

Approaching The Asian Elephant: Understanding Business-To-Business Relationships In India

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ABSTRACT

India is one of today's most important emerging economies, and as its market becomes more significant for multinational companies, it becomes more imperative that foreign firms identify those factors that contribute to successful negotiations. This study proposes and empirically tests a framework that measures the impact of "social formalities" and "power distance" on business relationships in India. The model shows that power distance sets the stage for negotiations, and the respect for social formalities sets a tone of mutual reference and understanding that will facilitate the establishment of a foundation for long-term business relations.

Keywords: India, business-to-business, negotiations, power distance, social formalities.

INTRODUCTION

Foreign firms have realized that if they wish to establish business-to-business relationships with Indian partners, it is essential that they identify those factors that contribute to successful business negotiations. The ability to establish and maintain quality business relationships is increasingly being accepted as an important factor determining firm competitiveness (Fliedner & Vokurka, 1997). The significance of these relations is being reinforced by the importance placed on relationship marketing, which is established through the sum of marketing activities directed toward establishing, developing and maintaining successful relational exchanges (Hunt & Morgan, 1994). The question in this research that interests us is: what relationship-specific factors are likely to affect the development of business-to-business relationships, and in particular, what factors are likely to affect business relationships in India.

Right now, India is one of the world's most important emerging markets. It is the tenth largest economy in the world, and analysts estimate that by the middle of this century, it will have a larger population than China and a swelling middle class of more than 350 million (Kohli & Mohapatra, 2008; US_State_Department, 2009). As the Indian market becomes more important to multinational companies, its relevance also increases for researchers, who need to explore the cultural differences that mediate the way Indian firms establish long-term relationships. In this study, we propose and empirically test a framework that measures the impact of "social formalities" and "power distance" on business relationships in India.

LITERATURE REVIEW

The "Asian Elephant"

In a classification of emerging economies, Cavusgil, et al.,(2002) place India at the top and call her the "Asian Elephant" for the following reasons: (a) it is a market with a well qualified, highly motivated workforce that can converse in English and be trained easily to work in Western-style operations, (b) it has extensive and well defined channels of distribution for goods and services, (c) foreign firms can reduce market entry risk, benefit from

utilizing well-established local firms for JV and raise capital for operations in the Indian stock market, (d) there is an abundant supply of managers educated and trained to work in a Western-style environment, (e) it has a lucrative and growing middle class, which represents a market of about 300 million, and (f) there is a willingness on the part of local firms to adapt to innovative manufacturing operations and quality standards such as ISO.

All these factors facilitate the creation of a positive environment in India for business-to-business relationships, and this environment has made the country a very attractive place for foreign investments (Elango & Pattnaik, 2007). This is especially true for outsourcing companies because India has a labor force that speaks English with the fluency needed for performing the services involved, something that China lacks (Lewis, 2006). However, it is in the high-technology area that India has been experiencing its major growth (Khanna & Palepu, 2004), with Bangalore as the center of this industry. It is predicted that India will have a technological gap between it and the other emerging Asian markets and it will become a serious competitor of the United States and Northern European countries in software and high-tech products (Cavusgil, et al., 2002).

Cultural Background

Foreign businesses find that two centuries of English domination have exerted a strong influence on Indian society and its culture. They play cricket and drink tea. The elite are educated at Oxford and Cambridge. They admire English literature, respect prosperity and protect accumulated wealth. English is the vehicle of culture and administration. Their military has absorbed English army traditions, and the influence of the English can be discerned in their democratic institutions, parliamentary rule, legal system, large civil service, class system, and experience with early industrialism (Lewis, 2006, p. 435). At the same time, India is a land of contrasts and contradictions, where the old and the new blend into a rich fabric that has to be understood within the context of Hinduism, India's main religion. This religion governs the way Indians live. One of its most important concepts is the law of karma (cause and effect) and its endless rounds of reincarnation. This law influences their lives and their perception of time (Lyer, 1999). One's place in society is dictated by one's karma. Karma imposes order on apparent chaos, so there is no stress or uncertainty associated with trying to define one's identity. This concept explains the medium level of Hofstede's (1980) uncertainty avoidance index.

India has four castes (*varna*), even though the caste system is officially outlawed. Indians assume that people are born into a caste because of their past karma. Each of these castes, or groups, has a large number of subcastes or *jati* that influence social relations, including work (Gannon, 2001). Members within the same *jati* tend to be close, and they are more likely to form long-term business relationships with other members of their own *jati* if possible rather than with members of a different one (Gannon, 2001). This hierarchical principle of social organization has made Indians resilient negotiators (Moran & Stripp, 1991). They are open and willing to compromise to obtain what they want while at the same time navigating their intricate social hierarchies (Lyer, 1999).

