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RELATIONSHIP BUILDING IN CROSS-CULTURAL BUSINESS-TO-BUSINESS CONTEXT

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CONTENTS

1 INTRODUCTION

1.1 Introduction to the topic

During the past decades, international trade of goods and services has been growing fast. Development of export trade has been highly regarded by both corporations and governments, due to its significant macroeconomic and microeconomic benefits (Leonidou & Katsikeas, 1996). In the globalizing business-to-business market, understanding cultural differences is essential. When building customer relationships across national borders, the possibility of cultural conflicts and misunderstandings is substantial and many factors must be taken into consideration.

The term business-to-business (B2B) refers to exchange of goods or services between companies, whereas business-to-customer (B2C) means selling goods and services to the final consumers. The importance of long-lasting customer relationships is emphasized in B2B market as money and other resources spent on the purchase process are in general significantly higher than in B2C market. Customer loyalty is generally seen as an important goal in both B2B and B2C relationship management but in B2B market the importance of individual customers is emphasized. High customer loyalty can improve a company's performance significantly by increasing revenue, reducing customer acquisition costs and lowering costs of serving repeat purchases. These improvements will lead to greater profitability. (Lam, Shankar, Erramilli, & Murthy, 2004) Therefore, the importance of relationship quality cannot be questioned. Needless to say, the core products and/or services that the company offers, must satisfy the customer. In other words, a history of successful exchanges must exist before partners will be willing to move toward closer collaborations (Akrout, 2014). But that's another story. In this research, we will focus on the relational side of the customer relationship. Namely, no matter how good the offering is – the quality of the customer relationship has a strong influence for switching intention of the customer (Caruana, 2004).

1.2 Overview of previous research

Previous researches have studied business relations, cross-cultural communication and the concept of cultural distance from a variety of perspectives. Although there's plenty of previous research concerning relationship quality, only a small part of them take the international perspective into consideration (Ural, 2009). Then again, there's plenty of research concerning international business but only a minority of them study the effects of cultural differences on relationship quality. Also, many of the researches concerning cross-national customer relationships are focused on B2C marketing, whereas this study focuses on B2B. Switching costs are studied quite a lot through many perspectives and the categorization varies. In this research, we chose two ways to categorize the switching costs; according to the perceived costs of customers and according to their effect on actual switching intention.

Hofstede presented five cultural dimensions in his well-known research *Cultures and organizations: Software of the mind* (1991). These dimensions are still very useful when categorizing differences between national cultures in today's world. Another significant study, that many studies have thereafter built on, was Edward Hall's multinational research of high- and low context cultures; *Beyond Culture* (1989). The study explains communication difficulties between countries by dividing national cultures into high context (HC) and low context (LC) communication cultures. A big part of the researches used as references in this thesis refer to these two researches. Therefore, reflections of them can be seen throughout the text, at least as underlying ideas.

The world is globalizing fast and thus researches concerning international business may partly get old as the years and decades pass. For instance, mobile phones, e-commerce and other internet-based services are obviously missing from any research done before the 1990's. Although, when studying human behavior, culture, and communication under the surface, it can be noticed that on deeper level many things have stayed unchanged. Therefore, in this thesis the reference researches date even back to the 1970's, because for the most part they are still completely topical. Obviously new research is essential, because in the rapidly changing world, up-to-date information is needed as well. Thus, in this research, the goal was to find a balanced mix of both newer studies with up-to-date information and older studies that the newer studies are more or less based on.

1.3 Research question and objectives

Research questions of this thesis are the following:

- *What are the key elements of exchange relationship quality?*
- *In which ways does cultural distance affect cross-cultural exchange relationship strength?*

This study will seek to combine the elements of cross-cultural relationship quality by first studying the key elements of relationship quality and then combining these findings to the cross-cultural context. The objective of this study is to find out the key elements of relationship quality and the challenges caused by cultural differences as well as to build a comprehensive picture of cross-national business relationships.

1.4 Research methods

This study uses a qualitative research methodology and the research is conducted as a review of existing literature. There's a wide variety of literature concerning the topics of this thesis – business-to-business marketing, relationship building, switching costs and cross-cultural communication. This study seeks to find links between these subjects by means of combining the key findings in previous researches concerning these topics. The elements of cross-cultural relationship building are first studied separately and the findings are then linked to form a foundation for theoretical conclusions and managerial implications.

1.5 Structure of the study

The introduction part begins with an introduction to the topic. After that the current state of research is analyzed and the research questions and research methods are presented. The second chapter discusses the significance of relationship quality and key elements of building strong exchange relationships. In the third chapter, we define and categorize switching costs and analyze their effects on relationship strength. In the fourth chapter the previous findings are applied to the special context of cross-cultural exchange relationship and elements of culture as well their effects on exchange relationships are analyzed. In the fifth chapter the theoretical conclusions and managerial implications are drawn based on the findings of the previous chapters.

2 RELATIONSHIP QUALITY AS A SUCCESS FACTOR

Exchange relationships are in many ways like human relationships. We want to strengthen and nurture the most important relationships in our lives and the more significant we think the relationship is, the more we are willing to invest in it. Companies use largely the same logic when building relationships with other companies. When a relationship is of high quality and mutually beneficial, both sides are willing to strengthen and maintain it. Also, as is in interpersonal relationships, trust and commitment create a lasting foundation, whereas lack of them can lead to weakening and even termination of the relationship. In this chapter, we will take a closer look at the key elements of exchange relationship quality.

