# A global examination of institutional effects on B2B cooperation

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**Abstract**

**Purpose** – This paper aims to explore the effects of institutional environments across developed and emerging markets on buyer–supplier cooperation. It empirically examines a Business-to-Business relational exchange model of trust-building, commitment and cooperative behaviors within firms in the USA and countries such as Brazil, Russia, India and China (BRIC).

**Design/methodology/approach** – A conceptual model and accompanying research hypotheses are tested on a sample of buyers from the USA ($n$ = 169), Brazil ($n$ = 110), China ($n$ = 100), Russia ($n$ = 100) and India ($n$ = 100). Structural equation modeling is used to test the relationships in the model.

**Findings** – Findings suggest that approaches to achieve successful cooperation vary across countries and depend on the interaction between formal and informal institutions present in each country. Results show that buyers from India and China place relatively greater emphasis on conflict resolution and commitment, whereas buyers from Brazil and Russia rely more on trust in their efforts to create cooperative relationships. For US buyers, formality and quality of communication and functional benefits are key factors in fostering trust, commitment and cooperation.

**Practical implications** – A conceptual framework is advanced that extends traditional westernized and China-only perspectives of relational exchanges to a more universal context. Results suggest that suppliers understand how their buyers' country-level institutional environment shapes their partnership legitimacy and relational motivations at the transaction level.

**Originality/value** – To the best of the authors' knowledge, this study is the first to examine buyer–supplier relational exchanges through the lenses of transaction cost, social exchange and institutional theories using the USA and BRIC nations as proxies for examination of institutional effects.

**Keywords** Cooperation, Relationship marketing, Emerging markets, B2B relationships, Institutional governance, Trust and commitment, Relational exchanges, BRIC, Conflict resolution, Trust, Commitment

**Paper type** Research paper

## 1. Introduction

Institutional environments surrounding cross-border relational exchanges remain a topic of interest for global channel marketers pursuing partnership legitimacy. Critical to the success of these exchanges are the cooperative behaviors that contribute to increased knowledge transfer (Squire *et al.*, 2009), relationship commitment (Anderson and Weitz, 1989), satisfaction (Anderson and Narus, 1990) and firm performance (Brito *et al.*, 2014; Yang *et al.*, 2017). Cooperation especially matters for developed market (DM) firms seeking partnerships with emerging market (EM) firms in regions where trade liberalization initiatives have created vast market potential yet unsettled rules of exchange. For example, in Brazil and India, the relaxing of import substitution policies opened these markets for greater foreign investment and trade, whereas, in China and Russia, their full World Trade Organization membership contributed to a sharp growth in international trade. Common to many of these EMs are weak legal environments and inefficient enforcement mechanisms (McCarthy *et al.*, 2012; Meyer and Peng, 2016; Smirnova, 2020). To address these institutional deficiencies, cooperative parties substitute or complement their rules of law with rules of reciprocity and harmony set by private networks (Abdi and Aulakh, 2012; Cao and Lumineau, 2015; Cai *et al.*, 2010).

This switch may be underestimated by DM firms unaccustomed to the private network practices adopted for conflict management (Yen *et al.*, 2017; Zhang and Zhang, 2013; Bai *et al.*, 2016), trust building (Luo *et al.*, 2008; Shen *et al.*,

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2019) and cooperative performance (Cai and Yang, 2008; Huang *et al.*, 2014; Li *et al.*, 2020; Zhang *et al.*, 2017). This is facilitated by the preponderance of DM perspectives in buyer–supplier research (Biggemann and Fam, 2011; Burgess and Steenkamp, 2006; Peng *et al.*, 2008). Largely grounded in transaction cost theory (TCT), these perspectives focus more on the pursuit of transactional efficiencies than the pursuit of legitimacy where trust-based relationships precede transactions, a paradigm supported by social exchange theory (SET).

This has led to a growing body of research devoted to learning how institutional environments affect relational exchange behaviors (Cavusgil *et al.*, 2004; Ho *et al.*, 2018; Miocevic, 2016; Sheng *et al.*, 2018) in the context of transitioning economies (Hitt *et al.*, 2004; Dong *et al.*, 2016; Jia *et al.*, 2014; Li *et al.*, 2020; Wang *et al.*, 2019; Yang *et al.*, 2012). Most of these studies address the impact of institutional environments on opportunism, firm performance, knowledge acquisition or relational governance. Missing in the extant literature, however, are empirical examinations of the formal and informal institutional forces that impact traditional relationship marketing (RM) frameworks (Morgan and Hunt, 1994; Palmatier *et al.*, 2006), multicountry samples permitting comparisons of DM and EM firm relational exchange rules and country samples reflecting further distinctions in informal institutional influences.

We begin with a rationale for including transitioning economies in our study domain. In their seminal work on how EMs advance marketing science and practice, Burgess and Steenkamp (2006) recommend that researchers focus on transitioning economies as a context to elucidate the influences of institutional environments on marketing theories. The authors and Smirnova (2020) suggest that transitioning economies serve as "natural laboratories" in which to explore marketing theory generalization through the lens of institutional environments. Up until recently, attempts to generalize theories have either dismissed country level effects or attributed differences to national culture as demonstrated in studies of cultural orientations (e.g. Hofstede's Cultural Dimensions) or interpersonal communication styles (e.g. Hall's Beyond Cultural). Institutional researchers propose instead, that institutional context, not culture alone, shapes the relational strategies used by buyers to safeguard exchanges and manage conflict (Peng *et al.*, 2008; Puffer *et al.*, 2010; Li, 2009). Our study's juxtaposition of different institutional environments with nations of similar cultures will help reveal insights on how relational exchanges vary when institutions are in a state of flux.

Furthermore, a multicountry sample of EM firms is missing in the extant literature. Of the 21 known empirical studies devoted to this topic, all involve samples of single countries – mainly China. Transition economies such as those in Brazil, Russia, India and China (BRIC) show more promise in advancing international marketing theories. As explained further, USA and BRIC nations represent examples of legitimacy rooted in rules (e.g. USA), expediency (e.g. Russia and Brazil) and moral forces of reciprocity (e.g. India and China). To date, a number of studies have examined BRIC nations from conceptual perspectives (McCarthy *et al.*, 2012; Puffer *et al.*, 2013), meta-regression analyses (Samaha *et al.*, 2014) and secondary data sets (Daniel *et al.*, 2012; Krammer *et al.*, 2018; Liu *et al.*, 2009). No research outside of this study, however, has "empirically" examined buyers across the USA and all four BRIC nations.