Negotiating in India

Foreigners negotiating a business contract in India find a mixture of English and Indian customs. A British reserve and formal demeanor when conducting business blends with India's own set of rules to create a unique business etiquette. For example, seniority often stems from age rather than organizational rank. Indians refrain from touching each other. A mild hand-shake is becoming more common, but they still prefer a simple "clasping of hands" (*namaste*). Using titles during negotiations is important. Titles help the Indian counterpart to place the foreigner in a social context. Foreign-negotiators find a business atmosphere that is almost mellow, with little or no use of unnecessary humor (Morrison, et al., 1994). The concept of social harmony is at the core of the Indian way of living (Gannon, 2001). Moran and Stripp (1991) have noted that Indians are used to a humble and modest tone in negotiations, and they don't appreciate overt displays of self-confidence and conceit, nor do they appreciate high-pressure tactics. Indians remain polite while they are proposing modifications to and compromises in an agenda, they work hard to reach business agreements, and they will avoid turning down a good business proposal (Lewis, 2006).

Status and social standing of the negotiators play important roles. For this reason, the differences in the organizational ranks among members of both negotiation teams must always be considered. Decision-making remains centralized with the head of firms, and this centralized style has a bearing on negotiations because middle-level managers are unable to make decisions at their discretion (Morrison, et al., 1994). Often, decisions must be referred to top management, so negotiations with Indian firms should be expected to proceed slowly, unless a member of top management is part of the negotiation team. Transactions are only finalized when Indian management feels confident that the business will be successfully concluded.

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

The Theory of Planned Behavior

Business-to-business relationships refer to all activities directed toward establishing, developing and maintaining successful relational exchanges (Hunt & Morgan, 1994), and the necessary commitment to engage in a continuing relationship with other businesses (Sheth & Parvatiyar, 2000). In developing business relationships across cultures, the first challenge is acknowledging and understanding that there are different values, norms, attitudes and beliefs ingrained in each national culture (Tayeb, 1992). The theory of planned behavior asserts that normative beliefs lead to the formation of behavioral belief and, consequently, to attitudes toward the behavior (Ajzen, 1991; Ajzen & Fishbein, 1980; Godin & Kok, 1996; Sheeran, 2002).

Ajzen and Fishbein (1980) say that influential norms are assumed to be a function of beliefs that determine whether individuals approve or disapprove of a behavior. In this instance, power distance is a cultural norm directly related to the way individuals from different cultures perform and conduct business (Hofstede, 1980, 2001). Therefore, the theory of planned behavior postulates that power distance as a normative belief should influence business attitudes and behaviors (Ajzen, 1991; Ajzen & Fishbein, 1980).

a. Power Distance

Power distance refers to how people within an organization feel about differential power and status associated with organizational rank (Hofstede, 1980, 2001). Hofstede maintains that inequality within an organization is both necessary and functional because it defines the levels of responsibility and accountability. Power distance also defines the relationship between management and subordinates. Every culture ascribes different degrees of importance to the differential of power and status. Those cultures low in power distance tend to have a management style that is consultative; decision-making is shared with lower managers. Cultures high in power distance, such as India, tend to have an autocratic management style, with decision-making centralized and placed in the hands of a few high-ranking managers.

Business relations in India are conducted within a social hierarchy where social standing, management status and titles facilitate the positioning of the business counterparts within the social context. That is, a person's social status must be clear so that the others can show proper respect (de Mooij, 2005; Hofstede, 2001). Therefore, we expect to find a relationship between power distance and the attitude toward establishing a business-to-business relationship in India as expressed in the following hypothesis:

Hypothesis 1: There is a relationship between *power distance* and the *attitude toward a business-to-business relationship* in India.

b. Social Formality

Because business relations in India are conducted within the social hierarchy, social standing, management status and titles facilitate the positioning of the business counterparts within the social milieu. This positioning is also mediated by the rules of social formalities (Cortes & Vasquez-Parraga, 2003), which are operative during the negotiation meetings.

