THE IMPACT OF CULTURE ON THE GENERATION OF TRUST IN GLOBAL SUPPLY CHAIN RELATIONSHIPS

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As globalization profoundly transforms the business landscape, it presents firms with a myriad of opportunities in supply chain management, yet these do not come without additional complexities and challenges. Trust is an intangible attribute which is widely recognized as a prerequisite to supply chain success, yet it is believed that trust and its importance may differ systematically across cultures. This study uses a mail survey with a sample (N = 162) of U. S. manufacturers and Brazilian distributors to investigate the importance of trust, personal contact and long-term commitment in global supply chain relationships, exploring the differences found in a low-context culture, the U. S., and Brazil, a high-context culture. Brazilian distributors were found to place greater importance on long-term commitment and trust than did U. S. manufacturers and preferred more personal forms of interaction, but not more frequent interaction. Suggestions are offered to managers on how to best utilize this information to develop and maintain successful global supply chain relationships.

INTRODUCTION

With an increasing number of firms entering the international marketplace, supply chain arrangements have become much more competitive, with variance of cultural distance between markets resulting in additional challenges for managers (Samiee and Walters 2006). More and more U.S. firms are realizing that opportunities for growth lie in the global arena, more specifically in developing countries or emerging markets such as in Asia and Latin America. Not surprisingly, these firms are increasingly learning that savvy supply chain management cannot only lead to reduced costs (Flint 2004), but can also be a competitive advantage (Gershenhorn 2004). Indeed, the linchpin of effective supply chain management is the ability to pick the right channel members and then to establish and maintain strong relationships with them (Fawcett, Magnan and Williams 2004). Successful supplier relationships are characterized by high levels of trust, coordination and interdependence (Monczka et al. 1998). In fact, a lack of trust is said to be the greatest obstacle to advanced supply chain collaboration (Fawcett, Magnan and Williams 2004); trust is what closes the gap between rhetoric and reality. Additionally, trust has been found to be a particularly effective tool in curbing foreign distributor opportunism in the export market (Cavusgil, Deligonul and Zhang 2004).

However, cultural differences have been found to be the single most important stumbling block in establishing trust in global supply chain relationships (Smyrlis 2004 and Smagalla 2004). For this reason, this study was conducted using U.S. manufacturers and Brazilian distributors. Brazil was chosen as the market of interest for several reasons. First, Brazil is one of only four countries in the world designated as a Big Emerging Market (BEM); it borders most South American countries and is a member of MERCOSUR, an important trade alliance. It is also a large market for U.S. products. Secondly, Brazil is classified as a high context country (Hall and Hall 1990), where relationships are all important. It is characterized as a P-time (polychronic) country where punctuality is defined more liberally and

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completing human interactions is deemed more important than arriving at an appointment exactly at the designated time. The U.S., on the other hand, is classified as a low-context country, where business comes before relationships, and as a M-time (monochronic) country where punctuality and time as entities are highly valued. Thus, the U.S.-Brazil cultural comparison should highlight the impact of cultural differences on the generation and importance of trust. This cross-national study is important because most work done on the issue of trust has been conducted within the U.S.

TRUST AS A CONSTRUCT

Trust has emerged as a central theme in international strategy research, yet after more than a decade, researchers have barely begun to explore the related idea that trust and its importance may differ systematically across cultures, presenting significant challenges for cross-border alliances (Zaheer and Zaheer 2006). Trust can be defined as the perceived credibility and benevolence of a target of trust (Doney and Cannon 1997). Most perspectives on trust recognize that risk is required for trust to influence choice and behavior (Lewis and Weigert 1985). Both parties must in some way be vulnerable and these outcomes must be important with an element of uncertainty involved (Moorman, Deshpandè and Zaltman 1993). Trust can be viewed as the willingness to rely on another party and to take action in circumstances where such action makes one vulnerable to the other party (Doney, Cannon and Mullen 1998). Trust is also thought to have a behavioral component; a trustor is thought to willingly use trusting expectations as a basis for behavioral intentions and behavior itself (McCallister 1995). In fact, trust-building in partnerships may be a type of self-fulfilling prophecy in which initial expectations positively impact behavior and trust-building (Adobar 2005). Additionally, trust is thought to be a stabilizing factor; when a partner can trust his partner, the balance of power and authority is not as critical to the success of the relationship and its performance (Teegen and Doh 2002).