This study is intended to advance relational marketing theories by comparing the relational behaviors of DM and EM firms in the context of traditional RM frameworks using buyer samples from the USA and all four BRIC nations. Specifically, we propose the following research questions:

*RQ1.* How do differences in institutional characteristics across DM and EM firms influence relational exchange behaviors?

*RQ2.* How do differences in institutional characteristics across EM firms influence relational exchange behaviors?

We organize the study as follows. First, we provide a review of the country-level institutional environments across USA and BRIC nations. We then present a TCT- and SET-guided RM framework of trust-commitment-cooperation determinants for examining the moderation of institutional effects in the context of familiar models. Next, we develop hypotheses that validate the model and permit structural equation modeling (SEM) testing of the proposed moderation. Finally, we discuss our findings along with the study's contributions and recommended research agenda for further advancing a globally relevant RM framework developed in the context of a buyer's indigenous institutional environment.

## 2. Impact of institutional environments on relationship marketing

Traditional RM frameworks are largely derived from an internal polity (Grewal and Dharwadkar, 2002) resembling a marriage metaphor. This perspective assumes that buyers and suppliers adapt their relational communication behaviors for the personal demands and performance terms of their partnership. As early RM frameworks were created from DM-centric perspectives where formal institutions work well (Anderson and Narus, 1990; Morgan and Hunt, 1994; Palmatier *et al.*, 2006), institutional effects were essentially taken for granted (Peng *et al.*, 2008).

### 2.1 Extending cultural to institutional contexts

Some exogenous effects of country-level culture were then introduced to account for buyer–supplier adaptations to the indigenous peculiarities of the host country. For example, several studies have examined the influence of national collectivism on building trust, relational bonds and commitment in Business-to-Business (B2B) relationships (Barry *et al.*, 2008; Doney *et al.*, 1998; Hewett and Bearden, 2001) but have ignored partnership legitimacy under common and distinct informal/formal institutional contexts (Grewal and Dharwadkar, 2002). Sauerwald and Peng (2013) note that:

> [...] no national culture is more or less likely to engage in network-based strategies such as *guanxi*, but [...] firms only do so if the institutional context provides incentives to use such strategies (p. 865).

The authors, along with Li (2009) and Puffer *et al.* (2010), therefore suggest that attempts at generalizing theories consider institutional characteristics.

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There is now a growing consensus in the institutional theory literature that the institutional environments of EMs are "vastly unique [...] compared to developed markets" (Rottig, 2016, p. 4). When viewed through the lens of a society's political, economic and cultural environments, the distinct *rules of the game* dominating DM and EM nations can be more accurately understood (North, 1990). These macro-institutional characteristics influence the meso-level institutional environments or regulatory safeguards that determine the underlying structure of cooperative partnerships.

### 2.2 Distinguishing developed market from emerging market institutional environments

Applying a political economy framework, institutional theory (North, 1990) suggests that DMs such as the USA rely heavily on *formal regulatory institutions* to provide legal recourse in partnership disputes. Based on TCT principles of contractual governance, buyers rely on effective formal mechanisms to reduce performance ambiguity while ensuring the fulfillment of contractual obligations (Williamson, 1999). Moreover, as the interests of formal and informal institutions typically operate under mutually reinforcing interests, informal networks are motivated to comply with regulatory institutions.

This dependence on regulatory enforcement does not apply to most EMs marked by inefficient or underdeveloped formal institutions (i.e. *institutional voids*), thereby opening the way for private network practices to provide their own institutional protections. These safeguards are typically modeled after the indigenous cultural practices of the host country (Grewal and Dharwadkar, 2002; Scott, 1995; Jia *et al.*, 2014).

Of interest to relationship marketers is the way EM partners embrace the relational behaviors espoused by their social capital-based private networks. Unlike the regulatory institutions characterizing most DMs, BRIC rely on what institutional theory (Scott, 1995) defines as *informal cultural-cognitive institutions* (Li *et al.*, 2010; McCarthy *et al.*, 2012; Puffer *et al.*, 2010). Common across these institutional environments are shared values related to favor-exchange or collective harmony. However, despite many cultural-cognitive similarities, EM reactions to their institutional instabilities have not been consistent (Estrin and Prevezer, 2011; Hewett and Krasnikov, 2016). Helmke and Levitsky (2004) suggest that the manner in which EM firms embrace their private networks during economic transition has much to do with the level of effectiveness of formal institutions and the degree to which the goals of formal and informal institutions are compatible (i.e. whether they have convergent or divergent outcomes).

### 2.3 Distinguishing emerging market environments based on institutional support

When the interests of private networks and their formal institutions *converge*, rules of the game are secured in the compatible goals of governments, and the informal social networks serve as substitutes for their ineffective formal institutions. Additionally, a typology offered by Helmke and Levitsky (2004) argues that in cases where formal institutions are ineffective, but *supportive*, informal institutions will replace their formal institutions with a suitable surrogate.

Using this typology, Estrin and Prevezer (2011) and da Silva *et al.* (2019) found China and the more prosperous regions of India (e.g. the Western part of India examined in this study) to fit this archetype. EM firms in these nations typically enlist the support of reliable private networks for defining and enforcing rules of relational exchange. Their findings resonate with the social capital business network practices of *guanxi* in China (Zhang and Zhang, 2013; Zhou *et al.*, 2020) and *jaan-pehchaan* in India (Berger *et al.*, 2020) deeply rooted in Confucianism or Hinduism. Compliance to expectations of favor exchange and harmony often signal sentiments of allegiance to the partnership (Horak and Restel, 2016; Jia *et al.*, 2014; Zhou *et al.*, 2008; Estrin and Prevezer, 2011). Backed by shared values and nonlegal sanctions (Huang *et al.*, 2014), adherence to this moral code rivals the rule of law in many DMs.

