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**THE INTERNATIONALISATION OF THE MICRO-ENTERPRISE FROM A  
SOCIAL EXCHANGE RELATIONSHIP BUILDING PERSPECTIVE**

A thesis presented in partial fulfilment  
of the requirements  
for the degree of  
Doctor of Philosophy  
in Marketing  
at Massey University

Paul Antony Pickering

2005

## Acknowledgements

This thesis could not have been completed without the guidance, support and understanding of many individuals, some of whom selflessly dedicated hours of their time to improve the product, and others who offered reassuring words when I was stuck in the “slough of despond”.

The greatest debt of gratitude must go to my supervisor, Dr Russel Kingshott, whose hands on approach and infectious optimism kept me on track to completion. His professionalism and demand for academic rigour were tempered by compassion, humour, and one-liners such as - “Stop trying to pluck hairs off eggs!”

Thanks are also owed to the following people for their encouragement and input;

*Aaron, Anne, Brian, Carol, Chris and Nicki, Christine & Malcolm, Daniel, Danielle, Elyse, Erica, Fid & Dev, Fiona, Gleb, Grant & Barb, Gurvinder, Harriet, Helen & Jenny, Henrik, Henry, Jacs, Jelena, Jens & Lyn, Jenny, Jim & Cath, Josiah, Larry, Liz, Lynne, Mark, Mary, Merv & Joan, Michelle, Nanette, Nitha, Oz, Peren, Samuel, Sandy, Richard, Ricky & Karen, Roanne, Sharon, Shelley, Simon, Sylvie, and Toni.*

Furthermore, appreciation goes out to the owners of the micro-enterprises that became the focus of this thesis. Their willingness to discuss at length, often topics of some sensitivity, greatly contributed to the quality of the findings and afforded a rich understanding of the complex behavioural processes that drive this most diminutive of internationalising firms.

I also consider myself extremely fortunate to have such a gracious and supportive family who for the past few years have given me the space, often letting me off my share of life’s normal duties, in order that I might write.

Finally, thanks are offered to God who has brought me this far by his grace.

*This thesis is dedicated to the memory of my beloved grandfather, Raymond “Jack” Pickering, and a much admired “Uncle”, Sir William Hayward Pickering, who in different ways inspired me to reach my goals.*

## Abstract

The micro-enterprise (MCE) represents by far the largest category of businesses in most industrialised economies but until now it has not been recognised as an important participant in the foreign market. Much has been written about how larger firms internationalise through the gradual acquisition of knowledge and resources, although there is a paucity of literature on how the MCE exploits international markets often despite the absence of such acquisitions. This thesis proposes that building a portfolio of relationships is critical in facilitating both market entry and subsequent outcomes. A more detailed investigation of this process helps reveal precisely how MCE internationalisation is largely a function of its specific relationship building efforts.

Employing a multiple case study approach, in-depth interviews were held with founders and directors from seven MCE's, purposely selected from three main centres of commercial activity in New Zealand. Interview participants were encouraged to provide detailed longitudinal retrospections of their firm's internationalisation journey, with a particular emphasis on precisely how resource constraints were overcome during this process. All interviews were recorded and transcribed, and together with other confirmatory data sources, these formed the canon of evidence used for ongoing analysis and interpretation. The whole research process was an iterative one with observations made from earlier cases being challenged and refined through the consideration of data from subsequent cases.

Several key findings emerged from this study. Firstly, internationalisation is of considerable significance to the MCE in that it expands product and market opportunities, improves operational competencies, and provides an outlet for the achievement of both financial and relational goals. Secondly, key relationships developed during this process include internal, manufacturer/supplier, distributor, support, EPO, and end-user *types*. Thirdly, MCE's gravitate towards adopting either a *social exchange* (characterised by trust, commitment and social norms) or *transaction cost analysis* (characterised by contractual mechanisms) approach to developing these relationship types. Critical to this finding though and previously unobserved in the literature, is that within the context of a social exchange or transaction cost analysis

approach, governance (bilateral or unilateral/market) may be observed as a separate construct. Finally, the MCE adopting a social exchange approach overall achieves more robust international outcomes particularly in respect to increased cost efficiencies and new market opportunities.

Although no statistical inferences can be drawn from the findings of this study, some important generalisations to theory can be made in respect to the manner in which small firm internationalisation is currently modelled. It is suggested that this research has begun to address the issue by proposing that the quality of relationships is central to the success of the smallest of internationalising concerns. Specifically, sequential knowledge, network, and resource based views, need to better incorporate the moderating role that the relational paradigm has on international progress. To this end it has been demonstrated that the precise underpinnings of the relationship can have a determining effect on both the rate and cost of international progress. Furthermore, managers may also benefit from these findings by improving both their relationship filtering and nurturing processes.

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## List of Terms

BB	Biting Buddy
EPO	Export Promotion Organisation
FDI	Foreign Direct Investment
FF	Fancy Foods
FTE	Full-time effective (staff)
GP Margin	Gross Profit Margin
HiSE-HiBL	High Social Exchange – High Bilateral Governance
HiSE-LoULM	High Social Exchange – Low Unilateral/Market Governance
HiTCA-HiULM	High TCA – High Unilateral/Market Governance
INV	International New Venture (see also Born Global)
IRM	International Relationship Marketing
ISP	Infant Shelter Product
JAG	Joint Action Group
KK	Kids Korner
LoSE-HiULM	Low SE – High Unilateral/Market Governance
MM	Mobile Manager
MCE	Micro-enterprise
MNE	Multinational Enterprise
NZTE	New Zealand Trade and Enterprise
OBC's	Organically Based Condiments
OO	Ozone Officers
RDP	Remote Data Transmission Product
RM	Relationship Marketing
RP	Relational Paradigm
RR	Rifle Rangers
SE	Social Exchange
SME	Small to Medium Enterprise
SPP	Skin Protection Product
TCA	Transaction Cost Analysis
TT	Theatre Thespians
VAE	Voice Activated Electronics
VP	Visual Production
WKT	Wooden Kitset Toy

# **1 Internationalisation of the Micro-enterprise**

*The impetus behind this thesis stems from the desire to understand how the New Zealand Micro-enterprise (MCE) is able to initiate and sustain foreign market entry and subsequent activities. Specifically, this work proposes that such initiatives are often significant to firm survival, and also that the building of interdependent relationships is crucial to this process for the resource constrained risk exposed MCE. Not only has there been a paucity of research on the role of the relational paradigm (RP) in internationalisation, but also a complete overlooking of the MCE as a viable and important unit of analysis. The initial chapter of the thesis therefore addresses the importance of investigating such a context as well as identifying the scope of the present work. Firstly, the rationale for studying the business problem is stated from both a managerial and policy making perspective. Secondly, a brief account of the salient literature is given which highlights the deficiencies with respect to our understanding of the MCE. This then provides the basis for presentation and discussion of the research questions and expected contributions to the discipline. Finally, the chapter concludes with an outline of the thesis.*

## **1.1 Rationale for the Study of MCE Internationalisation**

This thesis is about internationalisation but in the context of the most diminutive of firms, the MCE. Defined herein as having five or fewer full-time effective (FTE) employees, it is a significant unit analysis for investigation because it accounts for 87% of all New Zealand (NZ) businesses, 11% of employment (New Zealand Department of Statistics, 2005), and 20% of total economic output (Ministry of Economic Development, 2004). Furthermore the MCE represents the whole spectrum of NZ industry including service, commodity, traditional manufacturing, and technology sectors.

The MCE's emergence from subsistence based "Mom and Pop" enterprises into fully fledged, innovative, and market driven concerns has largely come about as a result of the dramatic 1984 industrial policy reforms in NZ. These reforms removed most of the trade protection barriers previously enjoyed (Thirkell and Dau, 1998) and not only had the effect of forcing big business to diversify and rationalise (Bell, McNaughton, and

Bennett, 2000), but made commonplace the outsourcing of contract work to newly created and highly mobile small firms. Whilst this changed the domestic situation by forcing the small business in particular to seek alternative sources of revenue from existing and new industries, the population demographics also necessitated a response to larger foreign market opportunities which arose. On this basis it seems likely that an increasing number of MCEs are either compelled to or desire to go international, which may be expressed more formally in the following research question (**R<sub>q</sub>**):

- ***R<sub>q1</sub>: What is the significance of internationalisation to the New Zealand MCE?***

Confirmation of this significance then creates a central business problem for the MCE manager, namely how to attain a more robust and sustainable international presence. This is amplified further due to knowledge and resource constraints (Johanson and Vahlne, 1977), psychic and physical distance (Ford, 1980; Johanson and Wiedersheim-Paul, 1975), and liabilities of smallness and newness (Aldrich and Auster, 1986) facing the MCE. In fact going international does not guarantee survival, with the failure rate amongst small businesses being much higher than larger counterparts (Westhead, Wright, and Ucbasaran, 2002). Often pulled into the foreign market via a serendipitous event or social tie (Andersen and Buvik, 2002; Ellis and Pecotich, 2001), these enterprises commonly lack the expertise required to expand their profile or even remain viable. Furthermore, the typical risk management strategy of employing the lowest commitment mode of exporting does not improve their prospects, due to the lack of interaction between them and their overseas value chain (Westhead et al., 2002).

To add to the complexity associated with internationalising, recognition of the foreign market achievements of the MCE at a policy level is at best marginal. Whilst acknowledgement of the achievements of the few that perform well is present in the form of various enterprise and international trade awards, real foreign market assistance is generally directed towards the larger firm, with the smaller concerns being left to contend with advice which is either too generic or too costly (Bell et al., 2000; Shaw and Darroch, 2004). There has been some improvement in this area though, albeit largely motivated by the firms themselves, through the emergence of industry clusters (Bonaccorsi, 1992) and joint action groups (Chetty and Patterson, 2002). However these have been observed to not perform well when the goals of the individual diverge from

those of the group (Chetty and Blankenburg Holm, 2000), indicating the importance of the RP in maintaining the integrity of such structures.

Given the evident lack of research in this area, it is clear that studying the foreign market efforts of the MCE is important. Much has been written about internationalisation in larger firm contexts and this does go some way to explaining the MCE. However it does seem that effectiveness of this literature as a proxy for the MCE is in question, and therefore it is contended that the RP and more specifically relationship marketing (RM) research enriches the robustness of existing theory. With this in mind, these complementary streams of literature from which the thesis research questions are derived, are now outlined.

## 1.2 Important Streams of Literature

Historical data indicate that the MCE is unlikely to make the transition into a larger organisation over time (Ministry of Economic Development, 2004) which means that those seeking to internationalise will not do so by vertically integrating critical functions (Larson, 1992). Whilst this renders traditional economic theory such as *foreign direct investment* (FDI) (Aharoni, 1966; Dunning, 1988) inapplicable to the MCE, contemporary *stages* and *networking* perspectives do account for many of the risks associated with international progression and growth.

Stage theory (Bilkey and Tesar, 1977; Cavusgil, 1980; Johanson and Wiedersheim-Paul, 1975; Reid, 1981), although roundly criticised as being too deterministic and of descriptive value only (e.g., Andersen, 1993), does indicate the small firm is indisposed to risk and will therefore increase international market commitments in a stepwise manner as knowledge and resources increase. Often conceptualised as process models they show internationalisation to be temporal, moderated by *psychic distance*. They equate commitment with changes in the firm's structure, asserting that maximising foreign market *performance* (Aaby and Slater, 1989; Chetty and Hamilton, 1993) comes from a culmination of stages leading to offshore production.

However it has been found that the level of ownership (internalisation/vertical integration) is not necessarily related to business performance (Aulakh, Kotabe, and

Sahay, 1996). In addition, the stage perspective does not cater for the firm with modest goals, who may rate independence over wealth (Cameron and Massey, 1999), or relationship outcomes and ultimate values over financial or market performance (Huston and Burgess, 1979; Kingshott and Pickering, 2005). It also lacks the spatial and temporal specificity required to provide an in-depth and much clearer understanding of small firm international strategy. Furthermore, the fact that many organisations undertaking international activities do not go beyond the establishment of a distribution function (e.g., De Chiara and Minguzzi, 2002) makes redundant the latter stages of many sequential models.

The recent emergence of research describing the *Born Global* (Knight and Cavusgil, 1996) or *International New Venture* (INV) (Oviatt and McDougall, 1994) shows that firms may internationalise early, leap over stages, commence with a global orientation, and develop psychically and physically diverse international networks. Although this adds some further clarification to the stage perspective (Madsen and Servais, 1997; Moen and Servais, 2002), it does make the assumption that the all organisations commence with some degree of resource internalisation (e.g., Oviatt and McDougall, 1994). It further assumes a competitive resource advantage (e.g., Barney, 1991; Wernerfelt, 1984) or the possession of an offering comprising new/innovative technology, all of which preclude the traditional manufacturing MCE. It does however emphasise the importance of value chain relationships albeit in relation to *functionally specialised global networks* (Jolly, Alahuhta, and Jeannet, 1992; Knight and Cavusgil, 1996).

Although the importance of the RP has not been investigated at all in a MCE internationalisation context (Styles and Ambler, 1994), indicators of its importance have existed for some decades. Aldrich and Auster (1986) stated that small and new firms increase their chances of survival by being attached to larger counterparts, thus acquiring critical resources. This suggests that the larger firm may act benevolently (Zaltman and Moorman, 1988), even when the potential of such actions producing pecuniary gains may be minimal.

Furthermore, earlier channel relationship literature (Ford, 1980; Rosson and Ford, 1982; Håkansson, 1982; Håkansson and Östberg, 1975) advocated an interactive approach to

nurturing close associations with value chain partners. This indeed seems a feasible and compelling foreign market entry strategy for the MCE, especially for those able to build relationships that embody social exchange episodes because of the uncertainty reducing dimensions inherent within these (Håkansson and Östberg, 1975). Unfortunately RM research rapidly evolved into the networking perspective (Achrol, 1991; Anderson, Håkansson, and Johanson, 1994; Chetty and Blankenburg Holm, 2000; Johanson and Mattsson, 1988a; Sharma and Johanson, 1987) which conceptualised the importance of relationships in terms of being an organised set of interpersonal or inter-organisational linkages (Granovetter, 1985; Nahapiet and Ghoshal, 1998). This appears to have resulted in little focus being placed upon dimensions that underpin such relationships therefore restricting scholarly and managerial understanding of how critical relationships can be leveraged to advantage.

In fact RM constructs, the majority of which may be derived from either *social exchange* (SE) (Homans, 1961; Scanzoni, 1979; Thibaut and Kelley, 1959) or *transaction cost analysis* (TCA) theory (Dunning, 1988; Williamson, 1975) are found to be present in the growing number of small-to-medium enterprise (SME) international networking studies (Coviello and Munro, 1995; 1997; D'Cruz and Rugman, 1992; Healy and Perry, 2000; Sadler and Chetty, 2000; Sharma and Blomstermo, 2003). These include amongst others constructs of trust (Doney and Cannon, 1997), commitment (Gundlach, Achrol, and Mentzer, 1995), reciprocity (Leuthesser and Kohli, 1995) and relational norms (Macneil, 1980), opportunism (Joshi and Arnold, 1997), power (Frazier and Summers, 1986), and coercion (Frazier, Gill, and Kale, 1989).

Whilst the evolution of the network perspective and its various forms of analysis (e.g., Healy and Perry, 2000) has enlarged our understanding of internationalisation processes, in-depth consideration of the individual relationships within is rare (Anderson et al., 1994; Coviello and Jones, 2004). Indeed, it is suggested that early studies of this nature (e.g., Ford and Rosson, 1982; Leonidou, 1989) were prematurely superseded by a preference for structural over behavioural investigations. Such an observation motivates the approach adopted in this thesis, namely to gain a rich appreciation how the precise underpinnings of MCE relationships translate into governance (Heide, 1994; Pels, Coviello, and Brodie, 2000), and subsequent international outcomes.

Studies of SE (e.g., Anderson and Narus, 1984; 1990; Morgan and Hunt, 1994) and TCA (e.g., Noordewier, John, and Nevin, 1990; Weitz and Jap, 1995) perspectives form the framework for analysis in this thesis as these appear to be dominant in the RM discipline and provide contrasting approaches to the management of risk. In addition, studying the manner in which the MCE initiates and manages its key relationships would enrich scholarly understanding of how networking and stage theory can be used to model MCE internationalisation (e.g., Styles and Ambler, 1994). For instance such findings would provide rich insight into how and why the firm moves between each relational stage. That is, the *state* of relationship interdependence (Dwyer, Schurr, and Oh, 1987; Morgan and Hunt, 1994; Wilson, 1995) is a better descriptor and yields a more precise understanding of the MCE's stage of international progress (e.g., Ford and Rosson, 1982), and could in fact be equated with the larger organisation locking itself into long-term FDI.

Given the emphasis on individual relationship dyads in the RM literature, it is important to acquire knowledge of which relationship *types* (Gummesson, 1994; Morgan and Hunt, 1994) the MCE develops during the course of implementing its internationalisation strategy. As time would be perhaps the most valuable resource held by the MCE manager it is assumed that intense developmental efforts would only be put into those relationships essential to furthering foreign market prospects. Establishing which these might be, may be expressed more formally as:

- ***R<sub>q2</sub>: What are the key relationship types critical to the development of MCE internationalisation strategy?***

It is suggested that the extent of the MCE manager's ability to initiate the right relationships (e.g., Wilson, 1995) is also what provides the glue to hold them together, particularly during the formative stages where risk of venture failure is high. The recommendation of Aldrich and Auster (1986) for small firms to enter into "loose coupling" arrangements with larger partners would be unlikely to induce the levels of commitment required for sustainable international relationships, especially as the MCE typically possesses no ownership control over their value chain partners. Hence, the additional problem of building effective governance mechanisms that overcomes risk

from, for example distributor opportunism, also mirrors the universal managerial dilemma in this regard, namely the need to establish the relationship's structure (Brown, Dev, and Lee, 2000; Cannon, Achrol, and Gundlach, 2000).

The importance of this is heightened in the case of the MCE because of its enlarged exposure to risk and the likely non-existence of internal mechanisms to protect it from others acting opportunistically (e.g., Williamson, 1979). The conundrum presented here is that the MCE is compelled to place great reliance in its relationships. Not only does the manager need to be skilled in relationship *filtering* (Wilson, 1995), but must also possess the wherewithal and determination to overcome relationship difficulties when they arise. These challenges are exacerbated when *distance* is factored in together with the possibility that the MCE will hold the relatively weaker position (e.g., Johanson and Mattsson, 1988b). Furthermore, if credibility is important in the transference of early relationship trust (Doney and Cannon, 1997), then the MCE international will not have an established track record to entice their desired partners and vis-à-vis.

It is envisaged that the MCE must contend with a myriad of interaction challenges within the context of a range of types, all of which are impacted by the relationship approach taken. Conceivably these could include, amongst others; a founding director needing to convince another to invest in an offering that possesses no revenue or profit history; the appointment of manufacturers / suppliers who are willing to be adaptable and flexible on such issues as costs of prototypes, small production runs, unit pricing, terms of payment, and timing of delivery; the appointment of international distributors on the basis of limited or no personal contact who are willing and able to tap into large, unexplored foreign markets; the motivation of a large established foreign distributor to commit adequate resources to effective marketing of the offering; the leveraging of financial and other resources from a range of social and formal (private and public) network support structures; and the convincing of clients to trial a largely unknown and untested offering.

It is clear from this part of the discussion that choosing the appropriate relationship approach is a critical aspect of the MCE's international strategy. Overall, the manager's

choice is likely to gravitate towards either adopting a mostly SE, or a mostly TCA<sup>1</sup> approach for each type of relationship. As relationships do not simply materialise but are a consequence of some form of socialisation process (Axelrod, 1986; Dwyer et al., 1987; Ford, 1980), understanding this process becomes an important part of this thesis, which may be expressed more formally as:

- ***R<sub>q3</sub>: What relationship approach does the MCE adopt for each relationship type?***

Implicit but rarely stated in the literature, is that the aim of any marketing strategy is an improvement in business *performance*. In internationalisation terms performance has been measured in over 40 different ways (Katsikeas, Leonidou, and Morgan, 2000), the most common of which are centred on improvements in product/market penetration and financial returns (e.g., Aaby and Slater, 1989; Calof, 1994; Cavusgil and Zou, 1994; Chetty and Hamilton, 1993). However Katsikeas, Leonidou, and Morgan (2000) criticise the existing overemphasis on such measures stating that they are dogmatic and do not take into account contextual factors. To overcome this they advocate a contingency approach in the selection of measures to address “the idiosyncrasies of the exporting organisation” (p.505).

Clearly such an approach is warranted in this thesis given that the MCE presents an entirely new analytical context. Furthermore, it is suggested that judging the progress of the MCE on superficial performance measures such as *export intensity* (e.g., Thirkell and Dau, 1998) may reveal nothing of significance about the relationships it develops to advance its internationalisation prospects. Therefore the approach adopted in this research is to make grounded empirical observations of various *international outcomes* as they pertain to the MCE’s relationship approach. Some of these likely reflect the manager’s own relationship goals (e.g., Claro, Hagelaar, and Omta, 2003), with others being consistent with traditional and contemporary conceptualisations of performance. This final area of interest therefore may be expressed more formally as:

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<sup>1</sup> It is important to note that elements of both approaches, which may also be conceptualised as *relational* and *transactional* (Macneil, 1980), are likely to co-exist within a firm’s relationship portfolio both between types and within individual relationships themselves (Coviello et al., 2002; Styles and Ambler, 2003; Pels et al., 2000).

- ***R<sub>4</sub>: How does the relationship approach adopted by the MCE impact upon the international outcomes attained?***

### **1.3 Purpose, Expected Contributions, and Outline of Thesis**

The purpose of this thesis is to describe and explain MCE internationalisation as a function of its relationship development efforts. The rationale motivating the adoption of RM as opposed to a traditional resource based or structural research approach is that the MCE is not expected to follow a “normal” internationalisation path. Firstly, most will not grow structurally beyond their present level (Ministry of Economic Development, 2004). Secondly, they do not possess the necessary internal resources to implement a traditional international marketing programme. Thirdly, it is suggested that the MCE manager does not have an “empire building” orientation and as a result of this may be seeking international outcomes more closely aligned to the achievement of personal and relational goals. Finally MCEs (like larger organisational forms), possess the same opportunity to leverage relationships as an internationalisation resource, the value of which is indicated by an increasing number of studies in this area.

Pursuing this research purpose will result in a contribution to the literature in a number of areas. Firstly, it will provide rich empirical relationship and internationalisation data on an as yet overlooked unit of analysis. This is important because economies such as New Zealand (similar to Finland in the Northern Hemisphere) are largely made up of MCEs, and an increasing number of these are attempting international market activities. Secondly, it will contribute to the robustness of present stage and networking theory through juxtaposition with RM theory. Although scholars have indicated the congruence of these streams of thought in the past, still little exists of an empirical nature which actually demonstrates the linkages. Thirdly, analytical (as opposed to statistical) generalisations will be made to theory, with respect to how the adoption of a particular relationship approach is likely to impact the international outcomes of the MCE. The final and arguably the most important contribution will be made to managerial thinking, in that the findings will assist the MCE decision maker in both choosing and structuring relationships critical to international success.

The thesis comprises five chapters, the four which follow the introduction including a literature review, research methodology, findings (incorporating analysis and discussion), and conclusion (including both managerial and theoretical implications). Of particular note chapter three describes the qualitative multiple case study approach taken to both the collection and analysis of the data. Briefly, this choice of methodology is motivated by the recent trend and importance in SME research of employing the multiple case study (Bjorkman and Kock, 1997; Chetty and Hamilton, 1996; Eisenhardt, 1989). Furthermore, the newness of the topic compels such an approach as it can tap the rich factors inherent within the interactive nature of marketing relationships, and more significantly their moderating effect upon the ability of the MCE to internationalise. In a very real sense this research is exploratory, with the aim of drawing empirically generated conclusions, from which testable propositions can be made for the purposes of future validating research.

Chapter four provides a thematic account of each of the MCE's internationalisation journeys. Each is evaluated on the internationalisation and relationship constructs deemed important in this research, and the compared through cross-case analysis in the latter part of the chapter. Finally notwithstanding the limitations of the method, chapter five draws the relevance of the findings to a point where both academic and managerial thought may be enriched and future directions gained.

## 2 Current Perspectives in the Literature

*Chapter one identified from a managerial and policy making perspective the need to understand the phenomenon that is the MCE international, and this regard a number of research questions were posed to form the study's frame of reference. An examination of the extant literature is now made with a specific focus on how small-and-medium enterprise (SME) foreign market entry is being modelled. Furthermore, deficiencies in the explanatory power of existing theoretical perspectives are highlighted and the research strategy for bridging these in a MCE context is outlined. The chapter is separated into two main sections. The first presents an account of the journey the literature has taken to date, and in particular highlights dominant perspectives such as "Stages" and "Networking". The second demonstrates how relationship marketing (RM), implicit but somewhat overlooked in these perspectives, provides the more valuable lens through which to view MCE internationalisation.*

### 2.1 Establishing the Research Scope and Literature Frame

A challenge encountered when considering the investigation of MCE internationalisation strategy was in establishing a research scope, and in particular, framing the literature. There is a plethora of scholarly writing regarding the SME covering a large range of contexts and one could fairly justify appraising many of these. For instance a review of the literature could also have covered small business management and resourcing, entrepreneurship and new ventures, the role of government, and technology and innovation.

Clearly parsimony was required, especially given the desire to achieve strong theoretical development and the need to use the limited research resources available to best effect. To this end decisions as to literature exclusion and inclusion were made on the basis of how much *variance* each was likely to account for in addressing the research questions. Ultimately it was decided that an integration of internationalisation and RM literature offered the most in this regard. Furthermore, it was quickly understood that the MCE was not in itself the focus of the research, merely the domain of study. What was of critical interest though was the MCE's ability to internationalise in spite of being resource poor.

In cognisance of this, there continues to be a debate as to how and why a firm perpetuates and expands foreign market involvement. There has been a proliferation of literature on firm internationalisation in the last 30 years and with this, a tremendous amount of variation in conceptualising how this occurs. Traditional theories of internationalisation with rational economics at their foundation (Aharoni, 1966; Anderson and Weitz, 1992; Dunning, 1988; Williamson, 1975; Williamson, 1985), indicate that a firm will structure its foreign activities on the basis of transaction cost efficiency. This often culminates in the internalisation of interests via foreign direct investment (FDI). Explanations provided by these authors and others, whilst useful in the context of the internationalising multi-national enterprise (MNE) (Reid and Rosson, 1987), present limitations to understanding the behaviour and processes of smaller internationalising concerns that are faced with knowledge and resource barriers (Aldrich and Auster, 1986; Coviello and McAuley, 1999; Fillis, 2000; McDougall and Oviatt, 1997; Welch and Luostarinen, 1988; Westhead et al., 2002; Wren, Simpson, and Paul, 1998).

In the 1970's a stream of literature emerged catering for the SME's international involvement patterns, by acknowledging the importance of strategic and behavioural variables including learning and commitment (Cavusgil, 1980; Ford, 1980; Johanson and Vahlne, 1977; Johanson and Vahlne, 1990; Johanson and Wiedersheim-Paul, 1975; Melin, 1992; Welch and Luostarinen, 1988), distance (Bilkey and Tesar, 1977; Czinkota and Johnston, 1983; Ford, 1980; Ford and Rosson, 1982; Johanson and Vahlne, 1977; Johanson and Vahlne, 1990; Johanson and Wiedersheim-Paul, 1975; Sharma and Blomstermo, 2003; Sharma and Johanson, 1987), and resources (Aldrich and Auster, 1986; Barney, 1991; Cavusgil, 1980; Chetty and Wilson, 2003; Pfeffer and Salancik, 1978; Reid, 1981; Westhead et al., 2002; Wernerfelt, 1984).

As global trade has benefited from dramatic advances in information technology, transportation and communication, more flexible and dynamic perspectives have arisen. These include networking (Coviello and Munro, 1997; Chetty and Patterson, 2002; Johanson and Mattsson, 1985; Oviatt and McDougall, 1994; Sharma and Johanson, 1987), entrepreneurship (Andersson, 2000; Coviello and Munro, 1995; Chell, 2001; McDougall, 1989), and relationship (Ford, 1980; Ford and Rosson, 1982; Håkansson,

1982; Leonidou, 1989; Leonidou and Kaleka, 1998; Rosson and Ford, 1982; Styles and Ambler, 1994; Wilson, 1995) influences on business progression.

What is clear from the above is that the domain of internationalisation research is wide and in fact presents no more of a cohesive body of theory today (Coviello and Jones, 2004) than it did 20 years ago (Miesenbock, 1988), and this is now further discussed.

## **2.2 Understanding the International Firm**

Whilst there is richness in diversity, there has also been a drawback in the increasing number of perspectives from which internationalisation has been studied, in that it has resulted in a lack of comparability and integration between them (Coviello and McAuley, 1999; Turnbull, 1987). The absence of a globally accepted definition of internationalisation (Welch and Luostarinen, 1988) is at least partially responsible for this, resulting in the emergence of differing interpretations of what is considered an internationalising firm (Coviello and McAuley, 1999; Turnbull, 1987). For example, there has been shift in thinking from exporting (Bilkey and Tesar, 1977; Cavusgil, 1980) via use of an agent or distributor (Rosson, 1987), to increasing ones international involvement (Coviello and McAuley, 1999; Leonidou and Kaleka, 1998; Welch and Luostarinen, 1988) including both inwards and outwards activities (Jones, 1999). This shift has also been expressed in terms of exporting firms having either a regional or global strategy (Chetty and Campbell-Hunt, 2002) and from ethnocentrism to geocentrism (Wind, Douglas, and Perlmutter, 1973). Others consider internationalisation to include import and export-led activities (Bjorkman and Kock, 1997; Fletcher, 2001; Welch and Luostarinen, 1988; 1993), and that it is often inextricably linked by counter-trade, and alliances such as joint manufacturing.

### **2.2.1 Definition of Internationalisation Adopted**

Internationalisation in this research is defined as “the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries” (Beamish, 1990, p.77). This represents the broadest possible conceptualisation as the focus of this research is not concerned with distinguishing between alternative entry modes, but on the role of relationships in facilitating foreign market activities, even at the lowest levels

of commitment (e.g., Cavusgil, 1980). Furthermore, it is a definition which seems to encompass the three broadly recognised paradigms namely, FDI, Stages, and Networking (Coviello and McAuley, 1999). Prior to these three being examined in greater detail, they are contextualised by a discussion of firm performance and commitment.

### **2.2.2 International Performance and Commitment**

Irrespective of the definition used scholars agree, albeit implicitly (Styles and Ambler, 2000), on the importance of measuring a firm's performance or success<sup>1</sup>. Again however there seems little consensus on the most appropriate measures to use (Zou and Stan, 1998). Export intensity (the percentage of overseas sales to total sales) has regularly been proffered, as has sales turnover, profitability, and overall firm size (Calof, 1994; Leonidou and Kaleka, 1998; Miesenbock, 1988; Philp, 1998; Styles and Ambler, 1994; Westhead et al., 2002).

In reality, single measures of export success are too simplistic (Thirkell and Dau, 1998) in that success should be considered in the context of a firm's environment and the make-up of their customer base (Welch and Luostarinen, 1988). This is confirmed by a number of studies encompassing multiple assessment criteria (Aaby and Slater, 1989; Cavusgil and Zou, 1994; Chetty and Hamilton, 1993; Miesenbock, 1988; Styles and Ambler, 1994; Thirkell and Dau, 1998; Walters and Samiee, 1990). Aaby and Slater (1989) propose many of those now commonly studied, including an assessment of export barriers, problems, propensity, orientation, sales, intensity, growth, and perceptions. Some of these are more valid at the pre-export stage with others more valuable in ascertaining the progress of established international firms.

Over the last decade there has been a call for the development of more holistic and richer measures including the achievement of management objectives (Cavusgil and Zou, 1994), utilisation of network resources (Coviello and Munro, 1995), and value creation through relationship development (Evangelista, 1994; McDougall and Oviatt, 2000). An appreciation of such approaches would seem even more important in the context of the small, resource strapped firm (e.g., Aldrich and Auster, 1986) where

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<sup>1</sup> Performance and success appear to be used interchangeably in the literature.

judgements made purely on the basis of economic variables may not be well aligned with the achievement of more temporal objectives.

That is, thinking on performance should not only be confined to a firm's ability to escape the constraints of structural (Hannan and Freeman, 1984) and decision making inertia (Autio, Sapienza, and Almeida, 2000), but on achievement of a foreign market presence which satisfies the entrepreneur's own definition of success (e.g., Brush, 1992b; Schumpeter, 1934). It would appear that this is well founded given the paucity of empirical generalisations which currently exist to help the firm's export initiatives (Aaby and Slater, 1989; Styles and Ambler, 1994), despite ongoing research in this area for in excess of 30 years.

Perhaps another explanation for the attachment to traditional measures of performance can be traced to seminal conceptualisations of progression in the international market. These are centred on increasing commitments via incremental growth in knowledge and internalised resources, ultimately culminating in FDI (e.g., Johanson and Vahlne, 1977). However it has been recognised that this thinking overlooks those firms that choose exporting or distribution as long term entry strategies, and overemphasises those that may have a small amount of FDI but possess a weak international orientation overall. To this end the likes of Welch and Luostarinen (1988) present a broader research framework catering for the firm's willingness and ability to apply a variety of entry methods, diversify its offerings, and sell into *distant* markets.

In fact some studies have played down the role that structural variables have on internationalisation commitment (Turnbull, 1987), stating that positive managerial attitudes (Czinkota and Johnston, 1983; Manolova, Brush, Edelman, and Greene, 2002), proactivity, (McDougall, 1989), an entrepreneurial orientation (McDougall and Oviatt, 2000), possession of an innovation (Oviatt and McDougall, 1994), dynamism and creativity (Bilkey and Tesar, 1977), and a global vision (Moen and Servais, 2002; Reid, 1981), should not be ignored as significant determinants of export success. Furthermore, a number of authors have shown that organisational size is not necessarily a determinant of foreign market performance (Bonaccorsi, 1992; Calof, 1994; De Chiara and Minguzzi, 2002; Leonidou, Katsikeas, and Hadjimarcou, 2002; Wolff and Pett, 2000). This ever increasing trend suggests that the small firm in particular is enjoying the

benefits of a relationship leveraging strategy that enhances an international presence at the same time as attenuating risk associated with knowledge and resource deficiencies (e.g., Chadee and Zhang, 2000; Chetty and Blankenburg Holm, 2000; Sharma and Blomstermo, 2003; Westhead et al., 2002).