Morgan and Hunt (1994) found that personal contact is a prerequisite for trust. Trust needs time to emerge (Svejenova 2005); it requires successful interactions. Each party must make trust-building gestures and treat each other with equity and fairness, making an investment in time to get to know each other. Madhok (1995) postulates that this time investment is greater at the beginning of the relationship, so a sound foundation and shared commitment can be established. Long-term commitment is important in the trust-building process; trust and commitment assist in building interdependency between both partners, which is a prerequisite to maintaining and developing the relationship (Rodriguez and Wilson 2002).

TRUST WITHIN THE SUPPLY CHAIN

Trust is a valuable contributor to many forms of exchange (Doney, Cannon and Mullen 1998), and supply chain relationships are no exception. Trust is an intangible attribute that is widely recognized as a prerequisite to supply chain success (Fawcett, Magnan and Williams 2004). It has been shown to reduce cycle time within the supply chain (Handfield et al. 1998), and to improve supply chain responsiveness (Handfield and Bechtel 2002). Agility within the supply chain is enhanced when trust is present (Hult, et al. 2000). Partners who trust each other characterize positive supply chain relationships where cooperative goals are more easily established, leading to improved product quality and greater value to the consumer (Wong, Tjosvold and Zhang 2005). These enabling characteristics of trust are indeed very important, since manufacturers wish to position themselves so they have more flexibility and less obsolete inventory. On-going relationships among supply chain relationships increase efficiency and effectiveness (Johnston et al. 2004; Choi and Hartley 1996), and trust is the glue that holds them together! It is trust that helps the exchange partners "over the bumps." In an on-going supply chain relationship, the exchange partners are willing to accept shortterm imbalances in outcomes, trusting that over the length of the relationship, outcomes will accurately reflect inputs (Griffith, Harvey and Lusch 2006). Just as trust is important in joint ventures, making them more resilient and successful (Madhok 2006), it also plays a crucial role in the relationship between a manufacturer and its distributor(s).

However, in spite of these perceived benefits of trust, in a 2001 survey of almost 1,100 members of the Institute of Supply Management, the Council of Logistics Management and APICS, fewer than one-half of all respondents felt that trust characterized supply alliances (Fawcett, Magnan and Williams 2004). How then can trust be achieved in global supply chain relationships? What actions or factors enhance it and which derail it? Are these the same in all cultures?

IMPACT OF CULTURE

Culture is a notoriously difficult idea to define, yet marketers and international personnel must take into account its influence, since it affects all facets of global business activity (Daniels, Radebaugh and Sullivan 2002). In fact, the inability of firms and their managers to adjust to the demands of the international business environment has been advanced as the primary cause of international business failures, principally due to the inability or unwillingness of managers to appreciate the cultural challenges of doing business overseas (Johnson, Lenartowicz and Apud 2006).

Cultures can be defined as “the sum of learned beliefs, values and customs that create behavioral norms for a given society” (Yau 1994, p. 49). Culture can be viewed as the “collective programming of the mind” (Hofstede 1991, p. 4), since it is everything that people have, think, and do as members of their society (Ferraro 2006). Indeed, “culture has a profound influence on all aspects of behavior” (Craig, Greene and Douglas 2005, p. 80). As Rokeach (1973) pointed out more than three decades ago, cultural values are considered the basic motivators in life and are the prescriptions for behavior.

National culture has been defined as patterns of thinking, feeling and acting that have their roots in common values and societal conventions (Nakata and Sivakumar 2001). National cultures have been classified in many ways, but the potential usefulness of Hall’s (1976) concept of high-versus low-context cultures has been discussed widely in the field of international marketing (Kim, Pan and Parke 1998), so this is the paradigm which will be used as a means of comparison in this study. National culture is an important construct because it has been shown to impact values and lifestyles (Sun, Horn and Merritt 2004), perceptions of service quality and satisfaction (Ueltschy et al. 2004), standardization in professional services (Newbury and Yakova 2006), negotiations (Adair and Brett 2005), advertising responses (Grier and Brumbaugh 1999), choice of entry mode (Brouthers 2002), online purchasing (Ueltschy, Krampf and Yannopoulos 2004), information search behavior (Doran 2002), advertising practices (Taylor and Okazaki 2006), and perceptions about ethical behavior (Elahee, Kirby and Nasif 2002). Thus, one can expect that culture will also influence trust in supply chain relationships.