When parties operate under *dysfunctional* formal institutions (i.e. goals are *divergent*), informal networks serve to circumvent formal institutions that often stand in the way of progress. Unlike in China and India, network members feel less compelled to honor a moral code. They are instead motivated by deal-centered expediency and the pursuit of relational rents (Smirnova, 2020) as manifested in the network practices of *svyazi* in Russia (Berger *et al.*, 2017) and *jeitinho* in Brazil (Duarte, 2006; Torres *et al.*, 2015). Lacking both the protections of legal and moral code enforcement, parties rely more heavily on personal trust to govern their business relationships (Hitt *et al.*, 2004; Ledeneva, 2008).

### 2.4 Framing a model around economic and social fitness perspectives

A growing body of research suggests that DMs dominated by regulatory environments can be best represented through the lens of an *economic fitness* perspective, whereas the high dependence on private networks in EMs is best understood through a *social fitness* perspective (Abdi and Aulakh, 2012; Grewal and Dharwadkar, 2002; Li *et al.*, 2020). The *economic fitness* perspective originates from TCT and focuses on the formalizations of contracts and performance monitoring required to reduce the costs of transaction inefficiencies and exchange hazards (Brown *et al.*, 2000; Cao and Lumineau, 2015; Clauss *et al.*, 2020; Poppo and Zenger, 2002). Accordingly, this perspective underscores the importance of the partnership's task environment and the measurable benefits gained from relational exchanges. The *social fitness* perspective originates from SET and is rooted in relational forms of governance. SET suggests that parties will voluntarily fulfill their obligations under the expectation that their counterpart will return favors or face social sanctions (Cao and Lumineau, 2015). This self-enforced obligation further demonstrates a partner's willingness to invest in the relationship as an expression of commitment. Therefore, the theory maintains that trust, commitment and cooperation are essential for relational exchanges (Brown *et al.*, 2000; Cao and Lumineau, 2015; Clauss *et al.*, 2020; Li *et al.*, 2020; Liu *et al.*, 2009; Poppo and Zenger, 2002).

Consistent with RM literature, we construct a model that places trust and commitment as a central tenet and cooperation as the outcome of interest (Morgan and Hunt, 1994). To examine the economic aspects of exchange, we add quality communication and functional benefits as both relate to task-performance efficiency and other value-based aspects of relational exchanges (e.g. time-saving). Formal communication, a contract performance-centered construct, is added to complete the strain of influences that represent the economic rationalizations made by exchange partners.

We use conflict resolution in this RM framework to represent the cooperative atmosphere embodied in SET. This construct has been examined across studies in channel marketing (Akrout and Diallo, 2017; Mohr and Spekman, 1994; Naoui and Zaiem, 2010), institutional environments (Bai *et al.*, 2016; Dong *et al.*, 2016) and norms widely discussed in relationship governance (Achrol, 1997; Ayers *et al.*, 1997; Luo *et al.*, 2011; Yang *et al.*, 2017). It taps into the harmonious nature of EM firms that embrace the collective normative order embodied in their moral codes (Li *et al.*, 2020).

## 3. Hypotheses development

### 3.1 Cooperation

Cooperation refers to "similar or complementary coordinated actions taken by firms in interdependent relationships to achieve mutual outcomes with expected reciprocation over time" (Anderson and Narus, 1990, p. 45). Researchers of governance argue that the success of contractual governance is manifested by the longevity of exchanges and the evolution of highly cooperative exchange relations (Poppo and Zenger, 2002). In addition, "cooperation is subject to some formal governance (e.g. contract terms) or informal governance (e.g. norms in socially embedded exchanges) (Luo, 2007, p. 132). Therefore, the inclusion of cooperation in this study permits an examination of the interactions between the institutional environment and the government mechanisms that distinguish DMs and EMs.

Furthermore, the characteristic of *coopetition*, the simultaneous pursuit of competition and cooperation (Bengtsson and Kock, 2000; Bouncken and Fredrich, 2016; Bouncken *et al.*, 2020) between partnering firms, has not been explored in relational exchange models under distinct institutional contexts. Given its impact on value creation (Bouncken *et al.*, 2020) and potential for tension, conflict and opportunism that are often present at some level in interfirm relationships (Gnyawali *et al.*, 2016), the role of conflict resolution is examined.

Six determinants of cooperation are included that are both traditional to buyer–supplier frameworks and allow to examine the moderating influences of the institutional environments. Trust and commitment serve as mediators (Morgan and Hunt, 1994; Palmatier *et al.*, 2006) to demonstrate the *trust-oriented* and *commitment-oriented* strains of governance characterizing buyers in divergent and convergent institutional societies. Communication is found to have the greatest impact on relational outcomes (Samaha *et al.*, 2014) and to be "critically moderated by the institutional context" (Meyer and Peng, 2016, p. 9), so we include both quality and formality of communication, along with conflict resolution and functional benefits, to examine the cultural-cognitive versus regulatory influences in the model.

### 3.2 Formality of communication

Formalization refers to those aspects of communication perceived by organizational members as being regularized and structured. This contrasts with informal modes of communication, "perceived as more spontaneous and nonregularized" (Mohr and Nevin, 1990, p. 39). Accordingly, we use this construct to represent a facilitator of formal controls characterizing contractual governance. Formal communication has been shown to contribute to closer ties between partners (Costa e Silva *et al.*, 2012) and to highly correlate with the degree of mutual cooperation (Mohr *et al.*, 1996). However, the effectiveness of formal communication varies across institutional environments. As a control instrument of contractual governance supported by TCT, the formal communication of each party's rights and duties safeguards the relationship from exchange hazards like opportunism (Poppo and Zenger, 2002). Consequently, it is "an effective means of governance when the transactional environment is certain" (Hewett and Krasnikov, 2016, p. 75).