Irrespective of firm or managerial characteristics, a common decision-making process is worked through when considering an expansion in activities namely; whether to follow a domestic or international path; if the latter, which markets to target; the mode in which these markets should be entered; how they should subsequently be managed; and how to measure performance against the alternatives available (Reid and Rosson, 1987). In light of this, the remainder of this chapter is dedicated firstly to an expanded description of existing perspectives, along with important related views which have contributed to their explanatory power. Given that the primary goal of this thesis is the understanding of MCE internationalisation, the discussion of extant literature is made with continual reference to the small firm context. This is congruent with Madsen and Servais (1997) who state that it is wise “to separate the analysis of internationalisation processes of very small firms from [those] of larger firms” (p.579).

Secondly, an appraisal of RM is made with particular emphasis being placed upon social exchange (SE) (Thibaut and Kelley, 1959) and transaction cost analysis (TCA) (Williamson, 1975) which are shown to be the most effective in understanding the international activities of the MCEs in this study. To date, only a small number of studies have attempted to link aspects of RM to an internationalisation context (Samiee and Walters, 2003) although it is posited to be a powerful lens (e.g., Lewis and Grimes, 1999) through which to view the progression of the firm relying on the inputs of others. The discussion of the literature is aligned with the four main research questions posed (see chapter one), the nature of which support the use of the qualitative approach detailed in chapter three.

### **2.3 Exploring the Internationalisation Perspectives**

Clearly internationalisation is a diverse field which is represented by a number of theoretical perspectives. *FDI* with neoclassical economics at its foundation was the first to emerge given that cross border trading was once the domain of the large firm. Since

then the *Stage* and *Network* perspectives have arisen to account for the activities of the growing firm, through behavioural processes of learning and commitment. This evolution in thinking is now discussed.

### 2.3.1 Foreign Direct Investment

As firms get larger and more complex, an ever increasing imperative exists for them to implement governance mechanisms that maximise control of their own resources and provide optimal protection against market opportunism (Gundlach and Achrol, 1993; John, 1984; Williamson, 1975). FDI, being based on this premise of transaction cost efficiency, is seen as an effective measure for the internationalising concern to achieve these ends. Dunning (1988) states that "the greater the perceived costs of transactional market failure, the more MNEs are likely to exploit their competitive advantages through international production rather than by contractual agreements with foreign firms" (p.3). Advocating an eclectic approach in consideration of these strategies, he argues that if the administrative costs are high or economies of scale are not present, then adopting a market control strategy would be preferred. The eclectic paradigm has also been observed in production subsidiaries of MNEs, whereby they will "quasi-internalise" firm-specific advantages or resources through management of subsidiary-network relationships (Scott-Kennel and Enderwick, 2004).

It has been suggested that INVs, in order to remain viable will need to internalise at least some of their resources and functions (Oviatt and McDougall, 1994). In general however, it is posited that FDI strategy has less relevance to the small firm as it pertains more to the MNE, those in the latter phases of internationalisation (Andersen, 1993), as well as those already committed to and entrenched within foreign markets (Zahra, Ireland, and Hitt, 2000).

Additionally, whilst FDI provides new ventures with greater learning opportunities, capital, financial and managerial costs could not be absorbed by the more diminutive of SME's (e.g., De Chiara and Minguzzi, 2002; Larson, 1992). Also, the short-term performance potential of licensing and exporting is far higher than that offered through FDI (Zahra et al., 2000), making these appreciably more attractive options for the smaller business. Furthermore, governments in some countries have set in place taxation

policies that discourage ownership options in favour of collaboration with local businesses (Welch and Luostarinen, 1988). Given the inherent problems of applying FDI organisational theory to the smaller concern, research began focussing on how growth could instead occur in stages and this is now discussed.

### **2.3.2 Stage (Process /Establishment Chain) Approach and the Small Firm**

The second and most recognised stream of internationalisation literature pertains to the *stage* approach to entering the foreign market, and this is largely founded upon the notion of incremental growth via increasing market commitment and managerial learning (Bilkey and Tesar, 1977; Cavusgil, 1980; Chetty and Hamilton, 1996; Dalli, 1994; Gankema, Snuit, and van Dijken, 1997; Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975; Reid, 1981); an outward movement of a firms resources and increasing involvement in international operations (Welch and Luostarinen, 1988); or the process of up-scaling in strategy (Steinmann, Kumar, and Wasner, 1980; Steinmann et al., 1980). Typifying these views is the well documented “Uppsala Model” (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975) which advocates firms are essentially risk averse and follow a path of no exporting, exporting via an agent, sales office establishment, and finally ownership of a production subsidiary. In this model being both physically and psychically close to markets (Czinkota and Johnston, 1983; Ford, 1980; Johanson and Wiedersheim-Paul, 1975) are most attractive to the new exporter, with the targeting of more distant markets and countries occurring as knowledge and experience increases.

There exist a number of variations of the stage perspective, the more pertinent of which are now discussed.

#### *2.3.2.1 Various Stage Perspective Iterations*

Bilkey and Tesar (1977), with a six stage model, offers support for involvement being incremental, but along with others (Czinkota and Johnston, 1983; Ellis and Pecotich, 2001; Reid, 1981; Westhead et al., 2002), place significant emphasis on the unsolicited export order as a primary catalyst to generating interest and subsequent pursuit of overseas endeavours. In fact the smaller the firm, the more likely they are to respond to being *pulled* into exporting by their customers, as opposed to their larger counterparts

who actively seek foreign outlets for their offerings (Westhead et al., 2002). Internationalisation is also viewed as a series of *states* as an alternative to establishment chain models in that the firm is said to be able to move between any number of states, irrespective of the level of progression attained beforehand (Ford and Rosson, 1982).

Reid (1981) offers an alternative to market entry via chance occurrence by proposing that internationalisation, especially in a small firm context, is better viewed in relation to the adoption of innovation process (often referred to as the IM Model), commencing with export awareness, then moving on through the stages of intention, trial, evaluation and acceptance. An important feature of all these studies though is that they place the emphasis with regards process on the decision maker, and their attitudes and reactions to stimuli rather than on the structural characteristics of the firm.

#### 2.3.2.2 *The Impact of “Distance” on Progression through Stages*

Cavusgil (1980) designates new and experimental exporters (Leonidou and Kaleka, 1998) as *extra-regional* rather than international because of their tendency to trade with *close* countries. However some types of small firms are more affected by distance concerns than others. Coviello and Munro (1995) observe that high technology software firms overcome distance by rapidly linking themselves to established networks. Furthermore, Sharma and Johanson (1987), whilst acknowledging distance as a factor affecting the choice of markets in the manufacturers *evoked set* (Hawkins, Best, and Coney, 1983), challenge its applicability to the internationalising technical consultancy firm. They argue that perceived and realised risk is nullified in the situation where the offering firm is part of a specialist, international, and often cooperative group responding to the request of a remote market customer. They state that this geographically dispersed network (made up of professional and/or social contacts) forms a bridge to the distant market enabling risk distribution and the withdrawal / reallocation of resources at minimal expense to the focal firm.

Ford and Rosson (1982), in examining the interactions between manufacturers and their overseas distributors, proffer a more holistic conception of distance as the "sum of factors preventing the flows of information between buyer and seller" (p.260), which

suggests that the gap is not confined to geographical, cultural and political forces (e.g., Johanson and Vahlne, 1977), but also involves the relationship dynamic.

In fact the concept of *distance*, whilst well documented in internationalisation research is also not new to the relationship literature (e.g., Gundlach and Achrol, 1993; Lewicki, McAllister, and Bies, 1998; Scanzoni, 1979; Sharma and Blomstermo, 2003), in that new relationships more often than not begin at “arms length” but distance is ultimately bridged through positive interaction experiences. Ford (1980) provides an even more expansive view of distance stating that vertical partner selection processes in industrial markets are conditioned by social (dependent on contact intensity between partners), cultural and geographical (as traditionally conceptualised by internationalisation literature), technological (the extent of inter-firm mechanistic and process adaptations required for integration), and time (gap between expected and actual delivery dates) distance.

Ford’s research would suggest that distance reduction is not solely a function of market knowledge and resource acquisition, but can be achieved by growing interdependence between two or more parties (Blankenburg Holm, Eriksson, and Johanson, 1999; Dwyer et al., 1987; Aulakh et al., 1996; Scanzoni, 1979). This carries significant implications for the smaller firm albeit restricted in the manner in which they can vary traditional marketing mix variables, but which may adopt the strategic view that the potential market is a relationship network (Coviello and Munro, 1995; Dunning, 1988; Ford, 1980; Ostgaard and Birley, 1994; Venkataraman and Macmillan, 1997; Yli-Renko, Autio, and Tontti, 2002).

### 2.3.2.3 *Resource-Based View*

A significant consideration for the small firm looking to internationalise is the accrual of enough resources to ensure effective representation in the chosen markets. The Resource-Based View (RBV) of the firm (Barney, 1991; Penrose, 1959; Wernerfelt, 1984) has been shown to be a useful perspective in highlighting incremental strategies employed by the firm. Wernerfelt (1984) argues that management might benefit from making international market entry decisions from the positioning of its resources rather than its products. He adopts an expansive view of resources to include any “assets

which are tied semi-permanently to the firm [including such examples as] brand names, in-house knowledge of technology, employment of skilled personnel, trade contacts, machinery, efficient procedures, and capital” (p.172). He adds that the firm typically takes advantage of its strength in a single resource, say an inimitable technology (Barney, 1991; Dunning, 1988), by employing a *sequential entry strategy* and creating a *resource position barrier*, before diversifying that technology into another market. So whilst a number of product applications may be possible from a single resource, first mover advantage is maintained by introducing these applications in stages.

The RBV however, does seem to imply the presence of a degree of infrastructural, technological, or brand development, factors which may not be present in the smallest of firms. Although, even with the absence of these factors the RBV indicates that the *trade contact* resource may also be grown incrementally, ensuring that these are enhanced and protected from exploitation from competitor firms. At a descriptive level, this is not inconsistent with the employment of a relationship marketing strategy which is discussed later in this chapter.

#### 2.3.2.4 *Difficulties with Stage Models*

Anderson (1993) suggests that overall, *stage* research proposes firms internationalise gradually because they either lack experiential knowledge or carry a prolonged uncertainty about the initial decision (see also Fillis, 2001). He also states that traditional stage models are more relevant for the larger firm at the latter stages of internationalisation in that small firms that do not often progress beyond exporting or the assigning of a distributor (e.g., Fillis and McAuley, 2000). Furthermore, “firms that have large resources experience small consequences of their commitments and can take larger internationalisation steps” (Andersen, 1993, p.211).

The theory of orderly progression via increased commitment of resources has been widely criticised as being too deterministic in that a “smooth, immutable path” is not always followed (Welch and Luostarinen, 1988; 1993). Furthermore, the validity of the Uppsala Model in particular is in question because of its lack of temporal and spatial boundaries, reducing its precision (Andersen, 1993). There is also evidence of firms “leapfrogging” stages (Bell, 1995; Coviello and Munro, 1995; Gankema et al., 1997;

Hedlund and Kverneland, 1985; Millington and Bayliss, 1990; Sullivan and Bauerschmidt, 1990; McDougall, Shane, and Oviatt, 1994; Turnbull, 1987; Wolff and Pett, 2000), withdrawing commitment to growth (Fletcher, 2001; Gankema et al., 1997), importing prior to entry into foreign markets (Korhonen, Luostarinen, and Welch, 1996; Hyvaerinen, 1994), reversing stages (Turnbull, 1987), and early entry into distant markets (Vahlne and Nordstrom, 1993; Bjorkman and Kock, 1997). In defence of stages theory though, Johanson and Vahlne (1990) do offer some exceptions to its validity including a firm's resource profile resulting in its commitment being inconsequential, operating in a predictable market, or the possession of experiential knowledge which provides confidence about expansion decisions.

Turnbull (1987) also criticises the Uppsala Model as being purely normative and only of use for categorisation purposes. His research challenges the validity of this and other prescriptive frameworks, stating that company structures are too complex to reasonably fit simplistic theorems; that measuring a company's stage of internationalisation is problematic; and that export involvement of large companies may vary across divisions, distorting the overall picture of market progression. Results detailed a number of departures from the expected process, including finding no relationship between increasing levels of export dependence and the establishment of more sophisticated foreign sales structures. In fact the converse was observed in some cases with low export intensity firms (less than 25% of revenue derived from exports) developing foreign sales and manufacturing capability.

Turnbull suggests that structure follows strategy in that a firm's operating environment, industry structure, and marketing strategy are key determinants of infrastructural and investment presence. This seems highly pertinent to the small firm in that their foreign market strategy may be developed in light of not wishing to increase structure at any point.

A relationship approach, particularly when considering small firm strategy, may assist in understanding departure from expectations. Wilson (1995), in developing a *stages of relationship* framework, indicates that behavioural and structural variables can be *active* in some stages and *latent* within others, and need not necessarily follow a particular order or frequency of occurrence. This represents liberation from the static, stepwise

elements of traditional models by taking into account the dynamic, external/contextual and internal/relational, forces encountered by the firm. Ford and Rosson (1982) conceptualise progression in terms of alternating *states*. In effect this translates to the internationalising firm moving back and forward between *states*, independent of the level of international involvement attained beforehand. This makes sense when examining firms that have not made large non-retrievable market investments, indicating fluidity and levels of flexibility commensurate with highly interactive relationships.

#### 2.3.2.5 *International New Ventures / Born Globals*

Further dilemmas with the stage perspective include the potential for international expansion to occur in the absence of resource internalisation, and two or more phases being encountered concurrently and in some cases skipped (Oviatt and McDougall, 1994; Bell, 1995; Turnbull, 1987; Welch and Luostarinen, 1988). This can be observed with the INV or Born Global phenomenon (e.g., Brush, 1992a; Knight and Cavusgil, 1996; McDougall et al., 1994; Oesterle, 1997; Oviatt and McDougall, 1994; 1997) also challenging the notion that foreign market knowledge acquisition is necessary prior to commitment being made. These young, small, and resource constrained firms, can often belie expectations by operating in volatile markets, with little or no previous experience.

These firm types are said to be distinct from others in that they have a negligible domestic market (Bloodgood, Sapienza, and Almeida, 1996; Coviello and Munro, 1995; Oviatt and McDougall, 1994), are young and entrepreneurial (Rennie, 1993), are knowledge-based or technologically innovative (Bell, 1995; Bloodgood et al., 1996; Oviatt and McDougall, 1994; 1997; Yli-Renko et al., 2002), and less subject to the forces of psychic distance (Ibeh, Johnson, Dimiratos, and Slow, 2004). They are also said to possess a growth orientation strategy from inception (Yli-Renko et al., 2002).

Not all authors investigating the INV/BG phenomenon agree with the notion that they are distinct from other firms. Sharma and Blomstermo (2003) argue that BG's merely have an advanced level of knowledge obtained in some way prior to foreign market entry efforts being made. They add that commitment thereafter is procedural (consistent with the stage perspective) and that differences largely arise from an ability and

willingness to react effectively to opportunities. That is, they co-evolve with their opportunities in that as each is pursued, exponential learning episodes occur which in turn yield more network *ties*.

On balance though, the internationalisation approach of INVs is not well explained by stage models in that they are able to attain rapid entry and growth within foreign markets, with the length of tenure within the market not necessarily being a determinant of the level of commitment displayed (Oviatt and McDougall, 1994). However, it has been suggested that the INV is not as unique as purported by some authors, in that whilst there might be evidence of rapid foreign market entry, their progress thereafter is highly congruent with an incremental strategy (Hashai and Almor, 2004).

#### 2.3.2.6 *Other Small Internationals*

Whilst the INV phenomenon does account for the progression of particularly technology based firms (e.g., Preece, Miles, and Baetz, 1999; Yli-Renko et al., 2002), not all small concerns completely fit this profile and yet still often manage to achieve a sustained international presence. These may overcome the size barrier by management creativity or the employment of unique approaches (Bonaccorsi, 1992; Calof, 1994; Gomes-Casseres, 1997; McAuley, 1999), entering the international market within two years of inception (Hitt, Keats, and DeMarie, 1998; Moen and Servais, 2002), or by demonstrating international entrepreneurial and opportunity seeking behaviours (Coviello and Munro, 1995; 1997; McDougall, 1989; McDougall et al., 1994; Oesterle, 1997; Oviatt and McDougall, 1997; Preece et al., 1999).

They may also compete with larger and more established counterparts through tailoring products to unique customer requirements (Fillis and McAuley, 2000), possession of a unique product and/or a competitive niche advantage (Pope, 2002), employing personnel with previous international experience (Bell, 1995), and effectively networking appropriate links in the supply chain (Bloodgood et al., 1996; Coviello and Munro, 1995).

Although it seems likely that the small firm will be constrained from crossing national boundaries by smallness and newness (Aldrich and Auster, 1986; McDougall and

Oviatt, 1997), or early resource constraints (Johanson and Vahlne, 1977), it appears that literature concerning INVs provides some insight into how innovative high technology companies are able to adopt a proactive internationalisation strategy from inception (Covin and Slevin, 1989). However, it has also been shown that small, traditional manufacturing companies can, without a strategic plan, be effective operators in foreign markets. For example, McAuley (1999) identifies *instant internationals* in the Scottish Arts and Craft sector to be innovative and creative but they do not plan their foreign market entry. Research of this nature highlights the importance of demonstrating a willingness to mould their offerings to individual customer demands, and shows direct evidence of the critical importance of building the customer relationship within the process of internationalising. This indicates the third approach to internationalisation, namely the networking perspective, which explains how firms that place impetus upon the building of relationships with network partners, are able tap these relationships for market entry purposes.

### **2.3.3 The Networking Perspective and the Small Firm**

The literature describes a range of network types in a wide variety of domestic and international settings. From an international small firm context the network may be viewed as the market made up of a set of interconnected business relationships (Anderson et al., 1994; Granovetter, 1985; Ford, 1980; Johanson and Mattsson, 1985; 1988; Styles and Ambler, 1994), between customers, suppliers, competitors and support agencies (Coviello and Munro, 1995).

Observable features of these networks include social exchange (Thibaut and Kelley, 1959), resource dependency (Axelsson and Easton, 1992), position (Johanson and Mattsson, 1985), restraint of power (Anderson and Narus, 1984; Frazier and Summers, 1986; Gundlach and Achrol, 1993), solidarity, flexibility, and harmonisation of conflict (Achrol, 1997). These dimensions have been used to highlight the significance of partner commitment (Achrol, 1997; Gundlach et al., 1995), mutual trust (Granovetter, 1985), exchange, integration, and investment (Johanson and Mattsson, 1985), and governance (Larson, 1992), within the interconnected firms. Member equality is not a precedent for observation of these variables, and in fact member firms may differ dramatically in terms of size, contact intensity, and respective contributions made

(Chetty and Patterson, 2002). Although unequal inputs by members can lead to the negative use of power by those with larger stakes (Frazier and Summers, 1986), it is possible that power in exchange relations may also take expert and referent forms rather than reward and coercion forms (Gundlach and Achrol, 1993). In fact these alternative conceptualisations of power coincide with TCA and SE theory respectively.

Of importance here is that the network perspective is not considered a replacement to stage theory, but rather an enrichment of it. For instance, entrepreneurs build network structures “by continual adaptation through innumerable small steps” (Schumpeter, 1934, p.62), an observation highly congruous with seminal stages work (e.g., Johanson and Vahlne, 1990). Larson’s work (1992) also shows that process models should not be ignored, citing respondents reporting a gradual development of network relationships.

#### 2.3.3.1 Network Types

Network relationships may be formal and strategic (customers, suppliers, distributors, competitors) and/or informal and socially orientated (family, friends and colleagues) (Chetty and Blankenburg Holm, 2000; Chetty and Wilson, 2003; Granovetter, 1985). Business networks have been conceptualised as *hard* or *soft* (Chetty and Patterson, 2002) depending on the degree of formality and structure in their formation and operation (e.g., Hamel, Doz, and Prahalad, 1989). This determines the nature of network boundaries and also influences the extent to which *weak ties* can facilitate links between two or more close groups of members (Granovetter, 1973). These linkages once formed, may enable the breaking of old network boundaries and the creation of new associations (Achrol, 1991). Keeping ties weak or remaining *loosely coupled* (Aldrich and Auster, 1986) can be beneficial to the SME wishing to hold its associative options open and expand the opportunities for more profitable contacts (Sharma and Blomstermo, 2003), however there is a trade-off here as it may come at the cost of commitment (Gundlach and Achrol, 1993) and subsequent interdependence (Johanson and Mattsson, 1985).

Use of social or personal network contacts that span national borders has been observed in internationalisation (Sharma and Johanson, 1987) and especially in the progression strategy of BG’s (Sharma and Blomstermo, 2003). This also occurs at a more formal commercial and public level where dedicated international networks are shown to

provide bridges to foreign markets (Blankenburg Holm et al., 1999; Chetty and Eriksson, 2002; Sharma and Johanson, 1987).

### 2.3.3.2 *Government Support Networks*

In fact, Export Programme Organisations (EPOs) in New Zealand and other Organisation for Economic Co-operation and Development countries have realised the importance and role of formal structures to the international SME by moving away from individual firm assistance, to supporting groups of firms through promotion of joint action groups (JAGs), hard business networks, and industry clusters (Bell et al., 2000; Chetty and Patterson, 2002; Lorenzoni and Ornati, 1988).

In a study of the formation of a JAG by competing New Zealand telecommunication exporters, Chetty and Patterson (2002) found that this formalisation of cooperation between firms, or *coopetition* (e.g., Hamel et al., 1989; Nalebuff and Brandenburger, 1997), together with a clear statement of purpose, lead to more effective network development than organic alternatives. They stated that when same-industry firms cooperate, learning is intensified exponentially, resulting in perceived and real resource and experience barriers being successfully overcome. There was also a comparison made with evolutionary networks in that JAGs commence with an agreed purpose or mandate, and the members common desire to achieve tangible benefits through joint pursuit of market opportunities (e.g., Chetty and Wilson, 2003).

What is clear from this part of the discussion is that irrespective of whether the type of network is formal and resource based (e.g., Achrol, 1991; Barney, 1991; Wernerfelt, 1984) or evolutionary, borderless and devoid of specific goals (e.g., Birley, 1985), the small firm benefits through membership because of leveraging opportunities available. Furthermore, it has been observed in recent years that these opportunities are often accessed through belonging to industrial and/or geographical clusters.

### 2.3.3.3 *Clusters*

Cooperating industrial districts and geographical clusters are other network types found to be significant in the internationalisation of the SME (Bonaccorsi, 1992). They may comprise densely knit associations of close friends (Granovetter, 1982) or

geographically close, industry specific firms that have forged an agreement to cooperate in order to compete (Bell et al., 2000; de Langen, 2002; Ernst, 2005). D'Cruz and Rugman (1992) conceptualise the business network as "the web of strategic relationships that tie the members of a cluster together and are achieved through the harmonization of the strategies of the firms within the cluster" (p.59).

de Langen (2002) states that there are a number of attractions for firms to form an industrial cluster which include the benefits of shared labour, a broad base of suppliers and customers, knowledge efficiencies, and lower transaction costs. In fact these were also shown to translate through to an improvement in business performance for participants in the highly competitive maritime industry.

Another example of clustering may be found in industrial districts (Agndal and Chetty, 2004; Bonaccorsi, 1992) which comprise geographically concentrated, specialised industry manufacturing groups. Bonaccorsi (1992) states that these cooperate by dividing responsibility for each stage of production amongst independent vertically and horizontally related business enterprises. He adds that they make initial decision to export and subsequently increase levels of commitment because of the supportive and reciprocal domestic business environment in which they reside (e.g., Sharma and Blomstermo, 2003). Furthermore, relying on the experience of their business neighbours and competitors (e.g., Pfeffer and Salancik, 1978) plays a key role in reducing the perceived risk of such decisions. This can provide significant benefits to the internationalising small firm given the increased socialisation and resource sharing inherent within.

Not all industrial clusters are geographically close. For instance, it has been observed that spatial proximity is not a high priority for technology based industries such as computer software and hardware (Ernst, 2005). In fact, this geographical decentralisation may be advantageous to niche firms operating in highly specialised markets where only a few firms exist globally that can make specific inputs into the production process (e.g., Coviello and Munro, 1997).

*2.3.3.4 Networking in Technology Based or Traditional Manufacturing Industries*

It seems that networking as an internationalisation strategy is not the exclusive domain of technology-based (Bell, 1995; Coviello and Munro, 1995; Sharma and Johanson, 1987) but also traditional manufacturing SMEs (Chetty, 1999; Chetty and Blankenburg Holm, 2000; McAuley, 1999). In the context of a non-existent domestic market, firm survival in the fast paced and competitive software industry has been linked to its ability to rapidly integrate itself into the relevant global network (Coviello and Munro, 1997). Growth rates for firms within these network structures have been observed in excess of 80% per annum especially in light of the short life cycles of many technology based products (Coviello and Munro, 1995).

Similarly, manufacturing firms may accelerate their internationalisation through the adoption of networking strategies (Anderson and Narus, 1984; Bonaccorsi, 1992; Chetty and Blankenburg Holm, 2000; Coviello and Jones, 2004; McAuley, 1999). Through these associations they can obtain knowledge and information (Sharma and Blomstermo, 2003; Styles and Ambler, 1994), learn from the experience of other actors (Chetty and Blankenburg Holm, 2000), and leverage needed resources in recognition of their inputs (Chetty and Wilson, 2003). International networking has enabled traditional local arts and crafts firms which rely heavily on manual production methods, to internationalise rapidly (McAuley, 1999). But being able to tap into these networks is only a partial determinant of success. Firms such as these, because of their inability to compete on scale factors (Bonaccorsi, 1992), also adapt to buyer demands (Ford and Rosson, 1982) through customisation, flexibility, and speed (Chaston, Badger, and Sadler-Smith, 2000; McAuley, 1999).

Clearly, accessing internationalisation resources through networking is critical to the small firm's prospects and yet some small firms appear to leverage these better than others. Indeed, it has been proffered that patterns of entrepreneurship are determined by the extent to which the network either facilitates or hinders market progress (Aldrich and Zimmer, 1986). Given that internationalising a small firm is often associated with entrepreneurial behaviour (Cavusgil, 1980; Coviello and Munro, 1995; Dodd, Jack, and Anderson, 2002), it is an area that can not be overlooked especially as it applies to the network perspective. This is a notion that seems supported by Madsen and Servais

(1997) who call for the integration of literature on internationalisation and entrepreneurship due to the increase in small entrepreneurial ventures entering into foreign markets.

#### 2.3.3.5 *Entrepreneurship and Networks*

Entrepreneurship is significant in small firm exporting strategy to the extent that it is “a combination of innovative, proactive, and risk-seeking behaviour that crosses national borders and is intended to create value... ” (McDougall and Oviatt, 2000, p.903). In fact international entrepreneurs “view the world as a single, borderless marketplace from the time of the firm's founding” (Knight and Cavusgil, 1996, p.11).

Key characteristics of the Born Global are said to involve an entrepreneur that has the right self-perceptions and business attitudes towards the opportunities that emerge (Czinkota and Johnston, 1983; Dunning, 1988; McAuley, 1999). Management individuals within are likely to have access to or possession of, new and/or innovative technology, and have an ability to attract and retain a network (Oviatt and McDougall, 1994).

As international entrepreneurship (IE) is a vast subject without a unifying paradigm in that it can potentially embody a myriad of specific actions (Coviello and Jones, 2004), it is helpful to consider such behaviours in the context of network involvement. Firstly, whether or not the entrepreneur is a technocrat or marketer (Andersson, 2000) will influence attitudes towards structural growth and the ability to develop and maintain networks. Kets de Vries (1977) provides a point of reference for understanding this stating that previous negative relational experiences leads the entrepreneur to impulsiveness and non-conformism as a means of environmental control. This in turn results in them being ‘unemployable’, autocratic, unable to delegate, or subject to the forces of structural inertia (e.g., Hannan and Freeman, 1984). This view deems the concept of *entrepreneurial networking* to be an oxymoron in that it indicates that the small firm manager would lack both the motivation and ability to develop sustainable network relationships in the absence of in-house resources.

More recent studies show the converse of this by showing a link between small firm entrepreneurship and the presence of an international networking strategy (e.g., Bilkey and Tesar, 1977; Coviello and Munro, 1995; McDougall, 1989). For instance, Andersson (2000) depicts the entrepreneur as having the ability to convince external parties to become involved in projects and to build profitable network of relationships. They have also been observed transferring the benefits of what they possess to others with the same vision, culminating in “collective invention” (Bonaccorsi, 1992). Furthermore, Day (2000), although observing the small firm to be more intuitive and creative than larger ones, also emphasises the importance of networking. Larson (1992) also makes the point that these competencies are essential in that internalising critical functions is neither rational nor feasible for most entrepreneurial firms, and adapting to their environment requires leveraging of network exchange structures. This indicates social norms, personal relationships, reputation, and trust as being important in determining the duration and stability of these structures.

It is apparent then that an entrepreneurial orientation alone will not generate the significant resources required for rapid and sustained international activity, but also the ability to initiate strong network relationships.

#### 2.3.3.6 *A Network or a Set of Relationships?*

Business networks, although dynamic and evolving over time, are relatively stable (Johanson and Mattsson, 1985). This stability comes about as a result of being comprised of committed, value creating, interdependent relationships (Blankenburg Holm et al., 1999), although the *position* of the smaller firm may be threatened because of it investing proportionally less resources than their larger network counterparts (Johanson and Mattsson, 1985). This suggests that the term *network* from an analytical perspective is misleading in that focus on its structural components may yield rich description but it is the relational components which should provide the focal point of analysis (e.g., Healy and Perry, 2000).

Ironically, networking authors acknowledge this weakness (e.g., Anderson et al., 1994; Chetty and Blankenburg Holm, 2000), especially given the largely informal and fluid associations developed by small firms operating in a competitive and at times hostile

environment (e.g., Covin and Slevin, 1989). In fact it is the dynamic business environment compelling the examination of critical relationships, which can hold a network together during difficult periods that threaten the robustness of its structure.

For instance, the strength of network relationships has been associated with the level of dependence between its members (Frazier and Summers, 1986). Networks have also been cited as effective forms of governance against opportunism (Mattson, 2000; Oviatt and McDougall, 1994). This is because they "take time and use resources to establish, maintain, and develop" (Johanson and Mattsson, 1985), and that the resources invested into them are usually non-retrievable (Gundlach et al., 1995; Ford and Rosson, 1982; Frazier et al., 1989; Heide and John, 1988; Johanson and Mattsson, 1985; Larson, 1992). Furthermore, firms have compelling emotive and economic reasons for retaining their long-term connections with network partners upon whom they can rely, as opposed the potential short term gains to be had from 'playing the field' (Ford, 1980).

The temporal nature of network development is also shown in the decision maker's ability to evaluate foreign market opportunities in that it is a function of "prior occupational socialization...and external occupational reference groups" (Reid, 1981, p.105). In fact, the significant use of social networks is likely during start-up and early developmental activities of the small firm (Birley, 1985; Chetty and Wilson, 2003; Ostgaard and Birley, 1994; Ramachandran and Ramnarayan, 1993). Additionally these firms may rely upon entrepreneurial networking strategies to pursue relationships in the context of *functionally specialised global networks* (Fillis and McAuley, 2000; Jolly et al., 1992; Knight and Cavusgil, 1996; Madsen and Servais, 1997; McAuley, 1999; Moen and Servais, 2002), as well as focus on niche market products and services to accelerate their growth (Chetty and Wilson, 2003; Coviello and Munro, 1995). This highlights the significance of making interconnections between the small firm and the network, and more importantly firms and individuals within network partnerships.

#### 2.3.3.7 *Impact of Network Relationships upon MCEs*

It follows then, that the types of networks that MCEs in particular can develop in the early stages of foreign market entry are likely to affect the speed and success in which they can internationalise (e.g., Coviello and Munro, 1995). For example, Chetty and Wilson (2003) point out that given the entrepreneurial firm's emphasis on growth (see

also Carland, et al., 1984) it is likely that the young firm will accelerate their progression by developing more strategic vertical and horizontal networks from the outset. However, it seems that one of the central features of the need to build relationships, as would be embodied through networks, is the resource constraint placed upon the MCE. This is critical, given that the ability to compete internationally may be hindered through an inability to invest in distribution channels and other marketing activities (McDougall et al., 1994).

With this in mind, it is therefore posited that the process of building relationships with a series of stakeholders both within and supplementary to the value chain, is one of the most vital components of MCE performance within this forum. As with their SME counterparts, they are likely to enter into any number of the following relational activities including; pooling resources with competitors to enhance buying and selling power (Hartmann, 1993), leveraging technical competencies (Chetty and Wilson, 2003; Coviello and Munro, 1995), obtaining market intelligence from competitors (Bonaccorsi, 1992; Håkansson, 1982; Metcalf, Frear, and Krishnan, 1992), and taking advantage of the vertical market's reputation and access resources (Chetty and Wilson, 2003).

#### **2.3.4 Justification for Relationship Approach in this Research**

Achieving the relational outcomes mentioned involves a process of nurturing, and it is this process which is not well understood in the context of the MCE international. In fact Anderson, Håkansson, and Johanson (1994) state that whilst there has been literature describing how firms are connected to their networks "consideration of the individual relationships and what occurs within them is often scant, with the relationships themselves rapidly diminished to links within a network that is of focal interest" (p.1). In particular, they recommend that researchers make further investigation into the dyadic connections within.

The work of Nahapiet and Ghoshal (1998) also indicates the importance of such investigations by distinguishing between the properties of the network which are "the impersonal configuration of linkages between people or units" as opposed to the behavioural social capital "created and leveraged through relationships" (p.244).

Furthermore, as relationships are dynamic in that they can quickly alternate between states (Ford and Rosson, 1982), it would seem prudent to obtain an in-depth understanding of those dynamics especially since "ethnographic or phenomenological research on behavioural processes in international networks is rare" (Coviello and Jones, 2004, p.499).

For instance, the process by which a firm increases its foreign involvement is not typically deconstructed using relational theory (Styles and Ambler, 1994) or "norm driven" systems of exchange (Achrol, 1991). Even though some have pointed to the behavioural approach to measure the performance impacts of dyadic relationships in export channels (e.g., Reid and Rosson, 1987), examination of the strength and depth of these relationships, which would greatly enhance our understanding of the network development processes (Anderson et al., 1994; Sharma and Johanson, 1987), has not been undertaken. The need to observe these phenomena is further compelled by optimal profitability and export performance being observed where high levels of commitment, cooperation and trust are present between the exporter and its channel partner (Reid and Rosson, 1987). In addition, export performance has also been positively related to adaptation, contact/resource intensity, reciprocal decision making, and conflict resolution (Ford and Rosson, 1982).