2.1 Significance of relationship quality

Customer loyalty and strong, long-term customer relationships are a priority to most supplier companies (Barroso & Picón, 2011). Relationship quality can be seen as one of the most important non-price competition instruments (Ural, 2009) and a key element in creating competitive advantage as it enables relationships to last and grow. According to Ural (2009), relationship quality ”reflects the intensity of information sharing, communication quality, long-term orientation and satisfaction with the relationship between exporter and importer”. As relationship quality is a reflection of the overall state of the relationship, it supposedly has a strong, positive correlation with the strength of the relationship. Sometimes sellers fail to understand the significance of relationship quality for commitment (Dwyer, Schurr, & Oh, 1987), which often leads to higher customer acquisition costs and problems in customer retention. There are many reasons to believe that strong relationships can increase profitability of a company in addition to many other positive effects. Hewett, Money and Sharma (2002) argue, that buyers' perception of relationship quality with the seller company affects their buying intentions positively. This finding indicates that building strong, high-quality relationships with customers, can lead to higher profitability.

Buyer-seller relationships in B2B context are special in many ways in comparison to B2C market. The purchasing process is significantly more complex and amounts invested are higher in B2B market (Blut, Evanschitzky, Backhaus, Rudd, & Marck, 2016). For these reasons, choosing a good and reliable supplier is of great importance. Therefore, building a strong, long term relationship is essential for both supplier companies and buyer companies. Zeng, Wen and Yen (2003) emphasize the importance of integrating customer relationship management (CRM) to business-to-business (B2B). They predict that the increasing globalization of business-to-business market will further grow the importance of this integration. Zeng et al. (2003) predict, that in the future integrated ”B2B-CRM” will be an increasingly important tool in accessing the global market and improving cross-cultural customer relationships. Now, 14 years later, this prediction has to some extent already been proven to be true. To conclude, if a company wants to be successful in today’s world, especially in business-to-business market, relationship management must be one of the top priorities.

2.2 Trust and commitment

Buyers are likely to purchase from companies that they trust and are committed to (Hewett et al., 2002). Satisfied and trusting customers are more likely to form a strong, long-term relationship with the supplier. There are plenty of definitions for the term *commitment* in the business context. Morgan and Hunt (1994) define relationship commitment as a belief of an exchange partner that the ongoing relationship with another company is so important and beneficial that it is worth maximum efforts to maintain it. Dwyer et al. (1987) define commitment as ”the highest stage of relational bonding”. Even though the definitions of commitment vary, they generally share the same element – there’s no commitment without a strong relationship. The other central element is trust. Morgan and Hunt (1994) emphasize the impact that trust has on commitment. They argue that commitment entails vulnerability and therefore companies require trustworthiness from their exchange partners. Especially in B2B-context, one of the main factors affecting the supplier choice is trust, and lack of it can break relationships or prevent them from coming into existence in the first place.

The existence of trust and commitment doesn’t only encourage the customer company to stay in the relationship but also drives success and efficiency of the buyer company in other ways. Morgan and Hunt (1994) present three organizational benefits caused by presence of trust and commitment in a relationship. First of all, trust and commitment encourage supplier companies to cooperate with their exchange partners in order to improve the relationship. The second benefit is, that supplier companies will prefer long-term exchange relationships rather than short-term ones, even if the short-term alternatives might seem attractive. The third benefit is, that the supplier companies consider high-risk actions to be prudent in case their exchange partners will not act opportunistically. These assumed benefits lead to a conclusion that the existence of trust and commitment in the exchange relationship leads to better performance of supplier companies and therefore drives success and efficiency. (Morgan & Hunt, 1994) It’s hard to disagree with the argument that trust and commitment include a wide range of benefits for both the buyer and the supplier companies. As we will rationalize in the following chapters, relationship quality and strength form an essential foundation for trust and commitment.

2.3 From acquisition to retention

Focusing on existing customers can drive profitability of the company. This suggestion is based on an assumption that customer satisfaction leads to higher customer retention, lower costs and therefore higher revenue. The basic argument is, that the cost of retaining an existing customer is lower than the cost of acquiring a new one. Most companies underestimate the importance of customer retention during initial growth of the customer base and overemphasize the significance of acquisition. (Storbacka, Strandvik and Grönroos, 1994) The problem is, that temporal perspective and the life cycle stage of the company are not always taken into consideration. However, these factors should be a priority when designing a customer acquisition and retention strategy. The strategy should always be adjusted to the size of the customer base. Acquisition and retention are costly activities for a company and should therefore be optimized. (King, Chao and Duenuyas, 2016)

Customer base generally evolves as the company moves towards new life cycle stages. King et al. (2016) suggest that during the exploration phase, when the customer base is low, the company should invest to and focus on customer acquisition. At this stage of the relationship, economic logic is a main factor in the customer's decision making (Akrout, 2014). During the expansion phase, as the company and its customer base grow, the firm should focus more on customer retention. Customer acquisition is still important and therefore a firm-specific balance between acquisition and retention must be found. (King et al. 2016) In this phase of the relationship, the customer starts to give more emphasize on cognitive aspects (Akrout, 2014). In the maintenance phase, the customer base is large. At this point, the company should start to invest less on both acquisition and retention. (King et al. 2016) In the maintenance phase, relationship quality, including affective and emotional factors as well as cultural sensitivity, has a key role (Akrout, 2014). To conclude, when the strategic planning is done considering the temporal perspective amongst of all the other aspects, the company can invest in the customer relationships efficiently, maximizing the relationship strength and minimizing unnecessary costs.

