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Explorations of National Culture and Word-of-Mouth Referral Behavior in the Purchase of Industrial Services in the United States and Japan

In this study, the authors examine how national culture affects referral behavior for industrial services such as advertising, banking, and accounting. The authors collected data using interviews with managers of small- and medium-sized companies in the United States and Japan. The results show that national culture has a strong effect on the number of referral sources consulted and that Japanese companies use more than comparable American companies do.

> Don't laugh, but all the really important [business] services I have, I found in the *Yellow Pages* (American manager of a small manufacturing company in the United States).

> When starting a new business, your bank means everything. Just about all my service vendors came from talking with my bank (Japanese owner of a cosmetics manufacturer in Tokyo).

Success in the increasingly competitive and global industrial markets of today depends on understanding the search and decision-making processes used by customers. Although it is quite clear that culture affects such buyer behaviors, American sellers have little systematically developed knowledge to help them understand or appreciate the kinds of differences reflected in the preceding managers' comments. If their comments are representative of their respective business systems, promotional efforts directed toward Japanese business customers in Japan (and their subsidiaries in the United States) must be adapted accordingly. This article directly addresses the issue of selling industrial services in a cross-national setting. Here, we examine the effects national culture and location have on the word-of-mouth (hereafter WOM) referral behavior that is common when companies attempt to buy commercial services such as advertising, accounting, or legal work.

In particular, these are important problems with regard to Japan. Although deemed notorious for its "closed" markets, Japan nonetheless provides marketers with a huge potential market. This issue is important to marketing scholars, practitioners, and governmental policymakers who are interested in how commercial service markets can be opened and maintained by American companies trying to do business in Japan or elsewhere abroad. The central research questions of this article are, How does national culture influence the social ties in referral networks as buyers seek sellers of commercial services? Is it culture that accounts for the differences in how a firm behaves overseas, or is it location of operation or other factors unrelated to national culture?

The topic is important in at least four ways: (1) International marketing is growing in relevance but continues to be relatively unstudied (cf. Day 1996); (2) Japan is the second largest market in the world, and its culture and business systems are very different than those of the United States (cf. Deshpandé, Farley, and Webster 1993); (3) Services marketing is a growth area, both domestically (Bitner and Zeithaml 1996) and internationally (Gilly and Graham 1996), and is substantially different than the marketing of products in several ways (Onkvisit and Shaw 1991); and (4) Word-of-mouth communication is a critical aspect of services marketing (Iacobucci and Hopkins 1992).

Our research employs the perspective of social network analysis in evaluating how the strength and placement of personal ties affect industrial buying patterns. In the marketing literature, social network theory has shown promise as a tool for analyzing WOM interactions between parties in referral activity (cf. Brown and Reingen 1987; Ward and Reingen 1990). Our study considers the social network WOM phenomenon in an industrial buying setting. Although generalizing from consumer purchases to industrial purchases must be done with caution, social network analyses of informal communication networks among people have been shown to enhance understanding of industrial buying behavior (Ronchetto, Hutt, and Reingen 1989). Similarly, we explore the phenomenon on a basis of individual

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buyer behavior but extrapolate to the firm level in the hypotheses development.

Theoretical Foundation

Word-of-Mouth Influence and Referrals in Marketing Literature

The Bass model (Mahajan, Muller, and Bass 1990) proposes that consumers are influenced by two sources: media and WOM communication. Word of mouth, both positive and negative (Richins 1983), has been the subject of more than 70 marketing studies since the 1960s (Yale 1989), with the products and services investigated ranging from piano tuners to automobiles. Word-of-mouth behavior has been examined less for services than for products, though it has been shown to be invaluable to service organizations (Berry and Parasuraman 1991). This is especially so if informal channels of communication are the primary means of disseminating market information and the services are particularly complex and difficult to evaluate (File, Judd, and Prince 1992), such as the professional services companies purchase. However, research on WOM behavior for services has been conducted almost exclusively in a consumer buying rather than an industrial service setting. This seems all the more remarkable given the important differences between industrial and consumer service marketers (Zeithaml, Parasuraman, and Berry 1985). Also, virtually no WOM studies have been undertaken on a cross-national basis (though Takada and Jain [1991] is certainly pertinent). With the dramatic increase in U.S. service exports and the dearth of cross-national marketing research on WOM behavior, the need for more research in these areas seems obvious. Furthermore, industrial buying literature is essentially mute on the subject of WOM influence on purchase decisions (Johnston and Spekman 1987; Spekman and Grønhaug 1986).

We consider three new explanatory constructs. That is, WOM referral behavior may be influenced by (1) the native culture of the buyer (American or Japanese); (2) "absolute location," or the country of operation (United States or Japan); or (3) "relative location," namely, domestic or foreign.

Home-Country Culture and Industrial Buyer Behavior

A firm's native culture influences its business strategies, tactics, and practices in the global marketplace (cf. Johansson and Nonaka 1996; Tse et al. 1988). The specific question addressed here concerns firms' international buying practices; are they, too, affected by the nationality of the firm?

Anthropologist Kluckhohn (1962, p. 25) defines *culture* as the part of human makeup that "is learned by people as the result of belonging to a particular group, and is that part of learned behavior that is shared by others. It is our social legacy, as contrasted to our organic heredity." National culture is gaining importance in marketing studies as a general theory (Clark 1990), explaining phenomena such as new product development (Nakata and Sivakumar 1996) and the performance of global branding strategies (Roth 1995). National culture is important here because WOM referrals that create service marketing opportunities in a given country would be expected to differ from those of another country, in part because of cultural differences. We subsequently discuss three relevant dimensions on which Japan and the United States differ.