Styles and Ambler (1994) add to the debate by observing that most research into international progression has focussed on manipulation of marketing mix variables, adding that although a number of relationship models have been built that describe processes and outcomes, they have generally not been linked to export performance (see also Styles and Ambler, 2000). It has also been suggested that taking a relational approach to the study of exporting would greatly assist in addressing some of the methodological and theoretical deficiencies in the area, by revealing the nature and importance of behavioural episodes that take place between the exporter and its customer (Leonidou and Kaleka, 1998). That is, combining a structural with a relational approach would provide a more complete and systematic view of the internationalisation process, and enable the manager to not only ensure that "the right channel option is chosen [but also that] the right agent is chosen" (Reid and Rosson, 1987).

Given the research imperative to examine the underpinnings of the MCE's relationships, it is to this that the focus of discussion on the literature now turns.

## **2.4 Relationship Marketing**

So far an appraisal has been made of the literature as it concerns the internationalisation of the firm from the three dominant perspectives, FDI, Stages, and Networking. It has been shown that due to the small firm suffering from limited financial, human, and infrastructural resources (Miesenbock, 1988), there exists a predilection amongst these to exploit the advantages that value chain relationships provide. The network perspective has been the most studied in this regard although this appears to have largely overlooked how individual stakeholder relationships are built and sustained. In light of this it is suggested that studies depicting internationalisation on the basis of relationship behavioural processes (e.g., Leonidou, 1989; Leonidou and Kaleka, 1998) offer the best conceptual grounding for MCE entry. This assumption is based upon the earlier synthesis of existing literature, showing that whilst traditional internationalisation perspectives are of *descriptive* value, the growing body of empirical and conceptual knowledge centred upon relationship marketing is of better *explanatory* value.

In recognition of this, the remainder of the chapter is dedicated, firstly, to exploring the characteristics of relationship marketing (RM) together with the underpinnings of SE and TCA given that these are the dominant perspectives used to explain RM in the discipline. Following this, a review of the limited literature on RM in a foreign market setting is made. Finally, a general analytical framework (Miles and Huberman, 1994; Strauss, 1987) is presented to illustrate how it is suspected taking a SE or TCA approach to relationship development is related to the MCE's international outcomes.

### **2.4.1 Relationship Marketing Paradigms**

Berry (1983) defines RM as the process of: “attracting, maintaining, and enhancing customer relationships” (p.54), and whilst it is the definition adopted in this research, it is not just customers that MCEs need to nurture. Potential MCE internationals clearly need to engage in a number of key stakeholder relationships to facilitate the process of market entry. The managerial dilemma faced in this regard is how the firm-stakeholder

relationships should be structured (Brown et al., 2000; Cannon et al., 2000). As the RM discipline comprises a wide and varied theoretical foundation which attempts to capture and explain the nature and outcome of the relationship building process, it does present the challenge of deciding which particular theories best account for the MCE's internationalisation efforts.

Bruhn (2003) perhaps provides the most contemporary and thorough review of the theoretical foundations of RM to date. He presents these as falling into one of three paradigms namely; neoclassical based on the rational economic man in possession of complete information; neo-institutional where the decision maker is faced with information asymmetry and limited rationality; and neo-behavioural which proffers both psychological and socio-psychological explanations of behaviour. Whereas the first paradigm may be discarded due to an over simplistic treatment of complex relational phenomena, the latter two comprise theoretical perspectives explaining responses to both risk and uncertainty in the development of relationships. These would be of considerable relevance to the MCE given the risks inherent in foreign market entry.

Principal among the neo-institutional category is TCA (Anderson and Weitz, 1992; Noordewier et al., 1990; Pfeffer and Salancik, 1978; Weitz and Jap, 1995; Williamson, 1979; 1985). This perspective is underpinned by the employment of safeguard mechanisms that overcome risks associated with relationship opportunism, which is defined as "self-interest seeking with guile...[including] subtle forms of deceit" (Williamson, 1985, p.47). However, the neo-behavioural paradigm encompasses SE as a dominant perspective which has arisen because TCA does not adequately explain the emergence and impact of critical constructs such as trust (e.g., Doney and Cannon, 1997; Moorman, Zaltman, and Deshpande, 1992; Morgan and Hunt, 1994) and relational norms (e.g., Axelrod, 1986; Gundlach and Achrol, 1993; Heide and John, 1992; Kaufmann and Stern, 1988) which are present in all types of relationships (Morgan and Hunt, 1994; Wilson, 1995).

#### **2.4.2 Characteristics of Relationship Marketing**

What Bruhn (2003) makes clear though, is that regardless of the RM perspective applied, its usefulness may be judged on the basis of meeting certain theoretical

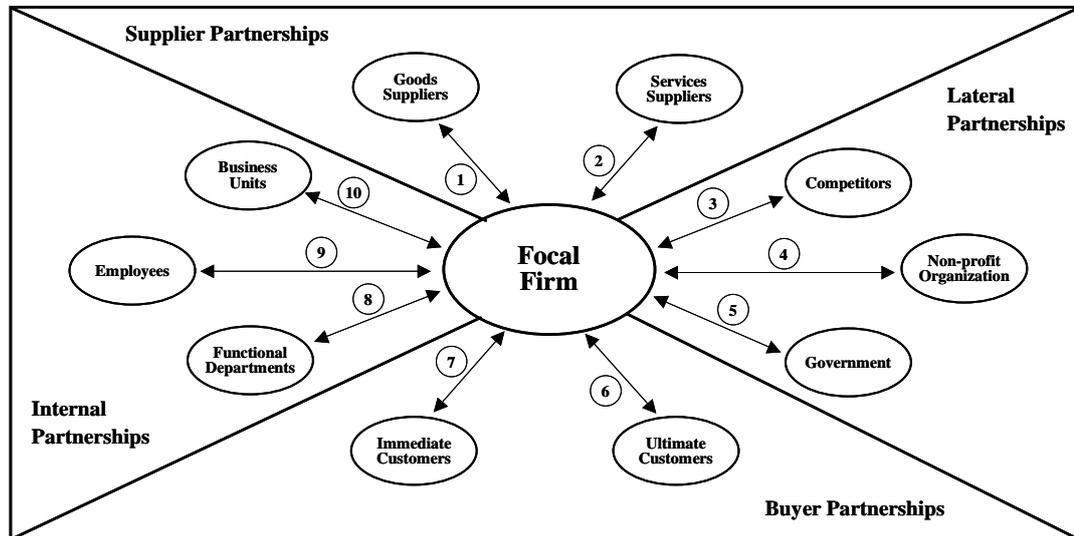
requirements including the ability to identify a set relationship types, the conditions needed for their development and nurture, and the capacity to explain the actions of the dyad. Also irrespective of the approach adopted are a set of common RM characteristics including; a minimum of at least two parties agreeing to interact (Gummesson, 1994); a mutual emphasis on the long term (Dwyer et al., 1987); a willingness to focus on ultimate values (Huston and Burgess, 1979); a recognition that relational activities are embedded in marketing mix strategy (Grönroos, 1990; Jackson, 1985); an encompassing of a variety of exchange settings and interactions (Håkansson, 1982); an understanding of the position of the dyad/s within a larger interconnected network environment (Anderson et al., 1994); a differentiation between transactional and relationally based marketing (Coviello and Brodie, 1998; Pels et al., 2000); and an appreciation of the blurring of boundaries between the firm and its partner (Gummesson, 1994; Marret, 1971).

RM may be observed in services (Berry, 1983; Berry and Parasuraman, 1991), industrial channels (Anderson and Narus, 1984; Håkansson, 1982), and consumer marketing (Sheth and Parvatiyar, 1995) contexts and within any of these there are many relationship types. In fact, Gummesson (1994) cites 30 types with some of these including customers, suppliers, distributors, government bodies, competitors, alliance partners, internal personnel, social contacts, external support service providers, financiers, and the media. He states that in many instances these are overlapping forming a “series of concentric circles or even ‘bodies’, ranging from the nano-relationship to the market relationships and the mega relationships” (p.15). He further indicates that this represents a paradigmatic shift in organisational theory whereby previous conceptualisations of relational links were hierarchically based (see also Webster, 1992). Perhaps the best representation of types in an industrial context is presented by Morgan and Hunt (1994) which is shown in Figure 1.

Whilst organisational structures may have changed in response to this shift in thinking, the greatest impact upon RM has been in the observation of more flexible governance mechanisms being employed. Governance was understood to be the framework in which contracts between parties were "initiated, negotiated, monitored, adapted, enforced, and terminated" (Palay, 1984, p.265). It seemed to encompass primarily market driven or transactional relationships which had the undesirable side-effect on the

literature in that it tended to position governance at polar ends of a transactional-relational continuum.

**Figure 1: Range of Potential Relationship Types**



(Source: Morgan and Hunt 1994, p.21)

This is flawed as clearly many organisations manifest different configurations of governance depending on exchange situation and frequency (Pels et al., 2000; O'Toole and Donaldson, 2000). The flexibility therein is reflected in the more realistic definition of Heide (1994) who states that governance is “a multi-dimensional phenomenon, encompassing the initiation, termination, and ongoing relationship maintenance between a set of parties” (p.72). Here, exchange frequency in particular, is said to have a moderating effect in that the temporal nature of relationship fosters trust, commitment, social norms, and interdependence (Dwyer et al., 1987; Johanson and Mattsson, 1985; Morgan and Hunt, 1994; Scanzoni, 1979; Wilson, 1995), facilitating bilateral contribution between the focal and partner firms.

Nevertheless, not all relationships are equal with disproportionate power often residing accordingly with the largest and least dependent firm in the dyad (e.g., Frazier et al., 1989; Frazier and Summers, 1986). In this regard, a relationship approach would not seem to bode well for the MCE in that their lack of resources beyond intellectual inputs may place them at the mercy of the larger and more opportunistic firm (Williamson, 1975).

However, the manner in which these and other constructs have been operationalised in the literature varies considerably (Ambler and Styles, 2000; Rexha and Miyamoto, 2000) and none more clearly than through SE (Anderson and Narus, 1984; Dwyer et al., 1987; Håkansson, 1982; Morgan and Hunt, 1994) and TCA (Anderson and Weitz, 1992; Pfeffer and Salancik, 1978; Kumar, Scheer, and Steenkamp, 1998) perspectives<sup>2</sup>. Whereas the former emphasises ongoing, reciprocal exchange based on trust and commitment, the latter focuses on reciprocal bargaining and power (Rexha and Miyamoto, 2000). On the basis of the obvious contrasts inherent within these, and the likelihood that the MCE may largely adopt one or the other to enter the foreign market, it is important that RM from the theoretical perspectives of SE and TCA is considered.

## 2.5 Relationship Marketing from SE and TCA Perspectives

To this point it has been shown that whilst RM manifests in a number of different forms, the perspectives of SE and TCA are not only dominant in the literature but perhaps offer the greatest potential for understanding the internationalising small firm. This is because the main feature of these two approaches is the manner in which risk is managed (e.g., Dunning, 1988; Heide and John, 1988; Larson, 1992; Pels et al., 2000; Yli-Renko, Sapienza, and Hay, 2001; Venkataraman and Macmillan, 1997).

For instance, Covin and Slevin (1989) found that small US manufacturers managed risk by either possessing an organic, flexible structure or a mechanistic, conservative one depending on the competitive environment they were in. However, risk management through manipulation of internal infrastructural resources (due to their non-existence) is not an option for the MCE (e.g., Larson, 1992), therefore the manipulation must emerge in the manner its relationships are structured.

In this regard, SE and TCA may be expressed in terms of the MCE's inclination to control relationships socially or contractually<sup>3</sup>. Larson's (1992) work provides an exemplar of this thinking, finding that the extent of the use of the former by the

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<sup>2</sup> In this research SE and TCA are chosen overall as best representing relational and transactional constructs even though these have also been conceptualised within differing theoretical domains. For example Macneil (1982) presents both SE and TCA constructs in the context of *relational exchange theory*. Pfeffer and Salancik (1978) discusses the emergence of TCA variables within *resource-dependence theory*. Network theorists (Achrol, 1997; IMP Group, 1987) also place particular emphasis on SE in describing the linkages between multiple sets of dyads.

<sup>3</sup> It is important to note that the existence of a written contract between the focal and partner firm does not preclude social control. In fact, the flexible contract has been shown to enhance trust through mutual understanding and learning (Blomqvist et al., 2005), as opposed to those which attempt to precisely account for every eventuality (e.g., Macneil, 1978).

entrepreneurial firm is determined by aspects such as partner familiarity and reputation, mutuality of goals, ease of interaction, duration of the relationship, and the integration of both social and economic exchanges (e.g., Håkansson, 1982). Whilst Larson indicates that a SE approach provides the optimal mechanism for governance, it may in fact be the only viable option for the small firm due to the lack of resources that they have for both contract monitoring and enforcement (Heide and John, 1988; Heide and John, 1990). Although this situation seems highly likely for the internationalising MCE, before addressing this notion, both TCA and SE relationship development approaches are first examined in more detail.

### **2.5.1 TCA Approach to Developing Relationships**

The TCA perspective states that any business seeking to maximise profitability will endeavour to minimise the transaction costs of undertaking its revenue generating activities. A significant proportion of these are incurred in relationship initiation, handling, and control, with a particular emphasis on the prevention of opportunistic behaviour (Williamson, 1975). Costs rise disproportionately with increases in exchange frequency, specificity of terms, and uncertainty (Williamson, 1991). Strategies for their reduction include vertical integration (internalisation), implementation of specific contracts and/or mechanisms for monitoring/enforcing performance, or market driven exchange (Macneil, 1980).

The latter two strategies are available to the small firm as these are primarily concerned with the management of external parties. With respect to a TCA approach these are usually associated with unilateral and market governance respectively (Heide, 1994) with partner behaviour occurring within the parameters of discrete as opposed to relational norms (Macneil, 1980). Under these conditions it is difficult for trust and commitment to form and in fact reliance upon specified contractual terms inherent within these relationship types reduces the likelihood of long term exchange (Macneil, 1963).

Given this, even TCA theorists acknowledge that the introduction of relational elements into contracts can enhance trust and stability (e.g., Anderson and Weitz, 1992; Noordewier et al., 1990). Whilst conceptually possible, observation of a purely TCA

approach would be rare with even the most hierarchical of firms moderating its approach depending on the value of the relationship and exchange setting (Heide, 1994; Carson, Gilmore, and Walsh, 2004; Pels et al., 2000; Styles and Ambler, 2003). Heide and John (1992) extend this argument by stating that *supportive norm* (relational) based structures may be complementary to TCA contractual prescriptions by reducing firm vulnerability. They explain further using the example of a buyer's interactions with a supplier, stating that the mutual presence of norms of flexibility, information exchange, and solidarity will protect against misuse of control.

Although TCA does not discount the value of behaviours which encourage long term relationships, it differs from SE proponents, arguing that “hollow words” are not a replacement for “locking in” partners through requiring specific actions, non-redeemable idiosyncratic (or transaction-specific) investments, and contractual accountability (Anderson and Weitz, 1992; Williamson, 1991; Yli-Renko et al., 2001). This view would seem to be strong counsel against the onset of trust although Lewicki, McAllister, and Bies (1998) view is more sophisticated, indicating that both trust and distrust can manifest and be comfortably present within the same relationship. They add support to a TCA approach arguing that trust and distrust are not bipolar but may be present simultaneously on different dimensions.

Ultimately though, the relational elements of TCA only exist within the confines of specified boundaries as only by assuming risk and uncertainty may trust develop (Blau, 1964). For the small firm attempting to penetrate the international market for the first time, TCA is an approach which may hinder or even prevent progress (McDougall and Oviatt, 1997), because of the inherent suspicion of others and a resulting unwillingness to rely on their behaviour. This may manifest in other characteristics of TCA such as the use of power and coercion in asymmetrically dependent relationships (Joshi and Arnold, 1997). For example, where alternative sources of product are few, the buyer is likely to comply to bend to the seller's desires (Frazier et al., 1989). This is supported by Berthon et al., (2003) who found that norms play a non-significant role in moderation of opportunism where many buyers were faced with only one supplier. In fact even when dependence is approaching symmetry, opportunistic or punitive actions may occur albeit increasing the likelihood of reciprocation (Kumar et al., 1998).

Pels et al., (2000) recognise the myriad of possible relationship iterations by proposing a dynamic *Buyer-Seller Exchange Situation Model* which allows for the impact of environmental influences upon exchange processes, as well as perceptions within the dyad. They give the example of a buyer not always desiring a relationship with the seller, particularly in the situation where they perceive the offering as being generic. They add that the converse of this is also true.

Pillai and Sharma (2003) further explore this dynamism arguing that there is a small but growing amount of evidence challenging the well accepted notion of buyer-seller relationships moving from transactional-to-relational with the onset of trust and commitment. They give examples where the converse occurs in mature SE based relationships, stating that a TCA orientation may begin to manifest with adjustments in, the quality of alternatives, knowledge of opportunistic practices, the degree of supplier innovation, the extent of dissatisfaction, and the intensity of personal/social interaction. Findings such as these though, do bring into question the extent of the relational orientation which existed in the first place.

#### *2.5.1.1 The Moderating Effects of Norms*

Perhaps the most serious deficiency in TCA, is its failure to account for the temporal effects of social norms (Brown et al., 2000; Cannon et al., 2000; Gundlach and Achrol, 1993; Macneil, 1980), in that their development serves as a governance mechanism to moderate opportunism (Heide and John, 1992; Joshi and Arnold, 1997). Relational social norms, defined as mutual expectations as to what constitutes appropriate and inappropriate behaviour (Gundlach and Achrol, 1993; Morgan and Hunt, 1994) include among others, solidarity, mutuality, flexibility, role integrity, and harmonisation of conflict (Gundlach and Achrol, 1993). In fact Heide and John (1992) assert that the presence of norms is important in ensuring the efficiency of relationships between independent firms. They summarise their position by arguing that because opportunism is not normal relational behaviour, TCA research has not catered for the "implications of a deviance from opportunism" (p.32).

The presence of norms or shared values between actors is said to be an antecedent to the development of trust, commitment and ultimately relationship performance (Morgan

and Hunt, 1994). Manifestations of these include the existence of mutual understanding (Leonidou and Kaleka, 1998), match (Hallén, Johanson, and Mohamed, 1987), or closeness (Håkansson, 1982). Communication is also an important factor in determining relationship performance within the channel (Ambler and Styles, 2000; Madsen, 1989). An integral part of communicating is the implementation of information exchange processes, technical and social, enabling among other things, mutual adaptation and coordination of processes and procedures over time (Hallén et al., 1987; Johanson and Mattsson, 1988b; Metcalf et al., 1992). These kinds of mutual adaptations are said to be influential in relationship longevity (Hallén et al., 1987; Metcalf et al., 1992) and export performance (Leonidou and Kaleka, 1998).

## **2.5.2 SE Relationships**

In light of such observations, more recent RM literature has emphasised the significance of SE based relationships that do embody relational norms as important governance mechanisms (e.g., Cannon et al., 2000; Heide and John, 1992; Joshi and Arnold, 1998). Underpinned by relational building constructs such as trust, commitment, reciprocity, and norms, they are manifestations of the moral obligations inherent within these types. An examination of these key constructs is now made.

### *2.5.2.1 Trust*

Trust although difficult to operationalise in research (Hosmer, 1995; Moorman et al., 1992; Morgan and Hunt, 1994), is said to be reliance based, manifesting through positive perceptions of honesty, credibility, and benevolence (Doney and Cannon, 1997; Zaltman and Moorman, 1988). It is essential to interdependence (Dwyer et al., 1987; Gundlach and Achrol, 1993; Morgan and Hunt, 1994; Scanzoni, 1979) and can also generate mutually beneficial reciprocation between actors (Pfeffer and Salancik, 2003; Larson, 1992). It has also been conceptualised as a state of reduced uncertainty (Ford, 1980), an expectation or confidence as to a pattern of behaviour or the occurrence of particular actions (Anderson and Narus, 1990; Doney and Cannon, 1997), an assumption that there exists an implicit moral duty (Hosmer, 1995), or confidence in ones reliance and integrity (Morgan and Hunt, 1994).

Trust (with its inherent expectation of reciprocation) can develop discretely between the focal firm and any of its exchange partners involved directly or indirectly in the business process (Morgan and Hunt, 1994; Aulakh et al., 1996), which may include its employees (Doney, Cannon, and Mullen, 1998), competitors (Blomqvist, Hurmelinna, and Seppanen, 2005; Chetty and Wilson, 2003), service agencies (Moorman et al., 1992), suppliers (Rexha and Miyamoto, 2000), distributors (Frazier and Summers, 1986; Marshall, 2003), and customers (Berry, 1983). The importance of the onset of trust within these types is further heightened for the small firm going international because it acts as a substitute for hierarchical governance<sup>4</sup> (Aulakh et al., 1996), and a buffer against the distance from many of its exchange partners (e.g., Ford, 1980; Aulakh et al., 1996). However, some of the risk inherent in trusting external parties may be offset by membership to formalised network structures which incorporate founding principles based on collaborative internationalisation success (Chetty and Patterson, 2002).

For the small and structurally vulnerable entrepreneurial firm, acquiring a knowledge and appreciation of the capabilities of the relationship partner can also manifest into a personal and economic trust transference (Larson, 1992; Doney and Cannon, 1997). Over time and repeated exchanges this trust is supported by behavioural predictability (Pfeffer and Salancik, 2003) and may be accelerated through reciprocity of self-disclosure (Davis and Skinner, 1974; Leuthesser and Kohli, 1995). Importantly, trust usually precedes commitment (Achrol, 1991; Doney and Cannon, 1997; Ford, 1980; Gundlach and Achrol, 1993; Morgan and Hunt, 1994; Moorman et al., 1992; Rexha and Miyamoto, 2000), often occurring during the partner selection and goal setting stages of the relationship (Wilson, 1995). Ultimately, if trust becomes embedded between a focal and partner firm, opportunism is unlikely as long term interests will supersede potential short term gains.

#### 2.5.2.2 *Commitment*

Commitment has been conceptualised as two parties seeking the benefits of a long term relationship at the expense of short term transactional rewards (Anderson and Weitz, 1992; Blankenburg Holm et al., 1999; Gundlach et al., 1995; Morgan and Hunt, 1994;

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<sup>4</sup> In that vertical integration (internalisation) is not feasible.

Leonidou and Kaleka, 1998). It arises from the belief that a particular relationship should endure indefinitely and therefore merits utmost efforts to retain this status (Morgan and Hunt, 1994). It has also been referred to as a relational norm essential to growing interdependence (Blankenburg Holm et al., 1999), and is mutual and incrementally pledged as successive exchanges take place (Anderson and Weitz, 1992).

In internationalisation research, commitment can also result in a mature relationship remaining stable in spite of reduced inputs by the focal firm to its foreign *bridgehead*<sup>5</sup> customer, which are instead diverted to that customer's contacts within their local embedded network (Chetty and Eriksson, 2002). In this regard, the mature relationship is proposed to be self-maintaining, liberating the focal firm to pursue additional opportunities. Blankenburg Holm et al., (1999) support this arguing that the "relationship development process will comprise commitments that pertain not only to the dyad itself, but also to the surrounding business network" (p.474). It should also have a purpose and a focus which, in the case of the small enterprise and its relationship partners, would likely be the expectation of mutual benefits to be derived (Leonidou and Kaleka, 1998; Morgan and Hunt, 1994) from internationalising their offering. Whilst benefits may not be immediately accruable, mutual commitment should be strategically directed at creating value for both partners through managing interdependent actions (Blankenburg Holm et al., 1999).

Although specific contracted actions, including the investment of non-redeemable idiosyncratic investments (Anderson and Weitz, 1992; Ford and Rosson, 1982; Gundlach and Achrol, 1993; Heide and John, 1988; Leonidou and Kaleka, 1998) such as the granting of an exclusive sales territory may be expected forms of commitment (Anderson and Weitz, 1992), Gundlach et al., (1995) observe more than just these instrumental antecedents. They argue that attitudinal (in the form of intentions) and temporal (consistency in attitude and input) components are also important in the initial commitment structure. They further state that social norm development and subsequent relationship viability can be determined by this *package* of commitment forms. For example commitment to internationalisation has been observed with respect to resources, people, dedication to the process (Welch and Luostarinen, 1988) and

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<sup>5</sup> This is a term given to the customer which was critical in facilitating entry into an international customer network (Chetty and Eriksson, 2002).

converging values and goals (Metcalf et al., 1992), and as inter-firm ties deepen the willingness to commit more resources to foreign markets will increase (Sharma and Blomstermo, 2003).

Specific examples of this commitment from a seller-buyer perspective include the willingness to adapt or customise to specific requirements (Ford, 1980; Ford and Rosson, 1982; Leonidou and Kaleka, 1998), the intensity of resources and contact made (Ford and Rosson, 1982), the transparency of information exchange as *distance* is reduced (Ford, 1980), and the relationship's durability (Doney and Cannon, 1997; Håkansson, 1982; Ford, 1980). This durability can be a function of each partners' willingness and ability to resolve conflict (Morgan and Hunt, 1994; Scanzoni, 1979), in preference to being forced to find an alternative (Anderson and Narus, 1984; Thibaut and Kelley, 1959). Of interest here is that whilst one party perceives that their partner is more committed when the relationship is exclusive, in itself exclusivity has not been found to be a determinant of commitment (Anderson and Weitz, 1992).

#### 2.5.2.3 *Adaptation*

An advanced manifestation of commitment may be observed in the mutual willingness to make *adaptations* (Dwyer et al., 1987; Håkansson, 1982; Leonidou and Kaleka, 1998), which is defined as “the extent to which the buyer and seller makes substantial investments (systems, processes, values and goals) in the relationship” (Metcalf et al., 1992, p.29). In fact, this is said to be a feature of a maturing SE relationship and as such signals significant, often non-retrievable forms of investment (Gundlach and Achrol, 1993). For instance, observations have been made of supplier involvement in product design, the implementation of *Just-in-Time* distribution systems (Metcalf et al., 1992), and the mutual the alignment of goals, procedures and processes with the internationalising firm (Leonidou and Kaleka, 1998).

#### 2.5.2.4 *Reciprocity*

Reciprocity (Gouldner, 1960; Kumar et al., 1998; Molm, Takahashi, and Peterson, 2000; Perugini, Gallucci, Presaghi, and Ercolani, 2003; Scanzoni, 1979) is stated as being a general tendency that can be found in most societies (Gouldner, 1960; Thibaut and Kelley, 1959), and is sometimes referred to as a meta-norm (Axelrod, 1986), which

governs trust, norms and exchange episodes. Reciprocal actions can be positive or negative depending on previous dealings with the target or beliefs about the target's likely reactions (e.g., Kumar et al., 1998; Perugini et al., 2003). From a TCA perspective, reciprocity can be observed where coercion or acts of power (Coviello and Munro, 1995; Frazier et al., 1989; Frazier and Summers, 1986; Leonidou, 1989; Thibaut and Kelley, 1959) are employed. These 'power plays', or *negotiated exchange* (Kelly and Thibaut, 1978), can also determine the structure of *behavioural* commitment (Gundlach and Achrol, 1993) to the relationship (Molm et al., 2000).

However in SE, reciprocity is articulated as being *internalised* (Perugini et al., 2003), whereby individuals grant their time, knowledge or resources without expressly negotiating, knowing about, or even expecting a response in kind (Molm et al., 2000). This, in turn produces stronger trust and *affective* (attitudinal) commitment to the relationship. Conversely, whilst negotiated exchanges, such as contracts subject to specific terms, might guarantee the commitment of particular resources, it does also reduce trust (Molm et al., 2000). In fact, it is argued that essential to the development of trust and commitment is the assumption of risk, uncertainty, and vulnerability that accompanies reciprocal exchange (Blau, 1964; Moorman et al., 1992). Furthermore, negotiated exchange must assume some social elements and is not immune from incurring risk (Granovetter, 1985), as it is impossible to factor in every potential outcome or episode into a contract (Macneil, 1978). In other words, even contracts specifying the strictest of terms must be structured in such a way as to allow some flexibility and goodwill both in their interpretation and performance of terms (Cannon et al., 2000).

The frequent reciprocal exchanges which take place within a social network can to a large extent determine the manner in which interactions take place with those with whom there have been no prior dealings, generating a form of referent trust (Doney and Cannon, 1997; Molm et al., 2000; Schurr and Ozanne, 1985). This transference of trust between individuals and organisations can take place when the credibility of one is assumed to be present in the other (Doney and Cannon, 1997) and may also occur when a 'proof source' is used (Milliman and Fugate, 1988). The result is that in SE, once trust is given, it opens the door for reciprocation (Pfeffer and Salancik, 2003).

Not surprisingly, reciprocity develops on a temporal basis and is best nurtured by the presence of open communication channels and the expectation of relational endurance (Pfeffer and Salancik, 2003). It can also be present when one party feels a sense of obligation to the other, resulting in the removal of ‘one-upmanship’ or competition (Pfeffer and Salancik, 2003), and as the relationship matures the need to account for reciprocity may be relaxed (Dwyer et al., 1987). In fact reciprocity is not always a strategy born out of self interest, in that it can be observed in instances where only a few interactions take place, or where benevolence is anonymous (Perugini et al., 2003). These authors propose that reciprocity yields a sense of feeling good about oneself and even becomes goal, as opposed to a process facilitating an outcome.

This statement needs to be balanced with the desire by both parties that reciprocation be fair, if not in proportionality (Gundlach et al., 1995), then at least at an interpersonal level (Perugini et al., 2003). In this regard, disproportionate investment between the small firm and its partner increases the risk of opportunistic behaviour from the one less committed. This in turn may hinder internationalisation efforts but would certainly adversely effect the development of a long term relationship (Gundlach and Achrol, 1993).

As the main elements of both a TCA and SE relationships have been examined, the somewhat sparse (Samiee and Walters, 2003) area of international relationship marketing (IRM) is now discussed.

### **2.5.3 International Relationship Marketing**

Scholars are beginning to appreciate the importance of the relational paradigm (RP) in determining the success of foreign market entry and activities (e.g., Aulakh et al., 1996; Evangelista, 1994; Leonidou and Kaleka, 1998; Rosson and Ford, 1982; Styles and Ambler, 1994; 2000) although in comparison to the economic approach, it has been largely overlooked (Leonidou et al., 2002). Even though the role of international relationships is accounted for in earlier literature (e.g., Ford and Rosson, 1982; Hallén et al., 1987; Reid, 1980; Rosson and Ford, 1982), “exploring and theorising” these has been limited (Leonidou et al., 2002; Samiee and Walters, 2003), and until recently (see Kingshott and Pickering, 2005), not at all in respect to the MCE. This is surprising

given that Håkansson (1982) and the Industrial Marketing and Purchasing Group emphasise the significance of the individual decision maker as opposed to the network, in the management of relationships. The key point here is that the critical RM constructs of trust and commitment are not given by the network but by individuals, further emphasising the need to understand the relationship dynamics of the MCE.

Samiee and Walters (2003) provide a valuable review of IRM so far. They state that the most common constructs studied (in order) are trust, power, commitment, conflict, quality, reciprocity, and information exchange, but question why hardly any have examined performance related outcomes. Given that the small firm likely places a heavy reliance on relationships for the achievement of outcomes, it implies that measuring the MCE's relational efforts in this manner is important.

Another key finding of Samiee and Walters was that most IRM studies focus on *upstream* or supply relationships at the expense of *downstream* distributor, customer and other relationship types. To this end they suggest the examination of both upstream and *downstream* types with the firm as the unit of analysis, a call not ignored by the present study. Clearly the international progression of the small firm is dependent on a bundle of relationships (Jones, 1999) and as such this highlights the importance of evaluating which types are nurtured and what impact this has on performance.

Perhaps the most important finding of Samiee and Walters review though is the limited progression in IRM because of the “general lack of convergence...[and] consensus on an appropriate theoretical framework and related constructs” (p.205). Whilst both TCA and SE are indicated, they do emphasise the need to understand the “impact and role of trust and commitment...[as to whether they] are precursors to or outcomes of international relational exchange, and their influence on performance...” (p.207). Findings of some of the more relevant IRM studies are now discussed.

#### 2.5.3.1 *International Relationship Marketing Findings*

Consideration as to the impact of RM begins at pre-internationalisation stage of business activities. In this regard, Ellis (2000) and Ellis and Pecotich (2001) indicate the importance of antecedent social relations in export initiation. In the latter study of

Australian manufacturing SMEs, they found that the firm mostly learnt of foreign market opportunities via existing social ties, often resulting in the original export order. Furthermore, Ambler and Styles (2000) cite paradoxical evidence of prospective exporters in times of great uncertainty, placing significant reliance on *experiential sources* when considering foreign market entry decisions. What is interesting here is not only the evident lack of entry strategies based on *objective* sources but also the degree of trust placed in the so called “market knowledge” provided by the facilitating tie (see also Styles and Ambler, 2000).

In fact, Sharma and Blomstermo (2003) support this both in initial and ongoing interactions by stating that social ties, the strength of which are determined by time, intensity, intimacy, and reciprocity, can cause increasing commitment of resources to foreign markets. Leonidou and Kaleka (1998) refer to this in terms of *entrenchment* whereby the maturing relationship produces greater levels of adaptation, commitment, communication, co-operation, and trust. What is important here is that they found increasing levels of these constructs to have a positive effect on the firm’s export intensity.

Turnbull (1990) also emphasised the importance of social ties, both in circumventing complex contractual negotiations with customers and in moderating the risk of interaction through repeated information exchange. He found that formal and social communication is also valuable in reducing psychic distance and assessing the long term suitability of the international customer (e.g., Wilson, 1995). Additionally, it facilitated the development of trust and respect, enabling more confidential information to be exchanged. Other benefits found from nurturing close associations included “crisis insurance”, whereby otherwise difficult circumstances could be overcome due to the strength of ties, and the generation of additional business opportunities from interacting within social settings.

Manufacturer-distributor relationships have been investigated in an international context. Although Rosson (1987) found that distributors could not always be trusted to properly promote the offering, Ford and Rosson’s (1982) research implies that this is likely due to relationship maturity, arguing that mutuality of commitment arises as a “process of increasing experience” (p.260). They also state that the nature and volume

of durable transaction-specific investments (Williamson, 1979) made by each party determines the extent to which behaviour is constructive and selfless. Although an empirical investigation of US *Fortune 500* companies cross-border relationships, Aulakh et al., (1996) give more specific support to this finding submitting that the extent of asset specificity invested by the focal firm, increases trust and decreases opportunism. However, important antecedents of this trust included bilateral norms of continuity expectations, flexibility and information exchange (see also Morgan and Hunt, 1994). Furthermore, social (bilateral) as opposed output/process (unilateral) governance was important for the maintenance of relational trust.