However, as is in human relationships, the timing and strategy of relationship building should always be tailor-made for each company, customer and situation. Also, every company should seek to find an optimal balance between customer acquisition and retention in different life cycle stages. There's no straightforward recipe for relationship quality but in the following chapters we will seek to find some ingredients.

3 THE EFFECTS OF SWITCHING COSTS

Switching costs can function as a strengthening element in a relationship. The logic behind is, that the higher the switching costs, the less likely the customer is to switch the supplier. However, the reality is not so simple. There are different types of switching costs, some of which may have negative consequences. The important question to answer is, how customers see the switching costs – as an encouragement or as a limitation.

3.1 Categorizing switching costs

The influence that relationship quality has on relationship strength, is further mediated by switching costs. Switching costs are the costs that prevent the customer from switching the supplier and as such, they can be seen as one of the key elements of building competitive advantage. (Caruana, 2004) Switching costs can be divided to three categories; procedural switching costs, social switching costs and lost benefits costs (Jones, Reynolds, Mothersbaugh, & Beatty, 2007). High switching costs may often be considered positive because of their effect on customer retention. However, they can be further divided to negative and positive switching costs, depending on the effects they are expected to have on customer loyalty and satisfaction (Blut et al., 2016; Barroso & Picón, 2012; Jones et al., 2007). Not all the switching costs lead to positive outcomes even if they made the customers stay.

When a customer is satisfied with the supplier, it’s likely that maintaining the current relationship is of the customer’s best interest. Dwyer et al. (1987) suggest that if the switching costs perceived by the buyer are high, it can rise the buyer’s willingness to maintain a strong relationship with the supplier. In the case of a satisfied buyer company, that is already willing to maintain the relationship with its current supplier, switching costs can be considered as a strengthening element in a relationship. However, switching costs can be high even if the customer is not satisfied. In this case, the buyer stays in the relationship because switching the supplier would get very costly because of the high switching costs. Suppliers and buyers are bound by not only loyalty but also switching barriers and a compelling need to continue the relationship (Barry, Dion, & Johnson, 2008). In the case of a dissatisfied customer, high switching costs may turn out to lead to negative consequences for both the buyer and the supplier. Whereas dissatisfied buyers would switch the provider in a situation of low switching costs, they are stuck with the current supplier if the high switching costs are high. Thus, high switching costs cannot be seen to have intrinsic value but must always be estimated by the effects.

Because of the multidimensional nature of switching costs, the actual switching costs can be difficult to measure precisely. Therefore, when the term switching cost is used in researches, it usually refers to the costs of switching perceived by the customer. Based on the work of Burnham, Frels & Mahajan (2003), Jones et al. (2007) divide switching costs into three categories according to the perceived costs of customers. These categories are procedural, social and lost benefits costs. Procedural switching costs refer to the time, effort, and inconvenience that the switching process causes to the customer. Social switching costs refer to the potential loss of personal relationships that a customer company has developed with a supplier company and its employees. These kinds of switching costs are harder to estimate precisely because they involve emotional and psychological aspects, such as discomfort caused by breaking a bond (Burnham et al., 2003). The third class categorized by Jones et al. (2007) is the lost benefits costs. They reflect the special discounts and unique benefits that the costumer loses if decides to switch to another supplier company.

All types of switching costs must be paid attention to, but in this research, we are especially interested in the social switching costs and their effects. When two companies are building a relationship, interpersonal bonding is always included. In a long-term exchange relationship, interpersonal relationships grow as well. In a buyer-seller relationship, the buyer company may be very comfortable with working with the familiar employees of the seller company, and when changing the supplier, all the interpersonal relationships end as well. Not only does this create practical challenges when having to start everything over with new people that aren't familiar with specific needs of the buyer company (Burnham et al., 2003), but the termination of interpersonal relationships can be upsetting as well. As we will see in the next chapter, whereas raising procedural switching costs can create an uncomfortable situation for the customer, social switching costs are different. Building a strong relationship can be seen to have many positive consequences - both for the customer and the supplier.

3.2 Effects on customer loyalty

Social and lost benefits costs can be considered as positive switching costs (Blut et al., 2016, Barroso & Picón, 2012, Jones et al., 2007), because the existence of these kind of costs can increase customers' satisfaction and encourage them to build a long-term relationship with the supplier instead of switching to a new one. Jones et al. (2007) state, that both social switching costs and lost benefits costs are associated with loyalty and commitment. The positive switching costs are derived from positive losses that add value to the customer (Barroso & Picón, 2012). So, the more satisfied the customer is with the current supplier company, the higher are the positive switching costs. The more valuable and unique the customer considers the current services, the bigger are the lost benefits if the customer switches to another supplier. As said in the previous chapter, termination of an exchange relationship can cause both practical and emotional losses. It can be reasoned that as in interpersonal relationships, the quality of a relationship reflects the perceived cost of ending it. If a relationship is weak and has not been nurtured, the customer probably doesn't see termination of the relationship as a big loss. On the contrary, when investing in the relationship and building it strong, it can be supposed that the customer sees social switching costs high. (Jones et al., 2007)

In contrast, procedural switching costs can be seen as ”negative switching costs” (Barroso & Picón, 2012; Jones et al., 2007) as they don't increase the customers' satisfaction but on the contrary create barriers that make it difficult and expensive for customers to change the supplier. As positive switching costs encourage the customers to maintain a relationship with their current supplier by choice, negative switching costs force the buyers to stay in the relationship even if they're not satisfied. They are therefore staying in the relationship unwillingly and may even bad-mouth the provider in the unpleasant situation. (Lam et al., 2004) This may result as a bad reputation and difficulties for the supplier company in customer acquisition so that finally both the buyer and the supplier face losses. Thus, negative switching costs cannot be seen as an objective, even though they may lead to customer retention. Barroso and Picón (2012) conclude that identifying and analyzing the influences of different types of switching costs allows the marketing manager to manage each of them independently, as well as to estimate their joint effect on other factors that affect relationship quality, such as loyalty and commitment.