Individualism/collectivism. Hofstede (1991) finds that Japan's national culture differs from that of the United States along most of five dimensions of culture he and collaborators identified, particularly regarding individualism/collectivism, for which Japan's score was half that of the United States. The collectivism in Japanese culture is manifest in a wide range of business strategies and practices and societal norms, such as *keiretsu* industrial groupings (Gerlach 1992), comparatively long-term employment (Ouchi 1980; Pascale and Athos 1981), and closer cooperation between government and industry (Tyson 1992). Moreover, Japanese firms demonstrate a more paternalistic approach to labor–management relations, emphasizing stability of operations over market share (Anterasian, Graham, and Money 1996).

Uncertainty avoidance. Hofstede (1991) also finds that the Japanese have an extremely risk-averse society, with an uncertainty avoidance score much higher than that of Americans. Japanese businesses minimize the risk of doing business with unfamiliar vendors or customers by forming long-lasting business relationships that are characterized by high levels of trust (Sullivan and Peterson 1988) and extensive social interaction with business contacts (Hall and Hall 1987). Such interactions would be manifest in higher levels of WOM activity among Japanese firms.

High/low context. In addition to being a highly collectivist society, according to Hall and Hall (1987), Japan is a "high-context" culture. In high-context cultures, the social and temporal context of communications is key to understanding the meaning intended by the content or words of the messages. Who says it and when, how, and where it is said can be more important than what is said in high-context cultures such as Japan. In low-context cultures such as the United States, accurate communication does not depend as much on long-standing personal relationships or other contextual factors. In high-context cultures such as Japan, it does. Consistent with Hall and Hall's ideas, Pascale (1978) reports that Japanese managers are different than American ones in their greater emphasis on face-to-face communications (WOM) over written communications in organizational settings.

Location of Operation: Japan Versus the United States

In a study of national culture as an explanatory variable in the buying behavior of industrial services, it is important to account for other explanations. Country of operation in an absolute sense (Japan versus the United States) warrants treatment as a second independent variable. That is, does the cultural environment of the companies' operations affect how they search for and buy industrial services? Will both Japanese and American companies behave according to Japanese "rules" when in Japan, and will both behave according to American "rules" when in the United States?

Acculturation theory predicts the extent to which and the reasons why one cultural group adapts its behavior when in contact with another (Beals 1953). A careful reading of Bateson (1972), for example, suggests four potential outcomes when American firms operate in Japan: (1) they retain their American buyer behavior, (2) they completely adopt the approaches prevalent in Japan, (3) they mix the two sets of behaviors and procedures, or (4) they devise completely new procedures that are not representative of the United States or Japan. In the anthropology literature, power (or force) has been found to be the key determinant of the degree of adaptation (cf. Beals 1953). That reasoning suggests that smaller American companies (with less market power) will be more likely to adopt Japanese procedures. Or, when the Japanese government places relevant regulations or the business culture sets behavioral norms, smaller American firms will adapt to a greater extent.

Location of Operation: Foreign Versus Domestic

Finally, do firms adapt their industrial buying practices when they establish operations in foreign markets? We expect a company's use of referrals to be greater in foreign markets than in its domestic market, because the company is forced to use informed intermediaries to locate the services it uses. The theoretical bases for this are threefold. The first is by cognitive psychology's Anderson (1983), who argues that unfamiliar situations demand two types of knowledge to be developed: *procedural* (how to) and *contextual* (detailed and specific knowledge needed to implement the procedural knowledge). Personal references are the most efficient source of the latter type of knowledge. The second basis arises from March and Simon's (1958) bounded rationality concept, in which organizations start with the known and proceed beyond the limits of their knowledge to the unknown. A trusted reference (known) in a foreign market (unknown) would fit this description. The third, a transaction cost analysis perspective (Williamson 1975), suggests that firms seek to reduce the expense of either buying or building expertise in a foreign market. Posting a company representative who uses key market informants for the purpose of establishing business ties with quality vendors, as well as customers, is an example of trying to keep transaction costs low. Thus, greater social network activity should manifest itself in foreign markets, regardless of the home-country culture of the companies studied.

Social Networks Theory

Similar to the word "culture," the term "network" has been interpreted in a variety of ways and requires clarification as it is used in this study. Here, *network* means the pattern of social structure and interaction that arises from personal relationships between people and the ties that form between companies as a result of the ties between the persons who work for those companies. A seminal source of social networks theory is Granovetter's (1973) article on the "strength of weak ties," which points out the importance of considering the characteristics of a relationship (i.e., the nature of social ties) in studying interactions among actors. In addition to *tie strength*, we also define and consider the *number of sources used* and *centrality*.

Only a few researchers in the social networks area have made comparisons of network processes across groups, as we do here. Prominent among them are Ruan and colleagues' (1997) comparison of social networks across time periods in China and Ruan and colleagues' (1995) comparison of Chinese and Dutch health care networks. Both studies report cross-group differences in patterns of social contact. Similarly, our expectations of the influence of cultural groups on the three social network constructs are the foci of the hypotheses we describe next.

Hypotheses

Number of WOM Referral Sources Consulted

Word-of-mouth activity has been used as a dependent construct in a social networks context in several studies. Reingen and Kernan's (1986) piano tuner study was one of the first to employ social network tools. Brown and Reingen (1987) use the context of a piano teacher's student population to measure the level of WOM referral activity among students and their parents. Frenzen and Nakamoto (1993) find that WOM information flows in "imperfect markets" were constricted when the element of risk of information disclosure was present.