Styles and Ambler (1994) perhaps make the most complete attempt at establishing relational influences on small business internationalisation by finding that traditional marketing mix variables should be complemented by relational antecedents in determining export success. Their *hybrid model of export performance* includes a focus on the importance of key network actors, relationship intensity (in terms of the extent of communication and cooperation), reciprocity, and long term commitment, as directly influencing foreign market strategy.

They further state that "under RP, export marketing is driven by the sequential development of relationships" (p.29), finding that after the initial decision to export, distributor appointment and the manner of interaction takes priority over traditional marketing decisions. On the basis of being more resource poor than any other organisational type, it seems certain that such an emphasis would be even more evident for the MCE. That is, only by relationship development efforts taking precedence over other activities, would the MCE likely be faced with anything substantive (with respect to international opportunities and resources) to make "marketing mix" decisions about.

Not surprisingly, they too confirm relationship development to be a temporal process, citing a number of RM models including Industrial Marketing and Purchasing (Håkansson, 1982), channel (Anderson and Narus, 1984; 1990; Heide and John, 1988), and buyer-seller (Dwyer et al., 1987) versions. In fact these models applied to an internationalisation context are all highly congruent with traditional stage theory (Johanson and Mattsson, 1985; Leonidou and Kaleka, 1998; Lye and Hamilton, 2001; Jones, 2001) in that they add rich and grounded explanations as to how the firm is able

to attenuate the risk of making greater commitments to the foreign market. Given this linkage and its likely value in adding to the understanding of MCE international activities, these are now discussed.

### 2.5.3.2 *International Relationship Development as a Process*

Whilst not focussed on firm internationalisation per se, it is worth considering the theoretical frameworks of Dwyer et al., (1987) and others, as they seem congruous with the incrementalism of traditional foreign involvement models (e.g., Bilkey and Tesar, 1977; Cavusgil, 1980; Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Reid, 1981). That is, they emphasise the temporal dimension of relationship evolution, whilst additionally offering the benefits of exploring the dyadic exchanges (Anderson et al., 1994) which take place within each stage. In addition, insofar as these authors vary in the way they conceptualise the relationship process, they all ultimately converge on increasing interdependence between parties and a movement away from discrete transactions or episodes, to relational exchanges (Heide, 1994; O'Toole and Donaldson, 2000). There are of course instances where discrete episodes without the prospect of an ensuing relationship are entirely sensible (Pels et al., 2000). For instance, transacting parties may possess differing organisational goals and serve significantly different markets (Håkansson, 1982), or not require anything but the minimum of communication.

However, assuming that there is potential for ongoing interaction, it has been suggested that the process of convergence between buyers and sellers is gradual, including phases of awareness, exploration, expansion, commitment, and dissolution (Dwyer et al., 1987; Scanzoni, 1979). In another example, the importance of the outcomes of individual episodes, moderated by experience, uncertainty, distance, commitment and mutual adaptations, is emphasised in moving parties through pre-relationship, early, developmental, long term, and final relational stages (Ford, 1980). A further work illustrates that trust and commitment, fuelled by the presence of shared values and benefits, together with realisation of the costs of opportunistic behaviour or exchange termination, results in long term cooperation, comfort, and constructive conflict resolution (Morgan and Hunt, 1994). Yet another process framework involving partner selection, defining purpose, setting relationship value, and relationship maintenance also

points towards a growing integration of activities and procedures, but emphasises the latent or active nature of relational variables depending on what level of maturity has been reached (Wilson, 1995).

#### **2.5.4 IRM Summary**

Whilst progression is being made in IRM research, it is clear that as an important area of the discipline, it suffers from a lack of unifying approach in terms of theory, analytical context, and methodology (Samiee and Walters, 2003). There appears to be general agreement though on the firm's relationship approach options residing between the boundaries of SE and TCA, and it is this convergence in thinking which provides the impetus of the present research.

### **2.6 Research Directions from the Literature**

This review has taken a journey through traditional and contemporary theory of internationalisation encompassing both structural and behavioural literature. Much has been written about the firm's foreign market activities, and in particular, the manner in which the SME takes its first steps to establishing an international presence. Whereas original stage literature has emphasised the need to manage risk through resource and knowledge acquisition, the more recent networking perspective has contributed substantive empirical support for the leveraging role of others. What is clear in this regard is that the smaller the firm, the greater the imperative to seek additional support in order to break the bonds of a limited or nonexistent domestic market. However, whilst networking and related perspectives have provided a large body of descriptive work on how internationalisation may be achieved, empirical data with respect to the precise manner in which the MCE is able to develop mutually advantageous network relationships often with better resourced partners, has been entirely overlooked.

Furthermore, it is clearly evident that internationalisation thinking regarding the SME including *stages* (Bilkey and Tesar, 1977; Johanson & Vahlne, 1977), *networking* (Johanson and Mattsson, 1985; Sharma and Johanson, 1987), *resources* and *investment* (Aharoni, 1966; Barney, 1991; Dunning, 1988; Williamson, 1975) perspectives have patently ignored the fact that the MCE is never likely to develop the required internalised resources, which these all assume to varying degrees. It is therefore

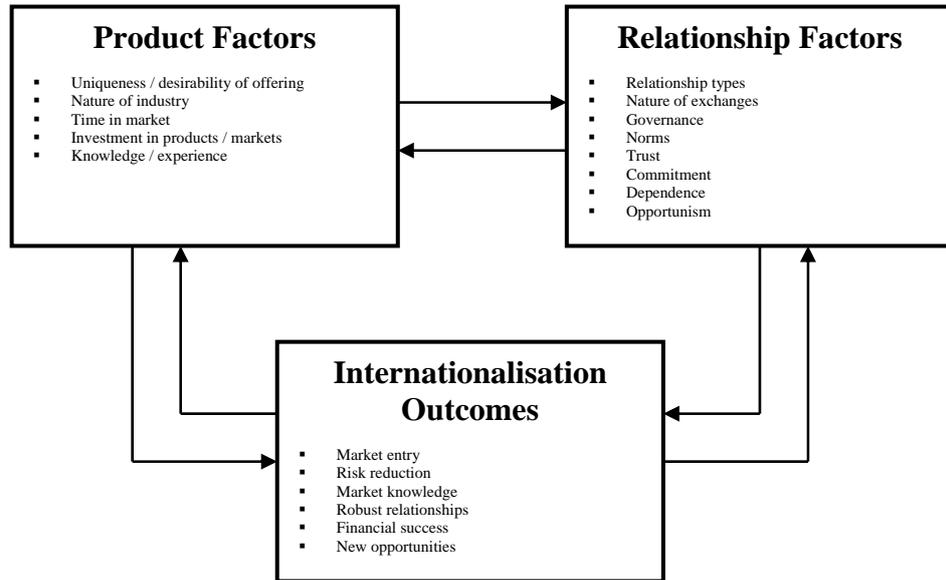
contended that current internationalisation theory for the larger firm is a totally inadequate proxy for the MCE. To this end, this research seeks to provide what is ostensibly the first satisfactory explanation of MCE international activity through integration of relevant relational literature (e.g., Dwyer et al., 1987; Morgan and Hunt, 1994; Wilson, 1995). In fact taking this approach is not entirely incongruent with existing perspectives given that they all state internationalisation to be a temporal process. However it is clear SE and TCA provide a superior foundation for analysis in the MCE context, as they provide a substitute for absent resources and offer clear but contrasting mechanisms for the management of risk inherent in internationalisation.

The final section of this chapter is devoted to outlining the factors suspected to be important in shaping the MCE's international prospects, both in terms of facilitating initial market entry and in perpetuating positive outcomes associated with performance.

## **2.7 Research Boundaries: An Analytical Framework**

Figure 2 presents a framework, based on the assessment of the literature, which shows the analytical boundaries of this research. It is important for providing direction within the context of the qualitative and largely grounded methodology employed (Glaser, 2001), but also because it includes the factors that the researcher suspects are important in the MCE's internationalisation efforts. In addition, although somewhat general such a framework also supplies a foundation for guiding participant questioning and interpretation of the collected data, particularly in the development of themes and coding (see chapter three). Furthermore, it facilitates the conceptualisation of a more specific data-driven model (see chapter four), and subsequent research directions derived from any theory building contributions made (see chapter five).

**Figure 2: Analytical Framework of MCE Internationalisation**



It is important to note that Figure 2 represents the researcher’s conceptualisation prior to entry into the field, and is left this way to demonstrate how the findings refine and/or substantiate this thinking. Nevertheless, a number of points need to be made at this stage. Firstly, although it is not an exhaustive reflection of internationalisation and RM literature, it does attempt to integrate those factors/constructs likely to impact the MCE’s efforts, and this is critical given the apparent paucity in this area (Coviello and McAuley, 1999). Furthermore, the case study method adopted does allow for the exploration of these and their potential linkages in much richer detail. Such flexibility is important for theoretical development, especially given the view that the smaller the enterprise, the greater the challenges for extant (mostly descriptive) explanatory models (Fillis and McAuley, 2000).

Secondly, the manner in which the framework is presented is not indicative of relative importance of particular factors /constructs. Such attributions are left to the analysis and findings sections of the thesis. Separate but related to this, no attempt is made to indicate the order in which relational constructs such as trust, commitment, and norms develop in MCE relationships. The rationale here is that if the vast array of RM literature has failed to agree on such matters<sup>6</sup>, it is not the aim of this research to attempt

<sup>6</sup> See Claro et al., (2003) and Morgan and Hunt (1994) as examples.

to add definitive clarification to the debate. Perhaps the best support for this position comes from Ambler and Styles (2000) who state that trust may follow or precede commitment, but it is their proportionality that is important. They add that, "It is possible that high levels of trust associated with outstanding performance may be consequences rather than antecedents. More likely, it is a cumulative build-up of both" (p.499). For example, trust may be required of relationship partners prior to the MCE's initial market entry activities, but it is certain to be bolstered should these activities be profitable.

This leads to the third point regarding Figure 2, being that relationships are cyclical and as such, any conceptualisations of them should incorporate "feedback loops", an aspect missing from most models (Ambler and Styles, 2000). Such an oversight is surprising given that relationships become closer through the mutual benefits received from positive outcomes (Dwyer et al., 1987).

Fourthly, it is important that this research attempts to link the relationship approach with resultant international outcomes and to this end the analytical framework incorporates both SE and TCA constructs within. Whilst the latter may be too costly to administer (Heide and John, 1990), and the former is likely to produce more robust outcomes because of the closeness that such interaction is likely to engender (Ford, 1980; Håkansson, 1982; Leonidou and Kaleka, 1998; Styles and Ambler, 1994), no such evidence exists as yet for the MCE.

## **2.8 Concluding Remarks**

Although there has been criticism of RM research showing linkages between variables but avoiding questions of causality (Ambler and Styles, 2000), this study does not attempt to mitigate the situation. This is because the MCE represents an almost entirely new context for internationalisation research, and as such, it is tendered that a superior theoretical contribution may be made from taking an in-depth exploratory approach. That is, the theoretical underpinnings of international relationship development remain largely unexplored in the literature, and the uncomplicated MCE structure provides an excellent opportunity for this to occur. Validation of any contributions made then becomes the work of future research.

Finally, the imperative to account for the time dependent behavioural processes involved in MCE relationship development means that cross-sectional methodologies providing mere “snapshots” of reality must be avoided. With this in mind, it is to the qualitative approach employed that the focus of this thesis is now turned.

### **3 Research Approach and Design**

*Chapter two shows that whilst SME internationalisation has received much scholarly attention of late, little is known about this in the context of the MCE. Focus now shifts from the literature to discuss how the present empirical study was undertaken. In doing so this chapter comprises four main sections including; the rationale for adopting the overall research approach (see 3.1); specific facets covering case selection criteria, data collection tools, and analytical procedures, which together make up the research design (see 3.2); acknowledgement of the challenges faced when “wrestling” with approach and design issues to satisfy the demands of methodological robustness and theoretical contribution (see 3.3); and finally, a discussion of ethical issues relevant to this study.*

#### **3.1 Deciding upon the Research Approach**

Perhaps the most critical aspect of the research process is that of deciding which approach is most suitable for applying to the overall research problem, that of understanding how the resource constrained MCE enters the foreign market. Ultimately, the decision to employ a qualitative approach was based on a number of considerations including the uniqueness of the phenomenon of interest, the type of research question posed, and the temporal nature of the data sought.

Clearly the internationalisation process of the firm is not unique to the literature in that it has been extensively studied from a number of perspectives. However, the previous chapter reveals there to be a dearth of knowledge on this phenomenon in the context of the MCE. Furthermore by virtue of this, the research questions (see chapter one) although specific were necessarily exploratory, demanding that a methodology be used that allowed for complex, process type data to be captured (Coviello and Jones, 2004). On this basis a retrospective longitudinal, multiple case study approach, was employed to capture and analyse the internationalisation journey of each MCE. The facets which characterise this approach are now examined.

### 3.1.1 A Qualitative Approach – The Case Study

*“We aim to account for events rather than simply document their sequence. We look for an individual or a social process, a mechanism, a structure at the core of the events that can be captured to provide a causal description of the forces at work” (Miles and Huberman, 1994, p.4).*

According to Miles and Huberman (1994) qualitative inquiries possess strengths that more statistically based methods do not offer. These include a focus on contextually based *grounded* events (e.g., Coviello and McAuley, 1999), the potential for longitudinal and flexible data collection from multiple sources (Yin, 1989), the assignment of more insightful, in-depth meaning to occurrences, and iteration enabling rich description and robust theory development (Chetty, 1996).

Given the need to examine the *how* and *why* (e.g., Coviello and McAuley, 1999) of New Zealand MCEs behavioural and social processes, led to a case study approach being chosen. There were a number of other compelling reasons for this. Firstly, it is entirely appropriate to employ highly descriptive and explanatory approaches when the field of research is relatively new (Coviello and Munro, 1995; Chetty, 1996; Eisenhardt, 1989). Use of a survey method to examine the phenomenon of interest would have necessitated that at least two prior assumptions be made, both of which would raise questions of validity. These include, that existing theoretical perspectives relating to larger internationalising structures are suitable proxies for the MCE, and that instrument design based on these perspectives would adequately capture a picture of reality. In fact this approach would likely cause the researcher to “fit” unexpected responses into predefined categories or codes, a practice which is highly flawed but not uncommon (Glaser, 2001).

Secondly, the case study yields a better understanding of decision making processes (Chetty, 1996) and in this research, the impact that relational approach had on MCE international performance. For instance, a traditional analytic research design may have produced statistical correlations between specific sets of variables, but this would have been at the expense of context, depth (Reid, 1981), and individual setting dynamics (Eisenhardt, 1989).

Thirdly, from an initial review of the internationalisation literature it became apparent that existing perspectives would not provide an adequate account of MCE foreign market entry. Therefore, an important research goal encompassed the building of theory by making substantive analytical (theoretical) generalisations regarding processes inherent within individual MCE cases (Patton, 2002; Yin, 1989).

Fourthly, although escalating in popularity, the case method accounts for only a small proportion of small business export research (Chetty, 1996; Lye, 1998). There is however increasing support, understanding, and dissemination of case study findings and it is losing the title of forerunner to the serious and “more scientific” quantitative methods (Yin, 1994). Of interest here, is that even though bridging the relational-export paradigm adds another level of analytical complexity, the few studies that have attempted this have been predominantly deductive (Leonidou and Kaleka, 1998), and by implication devalued through *bounded rationality* (Cyert and March, 1963).

Fifthly, Chetty (1996) argues that *how* and *why* questions are more suited to case studies than large surveys, as they are concerned with event explanation rather than event frequency. She adds that case studies offer a stronger empirical base for establishing causality in and between variables generated from the data. Yin (1989) offers a similar view stating that the case method provides for the measurement and recording of behaviour rather than only verbal cues. This was a particularly important aspect in the investigation of MCEs, given that participant surroundings often enabled an assessment of the strength and at times truthfulness of the responses given.

Sixthly, the MCE because of its size offered a unique opportunity to communicate at length with those responsible for its formation and perpetuation. To this extent they were able to respond comprehensively on all critical matters regarding international activities. To impose a survey methodology in this instance would have been tantamount to discarding much of the accessible data (Coviello and Jones, 2004).

Finally, from the point of view of enjoyment of the process and in agreement with Ford (1990), “it is better to spend lots of time listening to managers and developing ideas rather than assembling a towering edifice of quantitative analysis on the basis of a mailed questionnaire” (p.2).

### 3.1.2 A Qualitative Approach – Retrospective and Longitudinal

The enactment of internationalisation strategy and the development of relationships are both processes and the study of these should reflect their inherent temporal dimension. In other words MCE internationalisation is an ongoing journey rather than a destination although ironically, most SME research to date has been content based and cross-sectional, at the expense of being process-based and longitudinal (Aaby and Slater, 1989; Chetty, 1996; Coviello and Jones, 2004; Welch and Luostarinen, 1988).

Melin (1992) offers a number of strategies for the understanding of temporal processes including a focus on events, episodes, epochs, or biographical histories. The first two emphasise the importance of catalytic incidents over short time periods with the latter two accounting for longer spans of time. Obviously the further back in history that participants are asked to recall, the more error ridden their recounting is likely to be, although it is indicative of a more complete representation of process. Conversely, an event or episodic approach (see also Kutschker, Baurle, and Schmid, 1997), may mean a greater degree of accuracy and comprehensiveness in relaying the specific aspects of these, but they pose a problem of attribution in that too much significance is placed on potentially uncharacteristic occurrences. All MCEs in this research were less than fifteen years old at the time of interviewing, enabling a combination of the above approaches to be employed.

Strictly speaking, a longitudinal approach involves immersion in the phenomenon over an extended period of time, however long that may be. Given its impracticality, this research instead resorted to a retrospective longitudinal analysis relying on induction (e.g., Carson and Coviello, 1996) from participant *stories* and other available sources of confirmatory data. Ordinarily such a strategy would place a heavy burden on participants in that they may not recall the entire period of interest, critical events or periods may be overlooked entirely, some information may reside with individuals who are no longer with the company, and other episodes may be reconstructed to sound better than they actually were. However, given the relative *newness* of the MCEs selected and that almost all interviews were with founders and co-founders, to a large extent these concerns were mitigated.

### **3.1.3 A Qualitative Approach – Multiple Cases**

Whilst the single case study has been the most common form employed, the multiple case approach is becoming increasingly popular (Coviello and Jones, 2004; Eisenhardt, 1989; Strauss and Corbin, 1990; Yin, 1989). This is because it enables findings from one case to be compared to those of subsequent cases. It is particularly powerful in the context of theory building in that it facilitates both replication and divergence across cases, thus minimising chance associations within the data (Eisenhardt, 1991). For instance, the purposeful selection strategy used in this research (see 3.22) meant that a group of MCEs were selected that would likely yield similar strategic patterns of internationalisation strategy but potential divergence in relationship approach.

There have however been some criticisms of those promoting a multiple case approach to generate theory. Dyer and Wilkins (1991) argue Eisenhardt in her 1989 article to be paradoxical in that if the stated purpose of case analysis is theory generation, then it has been eclipsed by features common to surveys including research propositions, hypothesis testing, and tight methodological controls. They elaborate further by stating that whilst conducting multiple cases may lend itself to the formulation of better constructs, it is at the unacceptable expense of context and “deep” description. Additional limitations proffered include the loss of the art of story telling (which is considered essential to the conveyance of meaning), a mere surface analysis forced upon the resource constrained researcher, and ultimately a lack of rich theoretical output.

Upon evaluating these criticisms though, it was decided that the multiple case study in spite of its limitations provided the most sensible approach to addressing the research questions. This was further compelled by Eisenhardt’s subsequent defence emphasising the importance of “independent corroboration” of findings, and the opportunity for extension allowing for the creation of more elaborate theory (1991, p.620). In other words, use of the multiple as opposed to a single case method, enables more robust analytical generalisation to, in this instance, internationalisation and relationship marketing theory.

### 3.1.4 A Qualitative Approach - Conclusion

As can be seen, selection of qualitative approach was most appropriate for this research. It was compelled by both the unexplored characteristics of the internationalising MCE and by the need to capture process based data in a dynamic setting. Furthermore, attempting to integrate two streams of literature in this new context was best tested and validated by obtaining rich, grounded participant stories. Attention now turns to specific elements of research design, analysis, and presentation.

## 3.2 Research Design

Before entering the field, decisions had to be made regarding the number of cases and the basis of their selection, how data were to be collected, and the manner in which they were to be analysed in cognisance of the research questions being posed. Before discussing these, the unit of analysis (the MCE) and its characteristics are described.

### 3.2.1 Unit of Analysis

*The key issue in selecting and making decisions about the appropriate unit of analysis is to decide what it is you want to be able to say something about at the end of the study (Patton, 2002, p.229).*

The unit of analysis in this research is synonymous with the case, and each case represents a MCE. Although choosing alternative units of analysis such as *the relationship* or *internationalisation strategy* would have also been feasible, it is common practise to utilise the firm in this manner (Yin, 1989). It is also eminently more sensible when the smallness of the MCE renders it virtually indistinguishable from its founder participant/s. Furthermore, foreign market strategy and relationships are embedded within firm processes and as such reasonable to consider from an integrated perspective.

Patton (2002) clarifies the decision by asserting that the unit of analysis should represent the phenomenon to be observed and hypothesised about. This demands that the MCE be precisely defined. Given the paucity of literature commenting on this organisational form (e.g., Cameron and Massey, 1999; McGregor and Tweed, 2002;

Philp, 1998), it was decided to adopt the New Zealand Department of Statistics definition of any firm comprising five or less full-time-effective (FTE) staff. This was because almost 90% of firms fall into this category (see Table 3.1), and although internationalisation research has not previously considered such diminutive enterprises, it is supported by the notion that country context is important (Nassimbeni, 2001).

**Table 3.1**  
**Number of Economically Significant NZ Enterprises<sup>1&2</sup>**

	FTE Persons Engaged Size Groups <sup>3</sup>					Total
	0-5	6-9	10-49	50-99	100+	
Enterprises	289,320	17,821	23,010	2,329	1,860	334,340
Percentage	86.5	5.3	6.9	0.7	0.6	100.0

<sup>1</sup>Source: NZ Department of Statistics (2000); <sup>2</sup>Revenue > NZ\$30,000; <sup>3</sup>Full-time equivalent employees (FTE)

The next sections now focuses on the method of case selection, the research instruments employed, and the procedure followed in data management and analysis.

### 3.2.2 Case Selection

Patton (2002) states that nothing draws out the differences between qualitative and quantitative research better than their diametrically opposed sampling logics. He adds that bias and weakness in statistical sampling is the focus and strength of qualitative sampling. For instance in this research random sampling was displaced by purposeful (theoretical) sampling (Glaser and Strauss, 1967), whereby MCEs were selected which would most likely manifest the relationship and internationalisation theoretical constructs of interest (Patton, 1990). Inherent within this purposeful strategy were the consideration of additional sampling logics<sup>1</sup> including; the selection of typical, critical, or confirming/disconfirming cases; the selection of cases fitting specific criteria; and the selection of cases being based on opportunistic or emergent circumstances. Ultimately,

<sup>1</sup> A discussion of purposeful sampling strategies may be found in Patton, M.Q. (2002), *Qualitative Research and Evaluation Methods*, 3rd ed., Sage Publications, CA., pp.243-244.

although the final strategy encompassed aspects of all of these, theory-based sampling was the main logic determining inclusion or non-inclusion.

Adopting this approach not only allowed for confirmation of the dominant theory in practise, but also challenged long accepted conditions inherent within these. For example, it was shown that most MCEs when internationalising did so incrementally (Johanson and Vahlne, 1977). They also demonstrated active involvement in social and business networks to overcome various resource and competency barriers (e.g., Autio et al., 2000; Johanson and Mattsson, 1985; Larson, 1992; Sadler and Chetty, 2000). However the selected MCEs were also observed making commitments to the international market and achieving subsequent levels export performance, that were disproportionate to their internal resources and infrastructure (e.g., Wolff and Pett, 2000). This finding in itself was compelling justification for the selection strategy adopted, the application of which is now detailed in sections outlining *which* and *how many* cases were chosen.

#### 3.2.2.1 Selection Criteria

Several options were considered prior to embarking on the process of case selection. The first was to only take firms from a single industry base in order to eliminate the potential contextual variation in the findings (e.g., Metcalf et al., 1992; Philp, 1998). The second was to select firms from a single geographical location in acknowledgment that regional economic factors might account for some differences in their strategy. The third was to discriminate on the basis of traditional manufacturing versus technology based firms which Coviello and Jones (2004) suggest is valuable for comparison purposes. A related option was to retain a selection of both “marketing entrepreneurs” and “technical entrepreneurs” (Andersson, 2000) reasoning that the former would adopt more resource intensive market entry strategies whereas the latter would place greater reliance on technology based international networks.

All three options were eventually rejected in favour of selecting exemplar manufacturing MCEs (traditional or technology based) operating in any industry from three main centres of commercial activity in New Zealand. The rationale behind this was two pronged. Firstly, it was posited that whilst internationalisation strategy may

have varied in aspects such as market selection and entry mode, all would be faced with resource constraints and be compelled to enter into facilitating business relationships. After all, the theoretical focus was on the relationship development approach between dyads and on this basis there was little justification for ruling out any industry/firm types or geographical locations.

This is consistent with the thinking of Reinartz, Krafft, and Hoyer (2004) who found that relationship management systems did not produce varying results between industries and were indeed relevant across industries (see also Coviello et al., 2002). Secondly, the chosen unit of analysis likely precluded the selection of well established firms with a track record of market and financial success. It was therefore considered important to maximise the chances of including MCEs, irrespective of demographic base or industry profile, that were likely to be *going concerns* in the long term. By implication, Coviello and Jones (2004) support such logic in that they did not find a single international entrepreneurship study which included firms less than six years old.

An aspect of INV research that was included in the selection logic was to only consider MCEs which possessed an international orientation from early in their existence. To this end, firms which had made their first international sale within two years of inception were deemed eligible (e.g., Autio et al., 2000; Moen and Servais, 2002).

#### 3.2.2.2 *Number of Cases*

Even though statistical generalisation was not the aim of this study, “*how many cases are enough?*” has been an ardently debated question amongst qualitative researchers. Whilst Eisenhardt (1989) states as few as four cases are acceptable, Lincoln and Guba (1985) argue that sampling should continue to the point of redundancy. This research resided in between these two views by taking the more pragmatic approach of specifying a sample that would reasonably cover the phenomenon of interest, whilst accepting the realities of resource constraints (Patton, 1990). Ultimately though, data redundancy began occurring after five cases with the research concluding after the analysis of the seventh case. Any more than this would have yielded an amount of data too cumbersome to manage (Eisenhardt, 1989) or resulted in *data asphyxiation* (Pettigrew, 1990). As it was not possible to determine the final number of cases

beforehand, a list of eligible MCEs was compiled from which participants could be drawn, the process of which is now discussed.

### 3.2.2.3 *Building a List of Eligible Cases*

There were two challenges to overcome in selecting the right mix and suitability of participant organisations. The first was to obtain a substantial enough prospect list to draw from. Initially considered were publicly available databases such as regional “Yellow Pages” and various other forms of business directories. These were rejected on two counts including the impracticality of randomly sifting through these listings in the hope of contacting qualifying organisations, and then having made contact, the difficulty in implementing the selection strategy. The purchase of a commercial database was rejected on similar grounds.

Ultimately a Delphi philosophy<sup>2</sup> (Turoff, 1975) was employed whereby a panel of experts representing various Export Promotion Organisations<sup>3</sup> (EPOs) were asked to provide the names of prospective participants. As initial expert advice from a national EPO recommended firms from four municipalities including Auckland, Palmerston North, Wellington and Christchurch, further confirmation was then sought from locally based EPOs. Consulting multiple organisations in this process not only resulted in more robust theoretical sampling, but enabled the assessment of the recommended prospects through different *lenses* (Lewis and Grimes, 1999). An additional and unexpected benefit arising from the approach was the unsolicited recommendation of some MCEs by more than one EPO.

Secondly, once in possession of a prospect list,<sup>4</sup> it then had to be subjected to a set of predetermined filtering questions (see appendix two). Marshall and Rossman (1989) state that “the ideal [case] is where...there is a high probability that a rich mix of many of the processes, people, programmes, interactions, and/or structures that may be part of the research question may be present and...data quality and credibility of the study are reasonably assured by avoiding poor sampling decisions” (p.54). These

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<sup>2</sup> Miles and Huberman (1994) do refer to “reputational case selection” where the recommendation of an expert is sought, however there was more of a panel approach employed in this research which has more in common with “Delphi”.

<sup>3</sup> Names of the organisations have not been included for privacy reasons.

<sup>4</sup> This comprised 45 MCE’s.

recommendations became an essential component of the case filtering rationale, with specific emphasis on obtaining a richness and variety of processes.

Filters required that the prospect be an active exporter, that activity had been ongoing for a minimum of twelve months, that time elapsing between business inception and receipt of an initial overseas sale be no more than two years, that the number of FTE staff be no greater than five<sup>5</sup>, and that business was commenced post 1984. This last condition was included in part due to the New Zealand economy undergoing dramatic deregulation at this time forever altering the manufacturing sector (Thirkell and Dau, 1998), and in part also to establish the impact of this newness (Aldrich and Auster, 1986) on future infrastructural growth strategy (e.g., Bell et al., 2000).

These requirements necessitated that all on the prospect list be contacted by telephone. In doing so, willingness to be involved in the research was ascertained, and then those in agreement, were qualified by means of the filtering questions. The results of this process were that five declined to participate and a further twenty failed to qualify. Of the twenty remaining eligible MCEs, a final group of twelve were deemed most suitable for participation.

#### 3.2.2.4 *Infrastructural Growth Strategy*

The infrastructural growth strategy of the MCE is worthy of specific comment. In order to ensure that a critical feature of MCE internationalisation progress would involve the leveraging of external resources, it was necessary to ascertain the likelihood of the prospective organisation growing their internal resources. By this reasoning it was anticipated that remaining small compelled a highly socialised (Håkansson, 1982) relationship nurturing approach, not only through a transitional period of organisational expansion, but in its absence, as a permanent internationalisation strategy.

Conversely, stage models imply that increasing commitments to the foreign market is necessarily mirrored by adjustments to infrastructure. One would expect this to be more manifest in the diminutive MCE although some initial pilot interviewing revealed otherwise. Based on this thinking, efforts were made to ensure that MCEs were selected

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<sup>5</sup> At the time of interviewing.

which were not planning to significantly grow their internal resource base over the long term, in response to increasing international success.

#### 3.2.2.5 Exclusions and Exceptions

Total adherence to the selection criteria was the ultimate goal but not at the expense including qualifying but potentially poor case participants and vis-à-vis. Firstly, “Mom and Pop” businesses were generally avoided on the basis of operating at subsistence levels (e.g., McAuley, 1999). These were not considered serious internationalising concerns albeit that some of their revenue may have been derived from exporting. This is not to say that home-based or husband and wife MCEs were excluded from the mix and in fact five of the final cases fell into this category. None of these operated at a subsistence level though and all were serious about the continuation and indeed growth of their international activities.

Secondly, one of the final cases did not originate from an EPO recommendation but from a local media article profile. The company was however subjected to and qualified through the same filtering procedure. Thirdly, small company innovation is often only associated with high technology enterprises (e.g., Oviatt and McDougall, 1994; Roberts and Senturia, 1996). Since innovation is one of the hallmarks of the INV it would have been reasonable to exclude traditional manufacturing firms in favour of only technology based ventures. Ultimately, a more broad perspective of innovation was adopted whereby both new marketing and technology approaches were considered eligible (e.g., Andersson, 2000).

### 3.2.3 Research Instrument

As the main form of data collection was from face-to-face discussions with case participants, an interview guide (Patton, 2002) was developed reflecting the topics of interest (see appendix three). Whilst designed to solicit MCE internationalisation strategy in the context of relationship development, questions were phrased in such a manner so as to encourage frank and open discussion between the researcher and the participant. For instance, “Please describe the *journey* that your business has taken from founding to today”, was the first question asked and often yielded an initial response in excess of half an hour. Apart from some broad demographic questions, included to

provide a context for individual case analysis, all other questions although providing some structure, were open-ended and intended to allow the participant significant latitude in responding (e.g., Larson, 1992).

In light of this, the interview guide was exploratory in nature and designed to obtain a holistic picture of MCEs temporal processes. This is supported by grounded theorists (e.g., Glaser and Strauss, 1967) who argue that preconceptions regarding the types of responses sought, might hamper the emergence of important themes. Similarly, Kvale (1996) warns of the structuring process increasing the chances of interviewer bias, resulting from co-authoring responses in an attempt to keep within question parameters. It was chosen instead to place greater reliance on the skills of the researcher as is aptly expressed by Miles and Huberman (1994).

*In qualitative research, instrument validity and reliability ride largely on the skills of the researcher...[who] needs good investigative skills, including doggedness, the ability to draw people out, and the ability to ward off premature closure (p.38).*

Caution was taken in adopting such an approach. Whilst the importance of providing a flexible vehicle to capture unique stories and contexts was acknowledged (Harris and Sutton, 1986), there was also a need to manage the overwhelming amount of field data requiring thematic identification and interpretation. This balance was not achieved in isolation. Two senior academic colleagues, known for their polar views on instrument design, were approached on separate occasions to provide feedback on the initial draft. Predictably, one advocated the inclusion of ratings and scale type questions, whereas the other suggested taking more of a participant led journey. Both made extremely valuable points that were taken into consideration in the final version. Ultimately, it was an instrument that enabled the recording of subtly structured MCE stories.

### **3.2.4 Operationalisation of Constructs**

Both internationalisation and RM theory were drawn upon in the formulation of the analytical framework and research questions. With respect to the former, in more recent times greater emphasis has been given to the role of networks in foreign market

progression and to some extent this has been at the expense of understanding the relationships that make up these networks. A number of authors have acknowledged this deficiency inasmuch as they have suggested that the relational paradigm in small firm progression requires in-depth investigation to better appreciate network dynamics (Chetty and Eriksson, 2002; Coviello and Munro, 1995; Ellis, 2000; Healy and Perry, 2000; Styles and Ambler, 1994; Welch and Luostarinen, 1988). Therefore, it was primarily the relationship literature from both marketing and sociology that was turned to for the purpose of interpreting the study data<sup>6</sup>.

#### 3.2.4.1 *Developing a Typology*

To achieve this necessitated that a typology be developed which enabled the observation and assessment of a number of theoretical constructs. Specific relationship constructs of interest came from Social Exchange (SE) theory and included commitment (Gundlach et al., 1995; Jap and Ganesan, 2000), trust (Doney and Cannon, 1997; Morgan and Hunt, 1994; Moorman et al., 1992), reciprocity (Axelrod, 1986; Gouldner, 1960; Leuthesser and Kohli, 1995; Perugini et al., 2003), and relational social norms (Berthon et al., 2003; Gundlach and Achrol, 1993; Kaufmann and Stern, 1988; Macneil, 1980).