Karunaratna and Johnson (1997) found that information for foreign channel intermediary screening may be strongly influenced by subjective selection criteria and that these criteria vary by culture. In today’s global arena, this is particularly important because manufacturers are often located in industrialized countries, which tend to be low-context countries (Hall 1976), but their best opportunities for growth and expansion are in developing areas such as Asia and Latin America, which are high-context cultures. Thus, the cultural differences between a manufacturer (supplier) and its distributors not only play an important part in whether the relationship ever comes about, but also impact the long-term success of the relationship.

BRAZIL: MARKET OF INTEREST

Appropriately designated as a Big Emerging Market (BEM), Brazil is not only large in size, but also boasts an impressive economic growth rate. With a population of approximately 187 million, Brazil is the fifth largest country in the world. Its land area is just slightly smaller than the U.S. and it occupies almost 50 percent of the continent. Brazil has a GDP of $782 billion (U.S.), with an economic growth rate of 3.5 percent in 2006, making it the 12th largest economy in the world, with its economy representing over one-half of the economic activity in South America. In 2006, U.S. exports to Brazil totaled $84.3 billion and Brazilian exports to the U.S. reached $141 billion, making the United States its largest trading partner. Productivity gains, particularly in agriculture, contributed to a surge in exports and record trade surpluses for Brazil. Additionally, Brazil is one of the top three destinations for foreign direct investment and offers a substantial market opportunity for U.S. exporters (*The World Factbook* 2006).

The economic reforms initiated by Brazil in 1994 with the Real Plan, have been highly successful in curbing runaway inflation and generating one of the world's largest privatization programs. The government has remained dedicated to fiscal responsibility, setting limits on government spending and establishing programs targeting inflation, which was only 5.7 percent in 2006. In 2003 President Lula also made major revisions in Brazil's tax and pension systems. Brazil's economic policy based on a floating exchange rate and tight fiscal policy has seen the Real appreciate 10 percent against the U.S. dollar in 2006 and twice that against the Euro (*Brazil Country Commercial Guide 2006*). The unemployment rate in 2006 was 11.5 percent, which is significantly higher than in the U.S., but significantly lower than in several European Union (EU) nations.

The Brazilian market is an attractive one for several reasons. In 2006 the GDP per capita, in purchasing power parity terms, was $8,711 (U.S.), which is a very respectable sum for a developing country, having increased 3.7 percent over the previous year. However, this figure can be misleading, since Brazil has one of the most unequal income distributions in the world. That is to say, there are millions of Brazilians who enjoy a disposable income much in excess of the average, but also masses of the very poor. However, 36 percent of the population is said to belong to the middle class, which means that 67.3 million Brazilian consumers are ready, willing and able to buy all types of consumer products. In fact, "to maintain a middle class lifestyle in Brazil today means having a computer, internet access, a cell phone, more sophisticated electronic equipment, like DVD players, and even imported wine" (Osava 2006). As for the upper class in Brazil, the top 10 percent in income control 31.7 percent of the total GDP of the country, so their lifestyles include multiple vehicles for personal use, as well as many luxury products (*The World Factbook* 2006).

Brazil is a marketer's dream in that 8 out of 10 Brazilians live in cities, with the vast majority of large cities (one-half million inhabitants or more) located on the coast, within easy access. The youthfulness of the market is also an attractive attribute, with 25.8 percent of the population under 14 years of age and a median age in Brazil of 28.2 years old. Brazilian consumers are technologically connected to the global marketplace, with the number of internet users approaching 30 million, a figure which is increasing every year. Brazil is the ninth largest internet market in the world and the largest in Latin America, with online purchasing on the rise. Not surprisingly, online advertising is projected to grow 109 percent annually (Rosenwald 2001). Brazil is also a huge market for cell phones, which by 2010 is expected to include 50 percent of adults. Thus, millions of Brazilians have the desire and ability to purchase consumer goods and are easy to access for product delivery or with promotional campaigns. However, to be successful, firms must take into account the local culture, which can be classified as a high-context culture (Hall 1976) where relationships and trust must be established before business is conducted and the main purpose of communication is interaction and relationship building, unlike low-context cultures such as the U.S. where information exchange is viewed as the main purpose of communication. Thus, in a high-context culture such as Brazil, business partners, suppliers or strategic alliances are often chosen based on personal relationships, not solely on price or quality. Firms wishing to penetrate the Brazilian market need to be cognizant of these cultural differences and adjust their strategies and ways of doing business accordingly.