However, it must be pointed out, that the effects that certain types of switching costs have on customer loyalty, vary across industries due to variation in factors such as contact levels, physically linked assets and solicitation methods (Burnham et al., 2003). Barrosó & Picon (2012) observe, that there may also be variation between firms or even between individuals. Therefore, the findings about the effects of switching costs may not be fully comparable between researches as the industries and firms studied are different. And when building a relationship, the switching costs and their effects should always be estimated from the viewpoint of each individual customer.

4 A GLOBAL PERSPECTIVE ON RELATIONSHIP MANAGEMENT

In today's globalizing world, the question of internationalization is accurate for an increasing number of companies. Export is one of the key elements of creating competitive advantage as it can improve company's financial position, performance and capacity utilization as well as rise technological standards (Leonidou & Katsikeas, 1996). Expanding abroad is now easier than ever before but still includes many challenges. Cultural differences exist inside nations and even inside companies, but the most dramatic ones are often faced when crossing the national borders. In the previous chapters, we have discussed many important elements of exchange relationship building. These elements are just as important when building cross-cultural relationships, but now we must add a new element to the mix – the influence of national cultures.

4.1 Cultural distance as a challenge

In cross-national business-to-business relationships distance is not only geographical. When building international business relationships, there is one very important thing to consider – cultural distance. (Rosenbloom & Larsen, 2001) The nature of culture is very profound. Culture touches and alters all aspects of life – the way people think, how they act in certain situations, how they show their emotions, how their personalities are formed, and how the governmental and political systems are built. Culture also has a significant impact on how written and unwritten rules are formed in the nation. (Hall, 1989, p.16) In today's globalizing world, cultural sensitivity is more important than ever before – especially when considering the comprehensive nature of culture. In cross-cultural context, the exchange relationships are remarkably more affected by dissimilar cultural, economic and other environmental factors than in the domestic market (Ural, 2009).

A level of uncertainty is high in the global market when comparing to the domestic market (Leonidou & Katsikeas, 1996). The importance of strong and long lasting relationships grows when the environment is uncertain. Therefore, the quality of cross-national exchange relationships is very significant. When communicating between different nations and cultures, the danger of cultural conflicts and misunderstandings always exists. In comparison to domestic exchanges, the danger of conflicts is more likely because of divergent goals and cross-cultural differences (Akrout, 2014). Therefore, when wanting to build a long-lasting partnership, it is essential for both supplier and buyer to take the influence of national cultures and their differences into account (Terawatanavong & Quazi, 2006). When operating across the borders, cultural differences can cause remarkable challenges for communication. Vaaland, Haugland and Purchase (2004) mention the cultural distance between buyer and seller as one significant predisposing factor of relationship dissolution. In other words, acknowledging the cultural distance since the beginning of cross-cultural collaboration, can help to prevent conflicts and weakening of the relationship. Understanding and acknowledging these differences forms a base for strong and long lasting cross-national relationships.

4.2 Cross-cultural communication

Exchange partners face plenty of challenges when they transact internationally (Akrout, 2014). One of the most remarkable challenges is communication. In today's world, English has a strong position as the *lingua franca*, international language. Especially in global business world people are generally expected to speak English at least satisfactorily. However, when not speaking one's maternal language, there's a good chance to misunderstand or to be misunderstood, even for fluent speakers. Fine tones in the meanings of words can be challenging when it comes to a foreign language. The problem of not having the same native language cannot be removed, but instead, even more attention should be paid to other cultural differences in communication.

One function of culture is to act as a selective screen between man and the world. Culture forms a filter that helps us to pay attention to certain things and ignore certain things. With help of this filter, information overload can be avoided. (Hall, 1989, p. 85) The cultural filter can also cause challenges when communicating across cultures as the filter is different in every country. Hall divides native cultures into high-context (HC) and low-context (LC) cultures in his book *Beyond culture* (1989). In HC communication, most of the information is not in the coded, explicit part of the message but included in the physical context or internalized in people (Hall, 1989, p. 91). Decoding this kind of communication demands deep knowledge of the culture – *contexting*. To communicate effectively with someone from another culture, the person must be able to "decode" the message properly. Otherwise, people with cultural distance between them, may see or hear the same message but screen that message very differently according to their own cultural norms. This can lead to unconsciously ignoring or increasing the importance of various parts of the message. (Rosenbloom & Larsen, 2001)

Small gestures or a few words can convey a lot of information when the codes are commonly known. As an example of contexting, Hall uses a couple that has been married for thirty-five years. One word, a change of position or a quick glance can convey a huge amount of information when the couple has spent most of their lives learning to read these codes. (Hall, 1989, p. 86) This "pre-programming" is what HC communication is based on. Most Asian cultures are HC cultures. The Chinese language is a good reflection of this – Small changes of tone can include deep meanings and intonation can change the meaning of words completely. The written language is not easier – meanings of the 214 radicals must be known profoundly to be able to understand the written Chinese. (Hall, 1989, p. 91-92) People within the same lingual and cultural framework can understand these codes because they have been raised to decode them. This applies to other HC codes as well.