In highly regulatory environments such as in the USA, formal communication is well-documented and compatible with the formal institutional environment; however, the situation in BRIC can be different (Lammers and Barbour, 2006). First, a lack of formal institutional governance often results in low validity of codified information such as policies and contracts. Valuable information in such an environment is often idiosyncratic, transient and noncodifiable. This reduces the possibility and accuracy of documentation. Second, communication is likely to occur in private settings and within trusted networks. Structured formal meetings may therefore hinder the required information transfer to the point that it even "signals a lack of trust and crowds out goodwill trust, which is detrimental to cooperation" (Cao and Lumineau, 2015, p. 17). Thus, we expect the following:

*H1.* Formality of communication will positively influence cooperation with a greater effect in the USA.

### 3.3 Quality communication

Communication quality refers to the supplier's ability to provide accurate, timely, credible and complete information (Mohr and Spekman, 1994). It contributes to a buyer's overall positive evaluative judgment about the supplier's efficacy, which in turn enhances trust by coordinating and aligning goals among exchange partners (Graça *et al.*, 2017).

Communication quality impacts trust (Coote *et al.*, 2003; Anderson and Narus, 1990; Massey and Kyriazis, 2007; Morgan and Hunt, 1994). As a tangible, more task-oriented facet of communication, it signals the perceived competence of the supplier (Massey and Kyriazis, 2007). Thus, quality communication resonates with an *economic fitness* perspective, and its importance should intensify under systems of regulatory governance. This aspect of communication has been demonstrated to positively impact cooperation in both DMs and EMs. However, its influence is heightened in DMs such as the USA, where evidence of competence and precision in communication is expected (Graça *et al.*, 2016; Coote *et al.*, 2003) which in turn, serves to reduce transaction costs. Therefore, we posit the following:

*H2.* Quality communication will positively influence trust with a greater effect in the USA.

### 3.4 Relationship benefits

The goal of an interfirm relationship is to enhance benefits through resources and competencies perceived as rare, valuable, inimitable and nonsubstitutable (Barney, 1991; Barringer and Harrison, 2000; Cowan *et al.*, 2015). From a B2B perspective, these benefits can include savings in time and cost, cycle time reductions, economies of scale, speed-to-market, convenience, improved decision-making and operating efficiencies often through a supplier's quality and delivery reliability (Palmatier *et al.*, 2006; Reynolds and Beatty, 1999; Blonska *et al.*, 2013; Hutchinson *et al.*, 2011; Morgan and Hunt, 1994; Cowan *et al.*, 2015).

Although a number of studies have examined the relationship between the functional aspects of relationship benefits and commitment within the context of EMs (Graça *et al.*, 2016), none have extended this evaluation across DMs and EMs through the lens of institutional governance. We contend that buyers in mature markets such as the USA evaluate a supplier's contractual compliance based on efficiency, and, as explained by TCT, are more likely to enforce relationship maintenance based on performance-based gains or relationship benefits that reduce operational costs (Abdi and Aulakh, 2012). This leads us to the following:

*H3.* Relationship benefits will positively influence commitment with a greater effect in the USA.

### 3.5 Conflict resolution

Conflict resolution consists of the supplier's ability to avoid and solve potential conflict and openly discuss solutions to problems (Ndubisi, 2007). Naoui and Zaiem (2010) refer to conflict resolution as "the supplier's capacity to limit negative risks of the problems posed, to discuss the possible solutions" (p. 150). Their study, along with many B2B studies, has demonstrated a positive influence of effective conflict resolution on building trust and commitment (Akrout and Diallo, 2017; Al-Alak, 2014; Ndubisi, 2011).

As mentioned earlier, a level of *coopetition* is often manifested in interfirm relationships. Firms simultaneously seek value creation through cooperation while attempting to maximize individual gains through opportunistic behavior and competition (Bouncken *et al.*, 2020). Coopetition potentially results in heightened levels of tension and conflict (Raza-Ullah *et al.*, 2014); therefore, the ability to resolve conflicts is crucial in buyer–supplier relationships, as it reduces tension, demonstrates goodwill and signals a willingness to cooperate.

The ability to handle conflicts effectively should be more prevalent in BRIC partnerships because of the emphasis that buyers place on social norms of interaction supported by SET such as harmony, compromise and favor-exchange. Leung *et al.* (2005) report that a seller's ability to resolve disagreements plays an essential role in increasing *xinyong* (personal trust) and commitment among Chinese buyers. Several studies confirmed this positive impact in both India and China (Ndubisi, 2011; Graça and Kharé, 2020) and Brazil (Graça *et al.*, 2015).

However, the complex nature of conflict resolution across cultural settings suggests that not all institutional contexts should lend themselves to similar relational outcomes. Increased conflict behaviors have a negative impact on commitment in countries where the informal institutions view unresolved disputes as a partner's unwillingness to follow culturally embedded moral codes. Conflict contributes to increased tension and rivalry and often results in greater competition between partners (Bengtsson and Kock, 2000). Moreover, unresolved conflicts may violate the spirit of cooperation expected in partnerships operating under the auspices of formal–informal institutions whose goals are compatible. This pursuit of harmony is a critical aspect of the cognitive-cultural environment, heavily enforced within business networks and influenced by the principles of Confucianism in China and India (Ndubisi, 2011). In contrast, in Brazil and Russia, a supplier's ability to effectively resolve conflict contributes to reduction of performance ambiguity and uncertainty experienced by buyers under conditions where formal and informal institutions' goals are incompatible and generalized trust is low (Li, 2009). In this case, conflict resolution serves to signal to the buyer that the supplier is focusing on goodwill and trust. Accordingly, we expect the following:

*H4.* Conflict resolution will positively influence (a) cooperation and (b) commitment with a greater effect in India and China and (c) trust with a greater effect in Brazil and Russia.

### 3.6 Commitment

Commitment refers to a partner's degree of loyalty and allegiance to the relationship (Barry and Doney, 2011). Partners are more likely to engage in joint planning, goal setting and the exchange of sensitive information when partnership continuity is expected. Several studies have demonstrated that commitment resonates with both TCT and SET and greatly influences economic and noneconomic outcomes, including cooperation, within various study contexts such as supply-chain and buyer–seller relationships (Morgan and Hunt, 1994; Palmatier *et al.*, 2006; Ha *et al.*, 2004).