How individuals carry and present themselves during social interactions, their demeanor, table etiquette, dress styles and social grace are all aspects of social formality. Foreign negotiators who recognize the importance of observing these formalities, can create favorable impressions among their Indian counterparts. This “impression management” is realization that the sum of verbal and nonverbal acts are perceived to have a social and cultural meaning that facilitates the understanding of the other party’s behavior in a particular social context (Goffman, 1976). These verbal and nonverbal acts are comprised of such things as personal appearance (clothing and other symbols characterizing a person’s status), and manners, which include facial expressions, posture, and rate of movement.

Formality and social grace such as demeanor and social etiquette are all reflections of cultural values, and they influence how people in a given culture feel and think about each other (Hall, 1990). In large power distance cultures such as India, a person’s social status must be clear so that the others can show proper respect (de Mooij, 2005; Hofstede, 2001). Social status involves the image and status that an individual wants to project to others. Therefore, we expect that a relationship between power distance and social formality exist in India. Thus, the second hypothesis suggests the following:

Hypothesis 2: There is a relationship between *power distance* and *social formality in India*

The main theoretical assumption of this study is derived from the theory of planned behavior (TpB). This theory, along with previous research, postulates that values, norms, attitudes and beliefs affect the way a person behaves in a business relation (Sheth & Parvatiyar, 2000). That is, social formality, as a normative belief in the business context in India, might work also as an indicator of attitude toward business-to-business relationships. Social formality and the impression management it creates through social grace are important in negotiations, especially at the beginning stages of the negotiating process when creating a positive impression, facilitating communication and generating common grounds for the trust that will lead to a successful business relationship are vital (Cortes & Vasquez-Parraga, 2003). Therefore, based on TpB and previous assumptions, we hypothesize that a relationship between social formalities and business-to-business relationships exist.

Hypothesis 3: There is a relationship between *social formalities* and the *attitude toward business-to-business*.

Figure 1 was developed to illustrate the proposed hypotheses.