On the other end of the high-low context continuum are the western cultures. According to Hall, the Scandinavian cultures are on the bottom of this continuum, needing very little contexting in everyday life (Hall, 1989, p. 91). Hall describes LC communication so that most of the information is included in the explicit code – the written and spoken language. Understanding LC communication demands very little reading "between the lines" because most of the information is "in the lines". Usunier and Roulin (2010) bring up the digital communication issues as a challenge of intercultural business communication. One problem they mention is, that corporate web site messages may often be coded in a LC communication style and then decoded by HC communication receivers, or vice versa. In most cases, it's supposedly easier for people coming from HC communication cultures to decode LC communication messages. This is for the reasons mentioned before – understanding low context messages demands very little reading between the lines, whereas understanding HC messages profoundly can be very difficult for people that have no cultural knowledge required to decode the HC messages. This challenge can be implied to many situations when communicating across cultures either in written or spoken language.

Usunier and Roulin (2010) divide Hall's conceptualization further, to low/medium, medium, and medium/high as intermediate categories. They criticized Hall for making low- and high context categorization a purely dichotomous divide. Although, it must be taken into consideration that also Hall was talking about a continuum between these extreme ends. It may be easier to recognize the location of different cultures on this continuum if the extreme ends are made clear first. When bringing the question of cross-cultural communication to the relationship management context, the differences between LC and HC communication styles cannot be ignored. Companies coming from HC cultures should pay attention to the fact that the employees of a partner company coming from more of a LC culture, are possibly not able to decode HC messages. Also, people from a LC culture should notice the effect of HC communication style to the messages, and if it's necessary in order to understand the message, they should gain some information about the culture in question.

4.3 Dimensions of culture

Geert Hofstede studied culture through five dimensions in his study *Cultures and organizations: Software of the mind* (1991). He did a survey about the values of people in over 50 countries around the world. The study showed clear differences between national cultures. Hofstede defines the term dimension as "an aspect of culture that can be measured relative to other cultures". In this original research Hofstede used four dimensions to categorize the differences between national cultures - *power distance, individualism versus collectivism, masculinity versus femininity* and *uncertainty avoidance.* Afterwards Hofstede did a smaller study, where he added the fifth dimension - *long versus short-term orientation.* This research contains less data but still shows interesting, country-specific differences. In 2010, Hofstede did a further research, where he added the sixth dimension, *indulgence vs. restraint*. This dimension is not studied in this thesis.

Before analyzing the dimensions, it must be pointed out that the dimensions are continuums and between the highest and lowest scores there is a wide range of results. For the sake of clarity, the dimensions are described through extreme examples in this research. Needless to say, there is also cultural variation within nations. However, when studying the cultural dimensions, we focus on the country-specific differences, just as Hofstede did.

4.3.1 Power distance

Power distance index (PDI) reflects the way people handle the fact that people are unequal (Hofstede, 1991, p. 24). In small power distance countries the interdependence between boss and subordinate is limited. The emotional distance between them is relatively small, which means, that subordinates can approach and contradict their bosses quite easily. These countries have the biggest score on PDI index. On the contrary, subordinates are unlikely to approach their bosses directly in large power distance countries. These countries have low PDI scores. (Hofstede, 1991, p. 27-28) Not understanding national differences in this dimension can cause problems when building business relationships across cultures. A culturally sensitive seller helps strengthen emotional ties, promotes the formation of a strong relationship, and facilitates communication processes with foreign customers by respecting aspects like power distance (Akrout, 2014).

Let’s take an example of two countries – Finland and Mexico. According to the results of Hall’s research, PDI score of Finland is very low whereas in Mexico the power distance is large (Hofstede, 1991, p. 26). In negotiations and enterprise visits, it must be borne in mind that in large power distance countries titles matter a lot and people with different titles are often treated differently because of the hierarchical system. In Finland bosses often say things like “If you have questions or suggestions, my door is always open”. By contrast, in Mexico, if a 20-year old trainee opened the boss’s door to make direct suggestions for improvement, it would quite probably be considered rude and against the etiquette as subordinates and superiors are not considered equal. This is something that both the employees and bosses agree on in the hierarchical system, where inequality of roles is established for convenience (Hofstede, 1991, p. 36). The managers must remember this difference as well. If a

Finnish manager told Mexican employees with lower titles to come and talk straight to him or her, it probably wouldn't happen. Instead, the manager should adjust to the local ways of communication. Then again, if a Mexican manager acted disrespectfully towards his or her Finnish colleagues with "lower" titles, it would for sure have negative consequences. When building exchange relationships between countries with very different PDI scores, the power distance of the other culture must always be taken into consideration to avoid conflicts and uncomfortable situations.