The importance placed on commitment, however, varies across economies and cultures. For example, several studies contrasting China to Russia (our proxies for convergent and divergent institutional societies) examine the relative importance of commitment in relational exchanges. Hoskisson *et al.* (1993) argue that the far greater uncertainty in Russia causes partners to be more short-term oriented and less committed to partnerships. Ledeneva (2008) attributes this relatively lower commitment orientation to a weakly enforced moral code. In contrast, the practice of *guanxi* in China binds members to a duty of moral and proper reciprocity that is highly ritualized, codified and predictable.

Cooperation requires a high degree of joint action, harmony and flexibility (Mavondo and Rodrigo, 2001). Given the greater emphasis placed on long-term goals in both India and China, flexibility and compromise are preferred in committed business relationships in these countries (Estrin and Prevezer, 2011; Hitt *et al.*, 2004). Therefore, we posit the following hypothesis:

*H5.* Commitment is more important to a partnership when their governance goals are compatible with their formal institutions (e.g., USA, India and China).

### 3.7 Trust

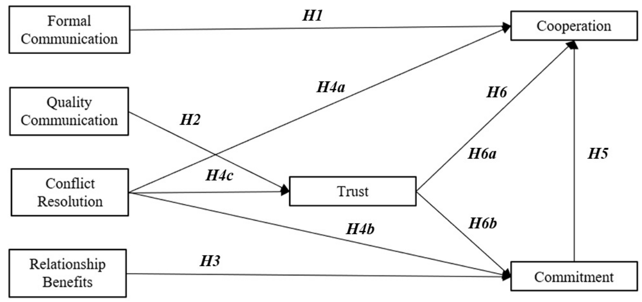
Numerous studies have demonstrated the importance of trust as a mediator to build collaboration and commitment in relational exchanges (Dwyer *et al.*, 1987; Anderson and Narus, 1990; Morgan and Hunt, 1994; Denize and Young, 2007; Lee and Ha, 2018). According to Doney and Cannon (1997), trust is multidimensional and defined in terms of an agent's perceived credibility and benevolence toward another. In this study, we define trust in terms of a partner's degree of benevolence or level of good faith in decision-making that considers the welfare of all involved parties (Doney and Cannon, 1997). Consistent with RM literature (Morgan and Hunt, 1994; Palmatier *et al.*, 2006), we examine trust's mediating effects between antecedents and outcomes (i.e. commitment and cooperation). Trusted partners refrain from opportunism and focus on mutual gains to influence commitment in buyer–supplier relationships in both DMs and EMs (Morgan and Hunt, 1994; Ha *et al.*, 2004; Ulaga and Eggert, 2006; Chen *et al.*, 2011).

Consistent with a *social fitness* perspective, the impact of trust is especially intense in transitioning economies described by Li (2009) as operating out of "family-oriented governance." In this case, "partners become members of various networks dedicated to the specific purpose of helping achieve business goals [...] such membership is based on mutual trust" (McCarthy *et al.*, 2012, p. 30). According to Peng (2003), "when the informal enforcement regime is weak, trust can easily be exploited and abused" (p. 279). Thus, within the context of EMs with divergent informal institutions and with low public trust (e.g. Brazil and Russia), a supplier's display of benevolence is essential to demonstrate goodwill intentions which, in turn, increases a buyer's likelihood of greater cooperation and commitment. Therefore, we expect the following:

*H6a,b.* Trust is more important to partnerships when their governance goals are incompatible with their formal institutions (e.g., Brazil and Russia).

Below is the model depicting the hypothesized relationships (Figure 1):

**Figure 1** Hypothesized model




**Notes:** $H_1$, $H_2$ and $H_3$ are moderated by *Rugulatory* Institutional Environments (e.g.,US); $H_4$ is moderated by *Cultural-Cognitive* Institutional Environments (e.g.,BRIC); $H_5$ is moderated by *Convergent* Institutional Environments (US and India and China); $H_6$ is moderated by *Divergent* Institutional Environments (Brazil and Russia)

## 4. Research methodology

It is widely recognized that "EMs offer research contexts which are considerably disparate to the 'traditional' research context of the HICs" [highly industrialized countries] (Burgess and Steenkamp, 2006, p. 349). To assure an acceptable level of measurement equivalence that would allow for cross-cultural sample comparisons (Hair *et al.*, 2010), we followed special measures, standard procedures and recommended guidelines to address comparability of participants and sampling design, measure reliability and validity (e.g. normative, semantic, conceptual, configural and metric equivalence) and data analysis design (Malhotra *et al.*, 1996; Steenkamp and Baumgartner, 1998; Reynolds *et al.*, 2003; Cannon *et al.*, 2010).

### 4.1 Survey scales

Survey scales were adapted from existing studies in the field of RM (Morgan and Hunt, 1994; Palmatier *et al.*, 2006), channel communication and buyer–supplier relationships (Anderson and Narus, 1990; Doney and Cannon, 1997; Barry and Doney, 2011; Mohr *et al.*, 1996; Mohr and Spekman, 1994; Ndubisi, 2007; Reynolds and Beatty, 1999). Scales were designed on a seven-point Likert scale, anchored with "strongly disagree" and "strongly agree" and are available from authors upon request.

The original English version of the survey was translated by the bilingual and bicultural authors to Portuguese, Chinese and Russian. The translated versions were then back-translated by professional translators and analyzed by the researchers themselves. We also solicited the advice of bilingual external experts on the meaning of each item in both the original and the translated survey versions (Malhotra *et al.*, 1996; Craig and Douglas, 2005). Following recommendations of the external experts, we provided additional cues for certain items and simplified the sentence to clarify meaning if needed. In India, the survey was not translated as respondents are well versed in English as their primary business language; however, we sought the advice of experts in India who suggested a few changes to ensure conceptual equivalence. The surveys were pretested with practitioners prior to being administered to participants. No concerns were raised about the meaning of the items during the pilot tests, suggesting that the survey questions were equally understood and accepted in all cultures.