Some research indicates that Japanese consumers make more use of WOM communications in their purchase behavior than do Americans. Takada and Jain (1991) conclude that the rate of adoption was influenced positively by "homophilous communication" in Pacific Rim countries, compared with the more heterogeneous culture of the United States. Also, the Japanese may use more WOM because of the difficulty of written communications in their cumbersome, character-based writing system (Pascale 1978). Thus, we first hypothesize that Japanese companies employ more WOM referral sources to find sellers of commercial services than American companies do. This is expected to hold true whether the companies are operating in Japan or the United States.

We expect the country of location to produce a second main effect, in that companies operating in Japan, regardless of national culture, will use more referral sources than companies operating in the United States. The business system in Japan necessitates that Japanese, as well as American, companies use informal WOM networks or be excluded from the mainstream of business activity (Morgan and Morgan 1991). Vendor performance is ensured by the high-context social networks system in Japan, whereas in the United States, the legal system is salient. Even as buyers of services, especially for the professional services of banking and legal work, foreign firms that are not subsidiaries of large multinational corporations typically need an introduction to get a serious proposal from a reputable service provider. In other words, cultural restrictions in the Japanese business environment require adaptation by the American firms. Alternatively, though trust is also important in the United States, the rule of law enables firms to engage economically in business relationships formed not so much on a basis of personal trust, but instead on a basis of efficiency. That is, if vendors do not perform satisfactorily, the legal system in the United States provides ready recourse. In Japan, "legal action often is seen as arbitrary and a cause of social disorder" (Richards 1994, p. 39) and, thus, is eschewed.

In this study, we predict the relative location of operation (foreign versus domestic) to have an impact on the number of sources consulted. Because this construct is essentially a product of national culture and absolute location, we present it here as an interaction effect. We hypothesize that foreign buyers (Japanese in the United States and Americans in Japan) use more referral sources than domestic buyers (Japanese in Japan and Americans in the United States). Companies desiring to enter the Japanese market have been advised to find a contact within an existing distribution channel (Nairu and Flath 1993) or use an expert insider in the entrant's line of business (Batzer and Laumer 1989). Even when an American company has sent a representative from its headquarters to Japan, that person should seek out a "key informant" to help establish the office (Grønhaug and Graham 1987). The arguments based on Anderson's (1983) and March and Simon's (1958) ideas are pertinent as well. The hypotheses implied by our discussion follow:

H_{1a}: Japanese buyers of services will consult more WOM referral sources than will American buyers.

H_{1b}: Buyers of services in Japan will consult more WOM referral sources than will buyers of services in the United States.

H_{1c}: Buyers of services in foreign markets will use more WOM referral sources than will buyers in domestic markets.

Tie Strength

Tie strength is a multidimensional construct that represents the strength of the dyadic interpersonal relationships in the context of social networks. The measures of tie strength that have been employed in previous marketing studies include

- *Duration*, or how long the referral source and actor have known each other (Ward and Reingen 1990);
- *Frequency of contact*, or how often the referral source and actor have contact (Brown and Reingen 1987); and
- *Social importance*, or how important the actor considers the referral source to be (Brown and Reingen 1987; Frenzen and Nakamoto 1993).

These measures have been used solely in consumer behavior settings. Because our study is industrial in nature, we added four other dimensions likely to capture the nature of the business relationship between buyer and seller in an industrial setting to the construct of tie strength. The four dimensions—business importance, likability, trust, and perceived expertise—are derived from social psychology literature. According to McGuire (1985), three traits of a source can affect the attitude of an influence target: credibility (relating to "trust" and "perceived expertise"), attractiveness ("likability"), and power ("business importance," which can be quite different than social importance, even within a single relationship).

The work of several researchers suggests that tie strength is greater in Japanese company referral networks than in American ones. Nakane (1970) suggests that U.S. society is characterized by impersonal ties, but Japan is more relational in its social structure. The assertion that Japanese society is more collectivist, risk averse (Hofstede 1991), and high-context (Hall and Hall 1987) than that of the United States would indicate that social ties are, in general, stronger, which leads to stronger ties in business settings as well. For example, in Dore's (1976) study of British and Japanese factory workers, 32% of Hitachi's (Japanese) entry-level workers found their positions through old school friends, in contrast to the British figure of less than 1%. We hypothesize, therefore, that the strength of ties is higher in the referral networks of Japanese buying companies than it is in American companies, both in the United States and Japan. We expect the absolute location of operation (Japan versus the United States) to produce a second main effect, as is discussed in the introduction for H_{1b}. We also hypothesize an interaction (foreign versus domestic), as is explained in the introduction for H_{1c}.

H_{2a}: The ties between buyers and referral sources in referral networks used by Japanese buyers will be stronger than those in networks used by American buyers.

H_{2b}: The ties between buyers and referral sources in referral networks used by buyers in Japan will be stronger than those in networks used by buyers in the United States.

H_{2c}: The ties between buyers and referral sources in referral networks used by buyers in foreign markets will be stronger than those in networks used by buyers in domestic markets.

Centrality

As the term suggests, *centrality* refers to how strategically placed an actor (i.e., company or individual) is in the network (Freeman, Roeder, and Mulholland 1980). Two important aspects of centrality are *degree* (the number of ties in the network between actors) and *betweenness* (how importantly or strategically the ties are placed). Research in marketing has used the centrality concept to only a limited extent (Ibarra and Andrews 1993; Ronchetto, Hutt, and Reingen 1989; Stevenson and Gilly 1993).

Centrality of actors in a commercial services marketing sense would take the form of a referral source being influential in a network of several buyers or sellers. In consumer behavior research, Feick and Price (1987) identify a type of opinion leader who influences the decisions of others through market, rather than product, information—the so-called "market maven." We explore this phenomenon in an industrial situation. The *industrial market maven* would be a person in a commercial setting who influences the service purchase decisions of several buyers of services by virtue of his or her superior knowledge of the market for those services.

