before inter-organizational trust is built easier once a good reputation or image exists. However these are subject to change (Blois, 2003). Likewise, an image of a COO can change over time as the example of Japan has shown (Verlegh & Steenkamp, 1999). This shows that both concepts are not constant but dynamic and can be affected by change.

Both constructs have an emotional element. Affect-based trust is emotional and based on competence, benevolence, and integrity (Mayer, Davis & Schoormann, 1995). The COO image is seen as an emotion by researchers as well. Despite the fact that the COO image is based on pieces of information such as the economic figures of a country, these facts lead to the creation of emotions toward the country of origin (Gurhan-Canli & Maheswaran, 2000). Therefore trust and the COO image have emotional parts.

These findings show how closely trust and the COO are related to another. Hence, examining the relationship in terms of the impact that they can have on each other is important. Furthermore, it is important to concentrate on these parallels as they could emerge in interviews during the data collection.
Research Problem
The impact of the country-of-origin (COO) effect on trust within business relationships between a seller from a country with a negative COO image and the buyer from a country with a positive COO image still remains unknown.

Research Question
What is the impact of the COO on the formation of trust within business relationships between companies from economies with positive and negative COO images?

Objectives
The objective of this research is to examine the impact of the COO on the formation of trust within business relationships between companies from developing and developed economies.

Methodology
Quantitative trust research
The quantitative studies that investigate the concept of trust can focus on trusting behaviours rather than trust itself. In order to measure these behaviours, experiments are conducted that are often based on the prisoner’s dilemma. In such investigations it is counted how many times the study’s population expresses trusting behaviour instead of non-trusting behaviour. However such studies neither provide external validity as they are conducted in the laboratory, nor do they offer internal validity due to the fact that what was observed does not necessarily constitute trust but merely trusting behaviour that lacks the genuine trusting attitude (Möllering, Bachmann &
Lee, 2004). Due to the fact that these studies do not measure trust directly but trusting behaviour point out that such studies may easily confuse trust with other phenomena because it is difficult to distinguish between trust among partners and e.g. cooperation between partners once investigating on a superficial level (Yamagishi, Kanazawa, Mashima & Terai, 2005).

**Qualitative Methods**

Opposite from natural science, the social sciences do not have a subject-object relationship but a subject-subject relationship (Smith, 1983). Therefore it could be argued that data collection can benefit from a close interaction between researcher and the individual under investigation in order to achieve a high level of interaction that leads to a better understanding of the studied problem.

On the other hand, blurring of the researcher and the subjects should be prevented because the investigation might lose its objectivity once too much attention is given to the subjects of investigation. This constitutes a realist approach, which regards the subject as an external referent while an interpretivist approach would go even farther by initiating an internal process that includes active participation of the researcher (Smith, 1983).

In marketing research, emotions are often the centre of investigation. Emotions aren’t objects, as they do not have a material existence (Smith, 1983). As marketing research focuses more on immaterial phenomena it could be argued that there is a stronger focus on subjects than on objects. As mentioned above, emotions within the concepts of trust and the country-of-origin effect are of salience to this study.

Qualitative methods mostly use the interview technique in particular interviews that use open questions to examine trust. In addition ethnographic studies have often been used to investigate this construct (Uzzi, 1997). A major issue with qualitative trust studies is the richness of the findings that usually exceed the limited space available to present them (Gambetta & Hamill, 2005). A disadvantage of qualitative methods is that similar to quantitative methods, experiences of trust are recorded ex post. Furthermore, the small number of cases presented in most studies does not allow generalisations of the findings. Hence their validity is often questioned. On the other hand, the small number of cases that, as mentioned before, provide an enormously rich data set, enable a thorough investigation of trust, thus answering research questions in more detail (Möllering, 2006).

In order to investigate trust, a rich picture that reflects an individual’s actual experience with trust and the individual’s interpretations thereof, have to be obtained. To achieve this, the relationship under investigation, in which trust takes place or does not take place, needs to be understood. In addition reflexivity is needed for both, trust development and the investigation of trust (Möllering, 2001). This is vital as trust can only be fully understood once it is put into the context of the relationship including its background and history as well as the present and future issues that are related to this relationship (Sabel, 1993). As trust does not exist in isolation but instead has to be seen within the context of the relationship, researchers have to understand their respondents’ relationships before they can investigate trust thoroughly (Granovetter, 1985; Uzzi, 1997). In regard to this it might also be helpful to comprehend how the
relationship under investigation is related to other relationships of the respondents (Burt, 1993).