RESEARCH OBJECTIVE AND HYPOTHESES

The research objective is to evaluate how cultural differences between manufacturer and distributor affect the generation of trust between the two parties. Although trust may form in a variety of ways, whether and how trust is established depends upon the societal norms and values that guide people's behavior and beliefs (Hofstede 1980) and the way cultures perceive and relate to their environment (Hall and Hall 1990). How then do cultural differences affect the trust which is typically necessary for long-term commitment and mutual satisfaction in a relationship? Because high-context cultures place great importance on interaction leading to trust and relationships, the following hypotheses are set forth:

H_1: The high-context party (Brazilian distributor) will prefer more frequent personal contact than will the low-context party (U.S. manufacturer)

H_2: The high-context party (Brazilian distributor) will prefer more personal forms of contact (visits and telephone calls rather than email and FAX) than will the low-context party (U.S. manufacturer).

H_3: Trust will be more important to the high-context party (Brazilian distributor) than to the low-context party (U.S. manufacturer).

H_4: Long-term commitment will be more important to the high-context party (Brazilian distributor) than to the low-context party (U.S. manufacturer).

The support for these hypotheses comes principally from the work done on trust and culture (Morgan and Hunt 1994; Gulati 1995: Doney, Cannon and Mullen 1998 and Ha, Karande, and Singhapakdi 2004). Much work has been conducted on the construct of trust, but mainly within the U.S. This study will begin to fill in the gap in the literature, in that it will examine if ideas concerning trust developed in U.S. are generalizable across countries, specifically between high and low context cultures, such as Brazil and the U.S.

METHODOLOGY

Sample

The sample for this study (N=162) was made up of 81 U.S. manufacturers who export to Brazil and 81 distributors in Brazil for U.S. firms. These two countries were selected because the U.S. is a low-context country as categorized by Hall (1976) and Brazil is a high-context country. Thus, this sample should highlight the influence of culture on the generation of trust within global supply chain relationships.

Procedure

Mail surveys were sent to 250 Fortune 500 companies listed as exporting to Brazil by the U.S. Department of Commerce. Mail surveys were sent to 250 distributors in Brazil listed by the Chamber of Commerce as distributors for U.S. firms. Before the mail surveys were sent, phone calls were made to each U.S. firm to ascertain the individual who dealt with the Brazilian distributor and to verify their name, title and address. At the same time, commitment to respond to the survey was solicited. In Brazil, phone calls were made to the firms to determine the individual's name, title, and address who acted as distributor for the U.S. manufacturers, with commitment to respond being solicited at the same time. All individuals receiving the survey were asked to return it using the stamped self-addressed envelope within three weeks. After one month's time, 81 usable responses had been received from U.S. manufacturers (response rate = 32.4 percent) and 40 responses had been received from Brazilian distributors (response rate = 16 percent). In an attempt to more evenly balance the sample, three more rounds of phone calls were made to the Brazilian distributors who had not responded. After one more month, 41 more responses were received, for an end response rate of 32.4 percent, which is considered a good response rate for a mail survey. The difference in time to respond in the U.S. and Brazil might be attributed to the speed of the mail service, but more likely was due to cultural differences. As mentioned previously, Brazil is considered a P-time country (Hall 1976), where punctuality is defined more liberally, and the U.S. is considered an M-time country, where punctuality and compliance with time deadlines are very important.