In Japan, introductions by an effective intermediary, such as a banker, accountant, or trade association representative, at the right level of contact, is the way new business relationships are expected to begin (Graham and Sano 1989). Cold calling a sales prospect, especially by foreigners, without the help of a trading company, for example, is virtually a guarantee of no business at all (Morgan and Morgan 1991), because word of the blunder likely will spread quickly.

Here, we expect network centrality for the company-level pattern of referral use (i.e., graph centrality), as measured by degree and betweenness, to manifest itself in higher levels in Japanese companies than in American companies, regardless of whether the companies operate in the United

States or Japan. That is, more ties will be present in the Japanese networks (degree), and the referral sources will be located more directly on the path of the WOM information flow (betweenness). Country of location will produce a second main effect; firms in Japan, both American and Japanese, will tend to have higher levels of network centralization than firms in the United States. Also, we hypothesize an interaction effect of foreign versus domestic location, in that Japanese firms in the United States and American firms in Japan both will have high centrality in their networks by virtue of the strategically placed intermediaries they use. The hypotheses are as follows:

H_{3a}: Referral networks used by Japanese buyers will have higher levels of graph centrality (degree and betweenness) than will networks used by American buyers.

H_{3b}: Referral networks used by buyers in Japan will have higher levels of graph centrality than will networks used by buyers in the United States.

H_{3c}: Referral networks used by buyers in foreign markets will have higher levels of graph centrality than will networks used by buyers in domestic markets.

Research Design and Methods

At each company, we interviewed a person who was intimately familiar with the decision (i.e., either a participant in the decision or the actual decision maker) to purchase a firm's commercial services when the firm commenced operations about social network behavior in the buying process. The basic design employed in this study is quasi-experimental, employing a 2 × 2 design matrix of independent variables. The primary independent variable used is home-country culture, either Japanese or American. The second independent variable used is country of location, either the United States or Japan. The interaction between the two main effects is definable as *relative location*, foreign or domestic.

Sampling Plan

For each of the four cells in the design matrix, we obtained lists from library reference sources (e.g., *Southern California Business Directory*, *Corporate Affiliations in Japan* (online), *JETRO Japan Trade Directory*, *Japan Business Association of Southern California Directory*). To increase the study's generalizability, we selected a wide range of industries grouped into three types of service buyers: those in durables, nondurables, and services. The qualifications for a business to be included in one of the three categories were guided by the Standard Industrial Classification (SIC) code lists. A uniformly distributed four-digit random number was generated between the lower and upper bounds (0111 and 9271) of the SIC codes, then the industry that most closely coincided with that number was selected for study. We selected four durables (e.g., industrial instruments), four nondurables (e.g., cosmetics and toiletries), and four service industries (e.g., contractors for bridges and highways) as sample buyers of industrial services using this process. From the databases and directories, we selected companies that met the sampling criteria from the industry chosen by the SIC codes. With four industries from the durables, nondurables, and services categories for each of the four cells, the total number of companies interviewed was 48 (4 companies × 3 categories × 4 cells).

Sampling Criteria

Age and size of the responding company were the two most important criteria controlled for in the sample.

Age of company. Companies less than 10 years of age were selected for study, because the phenomenon studied was WOM behavior at the time services were first purchased. Therefore, all the responding companies needed to be relatively young, with the executives interviewed being those who founded the company or had first-hand knowledge of the initial service purchases. The average age of the companies in the study was 5.8 years. Some memory decay was present, but informants were asked how well they thought they had recalled the transactions (on the scale, 1 = "poor recall," 5 = "very good recall"). The average response was 4.49.

Size of company. The size criterion was controlled by using companies with annual gross revenues of less than $200 million or fewer than 150 employees. Meeting either criterion qualified the company for inclusion in the sample. Constraining the sample to smaller and younger firms was crucial to the study. In older, more established companies, data collection would have been more difficult because the original purchase decision maker might have left the company or business unit and been unavailable. Another reason to use smaller, younger companies is related to the managerial significance of the study. That is, most new business for commercial service providers comes from young, growing companies.

Data Collection

Each of the 48 buying companies was contacted by a researcher, who indicated the need for the firm's help in conducting research on how companies initially buy the commercial services they use. For Japanese companies in Japan, where an unsolicited letter asking for an interview has almost no chance of a response, the trade associations for the industries selected were contacted to assist in setting up the interviews. The trade associations representing the industries selected were sent letters asking their assistance in arranging meetings with member companies that met the criteria for being included in the sample. For American companies in Japan, the California governor's trade office in Tokyo and the American Chamber of Commerce in Japan were used to facilitate the contact for companies in the selected industries. For Japanese and American companies in the United States, a letter was sent to the company directly from the researcher. If companies denied requests for an interview, other industries and/or companies of the appropriate type were selected and contacted until the requisite number of interviews from companies of the durables, nondurables, and services categories was obtained.

In arranging the interviews, the researchers requested that the person most familiar with the purchase decisions for commercial services at the inception of the business be present. This was typically the founder (52%) or another high-level executive (40% were executive vice presidents). After the meetings were arranged, the 12 American and 12 Japanese companies in the Southern California area were visited to conduct the interviews. Data were also collected in Tokyo through interviews of the 12 American and 12 Japanese firms there. Interviews lasted approximately 60 minutes each. In addition to tallying the responses given to specific questions, the researchers made copious notes of respondents' amplifying and explanatory comments, including direct quotes. With the permission of the involved executives, the interviews conducted in Japanese were tape recorded. All 48 interviews were conducted by the same researcher, in either English or Japanese, depending on the native tongue or preference of the subject (the researcher is business fluent in both languages).