The interview technique in particular, is often used within qualitative studies. A qualitative interview is an interaction between an interviewer and a respondent. During this interaction, a general idea for interview questions should exist however these questions are not formulated or structured in the same way in each interview (Babbie, 2005). Nevertheless, an interviewer, notably when conducting an interview for the first time, needs to prepare before starting an interview. Preparation can include the study of relevant literature on interviews (Kahn & Cannell, 1957) as well as conducting interviews within a population that is related to the study in order to practice (Mitchell, 1993). Additionally, before selecting appropriate respondents, the interviewer should initiate the contact by telephone to ascertain the suitability of the interviewee for the study in terms of their knowledge and position in the organisation (Mitchell, 1993).

One difficulty of obtaining accurate data through the interview technique is focusing on taking notes, listening to the interviewer's responses and asking questions at the same time (Mitchell, 1993). As during such a process the accuracy of the collected data is likely to decline, interviewers should record the interviews in order to be able to focus more on the respondent. Belson (1967) discovered that recording the data during an interview leads to an increase in accuracy. In addition, the interview bias needs to be minimised. This can be best achieved when interviewer and interviewee have the same characteristics in terms of ethnicity, gender, education, and whatever else is relevant to the study (Mitchell, 1993).

To answer and analyse this research topic it is important to get an insight in personal and real-life problems of the interviewees. Kvale (1983) suggests that the most appropriate method for such an investigation is the qualitative interview as it gathers real-life descriptions of a phenomenon. There are several types of interviews. Whereas structured interviews are mostly used for quantitative analyses, semi-structured and unstructured interviews are used in qualitative research.

In a semi-structured interview, interviewers use a list of questions, however in different interviews not the same questions may be used. The advantage of this method is the flexibility to choose and omit questions (Saunders, Thornhill & Lewis, 2007). Conversely, unstructured interviews enable the researcher to explore an area in depth, as there is no list with prepared questions, which makes it most appropriate for investigating this topic due to its high complexity. However, the interviewer requires a clear idea about what kind of information should be derived from the interview. The advantage is that the interviewee can talk freely about the topic without strict boundaries (Saunders, Thornhill & Lewis, 2007).

The complexity with unstructured interviews is the analysis of the data because it might be difficult to identify what the section of conversation and the question were about due to the high flexibility of the interview and the lack of structure (Arksey & Knight, 1999). This technique is appropriate in cases that examine the behaviour or the feelings of respondents towards a topic. Notably in business-to-business studies this type of interview is of significant importance as questions can be tailored to a
specific company or respondent’s knowledge (Craig, 2005). This is the case for this research as it focuses on business marketing.

Especially, the flexibility of unstructured interviews enables the researcher to discover valuable insights for this study. Furthermore, unstructured interviews are ideal to discover the different meanings of an ambiguous term like trust (King, 2004). As trust is an attitude toward another individual and is formed by opinions (Moellering, 2006) qualitative interviews are an appropriate means of data collection. In terms of interpretative epistemology as mentioned above the ambiguity of the term trust increases the importance to ask follow-up questions in order to enable the understanding of the meaning that the interviewees assign to the term (Saunders, Thornhill & Lewis, 2007).

Unstructured interviews have the disadvantage that the respondent is not anonymous and therefore might be biased by the interviewer. Such bias may come from demographic characteristics such as gender or age of the interviewer because respondents react differently to these attributes. In addition, rephrasing questions, the tone of voice, and the interviewers appearance may be the source of bias (Zirkmund, 1982). Other issues are the high amount of time to conduct such interviews as well as high cost (Webb, 2002). Furthermore, the interviewer needs to be highly skilled in conducting such interviews and not focus only on psychoanalytical factors but also on the socio-cultural aspect of the issue in order to create reliable data (Craig, 2005).

Interviews do not represent an interviewer’s stable perceptions and attitudes of what has happened in the past, but simply constitute a representation of the interviewee’s position during the interview itself (Atkinson & Coffey, 2002; Potter & Hepburn, 2005). During an interview, participants could create their own reality far from what actually happened (Dean & Whyte, 1958). Additionally, the interviewee might deliberately or by accident omit important details of an event discussed during an interview (Becker & Geer, 1957) as people are preoccupied with themselves and seek to achieve a favourable self-presentation when talking to others (Hammersley & Gomm, 2008). Finally, in many cases there is a difference between what people say and what they do which has a negative impact on the data’s validity (Deutscher, 1973).

**Conclusion**

This paper has shown the importance of trust in business relationship. Likewise, the interrelationship between trust and the country-of-origin image was shown. Finally, a discussion between different types of research methods was offered and qualitative methods and in-depth interviews were chosen in order to investigate this research topic. The next step will be the data collection and data analysis that will help to answer the research question.
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