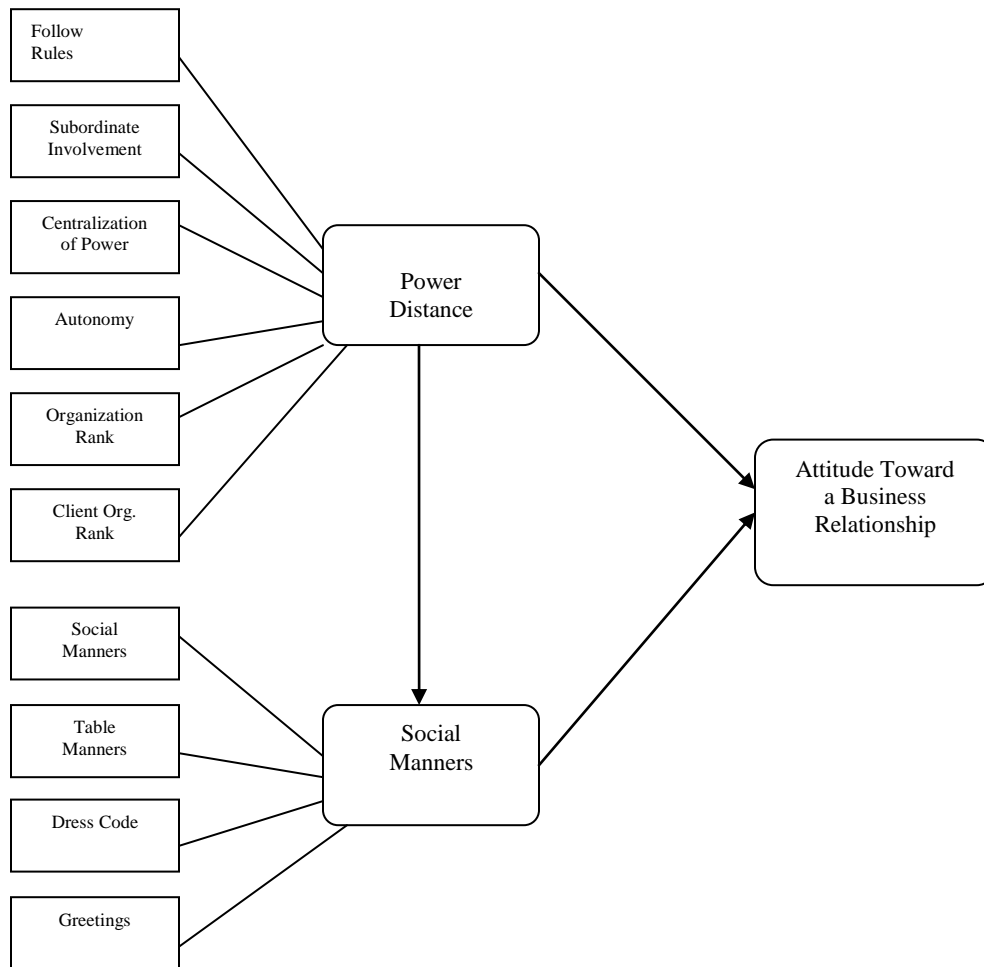
METHODOLOGY

Data Collection

Given that the aim of this research is to understand the business communication style unique to India, a number of business professionals from Delhi and Bangalore were surveyed. The data were collected in these two cities because they are among the fastest growing urban centers in India (U. S. Department of State, 2009). Delhi, also the capital of India, offers one of the highest levels of education in the nation, and Bangalore, which is becoming an important center of the global innovation chain, is widely considered a science hub. Both cities boast a large pool of talented and motivated professionals who are fluent in English. Moreover, these cities bring together from all over India the largest number of diverse groups of working professionals. In addition to the availability of respondents of interest to our study, sample diversity increases the value of our results because they are not region specific.

The individuals we surveyed can be characterized as professional middle-to-high level managers of multinational firms with at least 100 employees. Seven firms in Delhi and three in Bangalore were approached for the survey. Most of those surveyed already had or were in process of completing an advanced business degree, and they had an average of three years experience in a managerial capacity. 300 surveys were divided almost equally between Delhi and Bangalore firms. A total of 134 respondents completed and returned the survey, which gave us an effective response rate of 51%. Four questionnaires had to be eliminated because of missing data issues. See sample details in Appendix 1.

Figure 1: Conceptual Model



Questionnaire

All the measures in this study were drawn from existing literature and adapted to serve the purpose of this study. The survey included 14 questions. Power distance was measured by ten items in a questionnaire previously used by Hofstede (1980) and Cortes and Vasquez-Parraga (2003). Formality was measured using a four-item factor obtained from a framework used by Cortes and Vasquez-Parraga (2003). The responses for both scales were recorded on a seven-point Likert scale ranging from 1 (no importance) to 7 (supreme importance) with a middle point of neutral. In addition the perception concerning business-to-business relationships was measured by the following statement: “It is important to establish business relationships in order to get new business contracts with other organizations.” Finally, demographic and background questions were included.

MEASURES

To assess our measurements of power distance we conducted a factor analysis using principal components and varimax rotation. Due to the loadings, we kept a 6-item factor that explained 61.2% of the overall variance: (1) following rules, (2) centralization of power, (3) subordinate’s involvement, (4) scope of autonomy and control, (5) organizational rank, and (6) client’s rank. Social formality was measured using the following items that explained 54.3% of the overall variance: (1) social manners, (2) table manners, (3) dress code, and (4) greetings. Table 1 presents the factor loadings.

Table 1: Exploratory Factor Analysis: Factor loadings

Item	Power Distance	Social Formality
Follow rules	.714	
Subordinate involvement	.800	
Centralization of power	.691	
Autonomy	.817	
Organizational rank	.840	
Client org. rank	.711	
Social manners		.712
Table manners		.762
Dress code		.864
Greetings		.819

Assessment of Measurements

Estimation of the reliability and validity of the scales was stringent and extensive. We performed a reliability test for the scale, and it exceeded the minimum standards recommended by Bagozzi and Yi (1988) with a Crombach range between .76 and .71. We also ran a structural equation for each construct.

Power distance factor: The six items used as indicators of power distance had significant paths from the construct, and residuals were low. The chi-squared values were not significant at .10 indicating a difference between the predicted and the actual matrices; they have an acceptable fit. As shown in Table 2, the root mean square error of approximation (RMSEA), goodness of fit index (GFI) and adjusted goodness of fit index (AGFI) indicate a good level of model fit.

Formality factor: All four indicators of social formality were related significantly to the construct, had low residuals (RMSEA and RMR) and had a not-significant chi-square indicating good levels of fit (GFI, AGFI and NFI). These two factors are shown in Table 2.

Table 2: Results of Single-Construct Measurement Models

Construct	X ²	X ² /df	Sig.	RMSEA	GFI	AGFI	RMR	NFI	Items
Power Distance	5.642	1.41	.228	.056	.985	.921	.095	.970	6
Social Manners	10.75	5.37	.005	.184	.964	.818	.088	.905	4

Finally, to address discriminant validity, we followed the procedure proposed by Anderson and Gerbing (1988). The estimated correlation parameter between the two factors (power distance and social formality) was constrained to unity. Then we conducted a chi-square difference test on the values obtained from two models: constrained and unconstrained. Results showed that the chi-square was statistically significant (X²(1) = 15, p<0.001), which indicates that discriminant validity exists for these two constructs.