The interviews focused on major services the companies purchased when commencing operations, including advertising, distribution (e.g., trucking), banking, accounting, insurance, courier, legal, travel, long-distance telephone, and real estate (brokerage, management). The questions used in the interview were pretested with appropriate Japanese and American executives in California and are listed in the Appendix. This type of questioning (albeit in written, survey form) has been used in other WOM social network studies in marketing literature (Brown and Reingen 1987).

Measures and Data Analysis

The number of sources consulted has one indicator, measured simply by the number of personal information sources (other than the seller) the buyer talked with about the service in his or her search process. If one or more of those sources referred the seller to the buyer, the strength of that relationship between the buyer and reference (tie strength) was measured. The tie strength measure consists of seven indicators, five of which were measured on a 1-to-5 Likert-type scale as to the intensity of the relationship ("How important was the source in a business sense?"). Of the remaining two, duration of the relationship was measured in terms of how many months the source was known, and frequency was measured by how many times during a year the buyer typically had had contact with the source, both with reference to the time of the original purchase decision. When more than one source was used by a company, tie strength was calculated by averaging the scores on the seven indicators across the number of references used by that company. Finally, on the basis of their internal consistency (Cronbach's alpha = .77), the seven indicators were combined after standardization (i.e., each score was divided by its grand mean for the sample) into a single measure of tie strength to be used in the hypotheses testing.

Centrality has two components in the study, graph degree and graph betweenness. Consistent with other social networks studies in marketing (cf. Ronchetto, Hutt, and Reingen 1989), degree and betweenness were analyzed separately. Each measure was calculated using UCINETIV (Borgatti, Everett, and Freeman 1992), a social networks computer analysis tool.

Unit of Analysis

Data were analyzed at the company or graph level (n = 48). That is, the results of the number of sources, tie strength, and centrality were aggregated to show what the level of those variables were for each of the 48 companies in the study across all ten service categories. However, for some variables, results from other levels of analysis (i.e., buyer–seller dyads were n = 434; buyer–reference dyads were n = 111) are pertinent but not reported here because of space limitations and their substantial consistency with the company-level analysis conducted. We also studied the various relationships separately across the ten service categories (i.e., advertising versus banking versus accounting, and so forth) and found some variation worthy of more study; a few examples are included in a subsequent section. However, because our goal is to understand generally the impact of culture on services buying behavior, this level of aggregation constitutes the most pertinent and conservative test of our theories. In the latter respect, pooling data across services categories might attenuate differences and mask relationships.

Five of the American companies used no referrals in making buying decisions. Consequently, the more conservative approach to measuring tie strength was to count those five cases as missing, and for that analysis, n = 43, as is reflected in Table 1. For centrality, n = 48 is still appropriate, because those measures take into account the companies' direct contacts with suppliers, as well as the contacts with WOM sources.

Rival Explanations

Multiple regression was used to analyze to what extent four control variables (i.e., age of company; number of employees; level of sales; and the buyer's type of industry, goods or services) accounted for variance in the dependent variables.

Results

Number of WOM Referral Sources Consulted

Results of the ANOVA from the company-level data, as we show in Table 1, indicate that H_{1a}, in which we hypothesize a main effect for native culture in the number of WOM sources consulted, received strong support ($F = 17.3$, $p < .001$). Japanese firms tended to consult more personal sources than did American firms. In H_{1b}, we predict a second main effect for location of operation, and firms did tend to consult more sources in Japan than in the United States ($F = 13.2$, $p < .01$). H_{1c} also is supported by the data, because companies in foreign locations consulted more sources than those in domestic locations ($F = 9.5$, $p < .01$). The R-squared for the ANOVA results was .48 ($p < .05$). The cell means (and standard deviations) for the number of sources consulted are included in Table 1. If we were to convert the number of sources to a dichotomous variable (i.e., 1 = at least one source consulted, 0 = no sources consulted), then Japanese companies operating in Japan consulted WOM sources for

TABLE 1
Results: ANOVA and Regression Analysis

Cell Means (s.d.)					Test Statistics	
H_1: Sources Consulted (ANOVA, n = 48)						
	Japanese firms		American firms			
In Japan	.74	(.30)	.66	(.22)	Culture	F = 17.3*
					Country	F = 13.2*
In United States	.70	(.32)	.15	(.18)	Foreign/Domestic	F = 9.5*
						R^2 = .48*
H_2: Tie Strength (ANOVA, n = 43)						
	Japanese firms		American firms			
In Japan	7.1	(.8)	6.7	(1.9)	Culture	F = 18.0*
					Country	F = .6
In United States	8.6	(2.3)	4.5	(1.0)	Foreign/Domestic	F = 12.0*
						R^2 = .40*
H_3: Degree Centrality (Regression, n = 48)						
	Japanese firms		American firms			
In Japan	48.8	(14.7)	43.8	(7.0)	Culture	beta = –.04
					Country	beta = –.33*
In United States	48.9	(10.6)	33.3	(36.1)	Foreign/Domestic	beta = –.25
					Company age	beta = .51*
					Number of employees	beta = –.19
					Revenues	beta = –.15
					Industry of buyer	beta = –.35*
						Adjusted R^2 = .21*
H_3: Betweeness Centrality (ANOVA, n = 48)						
	Japanese firms		American firms			
In Japan	1.5	(1.2)	2.2	(.9)	Culture	F = .8
					Country	F = 3.5
In United States	2.0	(1.0)	.7	(.9)	Foreign/Domestic	F = 11.1*
						R^2 = .25*

*$p < .05$.

approximately 52% of their industrial services purchases, whereas American firms operating in the United States did so for only 14% of their purchases. None of the four rival explanatory variables was found to be related to the dependent variable in the regression analysis, which thus provides validation for the ANOVA results.