4.3.2 Individualism versus collectivism

The second dimension measures collectivism and individualism in societies. It is measured with individualism index (IDV), on which the most individualist countries get the lowest score. In an individualist society, the ties between individuals are loose and people are expected to only look after themselves and their closest family. On the contrary, in a collectivist society people are integrated into strong, cohesive groups, which they are loyal to. The groups also protect the people that belong in them. (Hofstede, 1991, p. 51) Hofstede emphasizes, that the level of individualism, as well as the other dimensions to some degree, varies both within countries and between them. However, clear differences between nations can be found. There seems to be a negative correlation between PDI and IDV – the small power distance countries are likely to be more individualist and vice versa. (Hofstede, 1991, p. 54)

In business world, the country-specific differences have clear consequences. In an individualist culture employees are more likely to act according to their own interest, which affects the way work is organized in the enterprises. In contrast, in collectivist cultures employees are expected to act according to the common interest of the group, even if it doesn't go along with his or her own interest. This difference must be taken into consideration when doing business across cultures, as people coming from an individualist country may act in a way that is not expected in a collectivist culture and vice versa. First of all, the way the organization is seen is different. In collectivist cultures, the organization is seen as an emotional ingroup. A relationship between colleagues is seen in moral terms and when choosing employees, their suitability to the group plays an important role. On the contrary, in individualist cultures, the relationships between colleagues in the working environment are seen mostly as professional and what matters the most, is the performance of individuals. (Hofstede, 1991, p. 63)

The importance of strong relationships and trust is generally more important in collectivist cultures, whereas in individualist cultures buyers are more independent and personal ties with their suppliers are loose (Barry, Dion & Johnson, 2008). When it comes to switching costs, we can conclude that in highly collectivist cultures relational switching costs are in general higher than in individualist cultures. This is due to the fact, that in individualist countries the significance of strong, interpersonal relationships in business context is weaker than in collectivist cultures. Therefore, building strong, interpersonal relationships has supposedly more significance in collectivist than in individualist cultures.

4.3.3 Masculinity versus femininity

This is the only one of the five dimensions on which the men and women scored consistently differently in Hall's research. The only exception were the countries in the extreme feminine end of the masculinity-femininity continuum. (Hofstede, 1991, p. 82) In this dimension masculinity of a culture refers to distinct social gender roles. For example, assertiveness, toughness and focus on material success are considered as masculine traits whereas femininity refers to modesty, tenderness and being concerned with the quality of life. For instance, the USA is at the extreme end of the masculinity scales, whereas Asian, Latin American, Middle Eastern and Southern European cultures are feminine cultures (Barry, Dion, & Johnson, 2008). Again, we can conclude that these differences effect perceived switching costs. Supposedly, in a masculine culture the importance of financial and procedural switching costs is emphasized, as focus is more on material success than in relational aspects.

One important thing to consider when building international business relationships, is variation in the ways of solving conflicts. In feminine cultures, the conflicts are generally solved by compromise and negotiation, whereas in masculine cultures more hard words and arguments may occur in times of trouble (Hofstede, 1991, p. 92-93). Thus, especially in international negotiations, this dimension should be paid attention to. Also, the values of individuals are an important element when aiming to build a strong exchange relationship. This is because the business relationships are after all formed between people. Barry et al. (2008) suggest, that femininity and collectivism in a culture positively moderate the influence that relationship quality has on relationship strength. They also remark that national individualism and masculinity positively moderate the influence that perceived value has on relationship strength. These findings indicate the difference between ”soft” values of feminine cultures and ”tough” values of masculine cultures.

4.3.4 Uncertainty avoidance

Uncertainty avoidance index (UAI) score measures the extent to which people feel threatened by uncertain or unknown situations. This feeling correlates with a need for written and unwritten rules, or in other words, a need for predictability. (Hofstede, 1991, p. 113) Predicting and controlling the future through laws and rules generally plays an important role in companies. Again, it’s important to consider differences in this dimension when doing business across borders. Namely, in uncertainty avoiding countries it is very important to control the rights and duties of each individual through formal and informal rules. In a society like this people have been raised in a structured environment and that’s where they are comfortable in. (Hofstede, 1991, p. 120-121) If someone coming from a country with low UAI score does business with people from a high uncertainty avoidance background, and gives them freedom to do things “as they want”, it might be considered difficult and uncomfortable by uncertainty avoiding people. In a culture like this, making some ground rules and probably also more specific ones might be the most effective way to get things done.

Let’s have a look at switching costs again. It can be supposed that in a high uncertainty avoiding country, customers find it very important to have a strong and predictable long-term relationship with the supplier. In contrast, in low uncertainty avoiding countries this might not be seen as such an important factor as uncertainty is not seen as a necessarily bad thing. Thus, it can be assumed that switching costs overall are higher in countries with high UAI score, because switching the supplier means unpredictable future and risks, the effects of which, cannot be estimated precisely. On the contrary, in low uncertainty avoiding countries, overall switching costs are supposedly lower, because uncertainty, that switching the supplier brings, may not be seen as a threat but more as an opportunity.

4.3.5 Long-term orientation versus short-term orientation

Long-term orientation vs. short-term orientation (LTO) measures the tendency of people to be past or future oriented (Hofstede, 1991, p. 164). Long-term orientation is connected to innovativeness and openness to new technology, whereas short-term oriented countries consider traditions and rituals very important. In short-term orientated cultures, people are willing to respect social and status obligations regardless of cost, whereas in long-term orientated cultures they are respected but only within limits. One important thing to consider when doing business is, that in short-term oriented countries results are expected quickly. Also, amounts saved and invested are in general relatively small. By contrast, in long-term oriented countries investment and capital structure decisions are generally made considering the benefits in a long run. (Hofstede, 1991, p. 173)

This difference can cause challenges in international business partnerships, if the companies come from cultures with very different LTO scores. The first challenge is the different orientation in investment decisions and expected results. When seeking a common understanding regarding the profitability of investments, the effect of this dimension must be taken into consideration. For instance, a buyer coming from a short-term oriented culture, may see profitability very differently than a buyer with a long-term oriented cultural background. When noticing this difference, the seller can adjust both the offering and negotiation tactics to suit the needs and expectations of the buyer. For instance, short-term profits should supposedly be emphasized more to the short-term oriented customer, whereas the long-term oriented customer might appreciate long-term benefits more. Again, cultural sensitivity plays an important part in communication. For instance, a meeting with a customer from Pakistan requires profound cultural background checking as it is a short-term oriented culture, where traditions are very important and must be respected. (Hofstede, 1991, p.172-173)

5 CONCLUSIONS

The objective of this study was to find out the key elements of relationship quality and the challenges caused by cultural differences as well as to build a comprehensive picture of cross-national business relationships. The research questions where; *What are the key elements of exchange relationship quality?* and *In which ways does cultural distance affect cross-cultural exchange relationship strength?* This study sook to combine the elements of cross-cultural relationship quality by first studying the key elements of relationship quality and then combining these findings to the cross-cultural context.