### 4.2 Data collection

To assure comparability within and across all country groups and confirm that "any differences observed are *not* due to sample differences" (Reynolds *et al.*, 2003, p. 82), we sampled key informants from the same geographic location within each country. To further warrant shared commonalities such as job titles and task responsibilities (Craig and Douglas, 2005), responses were solicited from buyers or purchasing managers. Respondents were members of Chambers of Commerce located in Florida in the USA, Salvador in Brazil and Shanghai in China. In India, participants were primarily from Maharashtra and were associated with a Mumbai-based marketing consulting agency. In Russia, data were collected from Central and Eastern parts of the country from buyers affiliated with two noncommercial organizations of business

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leaders (*Agency of Strategic Initiatives* and *VneshTorgKlub*). In all countries, the responses were solicited from a random sample of the organizations' members, and to assist participants in answering the survey in a similar manner and reduce invariance and method biases (Podsakoff *et al.*, 2003), all respondents received the same instructions. Participants were instructed to select a supplier that was neither their largest nor their sole provider of a service or product. The chosen supplier also had to be engaged in business with the respondent's firm for at least two years.

In the USA and Russia, data were collected exclusively via the online version of the survey with response rates of 13.2% and 12%, respectively. In China and Brazil, the online response rates were low. Following recommendations by Chamber officials to conduct business face-to-face, we delivered the paper version of the survey in person to a sample of members selected randomly from Chambers' databases (Malhotra *et al.*, 1996). Nearly 100% response rate was achieved in Brazil, China and India. Nonresponse bias was not a concern in these countries. The differences in means of early versus late responses (Armstrong and Overton, 1977) were tested in the USA and Russia subsamples; no significant differences were found. The distribution of the demographic variables related to length of relationship (e.g. 1–5, 6–10 or > 10 years), job task (e.g. buyer and nonbuyer) and firm's main offerings (product vs. service) is uniform across countries. The final sample sizes were as follows: USA ($n$ = 169), Brazil ($n$ = 110), China ($n$ = 100), Russia ($n$ = 100) and India ($n$ = 100).

### 4.3 Measurement validity and reliability

Scale internal consistency and validity were assessed separately for two subsamples representing two institutional environments characterized by Scott (1995): USA (*regulatory*) and BRIC (*cultural-cognitive*). In both subsamples, measured scales demonstrated excellent internal consistency as the composite reliability for each latent variable exceeded 0.80 (Hair *et al.*, 2010), with the exception of "formal communication" (Cronbach's alpha = 0.77) in BRIC. The item factor loadings for both subsamples exceeded a threshold of 0.70 (Hair *et al.*, 2010) with the exception of four items having loadings above 0.60, but less than 0.70, and one item with a loading of 0.58 in the BRIC subsample. However, scale reliability and overall psychometrics are expected to be lower in EMs than in DMs (Burgess and Steenkamp, 2006). Next, average variance extracted (AVE) for constructs in both subsamples exceeded the recommended threshold of 0.50 (Hair *et al.*, 2010; Fornell and Lacker, 1981), thereby providing initial evidence of convergent validity. The correlation matrices for the USA and BRIC subsamples demonstrate further evidence of discriminant validity as the square root of the AVEs for the latent constructs exceeded the correlations between distinct variables (Churchill, 1979).

Additionally, we assessed the heterotrait-monotrait ratio (HTMT) of the constructs' correlations using Henseler *et al.* (2015)'s method and by calculating "the average of the heterotrait-heteromethod correlations (e.g. the correlations of indicators across constructs measuring different phenomena), relative to the average of the monotrait-heteromethod correlations (e.g. the correlations of indicators within the same construct)" (p. 121). Smaller ratios indicated greater discriminant validity between constructs. The estimated HTMT ratios were less than the more rigorous and recommended threshold of 0.85.

Confirmatory factor analysis was conducted for the combined sample and two subsamples to further assess convergent validity and measurement model invariance. The global fit of the measurement model was excellent for the combined sample of USA and BRIC countries ($\chi^2_{(559)}$ = 599.863, $p$ < 0.01; comparative fit index (CFI) = 0.94; incremental fit index (IFI) = 0.94; normed fit index (NFI) = 0.92; root mean square error of approximation (RMSEA) = 0.068) and for the USA subsample ($\chi^2_{(169)}$ = 378.256, $p$ < 0.01; CFI = 0.93; IFI = 0.94; NFI = 0.90; RMSEA = 0.086). Although lower, the fit statistics for the BRIC subsample ($\chi^2_{(390)}$ = 551.343, $p$ < 0.01; CFI = 0.91; IFI = 0.91; NFI = 0.88; RMSEA = 0.077) were still within acceptable range (Hair *et al.*, 2010). Adequate global model fit with low modification indices suggested a lack of alternative factor structure and provided further evidence of configural invariance of measurement models for the two subsamples. Furthermore, metric invariance was examined and evidence of partial metric invariance was found. The USA and BRIC measurement models demonstrated an acceptable level of common structure, thus, allowing for multigroup analyses to be conducted (MacKenzie *et al.*, 2011).

Given the systematic nature of this study's survey, the measured items were examined for common method variance (CMV) using Harman's single factor test. No factor explaining more than 50% of the variance emerged from the unrotated solution constrained to a single factor. Then, to statistically control for potential CMV bias, we used the single-latent-factor approach suggested by Podsakoff *et al.* (2003) for "estimating method biases at the measurement level and controlling measurement error" (p. 895). Method variance is known to inflate or deflate the observed relationships; therefore, the reported values of the estimated structural model are adjusted for common method bias.

## 5. Results

Covariance-based SEM in AMOS was selected to test the proposed hypotheses. Hypotheses about relationship strength in country subgroups (*H1–H3*) were examined using multigroup analysis (e.g. USA$_{(n\,=\,169)}$ representing regulatory institution and BRIC$_{(n\,=\,410)}$ representing cultural-cognitive institutions) (Scott, 1995) and hypotheses (*H4–H6*) using multigroup analysis (e.g. India-China$_{(n\,=\,200)}$ representing convergent outcomes and Brazil-Russia$_{(n\,=\,210)}$ representing divergent outcomes) (Helmke and Levitsky, 2004). Significant path differences between country subsamples were tested by calculating the critical ratios for differences between parameters matrix to assess the $z$-scores for the difference for each parameter between groups (Byrne, 2004). Results of the multigroup analyses are summarized in Table 1.