Tie Strength

As we show in Table 1, H_{2a} and H_{2c} are supported by the ANOVA. Tie strength was found to be greater for Japanese firms (F = 18.0, $p < .001$) and firms operating in foreign environments (F = 12.0, $p < .01$). Conversely, H_{2b} is not supported; tie strength was not found to be different for firms operating in Japan and the United States. By themselves, the three main effects account for 40% of the variance in tie strength ($p < .05$). None of the four control variables was found to be statistically significant in the regression analysis with the main effect variables.

Centrality

Rival explanatory variables (i.e., the covariates) were found to be related to degree centrality, and the results of the regression analyses (ANCOVA) are reported in Table 1 for that dependent variable. No relationships were found between rival explanatory variables and betweenness centrality, so we report ANOVA results for the second centrality variable. H_{3a}, in which we predict an effect for native culture for the two centrality components, is not supported. However, H_{3b} is supported for both components (degree beta = –.33, $p < .05$ and betweenness F = 3.5, $p = .07$). The effect we hypothesize in H_{3c} (foreign versus domestic) also received support for betweenness (F = 11.1, $p < .01$).

Degree centrality was found to be related to two rival explanatory variables: company age and industry (betas = .51 and –.35, respectively, $p < .05$). That is, older companies in the manufacturing business tended to use referral networks with greater degree centrality. The regression adjusted R-squared for degree centrality was .21, $p < .05$. The three main effects explained 25% of the variation in betweenness centrality ($p < .05$).

Discussion

Number of WOM Referral Sources Consulted

Strong support for the home-country culture hypotheses indicates that Japanese companies use more WOM referral sources than American companies do, whether in the United States or Japan. The importance of activating the strong ties that are located strategically in referral networks in the high-context (Hall and Hall 1987), highly collectivist, and risk-averse (Hofstede 1991) culture of Japan is reflected in the buying practices of its firms. The results show that location of operation also has an influence on the number of sources consulted. In particular, Americans seem to adapt their buying behavior in Japan for three reasons: (1) stringent norms of business behavior force them, as is predicted in the anthropological literature (Bateson 1972; Beals 1953; Peñaloza 1994); (2) the less prevalent legal system cannot reduce the risks of nonperformance; and (3) there is a general lack of knowledge of the foreign market, which requires the greater use of referrals, as is suggested by Anderson (1983), Grønhaug and Graham (1987), March and Simon (1958), and Williamson (1975). The highly risk-averse Japanese, however, use referrals in the United States, consistent with this lack of knowledge. Moreover, they apparently do not trust the "risk-reducing" U.S. legal system to free them of the time and expense of using referrals.

Tie Strength

Native culture has a clear main effect on tie strength. Consistent with Sullivan and Peterson's (1988) descriptions, the relationships between buyers and referral sources in networks used by Japanese companies are stronger than those same relationships in networks used by American companies. Tie strength is also stronger for both Japanese and American companies operating in uncertain foreign environments. The lack of tie strength evident in the American WOM networks in the United States provides the strongest support for Nakane's (1970) appellation of "impersonal ties."

However, the effect for absolute location (Japan versus the United States) is not supported. One explanation is that the particularly low cell mean for tie strength for American firms operating in the United States (4.5) is "neutralized" by the unexpectedly high score for Japanese firms operating in the United States (8.6). Perhaps the Japanese penchant for stronger ties plus the uncertainty of the unfamiliar market causes them to create and/or rely on stronger ties, as Anderson (1983) and Williamson (1975) suggest. The resulting tie strength for all 24 firms (both Japanese and American) in Japan is 6.9, which is not significantly different than the 6.6 mean for the other 24 firms operating in the United States.

Centrality

The native culture of the companies appears to have no effect on the centrality of the references consulted for advice about buying business services. However, references with greater network centrality are used in Japan and in foreign environments by both American and Japanese firms. The primary cause of these effects appears to be that American firms adapt to the network-rich business system in Japan with respect to both degree and betweenness centrality. That is, when they entered the Japanese market, American managers used more strategically placed references within more intricate referral networks than were found to be used typically by American firms in the United States. Conversely, when Japanese firms were established in the United States, their executives were able to find and use more strategically placed nodes within business networks, as they had in Japan.

Two other factors seem to have influenced degree centrality in our study. First, the older firms in our sample tended to use more intricate referral networks. Perhaps during the past ten years (the time period encompassed by our data) firms have begun to change their buying practices to reflect more the legalistic, arm's-length approach more common among American firms in the United States. Recent improvements in information systems also may have contributed to this apparent change in behavior. Second, manufacturing firms seem to have consulted more intricate referral networks. Perhaps firms in services industries are able to make buying decisions about business services more efficiently—that is, with fewer contacts—than their manufacturing counterparts.

Insights from the Qualitative Data

The requisite precision for statistical analyses often leads to assumptions such as those we made in our survey question about the number of sources consulted. That is, as one reviewer rightly pointed out, there are other possible, and more complex, ways purchase decisions are made than just using a referral or not. For example, sometimes referrals are sought but ignored in the final decision. Fortunately, the questions used in the Appendix not only encompass the measures required for quantification, but also serve as prompts intended to stimulate conversation that leads the respondents to provide additional qualitative insights (cf. Sutton 1997). The following are insights gleaned from the interviews that both exemplify and amplify the findings from the quantitative analyses already reported.

American companies in the United States. Most of the comments made by the managers of American firms in the United States were consistent with the findings regarding the numbers of referrals, and they tended to reflect the individualism, risk-taking propensity (Hofstede 1991), and impersonal nature (Nakane 1970) of American culture. Perhaps most representative was the first quote used in the introduction of this article, but other managers made similar statements, such as

> We saw our accountant's name on a sign and gave him a call. Same with our real estate broker. We found our advertising agency at an industry trade show for our machinery (packing machinery manufacturer).