Measurement

The questionnaire was first developed in English and then translated into Portuguese by a bilingual student who is fluent in both English and Portuguese and a native of Brazil. The Portuguese version was then back-translated by the Brazilian researcher, who is fluent in both languages, as well as familiar with the subject content; this resulted in a few minor changes being made. To measure trust, seven measures based on the work of Morgan and Hunt (1994) were adapted to relate to the global supply chain scenario. These were measured on a seven-point Likert scale with 1 representing "strongly disagree" and 7 representing "strongly agree." The seven items used to measure personal contact reflected the frequency with which one would like to be contacted, as well as the preferred mode – i.e., telephone, FAX, visit, email; these items were also measured on the same seven-point Likert scale. The three items measuring long-term commitment came from the work of Ganesan (1994) with the same seven-point Likert scale being used.

ANALYSIS AND RESULTS

Reliability Checks

First, to measure reliability of the instrument, Cronbach alphas were calculated for all the scales used (see Table 1). The Cronbach alphas for long-term commitment were .71 for the U.S. sample and .76 for the Brazilian sample. The Cronbach alphas for trust were the best with those of the U.S. sample .91 and those of the Brazilian sample at .82. Cronbach alphas for personal contact were also good, .88 for the U.S. sample and .83 for the Brazilian sample. Overall, the reliability results were strong.

TABLE 1
Reliability Checks
Cronbach Alphas

Scale	Nationality	Cronbach Alpha
Personal Contact	U. S. Brazil	.83 .88
Trust	U. S. Brazil	.91 .82
Long-term Commitment	U. S. Brazil	.71 .76

Testing of Hypotheses

To perform the analysis in terms of the four hypotheses set forth, the respondents from the low-context country (U.S. manufacturers) were compared to the respondents from the high-context country (Brazilian distributors) in terms of the frequency with which they wanted to interact with their supply chain partner, the way in which they preferred to be contacted and the importance they placed on trust and long-term commitment within the supply chain relationship. T-tests were used to test for statistically significant differences between the two groups on the variables of interest (see Table 2). A p-value of .05 or less was considered statistically significant.

As can be seen in Table 2, the first hypothesis was surprisingly not supported; the high-context Brazilian distributors did not prefer more frequent personal contact than did the low-context U.S. manufacturers. The difference was statistically significant, but in the opposite direction from that expected. However, the second hypothesis was strongly supported at the .001 level with the high-context parties (Brazilian distributors) preferring more personal forms of contact such as visits and telephone calls rather than e-mails and FAXes. Trust was also statistically more important to the Brazilian distributors (high-context party) than it was to the U.S. manufacturers (low-context party), lending strong support to the third hypothesis. The last hypothesis was also supported with statistical differences being noted at the .001 level; long-term commitment was more important to the high-context parties (Brazilian distributors) than it was to the low-context parties (U.S. manufacturers).

DISCUSSION AND MANAGERIAL IMPLICATIONS

The importance for managers of correctly assessing the differences that may exist between the home and foreign market is crucial for the selection of the appropriate strategy in the foreign market (Sousa and Bradley 2006). This study, although limited in scope, may provide useful information to managers on the influence and importance of culture in the generation of trust in the supply chain relationship.

Our empirical findings that trust is more important to the high-context party, here the Brazilian distributor, lend further credence to the work of Hutchings and Weir (2006) who found through their work in China and the Middle East that no matter which high-context culture one deals with, relationships and trust are of the utmost importance. Managers of firms from low-context countries, such as the United States, need to keep this principle foremost in their thoughts when attempting to develop and maintain their global supply chain relationships. Liang and Parkhe (1997) describe trust as an "order qualifier" in high-context countries; without trust, price and delivery time are irrelevant. Thus, Corning Glass learned this lesson the hard way when its alliance with Vitro came to an end. Even though this alliance was financially successful, it dissolved due to a lack of trust (Arino, de la Torre and Ring 2001). Thus, the most important action to be taken in building successful alliances is to foster and nurture a sense of trust. How then can managers foster this sense of trust in supply chain relationships?

A major finding of this study was that distributors in Brazil preferred more personal forms of contact such as telephone calls and visits. In today's technological world, email and FAXes have made communication worldwide more convenient by easily crossing time zones and cutting costs of communication, but managers in low-context countries need to constantly remind themselves of the need to add more personal types of interaction from time to time, especially when dealing with parties from high-context countries.