Mechanisms of relationship governance (Heide, 1994) were also observed and in particular their employment as tools for managing opportunism (Brown et al., 2000). No specific measures of Transaction Cost Analysis (TCA) behaviour (Anderson and Weitz, 1992; Williamson, 1979) were developed as absence of SE was assumed to be indicative of the presence of TCA. However, TCA type interactions were recorded and detailed throughout each case, in that they were extremely valuable in assessing the MCE's overall relationship approach.

Given that all of the above constructs have been discussed in some detail in chapter two, Table 3.2 offers a summary of these in terms of the nature of interactions looked for within each firm's internationalisation relationships. Dimensions and conceptual definitions were drawn from the work of a few key authors in this area who are reflective of the larger body of work in the discipline. Measuring these involved the use

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<sup>6</sup> MCE *international outcomes* was the main observational construct of interest from the internationalisation literature, inasmuch as it was impacted by the relationship approach adopted overall. However, no attempt is made to operationalise it in this section, the approach instead being to reflect it through empirical observation of internationalisation outcomes within each case (see 4.2-4.8 and 4.94).

of a simple *high, medium, and low* scale, the judgements of which were based upon the preponderance of evidence from relationship interactions. The reason for using such an unsophisticated scale was driven by the need to make consistent albeit subjective interpretations of complex qualitative data, which would remain internally valid across all the cases.

**Table 3.2**  
**Summary of Relational Constructs Employed**

Authors	Construct	Main Dimensions	Conceptualisation
Doney and Cannon (1997)	Trust	Credibility	An expectation regarding partner reliance in both word and action.
		Benevolence	Perceived mutuality of interest in seeking partnership gains.
Gundlach, Achrol, and Mentzer (1995)	Commitment	Instrumental	Action taken by one party which demonstrates a stake in the relationship e.g., transaction-specific or non-retrievable investments.
		Attitudinal	Enduring intention to nurture long-term relationship.
		Temporal	Consistency of both instrumental inputs and attitudinal intentions over the long-term.
Peruguini et al. (2003) and Leuthesser and Kohli (1995)	Reciprocity	Internalised Social Norm	Extent to which both positive and negative acts take place in a relationship. Reciprocity as a goal in itself. Feeling good from doing good. Reciprocity of self-disclosure.
Gundlach and Achrol (1993)	Social Norms	Solidarity	Sacrifice, unified actions, and togetherness in adversity.
		Mutuality	A belief that the other is working towards fulfilment of shared interests and benefits.
		Flexibility	Modification of terms in response to change. Adjustment of poorly formed goals to more realistic levels. Flexible interpretation of agreements for the sake of relationship continuity and goodwill.
		Role Integrity	Interactive information sharing. The extent to which dyadic roles are seen as complex and extending beyond transactions. Acting as an enabler of the other to fulfilling their tasks and responsibilities
		Harmonisation of Conflict	Avoid formal measures of dispute resolution. Work out dispute internally. Fairly appraise historical incidents contributing to the cause of the conflict.
Heide (1994)	Governance	Bilateral	Overlapping roles, joint activities and team responsibilities. Joint planning. Negotiated changes to terms. Open-ended relationship.
		Unilateral	Precise specification of individual roles and responsibilities. Binding contingency plans; dictatorial. Fixed length or relationship or explicit termination measures.
		Market	Roles exist only in the context of the transaction. Non-existent planning; transaction based. No relationship.

Furthermore, in acknowledgement that relationships are never completely SE based or governed in a purely bilateral manner, this scale enabled the measurement of the strength of each relational construct as detailed in Table 3.2.

In addition as has been stated, actual participant statements facilitated the process of observation and interpretation. It is important to note that the relational constructs although observed separately for the purposes of the analysis, are not mutually exclusive in that one may contribute to the incidence of another. For instance *instrumental commitment* may be reciprocated by the other party, indicating the presence of both *commitment* and *reciprocity*. In fact the same participant statement may have been used to illustrate both occurring. Similarly, *shared norms and values* are said to be inherent within trust (Macneil, 1980), a factor taken into account when making judgements of this nature .

#### 3.2.4.2 Interpretative Philosophy

Consistent with a philosophy of *social realism*<sup>7</sup>, assessing the strength of relational constructs was not made on the basis of what would have been a meaningless and somewhat misleading content analysis, but on a holistic interpretation of the overall relationship. For instance, the absence of actual participant statements indicating reciprocal interaction did not mean that reciprocity was not strongly inherent within that relationship. In some instances this judgement had to be made on the weight of case evidence as a whole.

#### 3.2.4.3 Empirical Examples of Construct Observation

Trust is a higher order construct which is reliance based and manifests through perceptions and demonstrations of credibility, honesty, and benevolence (Zaltman and Moorman, 1988). Doney and Cannon (1997) suggest that it can develop via one of a number of processes. These include *calculation* – a cost benefit analysis which evaluates whether net gain will occur even in the event of partner dishonesty; *prediction* – assessing the likelihood of partner default; *capability* – determination of partner

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<sup>7</sup> Embracing a philosophy of *social realism* (see Shapiro 2002), encourages the researcher to look beyond the surface phenomenon, by building an explanation of the occurrence from a reasoned and well constructed theoretical base.

ability to deliver upon its promises and obligations; *intentionality* – an interpretation of motives; and *transference* – an assessment of a partner's reliability, based on other sources of proof. Typical examples of some of these are now shown.

...[The suppliers] *had known Geoff for a number of years anyway through his work, because he had been in Christchurch and how he worked and I guess my joining also gave him extra credibility...*

...*These people aren't distributors with us now, they are friends and that's what it's about and they will stick with us.*

...[We have no contracts with them. It is all] *built on trust...[and it works] absolutely fine...our philosophy is if you are going to get ripped off, you are going to get ripped off, and a piece of paper will only make you spend money to chase it.*

Whilst observations of both international market and relationship commitment were made, it was the latter which was the focus of this construct's analysis. Gundlach, et al., (1995) conceptualise exchange commitment in terms of both attitude and inputs, arguing that mutual intentionality and proportionality largely determine the extent to which norms and ultimately the relationship develops. They also state that instrumental inputs are bonding mechanisms which encourage parties to focus on ultimate values (e.g., Huston and Burgess, 1979) rather than on developing short terms exit strategies. Examples of MCE relationship commitment are now shown.

*I was working fulltime for Trade and Enterprise...So I...resigned from there and bought half the business and we kicked it off.*

*We've poured a lot into assisting [our manufacturer and now] they are starting to be very highly thought of in Australia...*

*...And eventually we got through it. So the suppliers stuck with us and gave us extended credit and hung in there, which was good.*

*...we split any residue into four, one to the business, and give ourselves three...*

A key point here is that as both trust and commitment are temporal, they are likely to grow through repeated interaction (Dwyer et al., 1987; Håkansson, 1982; Morgan and Hunt, 1994). In appreciation of this, relationship longevity was also taken into account when making overall assessment of the presence and strength of these constructs.

Reciprocity as an act (positive and negative) was observed, but also where parties clearly indicated a belief in reciprocity (e.g., Perugini et al., 2003). Reciprocity helps to build stable and robust connections, in that it has the capacity to maintain social norms by way of engendering mutual and enduring moral obligations (Blau, 1964; Gouldner,

1960). It also ostensibly acts as a meta-norm (Axelrod, 1986) providing a catalyst to socialisation. Examples of reciprocity in MCE interactions are shown below.

*...we flew the other four [distributors] to Las Vegas and we flew up and we had three days around a table at Las Vegas with them. We paid for all those guys...[and in return they were prepared to take three days out of their business time].*

*...I then said to them, 'why won't you charge us?' [They answered]'because if you take note of our advice, we're going to get business out of you anyway because you'll be on a growth path, and secondly, it gives us ownership of what you're doing and investment in helping a new business remain successful'.*

*...and in the end we said...'We can go to somebody else if you are not willing to help us' and the guy said 'I wish you would.' So...he's missed out on hundreds of thousands of dollars worth of business because he's an arsehole and he couldn't work with women.*

The development of social norms was observed in the manner in which exchange interactions changed over time. Gundlach and Achrol (1993) state that in a highly interactive environment norms of solidarity, mutuality, flexibility, role integrity, and harmonisation of conflict, should become increasingly apparent (see Table 3.2). The extent to which these manifested in MCE relationships provided a strong indication of whether a SE or TCA approach was adopted overall. Some examples of statements indicating relational norms are now given.

*...We're all in unison on this...Definitely, definitely...*

*...Creatively if we're thrashing out a concept, it can get quite fraught. We can call each other all the names under the sun...but that's very important. We would never back down from that...*

*...that price comes back and we look at all the prices together. And we go, 'holy Toledo. OK guys, let's all of us back off equally', and that works...*

*...there is a great fold over between architecture and design. You just bring goodwill to that, you can't demarcate creativity...Everybody has to go, 'the outcome matters more than the personality, and if he didn't like my idea, it doesn't mean he doesn't like me...it means that it isn't working for the outcome of the project'...*

Williamson (1985) states that relational exchange in an uncertain economic environment will adopt governance structures involving either hierarchy or control, which minimise transaction costs. As vertical integration is not an option for the MCE, relational control may be resorted to as a hedge against partner opportunism (e.g., Brown et al., 2000; Gundlach and Achrol, 1993). Heide (1994) conceptualises governance as being either market or non-market driven with the latter existing as a continuum with unilateralism and bilateralism at polar ends. Whilst market based transactions were observed within the cases, relationships critical to the MCE's

internationalisation prospects were largely non-market based. This was observed to the extent that they were characterised by joint inputs and planning or prescriptions as to partner roles and responsibilities. Of course bilateralism does not preclude the presence of unilateralism and vis-à-vis (e.g., Pels et al., 2000), therefore observations as to the strength of each were made. Examples of each are now given.

#### *Bilateral*

*...we set it up with four criteria...we [decided we] would never employ any staff, we would never have an office other than working from our own homes, we would never pour good money after bad...*

*...a few of our suppliers got a bit twitchy but we simply laid it on the table, had a meeting with them every week, gathered them round the table...and gave them all the updates...They gave us as much input as they could as well from their own positions from what they had been selling.*

*...[we] talked round the table, set the pricing policy, we set all sorts of stuff in there, warranty and service issues, and went through the whole gamete of how the product works...because we were a bit unsure as to where we were going to be, and we took a fair bit of advice from them on it...*

#### *Unilateral / Market*

*We have got an agreement that we won't accept ten container loads and that for any large orders, we need three months lead time...*

*...We said this is how we operate, there was a minimum amount you could buy, we'll ship it like this and this is how it comes...*

*...I do the whole thing. I source all the material, and I arrange for deliveries...and they just manufacture it.*

*...I just told them 'this is the price', and they accepted it....*

As data collection progressed it became clear that governance needed to be further decomposed into both *strategic* and *tactical* interactions. The former was observed on the basis of how planning took place within and external to the MCE. The latter considered the nature of inputs as plans were translated into actions. This differentiation in the measurement of governance is reflected in both individual and cross-case tables (see chapter four). The rationale for this expanded interpretation was that it enabled an assessment of a whole range of relationship activities and their collective impact on international outcomes.

Although unilateral and market forms equate with a TCA relationship approach in that they aim to offset risk, manage opportunism, and lock parties into formal agreements (e.g., Anderson and Weitz, 1992), no other specific measures of TCA were

operationalised in the study. Instead, participant statements that were clearly not indicative of a SE approach were included, in that they may have demonstrated a lack trust, commitment, or relational norms. Interpreted in the context of the whole case they proved to be of considerable value in determining the MCE's overall relationship strategy. Typical examples of TCA observations are now given.

*[The agreement] is for three years...but fair enough they had to tool up and everything and get organised. We have all sorts of out clauses and it's really good for us.*

*...we don't want them to ever own any intellectual property.*

*[A handshake]...used to be [good enough] until we got stung. We got more and more and more litigious and we've got a lawyer in Paratai Drive...he's a barrister.*

*...The contracts, the confidentiality agreements and all the rest of it applies to them as well...There's always a bit of a risk though...We protect ourselves as best we can...*

This section has focussed on how relationship constructs were operationalised in order to assess their overall impact on international outcomes and ultimately performance. However as already stated, no measures of performance were devised prior to going into the field. The preference here was to observe performance by way of outcomes achieved by each MCE, and then to relate these back to the vast and somewhat inconsistent literature on the subject. In further justification of this approach was the premise that the MCE manager's conceptualisation of performance was likely to differ from that usually associated with larger organisational structures. Now focus is turned to the procedure by which data was collected.

### **3.2.5 Research Procedure**

*In this complex and multi-faceted analytical integration of disciplined science, creative artistry and personal reflexivity, we mould interviews, observations, documents, and field notes into findings (Patton, 2002, p.432).*

So far discussion has centred on methodological issues including case filtering and selection, the research instrument, and operationalisation of theoretical constructs. This section elucidates the procedure followed for interviewing case participants and the subsequent management and interpretation of the responses therein. In addition, some detail is given regarding the use of N6 qualitative software (QSR, 1991-2002), to store, code, and retrieve data for the purposes of thematic identification and modelling.

Finally, the approach to cross-case analysis is discussed in the context of its contribution to building MCE internationalisation theory.

### 3.2.5.1 Analysis - Interviewing

Upon completing the lengthy process of identifying the appropriate mix of cases and soliciting the participation of the key decision maker/s within each MCE, interview times were scheduled with each that ensured the minimum of disruption. In some instances this meant meeting after the end of the work day. This seemed to create a relaxing and reflective mood rather than place any time pressures on the interview.

In a number of instances only one participant from the MCE was interviewed. Three of the cases were sole proprietors and in a fourth one of the managing partners worked out of an Australian office. It is not believed that this was a disadvantage as all interviewees were founders and best able to provide the information sought. Furthermore, whilst a single interview provided the core of the data, additional interviews by telephone were conducted on a number of occasions. This provided for fact verification and responses to supplementary questions.

Interviews were carried out in an informal conversational mode and ranged from 1.5 to 3 hours in duration<sup>8</sup>. Participants were drawn into communicating with a general introductory statement about the research, and then progressively encouraged to give full and in-depth responses on the various topics introduced. Probing was employed sparingly to either give direction or entice a fuller description of particular events or episodes.

Another method encouraging rich description and flow was to take a flexible approach to interview structure in that questions were not necessarily asked in the order that they appeared in the discussion guide. In fact on many occasions the written question was not asked at all in the realisation that it was either not contextually relevant, or had been addressed as part of a previous response. Specific research terms were avoided except when necessary for the effective communicating of questions. One rewarding aspect of the interviewing process, and an indication of the robustness of the information given,

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<sup>8</sup> All had previously agreed to commit at least 1.5 hours to the meeting.

was the number of times that strong participant emotion was expressed as well as reports of the experience being in some way cathartic<sup>9</sup>.

Discussions were taped recorded for later transcription as well as being supplemented at the time by field notes, a task that Patton (2002) stresses the importance of.

*Field notes...consist of descriptions of what is being experienced and observed, quotations from the people observed, the observer's feelings and reactions to what is observed, and field generated insights and interpretations. Field notes are the fundamental database for constructing case studies and carrying out thematic cross-case analysis in qualitative research (p.305).*

Taking complete recordings of the interviews was essential to eliminating bias resulting from poor interviewer recall, and for the enhanced interpretative possibilities that were afforded through the analysis of comprehensive transcripts. An important component of transcript preparation was that they received minimal editing to ensure faithful reproductions of the interviews.

#### 3.2.5.2 Analysis – Data Sources

Miles and Huberman (1994) summarise the tasks of qualitative analysis as consisting of data reduction, data displays, and conclusion drawing and verification. Data analysis actually began at an early stage, initially taking the form of a continuous recording of insights and memos whilst in the field (Eisenhardt, 1989). The objectives of this were to identify *signposts* as and when they occurred and to assess the contextual significance of these against the analytical framework and at a later stage of the analysis. When involved in this process, it was important to remain alert in noting the “cross-case comparisons, hunches about relationships, anecdotes, and informal observations” as they arose (Eisenhardt, 1989, p.539). Patton (2002) endorses this process as one of the two primary sources for post fieldwork analytical inquiry, the other being the research concepts and questions developed during the original design phase. He does add that the fieldwork does not completely finish, with the identification of data gaps right

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<sup>9</sup> All participants had taken significant personal and financial risks over the course of their trading, and the recounting of difficult incidents or episodes was often the source of raw emotion.

throughout the project, reinforcing the nature of qualitative inquiry as integrative, iterative and synergistic.

A number of dangers exist in relying purely on interview data including distorted responses from personal bias, the emotional state of the interviewee, recall error, interplay between interviewee and interviewer, and self-serving responses (Marshall and Rossman, 1989; Patton, 2002). For this reason, findings were triangulated from other company data including website copy and other internal or external material such as media reports. An additional but somewhat more subjective means of confirming the evidence was through observation of environmental setting. For example, a participant claiming to be in charge of a multi-million dollar organisation aroused suspicion if absolutely no evidence of this success was evident in their environs. The interviews and additional data mentioned, together formed the case database<sup>10</sup> (Yin, 2003).

#### 3.2.5.3 Analysis - Coding

The key to making initial sense of the case data was in the coding of the transcripts and additional information sources into the major thematic areas of interest. The assigning of codes to raw transcripts enabled the interpretation of specific units of text in relation to the research questions. It also ensured internal consistency (Yin, 1989) within each case which increased the validity of later cross-case analysis. In recognition of data complexity and ambiguity (Gummesson, 2001), coding was iterative, commencing during research design and continuing right through until appropriate levels of analytical abstraction had been achieved (Folger and Turilo, 1999). Of further assistance was the creation of initial set of working codes derived from extant literature, the resulting analytical framework, and the research questions. Refining took place as emergent themes/patterns arose from the transcripts, which were then subjected to supervisory/peer review.

In recent years the typical approach to manual coding of paper transcripts has been usurped by such qualitative software packages as Atlas TI and QSR N6. This research adopted the latter tool to facilitate the management of over 500 pages of interview material. In fact N6 (QSR, 1991-2002) was used to store, retrieve, code, compare, link,

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<sup>10</sup> The case database refers to all data collected from all sources for individual cases, over the course of the study. The cut-off point for adding to this did not occur until the analysis period of the study had been completed.

and analyse<sup>11</sup>. N6 did not, however, provide the creativity, analytical synthesis or rigour, but did enable the researcher, through the use of software mechanisms facilitating data reduction and the development of salient themes, to focus on such things. There still exists some suspicion of those placing reliance on a computer, traditionally the domain of the positivist. Purists state that use of analysis software removes the methodological craft and inductive qualities of research by imposing structured hierarchies on the collected data. Fielding and Lee (1998) counter this by stating that data management is an appropriate use of software, rather than being a substitute for sound analytic practise. Durkin (1997) summarises the benefits of such an approach with the following statement.

*“...qualitative data analysis programmes (QDA) improve our work by removing drudgery in managing qualitative data. Copying, highlighting, cross-referencing, cutting and pasting transcripts and field notes, covering floors with index cards, making multiple copies, sorting and resorting card piles...have never been the highlights of qualitative research” (p.93).*

Ultimately, these advantages compelled the use of N6 in this study, particularly given the volume of data able to be handled in a systematic fashion, along with the relative ease in which the ‘valuable’ could be sorted and extracted from the ‘redundant’ (Fielding and Lee, 1998). Furthermore more recent software such as N6, whilst employing hierarchical logic, does allow the researcher more flexibility in the assignment and reassignment of codes. Other examples of this flexibility include free coding, memos, graphical displays, complex searching, and customised reporting functions.

#### 3.2.5.4 Analysis - Reporting

Although it was not intended to report cases by way of a chronological recounting of each MCE internationalisation journey, the process nature of the relational constructs of interest meant that this was to some extent embedded within each story. That is, chronologies and themes were inextricably linked (Gersick, 1988; Pettigrew, 1990). To this end, individual cases were written in a way that tracked firm origins and explored

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<sup>11</sup> See appendix four for the final list of codes.

critical events, but were structured around each of the relationship types formed. Ultimately it resulted in stories being told within stories, firstly in the retelling of major events, then in detailing the episodes leading to and during internationalisation, followed by an examination of the roles of critical relationships, and finally in drawing conclusions about the impact of the MCE's overall relationship approach (e.g., Rosson and Ford, 1982).

Cases were written up in the order in which they were coded in N6. The rationale in choosing the particular order was based partly on intuition but largely from a desire to best illustrate the suspected relational divergence between the MCEs. The first case chosen was considered the “exemplar” in that it revealed the strongest evidence of the SE constructs. Subsequent cases were then added in a manner which best complemented the one previous in that it both confirmed and built on previous findings.

It was important that each case write-up be consistent in both category and theme. Every attempt was made to facilitate this by being at all times cognisant of the danger of forcing stories into convenient boxes. The challenge to obtain this balance between description and analysis was achieved by creating two tables identical to each case report. The first comprised a list of *internationalisation and related outcomes* reflecting the MCEs foreign progress on a number of factors. Most of these factors were common to but not limited to, export success and performance literature (e.g., Aaby and Slater, 1989; Cavusgil and Zou, 1994; Chetty and Hamilton, 1993; Styles and Ambler, 1994; 2000; Thirkell and Dau, 1998; Wolff and Pett, 2000). The second comprised a list of important relationship constructs inherent within SE literature (e.g., Dwyer et al., 1987; Gundlach et al., 1995; Gundlach et al., 1995; Heide, 1994; Morgan and Hunt, 1994), against which each relationship type was measured. Individual case observations made in these tables then formed the basis for comparison across cases.

Cross-case analysis was not conducted until all within-case analysis had been completed (Brown and Eisenhardt, 1998), although similarities when they arose were recorded for later investigation. The purpose of cross-case analysis was to address the four research questions. *Pattern Matching* logic (Yin, 1994) was the dominant mode employed as this was seen to be the most appropriate means of achieving the purposes of replication and theory building. Eisenhardt (1989) emphasises the importance of this in that it takes the

researcher beyond initial impressions, enhances the likelihood of good theory, and often results in the presentation of novel findings.

In addition to the above, uncovering both convergent and divergent findings in MCE relationships ultimately lead to the making of analytical generalisations about the state of MCE internationalisation knowledge. For example, convergence was found in the cases with respect to the significance of internationalisation to the MCE and the importance of leveraging relationships to achieving outcomes therein. However the manner in which relationships were nurtured varied across cases yielding extensions to both networking and RM literature<sup>12</sup>.

### 3.3 Quality Considerations

*Realising that absolute objectivity of the pure positivist variety is impossible to attain, you are prepared to admit and deal with imperfections in a phenomenologically messy and methodologically imperfect world, but you still believe that objectivity is worth striving for (Patton, 2002, p.93).*

Sadler and Chetty (2000) in their study of the pre-export relationships of New Zealand firms indicated that the “how and why” of these was not able to emerge due to the employment of a quantitative method. This is the type of statement that ultimately provided the motivation and justification for the qualitative approach used in the present study of relationships. However, quality assurance was an ever-present issue in this regard from conceptualisation of the research right through to analysis and reporting stages.

This issue has at its foundation historical differences between positivistic and inductive researchers, arising due to the latter group seeking to establish credibility in the once imbalanced marketing discipline. Whilst qualitative, and particularly case study methods, are now establishing a credible and growing presence, some of the quality tactics borrowed from quantitative approaches have found applicability in this research.

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<sup>12</sup> These are discussed extensively in chapter four, the implications of which are addressed in chapter five.

Yin (1989) states that issues of reliability and validity are important at various stages of the research process. Reliability, the extent to which findings can be replicated in subsequent projects, assumed particular significance during the data collection stage especially in selection and analytical protocols. Secondly, construct validity was considered with respect to the manner in which relationship and internationalisation constructs were operationalised, in that whilst a degree of subjectivity could not be avoided, the measures used were not inconsistent with interpretations of previous research in these areas. Furthermore, the database of evidence including the large volume of verbatim comments that were afforded by the addition of each subsequent case (see appendix one), provided compelling support for construct objectivity. Thirdly, internal validity, which was important when suggesting *correlations* between relationship approach and subsequent outcomes, was not as crucial as the other quality concepts in that few *causality* type statements were made. Notwithstanding this, considerable effort was given to ensuring consistency in the data linkages made both within and across cases. Fourthly, external validity was addressed during the research design phase in that replication logic was behind the selection criteria developed.

However, no claims of validity are made at this point beyond the realms of the present study save for the fact that many findings confirm and build upon, rather than confound, dominant theory in use (e.g., Agndal, 2004). This does not diminish the value of any analytical generalisations to theory which are made. As Shapiro (2002) points out, exploratory studies with theory building as a goal should not be rejected in that they are valuable in revealing *social* rather than just *surface realism*. He adds that “if a study detected an important effect, no matter what kind of sample is used, it is clearly true for some group of people, in some setting, at some time, for some message” (2002, p.499)

Of course, what one may consider a highly subjective approach, another may associate with interpretive or constructive ability. Kvale (1995) supports the notion of *moderate constructionism*<sup>13</sup> which treats all knowledge as context specific and socially constructed. He rationalises this through doubts as to the existence of any method or theory representing a universal truth, accepting that specific local, personal, or

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<sup>13</sup> Kvale outlines three components of validity in social constructionist research including (1) an expression of craftsmanship - continual checking, questioning and interpretation of findings. (2) Communicative validity or the strategy of involving participants, colleagues and publics. (3) Pragmatic validity noting that truth is whatever helps the researcher to take actions to produce the desired results.

community truth may be found instead. In cognisance of this, the MCEs in this study provide a New Zealand view contextualised by economic, cultural and other variables, which may not be comfortably transposed upon other countries and cultures. A strategy for dealing with this limitation was to abstract specific sets of findings to, for instance, more general patterns of relationship behaviour (e.g., Folger and Turilo, 1999).

So far this section has explored issues of quality at a strategic level. However these manifested in a number of tactical challenges which arose during the research process which had to be treated in both a reasonable and consistent manner.

Firstly, as has already been alluded to, it was important to obtain the right mix of firms to participate in the study. While the selection process may have been robust in that qualification was determined through satisfaction of specific research criteria, there was no control over firms moving outside these boundaries during the course of the study. For example, a MCE with five FTE staff may well have employed several more staff over the two year period. Furthermore, those demonstrating a strong international orientation at the time of data collection may have reduced activities due to challenges associated with unfavourable currency rates or market competition. The tactic employed here was to simply instigate a data cut-off point (three months from main interviewing) after which time changes in situational characteristics would not be considered.

Secondly, relying on participant recall meant that there was potential for inaccuracies to be reported, particularly in that there may have been a temptation to reconstruct history in a more favourable light. Although no conclusive proof of events can be offered beyond confirmation from multiple interviews and other materials forming the chain of evidence, it is submitted that these concerns were largely alleviated through the high quality of the interview process. In this, participants were exhorted to provide transparent and unedited accounts of critical events and episodes.

Thirdly, there was a risk that researcher understanding of events was not in line with participant communication of them. This could not be avoided entirely although frequent clarification and confirmation was sought throughout the discussions, reducing the opportunity for interpretive mistakes to be made. It also seems to be common practice for typed transcripts and key findings to be verified by the participant, a tactic

resolutely avoided in this research for two reasons. Most importantly, there was a high chance that the sensitive nature of the findings may have caused embarrassment and/or offence to those involved, resulting in requests for changes to be made. In fact this turned out to be a justifiable concern when a pilot interview participant requested that a returned transcript to be sanitised of some of the more colourful language. In addition, it is argued that just as the researcher should not co-author responses, neither should the participant co-author interpretation and analysis.

### **3.4 Ethical Considerations**

Although this research involved human participants it was deemed by Professor Brian Murphy, Deputy Chair, Massey University Regional Human Ethics Committee (Albany), in a discussion held during September 2002, to be of “low risk”, and thus not requiring formal ethical approval. However, all interaction with participants still came under the auspices of the said institution’s Code of Ethical Conduct (see MUHEC, 2005), and indeed the prescribed guidelines were carefully adhered to throughout the research process.

As such, general ethical principles embraced (e.g., Lincoln and Guba, 1985), included respect for participants and their rights; to informed and voluntary consent; to be exposed to minimal risk of harm; to anonymity and confidentiality; and to withdraw themselves (including their data) at any time throughout the project. Specific application of these principles included the researcher verbally explaining to participants at the outset: the purpose of the study (together with contributions sought of them); the voluntary nature of both inclusion and in the answering of specific questions; the means of protection from social and economic harm (particularly as it related to unapproved publication of contributed data); the anonymity and confidentiality provided by the non-identification of individuals/firms and the secured storage and non-disclosure of sensitive information; and their right to amend or withdraw their contributed data upon request.

At the beginning of each interview participants were asked if they understood their rights as had been explained to them. They were then given an opportunity to seek clarification on any of these and if satisfied, were asked to sign and date a Participant

Consent Form (see appendix six). This procedure proved to be highly beneficial, both in building participants' confidence in the authenticity and credibility of the research, and in facilitating the collection of open and rich responses. Furthermore, whilst most did not seek further clarification of their explained rights, one participant did ask that an amendment to the convention of holding the consent form for six years be made, instead requesting the form to be held in perpetuity.

Two minor problems that were encountered concerned those of avoiding deception and maintaining anonymity. In terms of the former, participants were purposefully not made aware of the specific area of research interest (e.g., Tolich and Davidson, 1999), namely the precise nature of their value chain relationships and its consequential effects on international outcomes. They were, however, informed in general terms of the researcher's interest in both internationalisation strategy and network relationships (see appendix three). The latter issue was that of anonymity not being able to be guaranteed. Although one might think that any MCE would be safe from identification once all reasonable measures had been undertaken to safeguard the same, several of them marketed niche technology and maintained a high media profile. Needless to say, this was an issue that was discussed with all participants, and any that were not comfortable with the possibility of losing their anonymity were excluded from further involvement.

Overall, ethical considerations were given a high priority in this research and a significant duty of care was assumed in its undertaking.

This chapter has outlined both the general approach taken and also provided details on specific aspects of research design and ethical issues considered. Ultimately it was deemed that a qualitative, multiple case methodology best met the information needs of the research questions, and also provided scope for theoretical generalisation to be made regarding MCEs use of relationships in internationalisation. The next chapter presents rich descriptions of each firm's journey after which commonalities and differences are explored through cross-case analysis.

## 4 Relationships and Internationalisation: The Seven MCEs

*This chapter introduces the seven MCEs which form the basis of the study. Firstly, a descriptive overview of the firms is offered (see 4.1), after which each business case is presented in detail (see 4.2-4.8). Each includes a brief but salient account of organisational origins and history, internationalisation strategies and respective market outcomes, important relationships embarked upon together with the approach taken to their development, and an embedded within case-analysis focussing on how the relational approach adopted influenced the firm's internationalisation position. Following on from this, confirmation and divergence in findings are presented in the context of cross-case analyses.*

### 4.1 Introduction

This research is concerned with the internationalisation journeys of seven MCEs, and in particular, the nature of the relationships leveraged by each to overcome the often severe resource constraints experienced. The seven (see Table 4.1 for an overview), whilst representing diversity in both market offerings and *stories*, also reveal congruence in a number of descriptive characteristics. In addition to all be diminutive in structure these include; (1) being founder owned and operated; (2) being less than fifteen years old; (3) receiving a first export order within two years of commencement; (4) achieving a high export intensity<sup>1</sup>; (5) involvement in a number of key relationships which are critical to ongoing business viability; (6) and retaining a resolution to achieve international growth via relationship nurture rather than resource internalisation. Notable characteristics included in Table 4.1 are now further explored.

At face value it is apparent from the findings that *Rifle Rangers* is by far the most *internationalised* (Johanson and Mattsson, 1988b) of all the firms especially with regard to some conventional indicators of export performance (e.g., Aaby and Slater, 1989; Bonaccorsi, 1992; Thirkell and Dau, 1998) such as level of sales, profitability, export intensity, and other market entry variables. However, the others whilst not attaining to the same extent in revenue terms have managed to make their first cross-border sale within a two year time period often entering multiple markets shortly thereafter (e.g.,

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<sup>1</sup> *BB* is the exception to this although its founder reports that the domestic to international sales ratio is on the verge of reversal.

Autio et al., 2000). In respect to international markets entered it is important to note that a large number is not necessarily synonymous with market penetration or maturity. For example, *Kids Korner* sells small volumes into more than ten European countries whereas *Ozone Officers* has achieved greater penetration but in fewer markets.

**Table 4.1**  
**Descriptive Overview of Firms in Study**

Firm	Sales pa. (\$millions)	GP Margin	Export Entry <sup>1</sup>	Intl Mkts <sup>2</sup>	Export Intensity	Region	Relationship Types <sup>3</sup>	Industry Type	Year of Inception	FTE Staff	Grow Infrastruct <sup>4</sup>
Rifle Rangers	2.90	40%	0	16	99%	ChCh	5	Tech.	1998	2	No
Ozone Officers	2.00	40%	2	4	80%	Akld	4	Trad.	1997	2.5	No
Mobile Manager	0.75	40%	<2	4	40%	ChCh	4	Tech.	1992	1	No
Fancy Foods	0.25	80%	1	4	90%	ChCh	5	Trad.	2000	1	No
Biting Buddy	1.10	55%	<1	1	10%	Akld	4	Trad.	1997	2.5	No
Theatre Thespians	1.75	30%	2	4	50%	Wlgtn	5	Tech.	1999	5	Yes
Kids Korner	0.50	60%?	<2	12	60%	Akld	5	Trad.	1999	3.5	No

<sup>1</sup>age of business at entry in years; <sup>2</sup>number of international markets sold to; <sup>3</sup>number of important relationship types in internationalisation; <sup>4</sup>infrastructural growth as an internationalisation strategy.

Although not part of the initial selection criteria due to the focus being on size and internationalisation strategy (see 3.221), the firms are located in three commercial centres of activity in New Zealand and represent both traditional (e.g., McAuley, 1999) and technology based (e.g., Bell, 1995) manufacturing industries. Irrespective of the region or industry from which the cases represent, they all were found to leverage multiple relationships to facilitate the achievement of internationalisation outcomes, whilst at the same time being able to retain a small operational infrastructure. The types of relationships that were observed in the analysis included (1) Internal, (2) Manufacturer/Supplier, (3) Distributor, (4) Support, (5) EPO, and (6) End-user, with a high degree of convergence between the firms as to the specific set of relationships developed<sup>2</sup>. This only varies to the extent that the nature of the offering and/or the target market differs. For instance, *Mobile Manager* sells its high value solutions to a relatively small number of potential clients (end-users), whereas *Ozone Officers*

<sup>2</sup> See Gummesson (1994) and Morgan and Hunt (1994) for a discussion of various types of business relationships. For the purposes of this research, the relationship types of interest have been defined as follows. (1) *Internal* - those held with firm shareholders, partners, decision-makers and other employed personnel of influence. (2) *Manufacturer/Supplier* - those held with key manufacturers and/or suppliers of core or ancillary components of product. (3) *Distributor* - those held with key domestic and/or international resellers. (4) *Support* - those held with key support parties including professional or personal, gratis or fee based. (5) *EPO* - those held with any domestically based organisation which has 'export promotion' as one of its mandates. (6) *End-users* - those held with clients or consumers of the products.

competes in a mass market resulting in only very limited interaction with a small portion of its end-users, and even this is usually only in the context of market research.