Several of the Americans' comments suggested that previous associations or other kinds of research had been taken into account, but even in those cases, direct referrals were not solicited. As one respondent recounted,

> I saw a woman's name in our church bulletin. I didn't know her well, but I was driving around one day about the time I started the company. I needed a CPA [certified public accountant]. I saw the same woman's name with 'CPA' next to it on a building close to our business. I gave her a call—"I didn't know you were a CPA." She's our CPA (software company founder).

Many of the comments evinced the low-context American culture that Hall and Hall (1987) describe. That is, other performance factors, rather than personal referrals, were salient in the choice behavior, as the following comments demonstrate:

> It was also located in the garment district—really important for us (women's clothing manufacturer about his bank).

> Why did I choose my bank? Location, location, location (consulting firm).

Such individualism and risk-taking propensity on the part of the managers of American firms in the context of the U.S. business system is the cultural difference that seems to drive the results of our study. The search process appears to be very different in Japan; no manager of a Japanese company, in either country, made similar comments about choosing their banks.

Japanese companies in Japan. Hofstede's (1991) collectivism, Hall and Hall's (1987) high-context culture, Sullivan and Peterson's (1988) strong ties, and our own ANOVA findings are reflected well in the comments of the managers of Japanese companies in Japan. For example,

> We're pretty close as an industry. Our attorney was referred to us by the municipal agency that regulates our business (public works construction company).

> I have many good friends who set me up in the business with all the services I needed (software company).

> In a typical Japanese company that is small, nepotism is very strong. That's why they only like to do business with someone the founder's family knows very well (radiology equipment manufacturer).

Many of the Japanese firms interviewed had unsolicited advice for and comments about Americans coming to Japan, which suggested that low-context, individualistic Americans often do not understand the high-context, collectivistic Japanese business system. One respondent noted that

> American companies have difficulty doing business with small- and medium-size Japanese companies because the level and type of trust is so different here. Channel members finance each other more than in America. Also, you must go through the Japanese company's bank to get information about the company, not some credit agency [such as Dunn & Bradstreet] (industrial sensor manufacturer).

Finally, perhaps the most important aspect of the comments regarding the Japanese firms (operating in both Japan and the United States) is the centrality of their banks. Their descriptions are reminiscent of Feick and Price's (1987) notion of market mavens. More than half of the Japanese managers emphasized the integral role of bank referrals for business services with comments such as the one at the beginning of this article or,

> In the beginning, our bank was very important in getting us started. It helped us sprout our roots (public works construction company).

Japanese companies in the United States. The comments by the managers of Japanese subsidiaries operating in the United States consistently supported the notion that business practices developed in their high-context, network-intensive culture had accompanied them across the Pacific. For most services, strong ties were characteristic as well. Representative are the following comments:

> My parent company in Japan has relations with that bank going back hundreds of years. When I set up the subsidiary here, why wouldn't I use that bank's U.S. office? (electronics company).

> Our bank and accountant in the U.S. are firms that our parent company in Japan has had interactions with practically on a daily basis for more than 20 years (auto parts company).

> For just about all of our services, especially banking, we asked around or got referrals from our head office to find those companies—except for the freight forwarders; they find you (paper manufacturing sales office).

Again, the apparent importance of the bank is reflected in all three comments. Also, note the exception made regarding the freight forwarders in the third comment. Indicative of this sort of "abbreviated" search used for certain categories of services is the statement,

> I did a little research into the business, interviewed two or three [advertising agencies], and picked one. That's it (automotive company executive).

Overall, however, there was little evidence in the interviews of Japanese managers of adaptation to the more legalistic, arm's-length American business relationships, which might provide quicker selection of business services vendors. Instead, at least one Japanese firm argued that its approach is quick in another way, through the use of strong, well-established social ties:

> American managers don't understand the process [of how we select service providers]. The top executives of the two companies have known each other for many, many years. The decision is made at the top and things happen very quickly after that. Maybe things go slowly before. It's not just the price that makes the decision (engineering services firm).

American companies in Japan. Contrary to the obstinacy of Americans in face-to-face international negotiations settings reported by Adler and Graham (1989) and the preceding comments of the Japanese managers, our ANOVA findings and the comments of the managers of American subsidiaries interviewed in Tokyo demonstrate adaptation to and a good understanding of the high-context culture of Japan. For example,

> Search for services? There really isn't much searching done. Japanese tend to do business with old friends. Times

> are hard right now. They tend to think, "Who needs the business most these days?" when deciding which company to buy from (copying and graphics services company).

> Part of the job here is keeping the right linkages. The interface with headquarters has to be American. The interface with the Japanese market [customers and vendors] must be Japanese (plastics and printing ink manufacturer).

This adaptation on the part of the American firms seems to be driven, at least in part, by the uncertainty of the unfamiliar environment (cf. Anderson 1983; Williamson 1975) and perhaps by the virtual lack of legal recourse in Japan (Graham and Sano 1989). As one manufacturer noted,

> Since we're already paying a lot of money to do business in Japan, we tend to pay a little more to get the blue-chip names in service providers. It's just one less thing to take a chance on. Business is tough enough here (computer manufacturer).

The American firms also recognize the centrality of the Japanese banks:

> Banks are extremely important go-betweens [in deciding with whom to do business] because they have access to so much information about markets, companies, etc. (building maintenance and pest control services company).