5.1 Theoretical conclusions

Customer loyalty and long-term customer relationships are a priority to most supplier companies (Barroso & Picón, 2011). However, sellers sometimes fail to understand the significance of relationship quality for commitment (Dwyer et al., 1987). In this thesis, we aimed to rationalize the significance of relationship quality as a base for strong, long-term exchange relationships. According to Ural (2009), relationship quality ”reflects the intensity of information sharing, communication quality, long-term orientation and satisfaction with the relationship between exporter and importer”. So, relationship quality is a reflection of the overall state of the relationship. For this reason, it can be seen to correlate positively with strength of the relationship. We can draw a conclusion that if strength of the relationship is a priority to the company, so should be relationship quality as it forms a base for relationship strength.

Commitment and trust are key elements of relationship quality, because buyers are likely to purchase from companies that they trust and are committed to (Hewett, Money & Sharma, 2002). This applies especially to B2B-context, where amounts of time and money spent on purchase process, are generally higher than in B2C market. One of the main factors affecting the supplier choice, is trust, and lack of it can break the relationship or prevent it from coming into existence in the first place. Commitment means a belief of an exchange partner, that the ongoing relationship with another company is so important and beneficial that it is worth maximum efforts to maintain it (Morgan & Hunt, 1994). Once again, relationship quality is an important factor. Obviously, the core offering of the company, must first satisfy the customer. But no matter how good the products, services and marketing are – the quality and strength of the customer relationship has a strong influence for switching intention. We will next verify this by taking a closer look at the different types of switching costs.

In studies regarding switching costs, different kinds of categorizations are used. In this research the categorization of Jones et al. (2007) was chosen as it is both logical and widely used in other researches. Jones et al. (2007) divided switching costs into procedural switching costs, social switching costs and lost benefits costs, according to the perceived costs of customer. The significance of procedural switching costs is often emphasized as they are easy to notice and measure. However, it was pointed out in many researches, that the social switching costs and lost benefits costs in fact seem to have a stronger, positive effect on loyalty and commitment. On the contrary, procedural switching costs don't seem to have effect on the affective or behavioral bonds to the supplier (Barroso & Picón, 2012) but are more likely to be perceived as a negative barrier by customer. For this reason, Jones et al (2007) determined procedural switching costs as negative and social switching costs and lost benefits costs as positive switching costs. The categorization of switching costs helps to define their real effects on customer loyalty and relationship quality. It can be concluded, that switching costs cannot automatically be seen to have intrinsic value, but after dividing them to positive and negative ones, we can estimate their influence better. Overall, the research of switching costs is increasingly focused on the effects on actual switching intention and relationship strength.

In addition to the elements mentioned before, when building international business relationships, there is one very important thing to consider – cultural distance (Rosenbloom & Larsen, 2001). The key findings of these differences we found in the studies of Hall (1989) and Hofstede (1991). Hall studied cross-cultural communication differences by dividing cultures into high context (HC) and low context (LC) cultures. HC communication includes plenty of indirect communication and some amount of cultural background information is often required in order to understand the message. This can be very challenging for people that come from a LC cultural background.

Hofstede's four cultural dimensions form a good base to understand these differences. The first dimension is power distance index (PDI), which reflects the way people handle the fact, that people are unequal. The second dimension, individualism index (IDV), measures collectivism and individualism in the culture. There seems to be a negative correlation between PDI and IDV – the small power distance countries are likely to be more individualist and vice versa. (Hofstede, 1991, p. 54) The third dimension, masculinity versus femininity, measures the masculinity and femininity of cultures. It can be concluded, that relational switching costs are high in feminine cultures, because of the great importance of interpersonal relationships. By contrast, in masculine cultures the importance of financial success is emphasized, which raises the procedural and lost benefits costs. Uncertainty avoidance index (UAI) measures the extent to which the people feel threatened by uncertain or unknown situations. (Hofstede, 1991, p. 113) It can be concluded, that the overall switching costs are higher in high uncertainty than low uncertainty avoidance cultures, as switching the supplier includes plenty of risks and uncertainty. The fifth dimension is long-term versus short-term orientation. This dimension must be considered for instance for the reason, that it affects the customer's expectations and perception of profitability.