Perhaps what is most compelling about the findings in Table 4.1 and a motivating catalyst to research the MCE as a unit of analysis is the evidence of a high degree of international activity despite, in some cases, being faced with extreme *liabilities of smallness and newness* (Aldrich and Auster, 1986). Whilst a number of management and firm characteristics (outlined in each case) provide some specific understanding as to how this has occurred, the highly deregulated New Zealand economy is of more general explanatory value with respect to the dynamic nature of the small firm within (Chetty, 1999). Since New Zealand's *1984 reforms* (Thirkell and Dau, 1998) where the removal of most trade protection mechanisms resulted in the loss of many of the country's traditional industries, new venture operational modes have changed dramatically in that they are now typically smaller, more agile in their response to market changes, and often compelled into seeking offshore markets. In this sense the firms studied are all post 1984 and fit this profile well.

The rest of this chapter presents the findings in two major sections. The first comprises longitudinal retrospections of the seven businesses and although each depicts a unique insight into the internationalisation journey of the MCE, they are written in the same format consisting of five subsections. Firstly, an introduction outlines the firm's progress from inception through to mid-to-late 2003. Products and/or services are briefly described along with antecedent events which may have been significant in venture formation. The section concludes with information on which markets have been entered and indicators of financial performance. Secondly, a more in-depth investigation is made of the factors underpinning business formation and continuity. These include personal and professional goals of the founder/s, details of innovation development and/or market opportunities, responses to critical internal and external episodes, an assessment of *tacit* and *learned* founder knowledge/competencies of value to the business, and evidence of how these translated into strategic and tactical activities.

Thirdly, details of the observed international and related outcomes most of which have been associated with contributing to export performance (see Styles and Ambler, 2000) are summarised into a table and categorised into market, product, demand, supply,

export, and network factors. Fourthly, the key relationships formed before, at the commencement of, and during the course of MCE trading are investigated. An analysis is made of these relationships as to the *mode* in which they were entered into and developed (SE or TCA), as well as the *form* of governance employed (Bilateral or Unilateral/Market). This section forms the core of the within-case analysis in that links are proposed between the relational approach adopted (*mode* and governance *form*) and the international outcomes that have been achieved<sup>3</sup>. Finally, concluding statements provide a summary of the previous subsections and tentatively offer a view of future prospects based on the relational approach to date.

The second major section of this chapter comprises cross-case analyses. Whilst each individual case yields observations and conclusions which in themselves may be of theoretical import, the extent to which replication or divergence exists between the cases is presented via tabular pattern matching (Yin, 1989). Furthermore, this section is the source from which research and managerial implications are drawn and expounded upon in chapter five.

Participant quotes are embedded throughout the cases and provided in greater number in appendix one. Whilst not in themselves analysis they are included to both substantiate and provide reference points for the descriptive and interpretative statements made. In totality they represent a small proportion of what was said during the interviews but were scrutinised to ensure their contribution to being representative of the firm's position overall. Due to the sensitive nature of some information contained in these quotes and throughout the case as a whole, each firm is allocated an alliterative acronym both in an attempt to provide anonymity and to indicate the nature of the industry in which they are involved. As a further measure of confidentiality and due to the high public profile of some of the firms, somewhat general if not abstract descriptions of their products/services have been made. The firm names and descriptions are Rifle Rangers (voice activated electronics), Ozone Officers (infant shelter products), Mobile Manager (remote data transmission products), Fancy Foods (organically based condiments), Biting Buddy (skin protection products), Theatre Thespians (visual productions), and Kids Korner (wooden kitset toys).

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<sup>3</sup> The links made at this stage of the analysis are specific only to the firm in question.

## 4.2 Rifle Rangers – Christchurch Electronics Firm

*Rifle Rangers (RR)* commenced operations in 1998 as an equal partnership between two working proprietors. Specialising in the manufacture of high technology voice-activated electronics (*VAE*) for a niche recreational sporting market, within five years they built it into an internationally recognised and industry leading company.

Their relationship building approach to internationalisation has yielded some robust market outcomes both in terms of current activities and future prospects. Revenue in the first five years is estimated to have exceeded NZD\$10 million, comprising an average Gross Profit (GP) margin of 40% and an export intensity of 99%. Whilst there has been some rationalisation in revenues in the last year of trading due to near market saturation of the core product<sup>1</sup>, new product diversification and increasing commitment to existing and new foreign markets ensure that *RR* continues on its growth path today. When domestic sales reached saturation levels within 18 months of start up, this prompted a concerted effort to enter the US, now responsible for 80% of total sales. Other markets that have been opened on a smaller scale include Australia, Fiji, South Africa, Malta, Canada, UK, Northern Ireland, France, Belgium, Sweden, Norway, Finland, Germany, Russia, and China. Although some of these remain in an embryonic stage of penetration, a development emphasis on products with a greater global niche will result in a reduced dependence on the US, and a strengthening of both European and Asian sales.

*RR's* innovations in the field of *VAE* have been extremely popular with end-users. There had long been a need for reliable technology in this area, and so the timing of *VAE* entry was optimal. Market adoption of the innovation has been high, and as of today there remains no reliable competing alternative. Whilst reaching near maturity levels has necessitated both product and market diversification, there remains a steady after market for parts, these being provided by *RR's* international distributors. *RR's* story can be characterised by the following statement from their top US distributor, “I would have walked over cut glass to get that product into my portfolio. I knew this was the biggest thing in the business.”

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<sup>1</sup> By 2002 sales had grown to 2.9 million dollars per annum. 2004 sales will be 1.9 million dollars.

#### 4.2.1 Factors Underpinning Business Formation and Continuity

The two partners, Bob and Geoff, could not have emerged from more different backgrounds. Whilst both had previous employment experience in a corporate setting, Bob's passion was for marketing and business development culminating in a senior trade development role. Geoff's life long focus was vested in the design and invention of unique "problem solving" devices. At the point of their initial serendipitous meeting in 1998, both had already experienced significant and progressive careers within the contexts of large hierarchical organisations, as well in smaller structures allowing a higher degree of decision making autonomy.

Geoff was the first to leave his corporate role to seriously pursue a business, compelled by the positive reactions of a visiting Australian to VAE.

*GEOFF: I was impressed with the fact that the guy wanted to take them back to Australia and he paid for them. That was when I thought, 'I've got to take this thing seriously'... I knew where I had to put my resources.*

Recognising that he lacked the skills to advance his innovation beyond a limited domestic market but believing from the Australian's reaction that VAE may appeal to offshore customers, he sought advice from Bob who was still employed in his trade development role. The initial meeting provided the 'spark' of mutual interest, and a few subsequent conversations prompted the formation of RR. The sharing of both technical and marketing data that took place in these sessions also lead the partners to believe that a substantial, if yet untapped potential existed for VAE. It also became clear that through a strong relationship they could meld their diverse but complementary skills to successfully exploit that potential.

*GEOFF: Bob invited me for coffee and that was when he said, 'what you're doing is one of the best things that I've seen come across my desk. Would you consider letting me join you?' It was as straight forward as that.*

*BOB: There were no doubts at all that this was going to be the biggest hit with the Americans that they'd ever seen...*

*GEOFF: I saw it this way. If Bob can help me sell twice as many and we take 50 percent each, I'm still square, and we're likely to do a darn sight better than that.....giving Bob half of the action would probably mean that I get a hell of a lot more of the action than if I attempted to do it on my own...*

Whilst there were obvious differences in the backgrounds and skills of the two, they had some significant attitudinal traits and goals in common which included; frustrations

with the hierarchical nature of their previous employment, catalytic or life changing events, a dogged determination to succeed at whatever activity in which they were involved, entrepreneurial experiences and traits, and a desire for relationally based work interactions.

*GEOFF: ...in the environment that existed at that time, everybody was frustrated. Had there been a call over the PA system, 'the first ten people up to the office with the brown envelopes', I believe there would have been people killed in the rush...*

*GEOFF: ...I had nothing to go to. I had a huge mortgage, and I had left my marriage at that stage, and I had a forty thousand dollar tax bill. The car blew up...I did walk out and thought I'd face the world and see what happens...It was disastrous financially but as far as a learning curve, it was brilliant.*

*GEOFF: ...I consider it really important to put a major part of my energy or all of my energy into it, to establish a future...and because of the restructuring earlier [I wanted to do it right, so]...I started to read books and literature on...how companies were run and when I saw how well a company could be run...I thought, 'I would love to work for an enlightened company'...*

*BOB: ... so I set that as a goal and achieved it within six months and went to Australia as Trade Commissioner within eighteen months.*

*BOB: I had decided that I was looking for something and I had been keeping my eye open...*

*BOB: And it was a really tough decision for a woman, to [allow me to] throw away a job that was probably in the top ten percent of incomes in the country...I was getting to the stage with the Trade Development Board where I was happy to get out... and I was sick of it...they don't think about the customer out there...So I left the Trade Development Board, resigned from there and bought half the business and we kicked it off...[I left a] high paid job [and went to]...no income, absolutely. Took a complete punt on it...*

*BOB: ...there are risks with it and that's part of the enjoyment of working for yourself. The rewards are bigger, but there is a lot more risk with it.*

Of critical importance to both partners was an expressed agreement on the business goals and operational boundaries. They were simple but non-negotiable, and centred on retaining a very small business infrastructure and facilitating growth through the leveraging of key local and international relationships.

*GEOFF: ...Bob then had made the decision that he was going to resign his job and...our fundamental rules were we do not want staff, we don't want an infrastructure...we are quite content to work from our own homes, and another thing that we worked on together was...creating relationships. But relationships are the bottom line and that's really paid off...*

*BOB: I'm off to Europe in three weeks time to a major trade fair to start to locate some of the distributors that will take us into the European market with these other products...*

Of further interest in the formative and goal setting stages of the business was the realisation that in order to become a viable and growing proposition, *RR* would need to develop an immediate international market presence (e.g., McDougall, 1989). In fact, it was clear that the market was highly specialised and technological in nature, with global albeit niche potential. In this regard, the partnership placed high importance on being seen by potential end users especially in the US market where older technology was being used and the market was by far the largest. Key to being able to avoid FDI was the decision to place total reliance for market penetration on the appointment and maintenance of an international distribution team (e.g., Ford and Rosson, 1982). This strategy not only ensured that a diminutive internal structure was retained but also effectively transferred much of the risk usually associated with limitations in market knowledge and increasing internationalisation commitments (e.g., Johanson and Mattsson, 1988b).

*BOB: ... We wanted owner run businesses where the person was hungry...*

*BOB: For a few of them it would have become the biggest product they've got... We give them a very good profit margin on our product, compared to other product they're selling. Generally products in [these areas] are low margin, but we've given them a good margin on this and they got very excited about it. They go out and do their own advertising, they sell right across America so there is no territory involved, they do all the warranty work and the service work and we don't deal with it. I'm off to Europe in three weeks time to a major trade fair to start to locate some of the distributors that will take us into the European market with these other products...*

*BOB: ... So those guys in America, two of those distributors manage beneath them a network of dealers, probably another eight dealers beneath them as well, so we've got quite a network in America that trickles down from our distributors. Some deal direct, some have networks beneath them.*

The factors described in this section were instrumental in the formation of both the business and the partnership. The original goals developed at inception have been adhered to throughout *RR*'s five year trading history. There is a strong determination within the partnership to retain the same relationship building model for both existing and future initiatives (e.g., Dwyer et al., 1987). Before outlining the relational approach employed by *RR* to gain and expand foreign market entry, a breakdown of the internationalisation and related outcomes is included in the next section.

#### 4.2.2 Internationalisation and Related Outcomes

In five years of trading both domestically and internationally, *RR*'s commitment to their markets has steadily increased (Johanson and Vahlne, 1977), showing no signs of abatement. Alternative complementary lines to *VAE* have been developed and promoted in the US and other foreign markets.

*GEOFF: ...also what we've done is invested very heavily, and that's perhaps where a lot of the money has gone. It's gone back into reinvesting in new product in other aspects of the sport...*

*GEOFF: Bob is going to heavily focus on Europe this year because the new products we have developed are much more aligned to the European requirements, whereas what we have done in the past is more aligned with the US requirements.*

*BOB: ...the other markets have just followed on from there...we'll roll out the new product...*

The partner's mutual commitment to internationalisation via the groups they have established in the production and transfer of their offerings to the market is also evident (e.g., Morgan and Hunt, 1994). As well as undertaking regular travel to the US and more recently to Europe, *RR* has expanded its original range of products and countries targeted. This has arisen partially because of the knowledge held from company inception that the core *VAE* product would have a finite demand, but also reinforced by the capabilities and willingness of the value chain to embrace further relational opportunities with *RR*. Furthermore, evidence of this international commitment is apparent in the high degree of ongoing market and product planning which *RR* undertakes.

*BOB: Oh, all the time...that's my role [communicating with the distributors]. I deal with all those guys...[Geoff also] comes up to the States and all that sort of thing...The first year I was in the States three times, the second year three times...Supporting the distributors. We made sure we went to a number of the key, large [sport meets], that they managed to get our equipment on to when they were introducing it on the marketplace. It was about giving them support and making sure the product worked right, and getting the people in America used to seeing us there, so it was really getting to know our distributors.*

*BOB: A completely new business called \_\_\_\_\_, a joint venture between us and \_\_\_\_\_ industries who [also] does the manufacturing of *VAE*...*

*BOB: The same distributors, same market, the same niche. It's just a different product.*

In view of these activities and others, *RR*'s current internationalisation position both by its own definition and from the findings presented seems robust. Evidence of this robustness is summarised in Table 4.2.

**Table 4.2**  
**Rifle Rangers Internationalisation and Related Outcomes**

<b>International Outcome Dimensions</b>	<b>Market Factors</b>	<b>Product Factors</b>	<b>Demand Factors</b>	<b>Supply Factors</b>	<b>Export Perform</b>	<b>Network Factors</b>
Representation in multiple countries	•					
Representation in domestic market	•					
International market niche	•					
Distribution in “low psychic distance” markets	•					
Distribution in “high psychic distance” markets						
International brand recognition	•					
Foreign direct investment						
Regular travel to foreign markets	•					
Internalised knowledge of foreign markets	•					
Increasing number of foreign markets	•					
Unique selling proposition/s		•				
Inimitable technology and/or patent protection		•				
Product line diversification/expansion		•				
New product manufacturing alliances		•				
Market/client customisation		•				
Demand for distribution rights/alliances			•			
Pull from end-users			•			
Repeat purchases/customer satisfaction			•			
Brand preference over generic preference			•			
High and stable distributor commitment			•			
Multiple supply options				•		
High and stable supply commitment				•		
Responsive supply base				•		
Offshore manufacturing or materials sourcing						
Market dominance					•	
High export intensity					•	
Sustainable profitability levels					•	
Global market coverage					•	
Revenue protection through currency hedging						
Long term growth prospects/plans					•	
Interaction with social network						•
Interaction with end-user network						•
Interaction with supplier network						•
Interaction with industry network						•
Interaction with previous employment network						•
Interaction with professional services network						•

Of interest in Table 4.2 is that even though the internationalisation strategy of *RR* has not involved any FDI, offshore manufacturing or resource internalisation, it has still

achieved outcomes that might be associated with just such a strategy (e.g., Aharoni, 1966).

*BOB: Well, directly exported to? Australia, Northern Ireland, South Africa, UK, Belgium, Sweden, Malta, Canada, US, Fiji. Others include places like Ireland, the four nations, Norway, France, Germany, Finland, Russia, China...*

*BOB: We still don't have any competitors [of VAE].*

*BOB: [International companies have spent large amounts of money trying to copy VAE]...and they've never succeeded.*

*BOB: The business is still going after five years and that's a fair achievement for a start up company, so I think it's successful. We've had recognition along the way. We were best new exporter of the year in 2000<sup>2</sup>...*

*BRUCE:...the company has always run from cash-flow...I wanted to run it all from cash-flow and we managed to do that.*

RR's internationalisation path reveals a number of examples of how its outcomes have been achieved through relationship leveraging (e.g., Yli-Renko et al., 2002), particularly with their manufacturers.

*BOB:...two guys out of Kentucky...came to us and said, 'how would you guys like to brand this and manufacture it in New Zealand and put it back in the US marketplace?' We were the hottest name in the business and they didn't want to end up setting up a manufacturing business, so as a result of that we've now got a [new] machine that's designed in New Zealand, and another [new] machine which is designed out of the States and we're now selling those around the world.*

Distributors also demonstrate great enthusiasm and commitment to the marketing and proliferation of VAE. Given the success of these relationships RR plans to emulate the same distribution strategy in Europe.

*BOB: [The distributors were prepared to take three days out of their business time]...They knew this was the hottest product on the market.*

*BOB:...a guy who is still our top sales person in America, he said, 'I would have walked over cut glass to get that product into my portfolio, I knew this was the biggest thing in [the sport]'.*

*BOB:... this year we're stepping it up because we're introducing new products in these fields here and we're hopefully going to break into the European market...We've got enough of a suite of products and the market is big enough that we'll hopefully, by the end of this year, have two distributors lined up.*

Whilst there is little doubt as to the quality of VAE or its popularity in the market<sup>3</sup>, RR does not rely on a replication of this demand for the new products it introduces. Instead it chooses to cultivate a number of relationships with end-users of VAE to increase the

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<sup>2</sup> An award from New Zealand Trade and Enterprise.

<sup>3</sup> There had long been an unfulfilled need for this technology in the market at the time VAE was introduced.

probability of new product also being adopted. This strategy has been successful to the extent that it has resulted in an expansion of allegiance from VAE, to RR's new developments (e.g., Doney and Cannon, 1997), even with the existence of local and more favourably priced substitutes in the market.

*GEOFF: We believe we have significant advantages over our opposition. One being that we are the only company that they [an important end-user] have previously done business with...*

*BOB:...everybody [end-user] has said, 'the American Grand [national sports meet] is using VAE, so we should get [their new product as well]'...*

The early decisions about company structure and the ensuing resource limitations resulted in a traditional internationalisation process (Johanson and Wiedersheim-Paul, 1975) being substituted with internationalisation via a relationship development process (Dwyer et al., 1987). In evaluating the findings and statements made by Bob and Geoff, achieving the market entry, product development, demand, supply, and export performance outcomes, has largely been a result of early and sustained interaction with key relationship partners, embedded in a number of formal and informal networks (e.g., Chetty and Blankenburg Holm, 2000). Furthermore, the mode of interaction is generally not transaction based but focuses on mutual and enduring commitments between the parties, culminating in increasing levels of integration and interdependence (e.g., Larson, 1992).

The next section explores the key relationships that RR developed before and during its internationalisation journey and in particular highlights how its form of governance and relational mode facilitated the achievement of its foreign market objectives.

### **4.2.3 Relationships and Internationalisation**

#### *4.2.3.1 Key Relationships*

It was clear from the early phases of business formation that relationships were going to play a critical role in advancing RR's internationalisation prospects. Evidence of this focus was found to extend beyond the internal partnership, to include manufacturers and/or suppliers, distributors, advisors or other supporters (including professional and personal, gratis and fee based), and end-users.

The most important relationship continues to be the internal one with each partner retaining considerable respect for each others knowledge and competencies. Both made it clear that the business would not have even commenced, let alone achieved the success that it has, without the initial and ongoing inputs of the other.

*GEOFF: ...BOB has subsequently given me a fantastic education, so anything useful that I think I know about marketing, I've been tutored by Bob.*

*GEOFF: Yes, the partnership with Bob is a partnership made in Heaven.*

*BOB: ...Geoff would...be the most intelligent person I've ever met.*

Given *RR's* desire not to own plant or equipment, it places great emphasis on the establishment and maintenance of manufacturing and supply relationships. Of interest is that almost all of these firms are clustered around the Christchurch region, a factor which greatly enhances the ability to interact with them in a timely and efficient manner.

*BOB: ...they all do different parts, one does all the metal work, one imports some of the key components from the US...There is a company that does all the cabling for us. There is a company that does all the electronics, one that does our plastic moulding. They all do different components, and then we get them all assembled together and we have production flows to watch what we're doing. So we're not way ahead of the marketplace, and they go into a warehouse which is also managed under contract for us as well.*

*BOB: We see them all the time. There are always functions going on...*

Formation of the distribution team was the essential component of *RR's* international entry mode, and of critical importance today. Of interest is *RR's* determination to retain a small group of distributors and concentrate on greater market penetration, rather than seeking to maximise reseller opportunities. Bob reasons that it is more effective to nurture fewer, longer term relationships (e.g., Dwyer et al., 1987), optimising the possibilities of what can be channelled through them, rather than to attempt to embark on a larger number of less interactive associations which might ultimately increase the risk of market failure.

*BOB: So we've got four [distributors], we've got three originals, so we've replaced one.*

*BOB: ...the second [key relationship is with] our overseas distributors. We have one in the UK, one in Scandinavia, one in Canada, four major ones in the US and we have a couple in Australia...*

*BOB: These people aren't distributors with us now, they are friends and that's what it's about and they will stick with us.*

RR's development of support relationships is analogous to a much larger company's accountability to a Board of Directors. Realising their deficiencies in many of the planning and administration aspects of running an international business, the partners sought the oversight of a number of local professionals. Even though external to the organisation, "the Board" effectively became internalised, agreeing to meet as a group on a regular basis to consult with Bob and Geoff on current activities and future directions. A unique approach to addressing knowledge deficiencies it has proven to be extremely valuable to RR, providing an 'instant' source of social capital (Yli-Renko et al., 2002), and effectively increasing the internationalisation resources available, but without incurring usual growth or developmental costs.

*BOB: And the third [key relationship] is our company support. So after about eighteen months working by ourselves, we came to the realisation that the only input we were getting was from our own knowledge and that was limiting us. So what we did was, we went out to our accountant, our solicitor, we had a couple of relationships with some businesses in town, so we went to both of them. One was [with a professional firm] and one was by himself, and really why we went for two of them was, one looks at business advice from the financial aspect, the hard nosed aspect, and the other one looks at it from the personnel aspect. We also had a tax specialist and a bank manager, so we went to all those...six people and we said, 'we'd like to have quarterly meetings, so instead of coming to see each of you individually, we want you to all get round the table. We'll have a quarterly meeting and bring you up to date with where we are going, what we're doing and we'll deal with all the business in one hit. What do you think about that for an idea?' They all said that sounded absolutely wonderful.*

Of surprise is the complete absence of relationships with EPOs in assisting with market development efforts, especially given that one of their prime mandates is to promote SME internationalisation. RR attributes their lack of importance to incongruence in relational style between themselves [or SMEs in general] and the EPO.

*BOB: [Is there enough EPO support for small businesses?] Yeah, but it's all...ticking of the boxes...it tends to be done more for the enterprise who is giving out the funds...rather than the person who is being supplied...*

Developing relationships with end-users is important to the extent that their feedback assists with refinements to VAE product, and they can also hold significant influence (direct and indirect) over the buying organisations (clubs) which represent them.

*GEOFF:...after we had done this demo...he said, 'look I'll go and bring some people back from the clubhouse'...they came down and they were all sort of, 'we've seen all this before, it doesn't bloody work'...But they [tried it for a while] and it changed in the space of five minutes from total scepticism to, 'how much is one of these going to cost?'...I wanted to solve the problems and they encouraged me to do that.*

In view of the above, it is clear that a number of relationship types are critical to RR's internationalisation objectives. The form and mode of relationship interaction are now investigated.

#### 4.2.3.2 Governance Form and Relational Mode

RR's relationships did not just occur, nor are they self maintaining (Dwyer et al., 1987). The MCE embarked on a purposeful strategy from the outset (culminating from the Principals personalities, historical interaction experiences, and organisational goals), to develop and nurture key relationships on the basis of bilateral governance and a SE mode of conduct. The alternative of unilateral governance (e.g., Heide, 1994) combined with a TCA mode of conduct seems not to have been pursued. Both the founders give strong impressions that attitudes and behaviours consistent with this approach would in fact be counterproductive to their internationalisation goals. Specific examples from each relationship type demonstrate RR's attempts not only to generate relationship trust, commitment, and social norms, but also to encourage reciprocation in kind. Of particular interest here is that the desire to involve others in both strategic and tactical issues seems to contribute to accelerating relationship interdependence.

Evidence of bilateralism and SE can be found in the internal relationship.

*BOB: I go to his house, or he comes here if he's in town...or I go over and catch up with him. We talk on the phone half a dozen times a day...*

*GEOFF:...I think it's been very important that this is a 50/50 business...He's seen people go to the grave with a good idea, because they don't have the trust to let someone take the risk...*

This manifests in high levels of commitment and integrity with manufacturers and suppliers.

*BOB:...we have a very close relationship with our suppliers...six major suppliers all here in Christchurch...the suppliers stuck with us and gave us extended credit and hung in there, which was good...[Although] a business relationship...one of them has moved beyond that to a much closer relationship...They gave us as much input as they could as well from their own positions from what they had been selling.*

*GEOFF:...We've poured a lot into assisting [our manufacturer and now] they are starting to be very highly thought of in Australia...*

*BOB: And we hid nothing from them. We were absolutely open, put all the books on the desk. It's the only way to be. It works wonders...As soon as they get the feeling that you're hiding something, it's when the shutters start to come down...*

Distributors are committed to for the long term and are also involved in planning and decision making as opposed to just undertaking the activity of selling VAE.

*BOB: So we've got four [distributors], we've got three originals, so we've replaced one...One of them might fall out of his tree; he's about seventy-five. Had a four-valve bypass in the last couple of years...but apart from that...*

*BRUCE:...So what we did was, we flew them to Las Vegas...and we had three days around a table...with them...and we sat there for three days and talked about it...talked round the table, set the pricing policy, we set all sorts of stuff in there, warranty and service issues, and went through the whole gamete of how the product works, so they could go away completely comfortable with putting this product in the marketplace...We talked through the pricing a bit up there, because we were a bit unsure as to where we were going to be, and we took a fair bit of advice from them on it...*

Transparency with supporters is of paramount importance to RR, believing that the more accurate and complete the information disclosed to the Board is, the higher the interest level and the better the input which is received in return.

*BOB:...we call them our Board of Advisors. We get together every three months, we go over projections, we go over where we've been, over all the financials...and they look at things from different aspects...And we've got the solicitor there looking at things from the legal viewpoint and we've got the bank manager there to see what we're doing as far as the exchange rates are concerned, forward cover, business money and all that sort of stuff. It works absolutely wonderful...*

The most salient aspect of RR's relationship with end-users of VAE technology is the commitment to understanding precisely what needs are being expressed and then designing exactly the solution required to address those needs. In fact the equipment has been through a number of iterations over several years due to the feedback from formal and informal end-user trials. It is clear that the modifications which have arisen from this interactive process have had significant influence over market outcomes, particularly when evaluations are made of RR's offerings against the less advanced options of competitors.

*BOB:...[Geoff] is at an [event] in the North Island at the moment...It's really important that he's there, because he's doing the development side of it so he's got to see it from the customer's viewpoint.*

*BOB: [It is great] to see Geoff get a real big smile on his face when he stands up at an [event]...and gets recognition from those [end-users] that we made a difference to [and] to their sport worldwide.*

*GEOFF:...I had to adjust the gain of the system...and I took [some end-users] out to the club...and we [trialled] them, and it's when the guys said, 'hey! This is working, this is the recipe'...and they said, 'right we are going to hold the Canterbury champs in four or five weeks time, if you can provide us with four systems to this recipe, we'll use them'.*

The findings presented in Table 4.3 on *RR*'s relationships are based on a critical assessment of the case evidence presented, of which a more exhaustive corroboration can be found in appendix one. It is important to note given the complexity of relationships and the immense range of interactions that can take place within, that Table 4.3 reflects the 'overall' position of the MCE in this regard. For example, whilst the MCE's form of governance in a particular relationship may be principally bilateral, there may also be instances where interactions are clearly unilateral or market based.

**Table 4.3**  
**Rifle Rangers Form of Governance<sup>4</sup> and Relational Mode<sup>5</sup>**

Observed Governance				Relational Mode				
Relationship Type	Decision /Action	Bilateral	Unilateral / Market	Relationship	Reciprocity <sup>6</sup>	Commit	Trust	Norms
<i>Internal</i>	Strategic	■	□	<i>Internal</i>	■	■	■	■
	Tactical	■	■					
<i>Suppliers</i>	Strategic	■	□	<i>Suppliers</i>	■	■	■	■
	Tactical	■	□					
<i>Distributors</i>	Strategic	■	■	<i>Distributors</i>	■	■	■	■
	Tactical	■	□					
<i>Support</i>	Strategic	■	□	<i>Support</i>	■	■	■	■
	Tactical	■	■					
<i>EPOs</i>	Strategic	NA <sup>7</sup>	NA	<i>EPOs</i>	NA	NA	NA	NA
	Tactical	NA	NA					
<i>End-users</i>	Strategic	■	■	<i>End-users</i>	■	■	■	■
	Tactical	■	■					

■ = Dominant  
 ■ = Partial  
 □ = Limited or None

■ = Strong  
 ■ = Moderate  
 □ = Weak or None

It is clear from Table 4.3 that *RR* is characterised by high levels of bilateral governance in both strategic and tactical areas of the individual relationships. A SE mode of interaction is also apparent as evidenced by elevated levels of reciprocity, commitment (both attitudinal and transaction-specific investments), trust, and relational norms. A sample of representative comments reflecting *RR*'s relational approach is included in appendix one.

<sup>4</sup> The dominant form of governance observed for relationship strategic or tactical interactions is indicated with a solid square. The lesser or partial form of governance observed is indicated with a partially filled square. A completely hollow square indicates non or very limited observation of the governance form in relationship strategic or tactical interactions.

<sup>5</sup> Strong observance of a relational construct for each relationship is indicated with a solid square. A moderate incidence of that construct for each relationship is indicated with a partially filled square. A completely hollow square indicates weak or no observation of the relational construct for each relationship.

<sup>6</sup> It is important to note that reciprocity may be manifest in both negative and positive acts (e.g., Perugini et al., 2003).

<sup>7</sup> NA indicates either non-existence or unimportance of relationship type.

#### 4.2.4 Rifle Rangers – Conclusion

Innovation and the resulting inimitable technology certainly assisted with *RR*'s early and sustained international success (Oviatt and McDougall, 1994). The Principals knowledge and skills translated through to a planned and systematic approach to foreign market entry unusual for a small start up (e.g., Coviello and Munro, 1995), as did their ability to engage a range of networks for the purpose of leveraging both production and marketing resources (Larson, 1992). However, whilst support for the importance of these variables has been well documented in the internationalisation literature, their explanatory value in regard to *RR*'s progression is at best partial.

*RR*'s internationalisation outcomes depicted in Table 4.2 demonstrate the strong association between their relationships and respective performance in the foreign market. Whilst no causal links are being proffered, findings show a heavy reliance on the inputs of others in attaining the current state of internationalisation. It is clear that *RR*'s relational approach to internationalisation, results in them driving a much larger organisation than what is reflected on their fixed asset register. That is, *RR*'s journey into the international market stems from the joint recognition that key to success is vested in their value chain, and the extent that respective firms are included in the process of delivering such value.

Two important points can be made here. Firstly, their relational mode is predominantly SE in nature (e.g., Anderson and Narus, 1984; 1990). Furthermore, significant evidence can be seen as exemplified in the internal relationship, of strategic and tactical decisions are made in a bilateral manner. In fact, this observed form of governance seems underpinned by the high levels of trust, commitment and relational norms present, upon which the partnership operates. Secondly, this mode of internal interaction is transferred to their other key relationships (e.g., Doney and Cannon, 1997). However, inclusiveness, trust, and commitment are not just blindly given to these external parties. A considerable proportion of *RR*'s marketing resource is dedicated to the identification of and investment in those likely to positively reciprocate the relational approach offered at the commencement of each union (e.g., Chetty and Eriksson, 2002). Those that do not operate in this manner or who fail to reciprocate in kind are summarily terminated from *RR*'s operation.

*BOB: Geoff had a distributor lined up in Australia before I came on board and again I got rid of him as soon as I met him. He was an ignorant man, and I don't want ignorant men working for our product, I want nice people working with our product that people respect....*

*BOB:...within three months we decided it was bad and got rid of him. So we terminated him...Just told him straight, he was out...He was using our product as a loss leader on his own product...*

Whilst the findings in this case emphasise adherence by *RR* to *SE* principals, it does not mean that all of their relationships are successful or long term as shown by the above examples. *RR*'s determination to succeed internationally whilst keeping to their operational constraints, dictates that those manufacturers, distributors and supporting parties not willing to interact in the same manner, will not be present in the long term.

### 4.3 Ozone Officers – Auckland Infant Equipment Firm

*Ozone Officers (OO)* began operations in 1997 after a chance meeting between two new mothers (Linda<sup>1</sup> and Esther), who agreed that the standard of existing infant shelter products (*ISP*'s) within New Zealand was inadequate given the ozone depleted environment. Informal investigations followed which revealed that there was a growing concern amongst their peers about the high levels of ultraviolet rays that children were being exposed to. After some 'hands on' experimentation with homemade prototypes and subsequent positive feedback from their local new mothers group, the business was formed. Although joining an established market in a generic sense, the unique features of *OO*'s core product has seen them create a recognised and well positioned *ISP* brand in key international markets.

The first order came from a large retailer in the domestic market which provided the necessary resources for the partners' to seek international opportunities, and although the initial export order came within 18 months as the result of an unsolicited enquiry (Bilkey and Tesar, 1977; Ellis and Pecotich, 2001), commitment was made to foreign market opportunities fairly quickly thereafter, a strategy that proved to be immediately beneficial. Export intensity has grown from 15% in year two to 80% in year six. Since inception *OO* has achieved core product domestic market saturation, designed and developed three additional lines, accomplished annual sales of nearly \$NZ2 million, maintained a GP margin of between 25-40%, and protected and enhanced revenues through involvement in currency hedging operations.