RESULTS

To test the hypotheses and fit of the proposed model, structural equation technique was used. Overall, the model produced a good fit. The X² was 136.9, the X²/df was 3.31 and the RMSEA ranged from .05 to .08. All were at acceptable levels. However, when we examined whether the correlations between the two indicators and attitude toward a business relationship were what we expected them to be, we found that power distance was not significantly related (p=.41 and R² =.21) to the attitude toward business-to-business relationships. As a result, H1 was rejected.

To test H2 and H3 we ran a nested model which excluded the correlation between power distance and attitude toward business-to-business relationships. The results showed that the chi-square improved (47.3), not a significant level, as shown in Table 3. This result indicates that a difference between the predicted and the actual matrices existed.

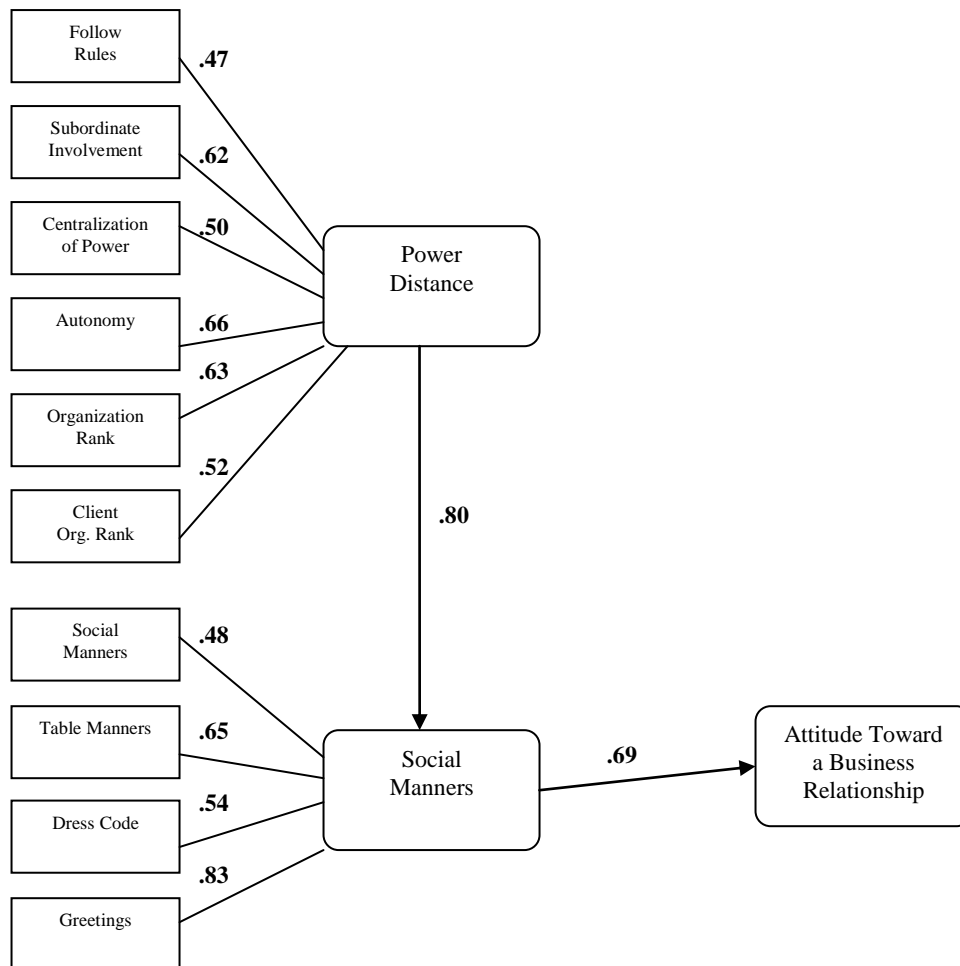
Table 3: Results of Proposed Model

Model	X ² /df	p-level	RMSEA	GFI	AGFI	RMR	NFI
Conceptual	3.31	.001	.079	.902	.838	.132	.842
Nested	1.31	.098	.087	.940	.891	.108	.897

The X²/df was improved, dropping to 1.3, which Hair et al. (1998) consider a desirable level. Similarly, the fit indicators, such as goodness-of-fit index (GFI) and adjusted goodness-of-fit index (AGFI) demonstrated a model fit improvement. In addition, the root mean squared error of approximation (RMSEA) and the root mean residual (RMR) showed lower residual errors.