To bring the high-context party, the Brazilian distributor, to the United States for a visit to the home office would be an excellent idea. Status is very important in high-context countries (Hall 1976); hence, this would demonstrate the importance of the relationship not only to the distributor, but also to his colleagues in Brazil, thus elevating his status and increasing his desire to do a good job and make the supply chain relationship a successful one. Social Exchange Theory would also say that this would be true in that the distributor receiving a valued contribution develops a feeling of obligation and reciprocates with appropriate attitudinal and behavioral responses (Griffith, Harvey and Lusch 2006). The findings of this study further validate the work of Monczka et al. (1998) on supply chain relationships in that they found that bilateral communication was more important in fostering relationships than formal commitments of time and money.

A surprising, and hard to explain, finding in this study was that the high-context party, the Brazilian distributors, did not place more

TABLE 2
Hypotheses Testing
T-Tests

Variable	N	Mean	T-value	DF	P-value
Personal contact (Frequency)	81 Br 81US	2.877 3.161	-2.75	162	.007*
Personal contact (Mode)	81 Br 81 US	2.988 2.470	4.23	162	.000*
Trust	81 BR 81 US	6.469 5.916	5.70	162	.000*
Long-term commitment	81Br 81US	6.531 5.988	4.91	162	.000*

* Statistically significant at the .05 level.

importance on frequent contact than did the low-context party, the U.S. manufacturers. In fact, the exact opposite was true. To gain understanding of why this was true, one of the researchers did six in-depth telephone interviews with Brazilian distributors. The common thread running through those telephone interviews was that perhaps the distributors thought that increased contact from the U.S. manufacturers signaled to the distributors that the manufacturers were "checking up" on them, since low-context cultures typically use interaction for information exchange, while high-context cultures view interaction as a means to build relationships.

Another finding of this study was that the high-context party, the Brazilian distributor, viewed long-term commitment as more important than the low-context U.S. manufacturers did. While not surprising based on the differences in the cultures, it reinforces the importance of U.S. firms taking actions which demonstrate this long-term commitment to ensure more successful relationships. In developing countries, the U.S. manufacturer might help distributors with financing, which is often very costly and hard to obtain in those markets, as a gesture of commitment to the relationship. Another desired action would be to work on building trust in the relationship, since trust plays a key role in fostering long-term commitment in supply chain relationships (Chu and Fang 2006). The importance of fostering a sense of long-term commitment on the part of U.S. firms is that it has been shown to increase satisfaction and performance on the part of distributors (Griffith, Harvey and Lusch 2006; Carr and Pearson 1999).

CONCLUSION

"Global supply chains have taken hold with a vengeance, fueled by stringent bottom line imperatives and top line growth mandates" (Smyrlis 2004, p. 4). As more manufacturers locate at least part of their operations overseas, and as importers source from a greater variety of countries, while exporters expand their reach into more new markets, the most important challenge to be met will be to understand and appreciate the often subtle cultural differences which can impact a working relationship. The findings of this study have demonstrated the possible value of considering and understanding the influence and importance of culture on trust within the supply chain relationship. Based on the results, it is recommended that firms place a premium on trust and explore how to generate it in each new market they attempt to enter. Manufacturers need to consider that trust and long-term commitment are very important in high-context cultures, which include most developing markets in the world, and that more personal forms of contact such as telephone calls and visits need to be made from time to time to maintain the relationship, which is all important to the success of the firm.

These recommendations are set forth, of course, with the caveat as to the limitations of the sample, which involved only one low-context country, the U.S. and one high-context country, Brazil. Nonetheless, it is thought that the results of this study will potentially give manufacturers useful information in how to create and maintain successful global supply chain relationships. Furthermore, "supply management professionals today can't afford not to develop cross-cultural skills – whether or not they actually travel internationally" (McGinnis 2005, p. 9). In order to reduce cycle times between supply chain entities, managers need to create new relational forms that rely on trust to a greater extent (Handfield and Bechtel 2002). Effective management of the global supply chain, realizing the paramount role of trust in that relationship, will have a direct and positive effect on the firm's competitive advantage in the marketplace (Hult et al. 2000).

Suggestions for future research might include extending the study geographically and numerically. Similar studies could be conducted in other countries in Latin America, as well as in other areas which are known to be high-context, such as Asia and the Middle East, with the manufacturers based in other low-context countries, such as Germany or the U.K. Extending the research in this manner would provide a more complete picture of the impact culture has on trust in the supply chain relationship.

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