Current international markets include Australia, UK, USA and Japan, the first three of which were chosen because of being psychically close to New Zealand (Johanson and Wiedersheim-Paul, 1975). Whilst expansion plans include the placement of additional but related products into these existing markets, the partners have agreed not to seek other foreign opportunities in the short to medium term<sup>2</sup>. Their belief is that the limited time and resources they possess are better spent increasing existing market penetration and profitability rather than "spreading themselves too thinly" with new markets. They

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<sup>1</sup> Case data is from Linda as Esther resides and operates from Australia, and as such was not available for interview.

<sup>2</sup> This is despite being approached at regular intervals by interested international distributors.

also fear that exposure to psychically distant markets increases the risk of their innovation being copied, an inability to control somewhat absorbed by the establishment of a separate company which now owns the intellectual property generated by OO.

*Yeah, definitely outside the comfort zone... We were very, very hugely concerned in the first three years about somebody copying the product.*

*I think the main thing was proximity [to New Zealand]... Easy to deal with.*

Success (satisfaction of personal and professional objectives) not only came early for OO but required next to no personal finances or dilution of ownership to achieve it.

*I would say yes, we are successful on a personal level because I'm earning a considerable salary, its gone from play money, to an important part of our income and now we rely on the income, and yes because our business now is international, and the product is respected as a major player in the nursery market.*

OO's story can be characterised by the following statement. "We have spent a total of \$80 of our own money on this business, and have never required financial input from any other source."

#### **4.3.1 Factors Underpinning Business Formation and Continuity**

Of critical significance in business formation at their time of meeting was the congruity between the partner's stage of life and the subsequent values that guided their joint activities. Their educational backgrounds and employment experiences differed<sup>3</sup>, although common ground was found in their recent motherhood and agreement on the importance of creating employment with minimal disruption to family life. Given this situation, business goals in the early days of the operation were short term and extremely modest. In fact, although entrepreneurial in the manner in which they pursued the opportunity (e.g., Schumpeter, 1934;), neither had originally desired to commence any form of business, let alone one with international activities.

*I was going to be a mother and I was going to have time off, go back to nursing part time and this was going to be my opportunity to spend time with the family.*

*I wanted to be at home and spend more time with the family...to earn enough money so we could go out for coffee or meet friends for lunch...neither of us were working at the time so felt that we had nothing to lose.*

It is clear from these statements that the initial intention of the partners' was to make some extra money in between being parents to their newborns and other part time

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<sup>3</sup> Linda was in nursing whereas Esther had spent most of her career in business-to-business professional selling.

employment obligations. However, within 18 months they observed that what they had introduced to the market on a piecemeal basis demanded a greater level of personal commitment and investment to the business than what was originally envisaged. An indication of this commitment was the partners' mutual willingness to devote most the early profits back into new product development and market initiatives.

*In the first year of OO...we didn't take any money. We just took enough for play money.*

*...I said to him, 'why am I doing this?' because there have been times when it's been really, really stressful, really hard, and up until about two years ago, I was earning more money nursing than doing this...*

*...We were getting some money but we were putting it all back in again...I was working part time as a nurse and...she was working for her husband, doing her husband's books and things for his building company...*

Although the initial direction of *OO* was not explicitly planned by its founders, personal goals and operational boundaries were expressed. These included remaining a two person partnership functioning out of their respective homes, and appointing a local manufacturing company to take responsibility for design implementation, materials ordering, production, packaging and dispatch. Furthermore, management and growth of both domestic and international markets would be achieved by the engagement of distributors. Finally, limitations in the partners' combined knowledge and expertise would be supplemented by retaining specialist legal and marketing services. What had become apparent from an early stage, especially in light of decisions made about infrastructure and employment, was that relationships in manufacturing, distribution, and facilitation were key to establishing and growing domestic, and subsequent international activities.

*We weren't going to be making them because that's totally not what we are about. We are about the ideas and getting things going...getting the orders.*

*Because of the amount of input and time, we didn't want our own staff and we still don't want our own staff. We wanted to have time for the family, and this business if it's going to grow had to grow on its own merit...*

*...See we were really good at the idea and developing it. But what you...need is a new product development [person] and people that point you to a designer. Reasonably priced designers, packaging experts, marketing experts, someone who could be a consultant for all those things.*

Where long term goal setting and formal strategic planning did not assume great importance, precision in day to day operations and tactical decision making certainly did. Particular emphasis was given to up to the minute financial management, a task

which grew in significance with the advent of OO's foreign currency hedging strategy. This strategy does however indicate that long term planning was important to the extent that it could assist in the management of financial risk incurred by their international trading activities.

*She [Esther] also had...an accounting package so we could keep track of everything. From the day dot we knew exactly what we were spending and what we weren't. That was really important. I would advise anybody to do that.*

*...she's a bit of a control freak, bit like me, I probably am to. So she needs to know the overall picture of what's happening. How much profit we are making, our exchange rate at the moment...*

What is also clear was OO's focus on maximising the promotional opportunities available to them, primarily in the domestic market, but with the view that a good local reputation is beneficial to foreign market acceptance. Given the paucity of funds available for traditional media campaigns, emphasis was given to the soliciting of publicity and the assigning of professionals to increase OO's exposure by regularly applying for export awards<sup>4</sup>.

*...we also started advertising in the two main magazines in New Zealand...Very expensive but we found we needed a little bit of exposure...So it's a good deal and they have also freebees and giveaways, which we've actually been in a lot. We figure that a lot of marketing is giveaways.*

*...We do employ [contract] several people to do our awards for us and they put together business plans with our input obviously. In fact I have got one now that I have to double check and go over. We're entering the Tradenz award and that needs a highly significant business plan.*

*Yeah it's good for other countries to know that we are a successful company, that we are recognised in our own country for having done this, that and the other.*

OO started out with a unique improvement to an existing product. Whilst competing alternatives were available, it was the superior quality of their offering and the positioning strategies they employed, which enabled them to maintain and grow a business at the "higher end of the market". Linda suggests that they will look at the possibility of selling in five years or so, but "the money will have to be right". She also states that business success has been achieved from year one in that their expectations at every point in time have always been exceeded.

*We got the play money we wanted in year one and have a good salary today...we get to develop new ideas and test them out...we have gone into overseas markets and now have international respect.*

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<sup>4</sup> OO has received regular industry recognition for their exporting success culminating in a "Top Ten Exporter of the Year" award from the Prime Minister of New Zealand in 2004.

*...I would say yes, we are successful on a personal level because I'm earning a considerable salary, its gone from play money, to an important part of our income and now we rely on the income, and yes because our business now is international, and the product is respected as a major player in the nursery market.*

The factors described in this section were instrumental in the formation of both the business and the nature of the partnership. The original goals developed at inception have been adhered to throughout OO's six year trading history. There is internal agreement in the retention of a small infrastructure by maximising the use of contractual relationships with other businesses specialising in design, manufacture, marketing, and distribution. From this it is evident that building and managing critical stakeholders is tantamount to both domestic and international operations. However, before outlining the relational approach employed by OO to gain and expand foreign market entry, a breakdown of the internationalisation and related outcomes is included in the next section.

#### **4.3.2 Internationalisation and Related Outcomes**

OO's internationalisation activities have not come at the expense of their domestic market activities and commitment although Linda acknowledges that local sales "are at a plateau". In fact, their early market research<sup>5</sup> suggested that saturation levels would be 50% less than what they have actually achieved. Whilst it is a result that they are delighted with, it has further emphasised the need for continued international development.

*...yeah I think we have saturation. We work on the percentage of newborn babies a year...so sixty four thousand babies born a year...and what percentage of those mothers do we want to target? I think that we worked on about fifteen per cent, and we are at about thirty per cent so we have doubled our target...*

*...It has now become in New Zealand...not, 'should I [buy]?' It's, I will [buy].*

*...Yes Australia is a natural course. If New Zealand needs it, Australia needs it.*

The strength of the core brand locally, greatly assisted in the development of the Australian market although initial entry was via the cultivation of a personal contact of Esther's, who coincidentally was also a recent mother and looking for business opportunities. Of interest here is that OO's commitment to Australia came at a time where New Zealand revenues, although growing rapidly, were yielding a profit of only

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<sup>5</sup> Market research activities were largely informal initially consisting of feedback derived from mothers group and then later from unsolicited discussions with some Australian retailers.

NZ\$50 per week. The significance of this commitment is further emphasised by the fact that *OO* immediately<sup>6</sup> chose to establish the Australian office in a formal *Joint Venture* arrangement between themselves (2/3<sup>rd</sup>'s ownership) and their new partner (1/3<sup>rd</sup> ownership). Furthermore, although Linda and Esther were in agreement on this strategy, it is clear that Esther, having the greater marketing background, was the driving force behind it.

*Well that's Esther again. She's a big pusher in New Zealand. New Zealand is so small, it feels big now, but if you really want it to be a sizable business and to grow, obviously Australia is the next best step...So what we did was we decided we were going to sell into Australia.*

*...her [Esther's] history of jobs is quite wide and varied. She travelled on a yacht for a year...did diamond mining, made heaps of money doing that in the sales and marketing team...has sold cargo space on airlines...*

Whilst the manner of entry into Australia demonstrated a willingness to commit greater upfront financial resources to accelerate market establishment, no such desire existed for emulating this strategy in the more distant markets. That is, *OO* avoided an FDI mode because of market knowledge deficiencies and potential exposure to greater financial losses, albeit that it was recognised that less control would be retained by the employment of direct representation alternatives. Nevertheless, both attitudinal and transaction specific investments (e.g., Gundlach et al., 1995) were made that were no less draining of company resources as evident by an example from the UK. *OO* had paid for their underperforming distributor to show their products at a large trade fair. The distributor then terminated the relationship without warning, leaving *OO* with a stand but without representation.

*...end of 2002 was when this all fell over, and she said, 'I'm not going to go'. We had paid for her trade stand and we had made a commitment for that to happen, so Esther and I had to go...we travelled all that way, we were going to do the show, if she's not going to do it, we were going to do it...*

Choosing to attend the international fair at short notice at great personal and additional financial expense also reflects significant commitment to the new and faltering UK market. Furthermore, rather than be thwarted by their UK experience they sought a replacement in the services of a more established distribution company, a relationship which continues to the present time.

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<sup>6</sup> There is considerable empirical support in the literature for SMEs 'leap-frogging' some stages of the internationalisation process however it is surprising to observe such a leap in a diminutive business with nil start-up capital.

This form of robust representative relationship has yet to be established in the US or Japanese market. To date *OO* has not been as confident in investing resources to the same extent in the US and Japan (apart from establishing distribution), preferring instead to treat them as emergent markets (e.g., McDougall and Oviatt, 2000), and leaving it predominantly to the distributors to generate the growth. Whilst not making a determined US expansion, they have been prepared to “wear” the cost where like businesses have abandoned their exporting activities to the US due to the burgeoning NZ currency and a tightening of US trade regulations. However, the decision to persist with US entry in spite of these barriers was more due to the pragmatism in taking the opportunity that presented itself, rather than an inherent desire to initiate another distribution relationship.

*...we decided if we didn't go with this woman, then we might not do the States for three or four years, so we decided to put her on a limited contract...We thought we will give it a go while she is meeting her targets.*

*Japan is very hard to get in to. Perfectionists. Difficult people to work with, a lot of conversation, a lot of cultural differences...*

*...it actually takes a lot of work to set up a new market. We haven't got the time...to invest in setting up a new market, particularly one that is [really] foreign...*

*All the people that we know, that we have spoken to who are exporting...Some have stopped supplying America because they are losing money. As we are at the stage where we are still new, we can afford to wear it a bit because it's not our biggest player.*

*...I wouldn't like if America really comes on board, England is already talking about container loads of ISP's. America will start talking containers pretty soon. Australia is going to start talking containers, you know it's easy just to fly over there so we want to make sure we can actually meet their demands...*

This reticence to invest has been somewhat reflected on the supply side of the operation in that production volumes seem capped to within the capacity of a small local manufacturing business. The potential for manufacturing out of China was investigated (to be able to cope with large orders), however it was eventually decided that existing arrangements would be continued indefinitely.

*... for any large orders, we need three months lead time. At the moment it's three weeks which is pretty good...Our commitment is so we can do that, and they [distributors] give me enough forecast ahead of time so they are holding enough stock.*

*We try really hard not too, but we [would] say, 'yes you can have ten containers but you'll get it in six months'. They [distributors] wouldn't do that...We have structured it so much, that that's not going to happen immediately because they aren't big enough...*

*Even if they were going to [be manufactured in] China they would have to wait six months or three months...*

An area of business that *OO* has placed continued emphasis is product development. A significant part of the investment within this activity has been in securing international patents to protect the competitive aspects of their innovations. The patents are mostly sought on unique features of an existing product category. The partners believe that protecting these proprietary developments assists in differentiating what *OO* is offering against competing alternatives, and reduces the likelihood of direct copies emerging.

*We did a worldwide [patent] for a new product which is not in here yet...which is ISP (B)...ISP (C), which is a \_\_\_\_\_, we have actually patented the fact that it can be adjusted up and down and that it is a two piece. So there are features that we have patented on everything. On ISP (A), we have patented the fact that it has got a drop down \_\_\_\_\_ ... This is costing us a fortune because you can imagine...*

*...we [continually] developed ISP (A) [the core product] every year.*

*Well we needed another product, seasonal product, so that when one was off, one was on...*

*The quality of the product is important. There are cheaper ones that aren't offering as much UV protection, and even though they may have a high brand on them like a well known brand, they just are not a very good product, and our product is a universally fitting product...will fit everything...and one of our patented things is this [feature]...*

*... so we have four main products, and we've got a fifth one coming. We are actually developing ISP (E) and ISP (F)...*

*And within those... there is the whole colour scheme thing going on, and this one here you have the English version, the USA version and there are heaps of versions within the versions. So there are probably about fourteen different products...*

Despite commitment to foreign market development seeming less than product development, *OO*'s current internationalisation position, both by its own definition and from the findings presented, is fairly robust. Evidence of this robustness is summarised in Table 4.4.

Whilst not in a position of international market dominance it can be seen that *OO*'s performance (e.g., Aaby and Slater, 1989) is somewhat impressive given its modest size and lack of inputs relative to outcomes. The upward trend in revenues, and in particular export intensity, is compelling evidence of this. Furthermore, a self confessed deficiency in foreign market knowledge has not precluded them from successfully establishing a position in its chosen markets, especially in Australia and the UK.

**Table 4.4**  
**Ozone Officers Internationalisation and Related Outcomes**

International Outcome Dimensions	Market Factors	Product Factors	Demand Factors	Supply Factors	Export Perform	Network Factors
Representation in multiple countries	•					
Representation in domestic market	•					
International market niche						
Distribution in low psychic distance markets	•					
Distribution in high psychic distance markets						
International brand recognition	•					
Foreign direct investment	•					
Regular travel to foreign markets						
Internalised knowledge of foreign markets						
Increasing number of foreign markets						
Unique selling proposition/s		•				
Inimitable technology and/or patent protection		•				
Product line diversification/expansion		•				
New product manufacturing alliances						
Market/client customisation		•				
Demand for distribution rights/alliances			•			
Pull from end-users			•			
Repeat purchases/customer satisfaction			•			
Brand preference over generic preference			•			
High and stable distributor commitment						
Multiple supply options						
High and stable supply commitment						
Responsive supply base				•		
Offshore manufacturing or materials sourcing				•		
Market dominance						
High export intensity						
Sustainable profitability levels					•	
Global market coverage					•	
Revenue protection through currency hedging					•	
Long term growth prospects/plans					•	
Interaction with social network						•
Interaction with end-user network						•
Interaction with supplier network						•
Interaction with industry network						•
Interaction with previous employment network						•
Interaction with professional services network						•

The significance of this is made more apparent by the observation that they are not operating in a specialist or high *entry barrier* market niche, but are in fact a small participant in the very competitive nursery industry. In addition to this, *OO* appears to demonstrate a degree of naivety about the attractiveness of their core offering and seems

genuinely surprised at the success being shown by potential distribution partners and the wider market.

*[We now have] other distribution opportunities, because now OO in Australia is such a big player, it's out done all the other [competitors] in Australia, which is cool...*

*Exporting overall? About eighty percent...Not that we will sell any less here but the percentage will grow. Sales won't decrease in New Zealand but the percentage [overseas] will increase.*

*In New Zealand, because we're very small we didn't realise how big it was going to be...*

The outcomes shown may seem to have occurred in spite of an apparent lack of knowledge and inputs by OO, but in fact a heavy reliance (although largely unilateral in nature) was placed on industry partners for product development, promotion and distribution solutions. OO recognised from the early days of the business that their proprietary skills resided in idea generation and logistics management, so went about procuring the necessary expertise from industry to fill the roles deemed necessary for growth.

*But now we've got a good network of people. We've got a good lawyer, good mentor person...because there's only the two of us, we are so close to the product we need someone else to look at it and say...*

*...and so we went and met with them in the end they decided they would take our products [and distribute in the UK] because they are so nice...So they have been going a year now, 2003. They have been thrilled to bits with us...*

It is clear that OO could not have achieved the internationalisation progress that they have without the inputs of others. The next section explores the key relationships that OO developed before and during its internationalisation journey and in particular, highlights how the form of governance and relational mode adopted facilitated the achievement of foreign market outcomes.

### **4.3.3 Relationships and Internationalisation**

#### *4.3.3.1 Key Relationships*

Whilst internationalisation was not the first objective of OO, it was immediately clear given the method of operations employed in the domestic market and the non-consideration of capital expansion measures, that developing relationships with value chain participants was critical to foreign endeavours. The internal partnership itself

received the most emphasis, with manufacturing and distribution relationships assuming a measure of importance commensurate with increasing market activities. When Linda and Esther started *OO* they were both living in the same region of Auckland and although they worked out of their individual “kitchens at home”, they maintained regular face to face contact. In recent years, Esther has moved with her family to Australia and has subsequently become more involved in the Australian operation. This does not seem to unduly affect the importance or effectiveness of the internal relationship, with Linda stating that contact is made many times per day, albeit by phone, fax, or email.

*Yeah. We've never worked in the same room together...It used to be telephone and that used to be highly irritating for our husbands. Conversation, you know, that would take half an hour. Especially when the children were asleep. Now email, we use a lot of instant messaging, yahoo and messenger and all that kind of stuff...She used to send me 50 messages a day...*

*...Sometimes it is just a thought...*

It can be observed that the internal relationship has remained close despite the two never having “worked in the same room together”. In this regard, Linda’s attitude is that it matters not whether Esther is in Auckland or the Gold Coast. The dynamics of their interaction do not much alter as they are both used to working independently of the other. Secondly, as is often the case with small enterprises communication between the partners is frequent, informal, and regularly of topics of limited importance (e.g., Bonaccorsi, 1992). Linda suggests that this style suits their personalities and is on occasion the source of innovative thinking leading to product and/or market development initiatives. The conclusion that can be made here about the internal relational style is that it is very much bilateral and SE in nature.

The most significant association outside of the internal one is that with their local manufacturer, in that they produce, pack and dispatch all *OO* goods. As sales have grown, the manufacturer’s responsibilities have increased even more, to include some design and total management of the smaller supplier base. The manufacturer’s dependence on this relationship is evidenced by the fact that *OO* represents 90% of their total business, and almost all of *OO*’s output (of all products) is vested with this single production entity.

*It's very, very strange...As we grew and grew and grew it got to a big sizeable part of their work...we started at five per cent of their work. Five percent, ten percent and now we are ninety per cent of their work. Not that we like that, we don't really*

*like being ninety per cent of their work. We would rather be seventy. So if we did fall over they would have some kind of back up. Not that we are going to fall over.*

What seems apparent here is a high degree of interdependence between *OO* and their manufacturer. On closer inspection this interdependence is asymmetrical in that the partnership is characterised by *OO*'s ability to exercise its power over both the extent and form of its development (e.g., Frazier et al., 1989). Ironically, *OO* believes that the relationship is "close" although evidence from the interactions presented in this case clearly shows it to be contractual and TCA in nature.

*...we have quite a close association with them and we pay them for developing samples up there....because we don't want them to ever own any intellectual property.*

A similar approach is also employed with distributor relationships. *OO*'s initial recognition that they needed assistance with distribution came with their very first order to a large domestic retail chain.

*...Anyway, we rolled in there and he looked at the product and said, 'yeah I like the product. Now that's quite good so how are you going to market it?' We said, 'we're hoping your going to do that.'...we really hadn't thought about it.*

Today domestic and international distributors form a critical component of the business although the importance of each is dependent on the country in question. With *OO*'s first and largest export market being Australia, the relationship with the shareholding distributor there has assumed greatest importance from the perspective of its value to international endeavours. Furthermore, because of the FDI strategy employed, the Australian operation has extended its competencies and activities to encompass additional distribution work for other companies. Whilst this development could in part be attributed to an initial friendship (with Esther), the shareholding strategy adopted by *OO* was motivated by the desire to spread risk and to strengthen distributor commitment to market profitability.

The other distribution relationships in order of importance to *OO* are in the UK, US, and Japan, with activities in Japan in fact being managed by a Christchurch firm. Although the intention here is to absolve themselves of direct responsibility for Japan, it has paradoxically resulted in the need to manage yet another level of international market risk, that of the Christchurch relationship. The current indirect approach does not rule out greater assumption of direct responsibility for these latter markets as expansion

occurs, but *OO*'s objectives of dealing with *psychically closer* countries and controlling market growth precludes this from happening at present.

*...I'll be going back to New York where we take product. We do [other ISP's for them]. We have got a couple of contacts and we didn't want anyone really big you know, we couldn't handle it, we wanted small.*

Whilst variation exists in relationship importance (between the distributors), *OO* has begun placing more reliance on its distributors to undertake a wider range of activities including end-user education and product award applications. However, the bilateral ownership of marketing initiatives does not extend to the tightly controlled product design or development functions, suggesting a lack of trust in distributor intentions. The complete relationship breakdown with their initial UK distributor would seem to support this observation, along with the subsequent appointment of a larger and more reputable replacement company<sup>7</sup>.

*We have got some international awards too, yeah, and our distributors enter those...They manage that. They tell us what they need to enter the award and we supply that but they do their own bit.*

When *OO* first commenced international trading, various EPOs were approached for advice and direction, but as the need for more specialised market and technical information grew, the partners engaged a range of industry specific professionals, choosing to rely less on the government funded bodies. EPOs do still however remain important through their funding assistance for overseas trade shows and new product development.

*I had moved from [the EPO] because they were good for about...a couple of months...they were very limited...We have actually used them less and less and less, because they are really hard to get decent knowledge out of, yet your brief is so tight...*

*So we did some more research, got the [materials] tested by \_\_\_\_\_Radiation Laboratory...*

*...we found that what we...really, really [needed was]...reasonably priced designers, packaging experts, marketing experts, someone who could be a consultant for all those things. Even [the EPO] couldn't help with that...What are the margins that shops take? What should we take? What should be our profit for the work we put in? No one could tell us that.*

*Okay, we decided our packaging was naff, and we needed to make it look better...and we didn't want import bags because we tried that and it didn't work. So we decided to...go to a design company...Very nice people, just so easy to work with...and they came up with all sorts of things...we paid them to come up with a brand.*

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<sup>7</sup> The UK replacement was initially not at all interested in taking on the agency. It required a concerted face to face promotional effort by *OO* for this relationship to form.

*...I pay him for his time and advice. Esther and I use him as a third ear. If we disagree about something, we need a third person. You know, 'this is how I think it should happen', or, 'this is what I can offer you from my experience in this field'...*

*...and we did use another chappie for marketing consultancy. We [also] just got a media PR person... We use all sorts of people.*

The key point to be made regards *OO*'s reliance on support relationships is that they deem them important enough to be willing to invest significant sums of money to retain them task by task and some even on a continual basis. It is suggested however that this procurement of packages of advice is a means of limiting the integrated involvement of others, and sends a clear message to all concerned regarding ownership of products and ideas. The obvious avoidance of a temporal approach to relationship nurture further supports the notion that *OO*'s external relationships are indeed TCA in nature.

Developing and maintaining end-user relationships is of the least importance to *OO*. Whilst it has been shown that their feedback and comments were important to the partners at business inception, direct contact with customers has reduced over time, with *OO* instead choosing to rely on distributors to manage and interact with them at a service level.

#### 4.3.3.2 Governance Form and Relational Mode

It is reasonable to state that *OO* did not commence operations with the explicit intention to form relationships for the achievement of business objectives. The fact these did become catalysts to foreign market penetration can be attributed to both adherence to infrastructural goals and to a unique selling proposition attracting unsolicited approaches from potential relationship partners. *OO*'s relationships could be characterised as emergent and evolving rather than strategic and planned, the significance of any particular one depending on specific product and/or market activities at the time. On this basis, it would be logical to expect ongoing contact to be decidedly interactive with high levels of socialisation. In fact apart from the internal partnership being very close and based on joint decision making<sup>8</sup>, and the informal manner in which the original distributors in Australia, UK, and the US were appointed, relational

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<sup>8</sup> Whilst bilateralism is a feature of internal and to some external relationships, the founders do also see the value in preserving role integrity (Gundlach and Achrol, 1993) in allowing those with distinctive skills in certain areas to make decisions or take actions without requiring the input of others.

dealings overall are somewhat formal and contract based. The approach taken in the initial stages of business development hindered progress in the dynamic international market environment (e.g., Macneil, 1980). A possible explanation for their overall relationship approach may be indicated in the early breaches in trust experienced by the partners. Here they chose to allow a potential domestic competitor to evaluate their initial designs, believing the pledge that a long term purchase agreement would be the likely result. Unfortunately the converse occurred as the result of this trust.

*...we had a company approach us, a local company, well known branded name, approach us and say that, 'we want an ISP. Can you bring us some samples and some pricing and we will have a look at it?'...We left the samples there and they didn't get back to us... We took the samples back and six weeks later there is an ISP in the market, exactly the same as ours...We actually did take them to court and we hired a barrister in town...*

OO did in fact win their case and cleverly chose to request a long supply contract from their 'adversary' (as per the original intention) as compensation.

*[The case cost us a] phenomenal amount of money. We didn't care what it cost. We were going to get these bastards, because they just absolutely totally ripped it off, you know. Push came to shove - anyway we won. We didn't actually get to court, we settled out of court.*

*... We have [since] made bucket loads out of them, which is really good...*

Whilst OO sought to secure a long term business relationship as reparation for the breach of trust, commitment was secured by exercise of power, effectively determining the nature of all future interactions to be unilateral and somewhat coercive. Of interest here is that the agreement with this company still exists and perhaps paradoxically, it has evolved into OO's largest domestic contract. It would seem that this early experience provided a defining moment for the way in which future interactions with potential relationship partners would take place. Although OO retains a belief that bilateralism and trust are important by virtue of their internal interactions and expressed sentiments regarding their external relationships, to date almost all agreements have been explicit and formalised through legal documents. In fact, this TCA approach is made none more evident than by the establishment of a separate patent holding company for all of their innovations combined with a strong resolve to prosecute any party that offends in this regard.

*Everyone knew about it and they would think twice before they made an ISP, but we actually tell people now we'll take them to court, we make it known that we aren't going to be messed around with.*

As can be seen from the selection of *OO*'s external relationship interactions there seems a high degree of convergence towards unilateralism and specificity in their contractual agreements. Summary evidence of this is shown in Table 4.5 and in further participant statements in appendix one. It is important to note given the complexity of relationships and the immense range of interactions that take place within, that Table 4.5 reflects only the 'overall' position of the MCE in this regard.

**Table 4.5**  
**Ozone Officers Form of Governance and Relational Mode**

Observed Governance				Relational Mode				
Relationship Type	Decision /Action	Bilateral	Unilateral / Market	Relationship	Reciprocity	Commit	Trust	Norms
<i>Internal</i>	Strategic	■	□	<i>Internal</i>	■	■	■	■
	Tactical	■	■					
<i>Supplier</i>	Strategic	□	■	<i>Supplier</i>	■	■	□	■
	Tactical	■	■					
<i>Distributor</i>	Strategic	□	■	<i>Distributor</i>	■	■	■	■
	Tactical	■	■					
<i>Support</i>	Strategic	■	■	<i>Support</i>	□	□	■	■
	Tactical	■	■					
<i>EPOs</i>	Strategic	□	■	<i>EPOs</i>	□	□	□	□
	Tactical	□	■					
<i>End-users</i>	Strategic	NA	NA	<i>End-users</i>	NA	NA	NA	NA
	Tactical	NA	NA					

■ = Dominant  
 ■ = Partial  
 □ = Limited or None

■ = Strong  
 ■ = Moderate  
 □ = Weak or None

It is clear from Table 4.5 that apart from the internal relationship, *OO* is characterised by high levels of unilateral governance in both strategic and tactical areas of the business. A TCA approach to interaction is also apparent as evidenced by weaker levels of reciprocity, trust based commitment (both attitudinal and instrumental as reflected through their transaction-specific investments), and relational norms present. In fact where possible, *OO* has relied on its ability to exercise power over its external partners (e.g., French and Raven, 1959) to achieve organisational goals. A sample of representative comments reflecting *OO*'s relational approach appears in appendix one.

#### 4.3.4 Ozone Officers – Conclusion

*OO* provides an interesting example of how a small, low technology based business, has been able to penetrate the international market in spite of a lack of capital or infrastructural resources. The case also presents evidence that such outcomes may be achieved without the technical or market know-how being possessed internally (e.g., Lamb and Liesch, 2002; Larson, 1992). From the outset, *OO* sought to correct deficiencies in these areas by seeking and contracting out the appropriate supply, distribution<sup>9</sup>, and support partners. As products are not highly specialised and also subject to competitive exposure and exploitation, a main focus of the company is also to invoke patent protection (a move not inconsistent with TCA), for all possible aspects of design and product development, culminating in the creation of a separate ‘idea holding’ company. These strategies have certainly been key drivers in the establishment of local, Australian, and UK markets, and also helpful in the formative stages of entry into the US.

It is clear that the Principals lacked the knowledge and skills for early involvement in international activities, however the associated risks of doing so were somewhat absorbed initially by engaging generic assistance from various EPOs. As the need for strategic direction became more specialised, a selection of industry experts covering the full range of marketing mix functions were contracted in on a paid hourly basis. As has been demonstrated in earlier examples, this typifies *OO*’s application of market and unilateral based governance (e.g., Heide, 1994) to as many of its relationships as possible, effectively reducing their commitment to more binding associations whilst (from their perspective) concurrently maximising outcomes. Ironically, *OO* considers their local and international outcomes can be somewhat attributed to the range of ‘close associations’ that they have with their value chain partners. However the reality is that even the more mature external relationships are on *OO*’s terms or at ‘arms length’ thus largely grounded in a TCA perspective. In fact the only relationship that shows any obvious bilateralism and SE traits is that between the two founding partners.

*OO*’s strategy for working with its external partners, especially with distributors “who are on the other side of the world”, is to insist on written contracts covering terms of

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<sup>9</sup> Apart from the most recent appointments, most international distribution partners made the initial unsolicited approach to *OO*.

performance and protection. Furthermore, whilst some (like their main manufacturer) have been trading and growing alongside them for a number of years, there remains a strong determination between the partners to preserve plenty of “out clauses” to ensure that the power remains with *OO*. It would seem that their internationalisation journey to date has delivered robust outcomes through strong product development, unilateral decision making and spreading of risk, rather than on placing reliance on the good intentions of others.

#### 4.4 Mobile Manager – Christchurch Data Communications Firm

*Mobile Manager (MM)* began operations in 1992 after Nate<sup>1</sup> accepted voluntary redundancy from his position (that he had held since leaving school) with a major New Zealand Telecommunications company. Being professionally trained, Nate was also regularly exposed to the latest in industry offerings at international trade fairs and work related events. From these he was able to identify a unique suite of Canadian *remote data transmission products (RDP's)*<sup>2</sup> that he believed would result in sustainable and satisfying employment. Whilst not taking on any of the component manufacturing per se, *MM's* proposition was essentially a value added one involving the importation of the required electronic modules, and anything from design through to the project implementation phases over a range of small and large scale industrial applications. The distinctive qualities of *MM's* offerings resided in its capacity to install proprietary “high end” equipment to the customer’s specific requirements.

The domestic and international industry in which *MM* became rapidly involved was a complex one, not only requiring advanced levels of technical knowledge and expertise but also necessitating regular collaboration with any number of other parties needed for project completion. These parties could range from being customer managerial and/or technical personnel, customer consultants, project managers, other external contractors (involved in different but integral parts of the project) and even competitors. In fact depending on the nature of the assignment, *MM* might have found itself in any one of these external roles, including managing the customer’s own staff. Furthermore, critical to *MM's* offering was the ability to communicate and liaise with people who possessed high levels of technical competence right through to those with almost no useful knowledge. This challenge was often exacerbated by having to work with people holding decision making and monetary power but little project sense.

In this regard, a large proportion of Nate’s time both historically and today, is devoted to customer education. Whether pitching for a small private sector job or working through an open Tender process for an international public utility company, *MM* must challenge prospective customers on their decision to purchase a solution based solely on

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<sup>1</sup> Nate is the sole proprietor of *Mobile Manager* and has been the only employee over its twelve years of operation.

<sup>2</sup> The products are unique because data transmission is via remote radio rather than standard telecommunication lines.

upfront price. The *RDP*'s although inimitable and the most appropriate for many jobs, are often evaluated alongside inferior and entirely inappropriate 'cheap' solutions. Promoting the superior benefits of the offering is effective but time consuming, putting pressure on the available resources left for contract fulfilment activities. In fact Nate describes it as a "constant juggling act" between marketing and implementation. Although working alone in this regard poses a hindrance to market growth, customers once converted, require far less salesmanship in subsequent projects.

Project value may range from as little as three thousand through to several million dollars<sup>3</sup> of which *MM* is either the sole contractor or part of a larger consortium. Nate obtains knowledge about existing and potential projects from a number of sources including extensive and regular searches of the internet, referrals from suppliers or other network contacts, and through employing a specialist search company which informs him of any relevant upcoming Tenders. Since company inception, he has actively canvassed for work, especially targeting contracts where he sincerely believes *MM* to be at least as acceptable as competitive offerings being considered by the client. In fact Nate's determination has often compelled him to continue pursuing unsuccessful Tender submissions, knowing the *RDP* solution to be superior to what the customer has chosen, a *product push* strategy which has resulted in some success.