Additionally, we performed tests for the mediating effects of trust and commitment between the antecedent (*conflict resolution*) and the outcome (*cooperation*) using procedures outlined by Baron and Kenny (1986). We used the bootstrapping technique suggested by Preacher and Hayes (2008) to calculate the confidence intervals and confirm the mediation and to estimate indirect effects and their significance and statistical difference between groups. Full mediation is

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**Table 1** Multigroup analysis results

| | Standardized paths ($\beta$) | | | *z*-scores | | |
|---|---|---|---|---|---|---|
| **Hypotheses and relationships** | **USA** | **BRIC** | | **USA/ BRIC** | | |
| ***H1*: formal communication → Cooperation** | 0.14** | −0.21*** | | −4.323*** | | |
| ***H2*: quality communication → Trust** | 0.46*** | 0.27*** | | −2.163** | | |
| ***H3*: relationship benefits → Commitment** | 0.42*** | *−0.07 ns* | | −2.293** | | |
| | USA | India-China | Brazil-Russia | USA/ India-China | USA/ Brazil-Russia | India-China/ Brazil-Russia |
| ***H4a*: conflict resolution → Cooperation** | 0.20** | 0.38*** | 0.22** | 1.908* | *ns* | *ns* |
| ***H4b*: conflict resolution → Commitment** | 0.20** | 0.62*** | *0.15 ns* | 3.057*** | *ns* | −3.072*** |
| ***H4c*: conflict resolution → Trust** | 0.45*** | 0.46*** | 0.61*** | *ns* | 2.453** | 2.596*** |
| ***H5: commitment's importance*** | | | | | | |
| **Commitment → Cooperation** | 0.14** | 0.18** | *−0.05 ns* | *ns* | −1.847* | −2.301** |
| ***H6: trust's importance*** | | | | | | |
| ***H6a*: trust → Cooperation** | 0.39*** | 0.19** | 0.47*** | *ns* | *ns* | *ns* |
| ***H6b*: trust → Commitment** | *0.13 ns* | *0.12 ns* | 0.41*** | *ns* | 2. 453** | 2.355** |
| ***Control variables*** | | | | | | |
| **Length of relationships → Cooperation** | *0.03 ns* | *−0.02 ns* | *−0.04 ns* | | | |

**Notes:** ***$p$-value $< 0.01$; **$p$-value $< 0.05$; *$p$-value $< 0.10$; *z*-scores critical ratios; $n_{US} = 169$, $n_{India\text{-}China} = 200$, $n_{Brazil\text{-}Russia} = 190$. Model fit USA: $\chi^2_{(169)} = 378.256$, $p$-value $< 0.01$; CFI = 0.93; IFI = 0.94; NFI = 0.90; RMSEA = 0.086; $R^2_{Trust} = 75\%$; $R^2_{Commitment} = 51\%$; $R^2_{Cooperation} = 59\%$. Model fit BRIC: $\chi^2_{(390)} = 551.343$, $p$-value $< 0.01$; CFI = 0.91; IFI = 0.91; NFI = 0.88; RMSEA = 0.077; India-China: $R^2_{Trust} = 62\%$; $R^2_{Commitment} = 40\%$; $R^2_{Cooperation} = 38\%$. Brazil-Russia: $R^2_{Trust} = 57\%$; $R^2_{Commitment} = 44\%$; $R^2_{Cooperation} = 27\%$

demonstrated when the direct effect of an antecedent on an outcome diminishes to the point of nonsignificance in the presence of a mediator and the indirect effect is significant. Partial mediation is demonstrated when the direct effect of an antecedent on an outcome diminishes, but it remains significant in the presence of the mediator and the indirect effect is significant.

Results of the multigroup analyses suggest that institutional governance, whether formal or informal, moderates some relationships between antecedents and outcomes. *H1*, *H2*, *H3*, *H4b*, *H4c* and *H5* are all supported. We did not find support for *H4a*, but we found partial support for *H6*. Consistent with other similar studies, trust is found to be a key mediating variable (Morgan and Hunt, 1994; Palmatier *et al.*, 2006) for all groups. Trust drives cooperation universally, but its direct impact on commitment is greater in Brazil and Russia as demonstrated by *H6b* partial support. Commitment partially mediates the relationship between conflict resolution and cooperation only for the India-China sample, but its direct influence on cooperation is positive and significant in the USA, India and China, as demonstrated by *H6a* full support.

The estimated model provides high explanatory power in the USA sample. For the BRIC subsamples, the total variance explained in the model is somewhat lower. This indicates that there are other factors outside the scope of this study's framework driving cooperation in transitioning markets. We explore these factors further in the next sections.

## 6. Discussion of the results

The role of trust as a mediator between conflict resolution and cooperation is demonstrated for all country groups. In Brazil and Russia, trust also has a positive impact on commitment, indicating that trust is the most important factor for relationship maintenance and commitment in countries with divergent institutional environments and a high degree of uncertainty in transaction-level governance.

Commitment is found to drive cooperation in the USA and India/China, suggesting that, whether driven by cost reduction or personal ties, expectation of relationship longevity drives cooperation in countries under regulatory institutional governance or convergent institutional environments. Commitment, however, partially mediates the relationship between conflict resolution and cooperation in India and China. This finding indicates that a supplier's ability to resolve conflicts drives cooperation in these two countries directly and indirectly through commitment. Overall, the results support the importance of reciprocity between committed partners in India and China.

The impact of formal communication on cooperation is only positive in the USA. One possible explanation for the negative effects of formal communication on cooperation in the BRIC countries is that formal channels of communication, if available there, are not used as the primary mechanism for interaction between buyers and suppliers. Meetings and discussions regarding the terms of a contract may occur under more informal and social environments in EMs than in DMs. As expected, quality communication's direct and indirect influences on trust are significantly greater in the USA than the BRIC group. In addition, the focus on efficiency and cost-reduction explains the strong effect of relationship functional benefits on commitment in the USA. The results in the BRIC nations may reflect the overwhelming influence that a supplier's ability to resolve conflicts has on relationship maintenance, which may contribute to the insignificant effect of functional benefits on commitment.