Finally, a story related by one American clearly indicates that the Japanese sellers also might adapt their sales practices for American customers in Tokyo:

> The day I moved into my office in Tokyo, I was in my jeans ... moving boxes up the stairs to the office. Literally, lined up at the door when I got there were all these Japanese bankers in suits. I really couldn't believe it. They would toss their business cards up onto the boxes as I carried them up the stairs. I told them all that I couldn't see them that day. Even people from different branches of the same bank were there competing for business. It was incredible. The bank I ended up going with would do the wire transfers at cost—they gave back half of the fee (major appliance manufacturer).

Indeed, anyone familiar with Japanese business etiquette regarding business cards (a careful exchange with both hands) would be astounded by the degree of adaptation the bankers showed that day, let alone the lack of coordination across branches of the same bank.

Implications

Managerial Implications

This study confirms earlier empirical evidence that the business culture in Japan is vastly different than that in the United States, and getting business done in Japan requires a different approach than the "go-it-alone" business culture of the United States. Furthermore, our study demonstrates the magnitude of those differences by providing a metric for network phenomena. For example, we probably can gather from the popular business press that Japanese firms use more network activity than do American ones. How much more? Japanese companies were found to use 78% more referral sources than American firms when we considered their operations in both Japanese and U.S. locations. In the United States, Japanese firms used 340% more referrals than did comparable American firms.

With Japanese companies, American managers should invest the time and resources to build trust-based relationships with strategically placed intermediaries such as banks and other central figures in Japan's *keiretsu* groups. Teaming up with a partner (such as a bank) that already holds a central position may be one way of accomplishing the market entrant's goals. Those who succeed in Japan usually do so by forming affiliations and working alongside established systems there rather than trying to circumvent them (Nariu and Flath 1993). Paradoxically, one of the fastest ways to crack the Japanese market might be taking the time to build relationships with the right kinds of referral sources.

Theoretical Implications

In this study, we find that the construct of home-country culture has pervasive effects on all three dependent variables of WOM purchase behavior, though less so on the centrality measure. The findings endorse Clark's (1990) model of national culture's nearly universal effect on buyer behavior. Conversely, the results suggest that buyer behavior studies conducted in only one country might not be valid in other countries because of the effects of national culture.

Our study adds to the notion that location is one of the factors that significantly affects a company's behavior in a foreign country (Tse et al. 1988). The number of WOM sources used and graph centrality are influenced by both the location of operation variables (Japan/United States and foreign/domestic). However, for tie strength, the results diverge some, which indicates that the cultural environment of operations and foreign/domestic operations are not merely two descriptions of the same construct and that they deserve attention as separate, independent variables.

Limitations and Further Research

Because variance in the dependent measures remains to be explained, future work should test more comprehensive models. For example, comparing the buying behavior of American subsidiaries with their Tokyo parent companies could shed light on parent–subsidiary interaction in buying decisions. The nature of the service provider also could be expanded as an independent variable. That is, how does the purchase of more complex services, such as accounting or banking, differ from commodity-type services, such as overnight couriers or long-distance telephone service providers? Comments made during the interviews suggest that search processes vary by service category. According to deeper analyses of our own data, culture, country, and location have important effects on the numbers of referrals used for accounting services but not for courier services, for example.

Colleagues have suggested that the relationships among the dependent variables should be considered. Moreover, the WOM referral behavior measures employed in this study as dependent variables could be treated as independent variables to gauge their effect on service purchase outcomes, such as speed of the purchase process, satisfaction with the service provider, repurchase intention, and source loyalty.

One of the most important areas for additional research should be a focus on the referral nodes themselves. What kinds of nodes perform most of the referring in the purchase of services? In the data for the current study, a simple cross tabulation of classification of node type reveals that the top two referral sources for Japanese companies (in both the United States and Japan) were personal friends and banks. For American companies, the two referral sources named most were business partners and investors. Perhaps the kind of node most often used makes it easier or harder for a new provider to enlist that node's help in approaching sellers.

The findings of the current study deserve replication in other cultures and countries and with multiple research methods. For example, how do referral networks function in Hispanic and Chinese cultures, in which family ties are often most salient? The issue of microcultures is also particularly intriguing. In Japan, the Osaka microculture is noted for its freewheeling, entrepreneurial business style, compared with the more staid, conservative Tokyo business culture. Does this freewheeling style entail less use of referrals? Are there such differences in referral usage between the Los Angeles and New York subcultures in the United States?

We now have more evidence of both the substantial differences in the Japanese and American business systems (perhaps metaphorically, while Americans are thumbing through the *Yellow Pages,* Japanese are talking to their bankers) and a culture's pervasive impact on buyer behavior. As the globalization of marketing efforts accelerates, further research in this vein will become a crucial foundation for the more efficient international commerce of the future.

Appendix
Survey Interview Questions

(For each service: bank, accountant, advertising agent, etc.)

Question 1: How did you go about selecting the provider of this service (your bank, for example)? Did you get a referral from another source, or did you have contact with the provider directly? If you used a referral source, how many people did you talk with in the search process?

Question 2: If a referral source was involved, please tell me about your relationship with the referral source, at the time of the referral.

- How would you describe this relationship (for example, relative, friend, business acquaintance, etc.)?
- How long did you know the source?
- How frequently had you had contact with the source?
- On a five-point scale, rate:
  1. How important was the source in a business sense?
  2. How important was the source in a social sense?
  3. How much did you like the source?
  4. How much did you trust the source?
  5. How much expertise did the source have?
- Since the referral, has your relationship with the source changed?

Question 3: Since the time of the referral, have you changed the provider service that was referred to you?

Question 4: Did the source who referred you to the provider of this service also refer you to the provider of other services?

Question 5: On a five-point scale, how well would you say you recall the events you have described?

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