5.2 Managerial implications

High relationship quality and strength leads to trust and commitment, which again strengthen the relationship over time. The existence of trust and commitment in the exchange relationship can also lead to better performance of supplier companies and therefore drives success and efficiency. Most companies underestimate the importance of customer retention during initial growth of the customer base and overemphasize the significance of acquisition. (Storbacka, Strandvik and Grönroos, 1994) The customer retention and acquisition strategy should always be based on the specific situation and life cycle stage of the company. Acquisition and retention are costly activities for a company and should therefore be optimized (King et al., 2016). When the customer base is low, the company should invest to and focus on customer acquisition. As the company and its customer base grow, the firm should focus more on customer retention. At this stage, customer acquisition is still important and therefore a firm-specific balance between acquisition and retention must be found. In the third phase, customer base is large. At this point, the company should start to invest less on both acquisition and retention. To conclude, when the strategic planning is done considering all aspects, the company can invest in the relationships as efficiently as possible and avoid unnecessary costs. Every company should seek to find an optimal balance between customer acquisition and retention in different life cycle stages.

It was made clear in several researches, that negative switching costs cannot raise customers' satisfaction and even though they could in theory raise customer retention, high negative switching costs should not be seen as a goal. Once again, the ultimate goal is to raise the customer's satisfaction and to create a base for commitment. Many researches pointed out that the positive switching costs have the most powerful effect on raising customer loyalty and commitment (e.g. Jones et al., 2007). Companies should therefore try to develop specific strategies that provide the customers with relational benefits strong enough to prevent them from switching (Barroso & Picón, 2012). To better estimate the effects, different types of switching costs should be first analyzed separately. This allows the marketing manager to manage each of them independently, as well as to estimate their joint effect on other factors that affect relationship quality, such as loyalty and commitment. Better relationship quality leads to a stronger relationship, which raises the positive switching costs. Then again, higher positive switching costs strengthen the relationship. If a company can manage to create this kind of situation, a positive circle is ready.

Culture touches and alters all aspects of life. Therefore, when wanting to build a strong relationship in international B2B context, it is essential for both supplier and buyer to take the influence of national cultures into account (Terawatanavong & Quazi, 2006). In today's world, English has a strong position as the international business language. It must be considered that even if the speaker is fluent, a foreign language always rises the chance of misunderstandings. Therefore, special attention should be paid to clear communicating and flexible listening. When building a relationship between high-context (HC) and low-context (LC) cultures, the background of the other party should be researched well. First of all, people with HC cultural background, should try to communicate more directly without hidden meanings. Correspondingly, people coming from a LC culture should gain information about the other culture in order to understand HC communication better.

Hofstede’s dimensions form a good base to understand some significant, country-specific differences, that may occur in terms of cross-cultural business. In high power distance cultures, titles matter and people are used to treating each other differently on different levels of hierarchical system, whereas in low power distance cultures bosses and employees are considered equal and can generally talk to each other quite informally. (Hofstede, 1991, p. 27-28) In cross-cultural relationship building, these differences must be noticed and, to some degree, adjusted to. An obvious, yet important, example of differences in masculine and feminine countries, is gender (in)equality. In some cultures, man and women are not considered equal and this may lead to cultural conflicts. Respect is a good thing to remember when dealing with these differences.

Individualism and collectivism can have a significant influence on organizational culture and expected behavior in it. In collectivist culture, the interest of the company may often go before the individual interest, whereas in highly individualist cultures the situation might sometimes be just the opposite (Hofstede, 1991, p. 63). In international business, the expectations of the other party’s behavior – and maybe one’s own behavior as well – should to some degree be adjusted according to the possible differences. High uncertainty avoidance may create a better base for long-term relationship building due to the preference of things staying similar. In contrast, a company coming from a low uncertainty avoiding culture, might be more willing to jump into unknown. (Hofstede, 1991, p. 113) This difference should be noticed in relationship building. The final example is about short- versus long-term orientated cultures. A buyer coming from a short-term orientated cultural background might appreciate short-term profits more, whereas a buyer from a long-term orientated country might prefer long-term benefits (Hofstede, 1991, p. 173). In negotiations and marketing, this difference should be paid extra attention to.

To conclude, there's no common recipe for success in cross-cultural relationship building. Instead, there are many elements in the mix and all of them should be taken into consideration. The first ground rule is to remember, that customer relationships are in many ways like human relationships – a good relationship is mutually beneficial, worth investing in, and based on trust and commitment. The second ground rule is to always look at the benefits and costs from the customer's perspective. The third ground rule is to do the cultural background research well, and always remember the importance of cultural sensitivity.

5.3 Limitations and future research

It must be pointed out that the dimensions of Hofstede are in fact continuums and between the highest and lowest scores there is a wide range of results. For the sake of clarity, the dimensions are described through extreme examples in this research. This also applies to Hall's categorization of high- and low-context cultures. Some amount of "reading between the lines" is always needed when decoding verbal and non-verbal messages. How much, depends on each country and each receiver of the message. In real world, cultures cannot be simply divided into HC and LC cultures, but are somewhere in between (Usunier and Roulin, 2010). However, the polarization helps to understand the differences better. It could also be interesting to research the slighter cultural differences between countries that come from a relatively similar background. For instance, the "Western cultures", "Arabic cultures" and "Asian cultures" are often referred to as entities even though there is a lot of cultural variation within these groups. It would be interesting to take a deeper look on these differences and their effects.

The assumptions of the correlations between cultural dimensions and switching costs in this thesis were based on comparison of the factors affecting switching costs with the presence and strength of these factors in different cultural dimensions. There is no empirical evidence of these assumed, theoretical correlations, but that would be an interesting subject to study. Because of the multidimensional nature of switching costs, the actual switching costs can be difficult to measure precisely. Therefore, when the term switching cost is used in studies, it generally refers to the subjective costs of switching perceived by the customer. It would be interesting to find more objective results about the actual switching costs. Another suggestion for future research is a cross-cultural study about the national differences in switching costs.

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