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Taken together, the estimated effects of conflict resolution on cooperation, trust and commitment support our argument that dispute resolution serves different functions under distinct institutional governances in transition economies. Although the direct impact of conflict resolution on cooperation is greater in India and China than in Brazil and Russia, the difference is not statistically significant. In India and China, dispute resolution is a mechanism that demonstrates a supplier's propensity to maintain relationship harmony, whereas in Brazil and Russia, a supplier's ability to resolve conflicts effectively demonstrates goodwill intentions.

## 7. Contribution and implications

The intent of this research was twofold. First, the study examines differences in the institutional characteristics across DM and EM firms and their influence on relational exchange behavior. We find support for differences in the effects of formal and informal institutions on relational exchange governance across DMs and EMs. Second, we examine differences in institutional characteristics across EM firms with supportive and unsupportive formal institutions and their influence on relational exchange behaviors. Our study provides support for the moderating effects of institutional support on relationship marketing frameworks.

In addition, the study advances an understanding of how institutional environments challenge the generalization of the cooperation-building process by contrasting the dominating governance arrangements in DMs with those of EMs. Our research concludes that indigenous institutional environments do in fact affect the monitoring and management of relational exchanges. As most research extends a US-centric perspective (Biggemann and Fam, 2011), our test of traditional frameworks across the USA and BRIC nations provides new insights on the way buyers navigate through their institutional voids.

Buyers from the USA, for example, operate under effective regulatory institutions that lend themselves to contractual forms of governance. This explains why much of the research on buyer–supplier cooperation still emphasizes the TCT-oriented approach to monitoring and managing relational exchanges. The stronger emphasis placed by the USA on functional benefits, formal means of communication and quality communication supports a TCT perspective that contractual governance works best in effective formal institutional environments. Partnerships in these settings focus on performance-oriented practices backed by legally enforceable agreements to resolve disputes and encourage task coordination, and compliance monitoring systems for gauging a supplier's competence and fulfillment of obligations. The implication for suppliers working with buyers in DMs is clear. They should focus on the task environment and performance aspects of communication and benefits found to affect commitment more positively within DM firms.

Using Brazil and Russia as proxies, our study further concludes that supplier goodwill is paramount to managing relational exchanges with buyers that rely upon unsupportive informal institutions whose goals conflict with those of the surrounding formal institutions (i.e. divergent outcomes). The higher emphasis placed in Brazil and Russia on building trusting relationships supports a SET perspective that relational governance works best when the outcomes of formal and informal institutions diverge. Partnerships in these settings focus on relational ties backed by private networks and favor-exchanging practices that are often tenuous and idiosyncratic, and a socialization process for gauging a supplier's goodwill intentions and sentiments of solidarity. There are numerous implications for suppliers dealing with Brazilian or Russian buyers. Trust is of paramount importance and needs to be established before a commitment is attained. Cooperation is experienced between trusted-partners only, so suppliers should expect buyers in these countries to refrain from committing or cooperating until the suppliers have demonstrated goodwill intentions.

Finally, using India and China as proxies, our study concludes that a supplier's social capital is key to the management of relational exchange with buyers that rely upon informal institutions whose goals are compatible with those of the surrounding formal institutions (i.e. convergent outcomes). The higher emphasis placed in India and China on building enduring and cooperative relationships supports a SET perspective as well. In this case, relational governance also works best when the outcomes of formal and informal institutions converge and they support one another. Partnerships revolve around social capital-based business networks that honor relational norms of reciprocity deeply rooted in heritage-based traditions, and encourage harmony and a commitment to favor indebtedness. Suppliers dealing with Chinese and Indian buyers and seeking to establish long-term cooperative relationships should focus on addressing conflicts before they are manifested and discussing solutions to possible conflicts in an open manner when manifested. Furthermore, the ability to resolve conflicts is crucial in buyer–supplier relationships as it reduces potential tension present in coopetition-prone relationships.

A major contribution of this study is the advancement of cooperative buyer–supplier relationships theory and the development of frameworks that permit a more contemporary perspective on what factors drive B2B relational exchanges in both DMs and EMs. As the Western-dominated literature on buyer–supplier relationships has not sufficiently examined the intricacies in institutional characteristics that shape buyer behaviors in EMs (Burgess and Steenkamp, 2006), the results are especially valuable to firms expanding to EMs. Moreover, results give credence to literature claims that "institutional environments are a more relevant driver of managerial decision-making than perceptions regarding the host market's cultural distance" (Sartor and Beamish, 2014, p. 1075). Particularly in the context of our study, results demonstrate that the presence of strong informal institutions alone is not sufficient to explain interfirm relationships and cooperative behaviors. This study also has significant managerial implications. When suppliers from developed economies attempt relationships with buyers in EMs, they run a risk that their assumed practices will not calibrate with their targeted buyers (Rottig, 2016). For instance, they may inadvertently pressure their buyers into formalizing their relationships, whereas our study reports a negative relationship between formal communication and cooperation in the BRIC countries.

## 8. Limitations and future research

This study is not free from limitations. First, we have included the USA and the four BRIC countries as representatives of DMs and EMs; therefore, results cannot be generalized to other countries without further investigation. Despite the extra measures taken to assure equivalence of the survey across all samples, misinterpretation of some survey questions cannot be ruled out. Additionally, this study represents a snapshot of a buyer's cooperation building process; results are not generalizable in a longitudinal manner. Despite the limitations, this study provides a much needed research approach by treating the role of institutional environment, rather than culture, as a moderator. Results provide substantive support to test existing frameworks and encourage a generalized body of theory development where institutional contexts serve as boundary conditions.

Research opportunities stemming from these institutional insights are numerous. Given the lower explanatory power of the model in the BRIC countries, further examination of institutional governance is encouraged to include other constructs. Other variables such as dependence on supplier, similarity and seller expertise have been found to impact trust and commitment and consequently influence cooperation positively (Palmatier *et al.*, 2006). Finally, further research is suggested for developing new grounding theories and constructs not yet advanced in developed nation frameworks that better represent the development of B2B cooperative relationship behaviors in distinct EM contexts.

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