To support the hypotheses, we examined the regression weights obtained from the nested model shown in Figure 2. As predicted, H2 and H3 were supported. Power distance was significantly related to social formality (sig.=.000 and R² = .80), and social formality was significantly related to attitude toward business-to-business relationship (sig.=.000 and R² = .69).

Figure 2: Nested Model



DISCUSSION

The aim of this study is to empirically test and integrate a framework that measures the impact of social formalities mediated by power distance on business relationships in India. The results of this study indicated that power distance is an indicator of social formality, which, in turn, appears to be an indicator of attitude toward business-to-business relationships. This means that a high power distance culture like India places great importance on the organizational ranks and status of managers who comprise a negotiation team. This power distance, established by the managers' organizational rank, is reinforced by the rules of the established social formalities that must be followed. These factors help define the foreigner's position within the social hierarchy and serve as an antecedent to establishing relationships by facilitating communication, mutual understanding, respect, and the trust that will result in a successful contractual and relational long-term commitment to the business transaction.

CONTRIBUTIONS AND IMPLICATIONS

This study makes valuable contributions to theory and practice. Theoretically, the findings support TpB and provide scientific evidence on the impact of social formality as a normative and cultural factor on business-to-business relationships. As for practice, the findings will assist the managers in multinational firms who view India as a potential market to understand the relevance of India's cultural context when they are negotiating with their Indian counterparts. Specifically, by recognizing social formalities as an important predictor of the success of a possible business contract or agreement, they increase their chances of establishing a strong business relationship with Indian firms. Based on these findings, we suggest that when they negotiate with Indian negotiators, managers should pay attention to such social formalities as the use of titles and the culture's table and dress codes.

To facilitate communication, foreign companies should place their managers (negotiators) within the Indian social context. Being sensitive to local values and customs conveys to the other party that there is a willingness on their part to facilitate communication by understanding their mutual cultural differences and establishing a personal relation based on mutual respect and trust. This sensitivity and the impact it has will help the negotiation process move through its various stages and culminate in a business-to-business relationship.

LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

Despite the theoretical contributions of this paper, we should be cautious when interpreting the findings, as this study has several limitations. First, the sample size was relatively small for validating our structural equation model, although the sample size is higher than the suggested minimum sample size of 100. Second, the response rate was lower than 70%, which indicates that a further non-response study should be conducted. Third, the data were collected in a convenience way in only two cities; Delhi and Bangalore. This indicates that our sample does not represent the entire population of India. Finally, the study does not provide an explanatory model for building business-to-business relationships in India. It only explores the impact of social formality moderated by power distance. Thus, future research should seek to test the impact of other independent variables such as trust and communication along with social formality and power distance.

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Appendix 1: Summary Description of Sample

Personal	<i>Number</i>	<i>Percentage</i>	Firm	<i>Number</i>	<i>Percentage</i>
			<i>Annual sales (US Millions)</i>		
Age					
20-30	55	42.3	< 3.5	46	35.4
31-40	36	27.7	3.51-12.5	17	13.1
41-50	9	6.8	12.51-20	2	1.5
51-60	2	1.6	21-50	2	1.5
61 >	3	2.4	51-100	4	3.1
<i>No response*</i>	25	19.2	101-500	11	8.5
Education			501-2,000	12	9.2
No high school	1	.8	> 2,000	1	.8
High school	5	3.8	<i>No response</i>	35	26.9
Bachelor's	51	39.2	Number of employees		
Master's	41	31.5	< 100	41	31.5
Ph.D.	2	1.5	101-250	14	10.8
<i>No response</i>	30	23.1	251-500	6	4.6
Work Experience			501-750	4	3.1
< 5 years	61	46.9	751-1,000	4	3.1
6-10 years	22	16.9	1,001-1,500	11	8.5
11-20 years	13	9.9	1,501-2,000	5	3.8
21 > years	5	3.9	> 2,000	18	13.8
<i>No response</i>	29	22.3	<i>No response</i>	27	20.8

* note: Respondents were very reluctant to answers this part of the questionnaire, in some cases they asked why we were asking these questions. This explains the number of no responses for this section.