*...On other occasions there have been situations where we have missed out on a Tender because we didn't hear about it, or we didn't have a winning bid...[but] because we've kept in touch, or we've approached the customer directly and said, 'did you realise that with the Tender you've accepted, something is not right? This is not going to work, because'...They say, 'Oh, is that right? You better tell us more!'...*

*MM*'s first contract was in 1992 with a large industrial facility in Bluff<sup>4</sup>. Nate's initial activity after accepting severance from his previous employer had been to travel to Canada to form a supply agreement with the company which today remains *MM*'s single most important merchant. Returning to New Zealand with a mandate to market *RDP*'s, the approach to the client in Bluff was made on the strength of their clearly identified need, and the offering's uniqueness. As it happened, this customer was satisfied enough with their purchase, to reorder in quantities which ensured *MM*'s first year of survival. Of even more importance to later internationalisation efforts was the

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<sup>3</sup> *MM* usually receives only a proportion (10-15%) of the revenue from the larger contracts because of the often multiple parties involved in the undertaking.

<sup>4</sup> An area located in the South Island of New Zealand.

access gained to a network of industrial contacts leading to additional work, and the provision of a ‘reference site’ for Nate to use when pitching for subsequent contracts.

*MM*'s strategy from this point was to focus on expanding activities in the domestic market niche identified. Whilst competing in a much larger market in a generic sense, *RDP*'s provided exclusive capacity and other advantages to the end user.

*...[The major competitor in the wider industry] have never really been in the data market, they are just starting to now. Because...we were the first company in the world to have a commercial product for sending data over the radio so have had a market edge in terms of the technology ever since...*

However, within the first year of business it became clear to Nate that domestic work alone would not be sufficient to sustain *MM* and this was ultimately a key driver towards internationalisation. Whilst the potential size of some of the projects in New Zealand was large, the lead times between “expressions of interest” and commencement of work were as long as two years. Ultimately *MM* began directing efforts to the development of the more significant Australian market. This initially occurred as a result of the Bluff “reference site” being seen by another New Zealand customer, who in conjunction with their Australian office decided to buy a recently developed range of Global Positioning System products off *MM*. It was in effect *MM*'s first genuine export sale<sup>5</sup>, occurring within eighteen months of inception and providing the catalyst for rapid growth in the Australian market thereafter.

Annual sales are now \$750,000 (at a GP margin of approximately 40%) with \$1 million per year being the next goal in the short term. Since year two, export intensity has remained between 40-50% with most of this being accounted for by Australia and around 10% alternating between Fiji, Malaysia and Brunei. Whilst the bulk of *MM*'s international business outside of Australia has historically been derived from Pacific Islands, Indonesia, and Asia, Nate sees the potential to be a significant player in an exclusive global market niche (e.g., Oviatt and McDougall, 1994). Facilitating this is a network of customer and supplier contacts developed over the years resulting in a ‘virtual’ sales force residing in the USA, Canada, Europe, and the Middle East. This together with Nate's growing international reputation for technical excellence and

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<sup>5</sup> Sporadic international sales to Pacific Islands, Indonesia, and various parts of Asia were made beforehand but via domestic customers.

innovation, integrity and reliability has placed *MM* on the verge of *gusher* type growth (Chetty and Campbell-Hunt, 2003).

Today due to *MM*'s relationship building activities, access (often preferential) has been gained to a large number of products from five international brands, enabling the serving of industries such as utilities, heavy manufacturing, Global Positioning System surveying, and public authorities. Ironically, *MM* has never been able to justify the employment of additional staff both because of the difficulties finding people with the right competencies, and due to most excess revenues being invested back into product and market development. *MM*'s story can be characterised by the following statement. "I've been on the cusp of needing to expand for three years or five years really but I haven't done it!"

#### **4.4.1 Factors Underpinning Business Formation and Continuity**

Nate's decision to start *MM* was brought about in part by the opportunity afforded by being exposed to *RDP*'s whilst with his previous employer, but perhaps more importantly by his dislike of being restricted to the confines of a large hierarchical structure. Furthermore, the company for which he had been working his entire adult life was in a constant state of instability, making his own position somewhat insecure. After taking some time out for overseas travel, he returned to New Zealand determined to make a life change.

*Did the OE...And then when [the previous employer] as it then was, started restructuring I didn't like the look of what was happening at all and how they were handling people, so when they asked for three people at the [branch] depot in Christchurch to volunteer for severance, I put my hand up very quickly...It was a case of, if we had moved to Wellington, we still would have been working in a company that was restructuring every three months...and would have probably added fifty thousand dollars to our mortgage and still been in an insecure position...*

*MM* was not Nate's first attempt at self employment. Surprisingly, a previous unsuccessful foray into commercial photography did not discourage further business developmental efforts. Even with the advent of *MM*, generating sufficient cash flow in the first year was difficult, compelling Nate to sell a range of unrelated electronic equipment to ensure the business kept trading. Mostly risk averse as evidenced in later years by his reticence to expand *MM*, he remained optimistic and determined to make it succeed, a factor underpinned by his desire to remain self employed. The undesirable

alternative was a return to a large company where nominal personal control could be exerted over his professional activities and long term prospects.

*It's actually nice working for yourself, it really is. I think you work way harder, and whether you do that deliberately or not, I don't know. It's not as if you work harder because you didn't enjoy working before, you work harder because how much you get in your pocket at the end of the month is directly related to how hard you work...*

*...I guess in the very early stages I actually was prepared to sell just about anything that anyone wanted, to keep us going...It was hard work. Very hard work.*

*Lots of people were saying it was hard to get into business, but I guess that I had already found that there was a market here for the product and I was convinced that with the right sort of coaching I could take the product and sell it...*

Nate's aversion to risk, and experiences gained from employment, flowed through to the formative goals of the business. Whilst not against structural growth, he determined that there were greater efficiencies to be gained from collaborating with others (e.g., Chetty and Wilson, 2003), especially diminutive enterprises experiencing comparable developmental challenges to *MM*. In fact where possible, this altruism was backed up by attempting to engage these others in some of the larger contracts won.

*...I sometimes look at the newspaper and see the turnover for some of these big corporations that employ hundreds of people and their profit at the end of the year and think well, if they took businesses like ours and multiplied it by three hundred, the country would actually be making way more money from that.*

*...I haven't found it a barrier being a one man band, in fact some cases, its actually been an advantage...If it got to the point where we needed installation, then I would sub-contract that to other companies that I know are small businesses and are looking...they could quite happy pick up that extra, which would benefit me and benefit them.*

*It's a small business thing...you tend to build a network...I mean we are dealing with big businesses as well, some of them could buy and sell us dozens of times over, but working in small business you develop a respect for the amount of effort people put in to keeping those businesses going...*

Another objective driving *MM*'s progress has been a focus on exploiting an international niche market where other much larger concerns would find it unprofitable or nonsensical to pursue. The early decision was made of “not trying to reinvent the wheel” but to use others innovations and promote in *secondary* countries and markets.

*...in the market that we operate in, the R and D capital requirements are just massive to produce good quality products, so that's a weakness in New Zealand. So my feeling is that it's much better to take products that someone else has invested R and D and actually find the markets for those products and sell as much as possible...not just in our own country, but in Australia, Asia, and the Pacific.*

*...I guess you have to make a decision as to whether you are shooting with a shotgun or with a rifle. I've always stuck with a rifle and gone for a small market and been good at it...*

*...we also got into a niche market in the survey industry, GPS surveying had just come along...What I've done from day one...is look for technology products that are particularly good and then find niche markets in New Zealand and Australia and Pacific Islands and wherever else we can find them really.*

Where targeting niche markets is an objective broadly pursued, this has not translated through to the development of any strategic plan. At a tactical level, *MM* has responded to Tenders (and other opportunities which have arisen) and Nate has spent long periods of time searching the internet and sending out or following up promotional material to prospective customers. It is suggested here that the lack of emphasis on formal planning and the resulting haphazard sales related activities partly accounts for *MM*'s slow rate of growth during its twelve year history.

*I've done it, informally. Its been done in my head (laughter)...I just had enough for the airfares to Canada!...I hadn't done any sort of formal business plan or anything like that.*

*...Some years I've done quite complex budgets and I've found that within a month or two, because a project has come up, I need to shift all my working capital to that project and I can't afford to buy computers or cars because I need all that capital...*

*Well, I've tried things...What I have found more successful is getting on the internet, searching out who the people are, where they are, and actually making ourselves known, making a noise, going to conferences and speaking and having stands at trade shows...Sometimes I'll just go searching....Once you've sent brochures then you've got an excuse to ring...*

*What I'm looking for there is to diversify our sources of income to fill some of the hollows. All our sales at the moment are very peaky. We might make three or four biggish sales a year...*

*You have to chase every opportunity by as many means as you can...*

Deficiencies in planning have not prevented Nate from delivering a customer focussed product. Being *MM*'s solitary employee has meant direct responsibility for the successes, but also exposure to the failures of each project. As such, *MM*'s reputation is synonymous with Nate's responses to customer demands.

*...Our business is aimed at where people want reliable performance. How else? Support...just supporting everybody, yeah, support, support, support.*

*...we've worked very hard at understanding the customer's needs to the point of understanding the communications protocols that these systems use, because they often don't understand them...*

*MM*'s future is unclear. Nate believes that two or three more full time consultants would enable the far more effective exploitation of the available opportunities including the opening of an Australian office, but he does not desire internal growth beyond this. At

the time of the interviewing, the outcomes of Tendering for a number of significant contracts were being waited upon, any one of them having the potential to expand the business to the level envisaged. Furthermore, internationally there are many more viable prospects available to *MM* than there are resources to solicit them, producing a stalemate situation given Nate's unwillingness to incur the debt required to finance expansion. Dilution of ownership is also not wanted and whilst somewhat open to "selling out" to a larger concern, it is a remote possibility. It seems then that the only growth path available to *MM* is the winning of larger contracts to enlarge the resource base from which to draw upon.

*...having invested ten years in it; it would be very hard to accept a dilution of your shareholding...if we found a partner that was happy to set up the office in Australia on the basis of a percentage of the sales, but we still owned the brand, as it were, I would be happy with that.*

*Long term what I really want to do with the business is become the regional distributor for all the products we've got, so we're not only looking at New Zealand, but Australia, Pacifica, Southern ocean. I've drawn a circle around that area and said 'that's us'.*

A further insight into the static nature of *MM* is an apparent satisfaction with the position of the business. The held belief that it has been "doing well" for a number of years is not surprising given a definition of success focusing on the personal fulfilment gained from being respected by industry peers.

*...for me that's making enough to live on comfortably while still enjoying what you do, being respected by the market is a big one for me. Not only for knowledge, but being known as someone who is honest, and who is not going to sell you something that you don't need...*

*...Being able to grow the business each year. I guess...I would be happy if we were able to grow it by ten, twenty percent a year in terms of turnover.*

The factors described in this section were instrumental in the formation of the business. An original goal of maintaining satisfying and sustaining self employment has been achieved right throughout *MM*'s twelve year trading history. There is a strong determination to retain a small infrastructure by maximising the use of a wide range of collaborative relationships, especially those enabling the pursuit and implementation of larger contracts. It is evident therefore that building and maintaining a network of skilled local and foreign connections is critical to the success of this method. Before outlining the relational approach employed by *MM* to develop its foreign market activities, a breakdown of the internationalisation and related outcomes is included in the next section.

#### 4.4.2 Internationalisation and Related Outcomes

Within eighteen months *MM*'s domestic and international activities were increasing concurrently and although the latter ultimately held greater potential, domestic business was somewhat easier to secure and provided the working capital essential for developing foreign involvement. However, although the first overseas sale did not eventuate until well into the second year of business, the determination and commitment to secure and persevere with a product with an international application was evident from day one.

*...I took that opportunity to leave [the previous employer] and basically hopped straight on the plane to Canada and secured access to the product. For the first year I was effectively selling it parallel with [the previous employer]. It didn't take much to sell more than [they] were selling...Just had enough for the airfares to Canada!...[Now] about every two years I try to get up there...*

*...the severance cheque that I received when I left...was really only enough to get an airfare to Canada and buy some groceries for the first two or three months and pay the mortgage for the first two or three months. I guess in the very early stages I actually was prepared to sell just about anything...*

*...They don't always turn into sales, and sometimes that thing will take two years before it turns into a sale, but if you're not always working on those sales two years out, they don't come...*

*MM* experimented with a number of means to make contact with those who yielded sales opportunities. Whilst the internet had been a constant tool in this regard, significant early investment was also made in attending industry specific trade fairs, both domestically and internationally. Nate doubted the value of this commitment given the lack of direct sales achieved, however the business contacts which emerged formed the basis for business development in the ensuing years. Furthermore, as his international reputation grew for being an expert in the technology, he was able to leverage partially funded conference invitations to investigate more distant markets.

*...I'm not sure how we survived actually. But we've now built a big network of contacts in Australia and New Zealand, still working on Australia. We've got some contacts in Asia now, potential up there as well...*

*The Kuala Lumpur one they paid airfare and...some accommodation but what that allowed me to do was...then to hop on another plane across to Brunei, and meet up with someone that I used to work with in [my prior employment] and they're now selling the products for us in Brunei. So it's working the network you see.*

Even with this constantly growing network of “supporters” Nate stated the need for an Australian office with people dedicated to the advancement of *MM* in that market. He also discovered establishing the human resource part of this strategy to be problematic.

*...Where we need to expand is across the ditch in Australia, at least one office, or possibly two, because at the moment we're barely scratching that market...*

*...we just want to sell the product. I've looked at commission sales reps and various things but people with the necessary experience are probably already selling competitive products...*

In recent years the makeup of *MM*'s international market (Australia in particular) has changed because of the advent of increased competition in the Global Positioning System<sup>6</sup> surveying area. This together with the rising New Zealand dollar has resulted in a small reduction in export intensity, and renewed efforts to investigate additional product lines and industries. In one instance Nate successfully sought product access from a major US supplier of specialised but related technology, and within a short time was also receiving direct sales leads from them. Very recently, other new product and market opportunities have arisen as a result of an approach by a colleague from his former company.

*It's not quite 50 percent at the moment, because what's happened is, in that market, the surveying equipment manufacturers have now started integrating...products at the factory, so while we are still selling in that market, we're not selling nearly as much...In some respects that's not a bad thing, because it was a sale that was time intensive in terms of support and we've...moved on from that now into other areas...*

*...we got involved in some tenders initially in the Middle East where they were looking for a product that we knew [alternative] devices would fit, so I went to [the manufacturer of these] and said, 'look we're tendering for projects offshore, can we have access to your product?' And they said, 'yeah that's fine.' So to date we've quoted [their] stuff...on five or six systems...*

*...He was working for a company in Ireland, so what's happened now is, not only have we got involved with James in Brunei, but also with their whole sales force, one in Malaysia, one in Hong Kong, one in Egypt and the Head Office in Ireland.*

To service the expanding number of market and customer types *MM* continually seeks to obtain solutions from its key Canadian manufacturer. Ultimately though, the business is customer focused and dependent on continuity of revenue so Nate considers alternative suppliers when necessary and pragmatic to do so. Retention of multiply supply options also enables the spreading of risk and the ability to implement completely unique offerings for any given customer (e.g., Bloodgood et al., 1996), a strength which has afforded the company some degree of protection from competition. Furthermore, where customers have required International Standards Organisation certification or some other quality assurance standard, *MM* has been able to attach itself to the qualifying manufacturer enabling the fulfilment of contractual conditions.

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<sup>6</sup> An important part of the *RDP* industry.

*...Sometimes it might be another supplier all together...We look to find the best solution for a particular customer's needs and do all the organisation that's required to effectively do that...I think the most common scenario is for us to help the customer design the system to meet his needs...*

Even with quality requirements being met, the international Tenders market<sup>7</sup> is a difficult one given that it largely price driven and in some cases non-discriminating between superior and inferior offerings. To this end Nate invests significant time in attempting to create value through bilateral interaction with the customer consultants charged with project implementation. By continuing to do this and diversification of both products and markets, he predicts an increase in value based work where price will be but one of the selection factors used by the customer.

*...We differentiate ourselves on three or four areas, one is the performance of the product, features like having diagnostics built in to them...I guess the other one is experience, being able to talk to the customer about what they are trying to do with it, whether they are doing it the right way, and if they're not doing it the right way, telling them why and what they should be doing...*

Another international strategy is to enter into informal alliances with other (often much larger) companies to fulfil sizeable contracts (e.g., Gomes-Casseres, 1997). This not only means insulation from customers judging *MM* as being “too small to work with” but often results in higher overall profits per job due to the larger partner undertaking many of the time consuming activities. In opportunities such as these Nate is prepared to forgo *MM*'s individual brand identity for the sake of the financial and relationship gains made.

*...we have to be flexible because in effect the company we are partnering with in Australia will be taking my role in that project so I'm probably going to be working on a fixed fee...but I'll already have my percentage built in...*

In fact, use of the range of networks (e.g., Coviello and Munro, 1997) developed over the years has been critical to *MM*'s international outcomes both in product sourcing and in project delivery, and Nate emphasises that this will continue for the foreseeable future.

*... it's all about networking. It's the key with small business.*

*...people like ourselves from all over the world [were at the trade fair]...They had trade delegations there from Hong Kong, Singapore, China, Europe, all over. What it allowed me to do was to look at other products that were peripheral to what we were doing, to see whether or not they were relevant...*

*...There are also companies in New Zealand that do that and we have got to the point where we team with some of those...*

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<sup>7</sup> Much of the international work is made up of large projects for which *MM* is compelled to “pitch” for the appropriate portion.

*...you might respond to a tender and the tender will be for a [large system with RDP's as an important component]. It might be 50 sites or whatever...if you cant do all that, or find someone that will work with you to do it, you lock yourself out of that process...so between the three of us we put in a response to that tender...*

*...So what's happened is, as markets change and grow, and we've built more contacts and got into other markets...*

On the basis of the evidence presented *MM*'s internationalisation position can not yet be considered as robust. Technical competence and product excellence are certainly present, as well as a growing credibility and an abundance of partnering options. Countering this however is slow revenue growth along with partial market development, a situation which is intensified by protracted project lead times and limited resources (e.g., Westhead et al., 2002). Despite this, a strong commitment exists to expanding foreign market involvement. A summary of *MM*'s international outcomes is presented in Table 4.6.

In assessing Table 4.6 *MM*'s export performance appears quite nominal but there is much potential for this to improve on the evidence of the strong results shown in the other outcome categories. Nate's credibility internationally is also emerging however a danger exists in the continued total dependence on his own input (e.g., Feltham, Feltham, and Barnett, 2005). It would seem that breaking free from a position of static growth would require *MM* to follow through with the plans to recruit at least one more consultant, allowing for increased output in a largely time intensive business.

*...I'd like to, in New Zealand, have at least one other person involved in the business so that we could handle more of the maintenance and installation side without it impacting on sales. At the moment, when I'm involved in maintenance or installing stuff, I'm not in the office finding new customers. So we make money with maintenance but we don't have time to find customers. So it's a win-lose situation...*

Such internal growth may also facilitate the development of *MM* as a brand, rather than just Nate as an individual identity. Ironically, it has perhaps been because of Nate's efficiency in leveraging both domestic and international relationships that *MM* finds itself in this position.

*I probably spend something like 80 percent [of my time] selling and building relationships and working on future sales.*

**Table 4.6**  
**Mobile Manager Internationalisation and Related Outcomes**

International Outcome Dimensions	Market Factors	Product Factors	Demand Factors	Supply Factors	Export Perform	Network Factors
Representation in multiple countries	•					
Representation in domestic market	•					
International market niche	•					
Distribution in “low psychic distance” markets	•					
Distribution in “high psychic distance” markets	•					
International brand recognition	•					
Foreign direct investment						
Regular travel to foreign markets						
Internalised knowledge of foreign markets	•					
Increasing number of foreign markets	•					
Unique selling proposition/s		•				
Inimitable technology and/or patent protection						
Product line diversification/expansion		•				
New product manufacturing alliances		•				
Market/client customisation		•				
Demand for distribution rights/alliances			•			
Pull from end-users						
Repeat purchases/customer satisfaction			•			
Brand preference over generic preference						
High and stable distributor commitment			•			
Multiple supply options				•		
High and stable supply commitment				•		
Responsive supply base				•		
Offshore manufacturing or materials sourcing				•		
Market dominance						
High export intensity					•	
Sustainable profitability levels						
Global market coverage						
Revenue protection through currency hedging						
Long term growth prospects/plans					•	
Interaction with social network						
Interaction with end-user network						•
Interaction with supplier network						•
Interaction with industry network						•
Interaction with previous employment network						•
Interaction with professional services network						•

Despite the growth challenge faced it is clear that *MM* could not have achieved the internationalisation outcomes that it has without the inputs of others. The next section explores the key relationships that were developed before and during its

internationalisation journey and in particular, highlights how the form of governance and relational mode adopted facilitated the achievement of foreign market objectives.

### 4.4.3 Relationships and Internationalisation

#### 4.4.3.1 Key Relationships

*MM* comprises a sole working proprietor and as such its international progress since inception has been absent of input from employees or other financial partners. In cognisance of this a curious feature of the main interview is the continuous use of the word “we” in reference to the attitudes or actions taken by Nate. Additionally, complete reliance on one’s own initiative and direction was not raised by Nate as a source of concern, except in relation to being able to fulfil potential obligations arising from sales. This situation seemingly elevates the importance of developing and maintaining close external relationships on both the purchasing and delivery side of the business. A manifestation of this is where *MM* seeks proxies to internal staff by aligning itself to organisations that can use RDP’s in their own contractual bids. This degree of cooperation seems to go beyond mere collaboration (e.g., Chetty and Wilson, 2003) to a point where organisational integration occurs.

*...Typically when we’ve heard of a tender, if we haven’t had somebody that we can joint venture with, we’ve gone hunting and I’ve really done that on the internet mostly...we might know for example that a tender in the railway industry that a particular company worldwide focuses on that market, so I’ll go off and find the local distributor for that company and say to them, “how are you going to do the RDP component of that?”*

*So in the survey industry what happened was we found a New Zealand customer, who needed the RDP’s in New Zealand and through them we got in touch with their office in Australia and the result of that was, their sales force became our sales force. They were selling their product. They needed ours to go with it, so immediately we had a sales force of twenty people that didn’t cost us anything, which worked pretty well.*

Given that *MM* does not in itself produce any of the physical components, the nurturing and maintenance of particularly the Canadian manufacturer relationship is very important. From the onset Nate has placed total reliance on them to deliver high quality products to him in a timely manner for installation into individual projects. Furthermore, the alliance has grown to a point where the manufacturer regularly passes on market information and customer referrals, often at the expense of maximising self profit (e.g., Heide and John, 1992).

*...They are our prime supplier, probably 80 percent of our product...[Communication occurs with them] several times a day, probably twenty emails a day...*

*...[The customer] wanted RDP's for their vehicles...we kind of repositioned ourselves and said, "we're not actually selling you the system. We are the local interface for you and [Canadian manufacturer]"...from the customer's point of view, they are happy that they are dealing with a big company and hey they've also got a local man on the ground to talk too...*

Other manufacturers are also growing in importance to *MM*. Changes in technology and the potential for *MM* to integrate new products into their portfolio has resulted in the granting of distribution rights from various international manufacturers.

*...we knew what they were building and we got involved in some Tenders initially in the Middle East where they were looking for a product that we knew their devices would fit. So I went to them and said, "look we're tendering for projects offshore, can we have access to your product?" And they said "yeah that's fine."*

*...Often when we're tendering, apart from selling RDP's...because we're trying to integrate things, we might be buying aerials from a local company, power supplies from someone in Auckland, we might be working with another company in... Wellington or whatever...and also importing...*

Distributors in the classical sense<sup>8</sup> are not as important to *MM* as those with whom it joins to pitch for international contracts. These businesses<sup>9</sup> are typically much larger than *MM*, possessing technical and sales representation in multiple countries. Sometimes the alliances are ongoing and in other instances they are context specific (Achrol and Kotler, 1999). In every case they are instrumental in the winning of the contract, both because of the different functions performed by each party and because of the ability it affords to present the customer with a total solution.

*...I'm adding value in terms of expertise and advising which is the right product to use for that application...I had a visit, a few weeks back from a New Zealand technology company that is building devices, and they are now trying to sell into the world market...They asked, "how can we sell more of your product?"...This is a company with big financial backers and a staff of 30...*

*...We just want to sell the product. I've looked at commission sales reps and various things but...what I've done up til now is to focus more on finding these joint venture partners who aren't competitors because they don't have their own product, but on the other side, need the product to be able to sell their own.*

*...we have Tendered with some very big companies in some very unusual places. Companies like Siemens for example which is a huge company and we've tendered with their offices in Thailand on projects in Thailand and with their Indian office in projects in Pakistan, all over the place.*

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<sup>8</sup> Those who take ownership of goods for resale to third parties.

<sup>9</sup> These are considered distributors for the purposes of the within case analysis, and to ensure consistency in analysis between the cases.

*...we might know for example that a tender in the railway industry that a particular company worldwide focuses on that market, so I'll go off and find the local distributor for that company and say to them "how are you going to do the RDP component of that project?"...*

It is evident from these comments that mutual gain is maximised from *MM*'s distribution relationships and this is enhanced through their bilateralism (e.g., Yli-Renko et al., 2001).

Support relationships although ongoing, play more of a transactional role (e.g., Pels et al., 2000) in the soliciting of work both domestically and internationally, in that use is made of a Tender Search company and the Canadian Consulate for the gathering of regular market intelligence and contractual opportunities. These are however insignificant in the day to day operations of *MM* and it is suggested that they would be terminated or replaced should they cease to be of use in generating leads.

*We use a Tender Search company to do that sort of thing for us and it's probably good use of money, it's a time consuming thing to do...*

*...I can use the Canadian consulate in Australia to help me here in New Zealand sell products, which is pretty good support. So I can email them and say "Look I need to know who all the consultants are in Australia who deal with RDP's"...*

The role of EPOs is the least significant of all, initially because of a lack of knowledge regarding the assistance that could be offered at start-up, but latterly due to Nate's belief that apart from budgeting advice, they add little specific value to a small internationalising New Zealand business.

*It must have been about the second year I think that I went to see them. I can't remember what that was for...too narrowly focused...there is just an enormous number of really good products...that just don't reach the world markets...*

*...Where I found it failed me or let me down was it didn't go on from there to say, "this is what you should be doing now to grow the business." It touched on it but it was pretty generalised...*

*I used to belong to the Chamber of Commerce and actually found it of little value as well really.*

Perhaps the most significant associations outside of manufacturing are those with end-users<sup>10</sup>, because of the high degree of consultation required between the various parties involved in project design and delivery. Furthermore, where end-users have appointed third party project managers, considerable bilateralism exists in establishing and executing job specifications. Another compelling reason to retain high involvement in

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<sup>10</sup> On some occasions the customer is not the eventual end-user.

the customer relationship is to minimise the probability of mistakes being made (especially on large projects) and to quickly correct them if and when they do occur.

*...In the technology markets, getting in good with the consultants is critical.*

*Typically what we provide in the way of services is that we will look at the customer's application and determine what is the right technology for what they are trying to do. We will then advise them on how it needs to be designed to provide the coverage that they require...*

*...for example in the electricity industry, they may not have RDP people, but they've got Lines people and we might sell them the system and part of that system...I don't install. So what we will do is sub-contract back to their own staff...and that works fine. They're effectively keeping the money within their own business but from their point of view, they are assured that job has been done right.*

*...It's fatal in any technology sector to sell something that doesn't work. That's what I mentioned before, support, support, support. So if something goes wrong, you just fix it. And if you end up making nothing on at job, too bad. You just fix it because then the customer is happy. One unhappy customer can undo years of hard work.*

*...we've always been careful not to sell the product for applications that it's not really suited for. It's suicide...*

Although *MM*'s offering is somewhat unique and joint inputs are normal between Nate and his customers/end-users, intensive price competition means that relationship power very much resides with the latter. Because of this, it is *MM* that must continuously do the work in communicating latest industry developments and marketing his services to them. Keeping customers 'close' is also critical to the incidence of repeat business. In fact in some industries, not only might the customer retain *MM*'s services upon initial job completion, but a string of referrals can result in a number of other like contracts being won.

*..because [due to restructuring] they've not got any technical people...RDP's are good point for them. So they've gone ahead with their project and they've got several other councils that they know are watching what they're doing. Another council up in the North Island we got because we had built a relationship with the consultants who were doing the projects. We had done other jobs in the past for other customers of that same consultant...*

Overall there seems to be an elevated amount of interdependence between *MM* and their manufacturers, although more moderate with respect to other relationships in the value chain. This is particularly so when tendering for work directly or when the outcome of a proposal is dependent on the activities of a consultant or an alternative third party that holds the main contract. Both form of governance and modes of interaction are now explored in respect to *MM*'s relationship development activities.

#### 4.4.3.2 Governance Form and Relational Mode

There is clear evidence that *MM* did not commence operations with a strategic plan encompassing the interactive approach to marketing (e.g., Håkansson, 1982) as a foundation for internationalisation. In fact, apart from the initial flight to Canada to attempt sourcing the range of RDP's, *MM*'s relationships could be characterised as emergent and evolving (e.g., Dwyer et al., 1987) rather than strategic and planned, the significance of any particular one depending on specific project and/or market activities at the time. Nate however, rapidly discovered that building and maintaining relationships not only reduced the impact of internal resource constraints, but facilitated credibility and trust (e.g., Doney and Cannon, 1997) with his foreign supply partners and subsequent customers.

*We could do it ourselves, but it would require expanding the business and that work isn't always there...If we employ someone to do it, we'd have to have the work to keep them busy...*

Although the commercial elements of *MM*'s interactions are project specific, the relationships themselves are open-ended with no preset termination points (e.g., Macneil, 1978). This enables ongoing contact to be decidedly interactive with high levels of socialisation, an essential feature of jobs requiring consultation and advanced technical skills. Another feature of *MM*'s relationships is the 'blurring of the lines' between the roles played by members of the value chain. For instance, addressing a customer request may require the solitary input of Nate, or necessitate collaboration encompassing the manufacturer's representative right through to the customer's project manager.

*...typically the first project that they do is not their whole requirement, they'll install a system and over the next three to five years they'll expand it.*

*...So a customer in South America comes up with a problem, and they want to do something special, a sales guy in Miami [employee of manufacturer] will email me and say "Nate, do you want to talk to this guy and see if you can tell him what he needs to do?"*

It is clear from this that whilst role integrity is preserved in an individual organisation's expertise, bilateral input in project design through to implementation is both present and important in *MM*'s relationships. It does in fact seem imperative to the firm's international growth that a bilateral mode of governance continues to operate to ensure that the customer receives an optimal solution, afforded by the input of multiple parties.

Conversely, a unilateral response may on occasion be inadequate because of MM's lack of internal social capital (e.g., Yli-Renko et al., 2002), an asset that can only be generated from employee interaction in larger firms.

*...we knew what they [the customer] were building and we got involved in some Tenders initially in the Middle East where they were looking for a product that we knew [XYZ manufacturer] devices would fit, so I went to [XYZ manufacturer] and said, "Look we're tendering for projects offshore. Can we have access to your product?" And they said "yeah that's fine." So we've quoted [XYZ manufacturer] stuff now on five or six systems...*

Of interest is that MM has never officially appointed any third party to act as its representative domestically or internationally. However it is very common for Nate to enter into bilateral relationships with organisations, who by proxy, become distributors when undertaking client work that integrates RDP technology. Again these collaborations are highly interactive, requiring joint inputs from the partner selection stage through to installation of the finished product. Whilst variation does occur in the amount of inputs made by each party (depending on the allocated proportions of project responsibility), the importance of Nate's expertise to the delivery firm's output is not diminished.

*...What I've done up until now is to focus more on finding these joint venture partners who aren't competitors because they don't have their own product, but on the other side, need the product to be able to sell their own...I talk to them about what they are currently doing and what are their problems...Often they say "yes, oh gosh we haven't thought of that!...and we were going to tender for that."*

*...we're chasing a big Tender in Australia, in Perth and we've teamed with an Australian company to do that, and that's a potentially a five or six million dollar sale if we can get it...*

*...Now recently Fiji Water put out a Tender, and Fiji Electricity wanted to tender for it, and they came to ask and said "Can we use your product to tender for this?" They already had a software supplier from Australia, so between the three of us we put in a response to that Tender...*

MM's growing reputation, fed by customer and manufacturer referrals, on occasion results in a unsolicited approach from those realising that incorporating Nate's RDP's would strengthen their suite of offerings. These become bilateral associations which begin informally and continue in the same manner.

*...Sales people came down to see me a few weeks ago and asked, "How can we sell more of your product?" which I was very tickled by. This is a company with big financial backers and a staff of 30 and whatever, so they wanted to develop that network as well...before looking for sales.*

*MM's* resource limitations have also lead to the hiring of support contractors to undertake the specialist or more time-intensive aspects of projects. In these instances governance is largely unilateral given the specialist nature of the work. However, Nate still prefers consultative manner where possible to achieve the desired outcomes.

*...It's important also to know your limitations. If we had got a big project like that, what I also would have done was bring someone in from a consultancy firm to be the project manager. So I would have handed the role over and said "you are responsible for that bit," even to the point where they can kick me in the butt.*

Perhaps the most significant evidence of a bilateral approach exists within *MM's* customer relationships, to the point where Nate on occasion manages their own staff. It seems that this enables a straightforward transference of skills where needed, but more importantly results in immediate relationship interdependence (even in the context of a defined project). Furthermore, it also removes potential boundaries to assembling the most effective delivery team, unlike a traditional market based or unilateral management approach which could prevent this, or at best result in cost inefficiencies.

*I think the most common scenario is for us to help the customer design the system to meet his needs, and then they either do the work themselves or they employ another company like \_\_\_\_\_ to do the physical installation.*

*Typically what we provide in the way of services is that we will look at the customer's application and determine what is the right technology for what they are trying to do. We will then advise them on however it needs to be designed...If they have got their own sites, then typically what we would do is provide budgetary pricing for like a turnkey solution in terms of the hardware, where perhaps they will be doing their own installation.*

*...They're effectively keeping the money within their own business but from their point of view, they are assured that job has been done right.*

*I don't become an internal staff member as such, but their staff become my staff. But it works...*

Employing a team approach in the fulfilment of contracts also results in *MM's* relationships being characterised by a high degree of mutual commitment. This is particularly so with the main manufacturer in that Nate continues to place the majority of *RDP* orders through them and also regularly assists the manufacturer's direct customers for no immediate reward. The manufacturer reciprocates with a great deal of pre and post-sales support, transparent communication, site visits, referrals, extended trade credit, and monetary incentives. Furthermore, whilst an initial supply contract was signed at the outset with *MM*, interactions and agreements from that point on were informal and trust based.

*...They are our prime supplier, probably 80 percent of our product...[Communication occurs with them] several times a day, probably twenty emails a day...*

*...the Vice President of Engineering was here towards the end of last year. They travel related to sales, and at the moment we're chasing a big tender in Australia...If we can get it...then someone from engineering and sales will come down...*

*[I'm in] sort of sales support role as well... But I don't mind that because it's all part of that relationship with the supplier...Not really [any money in it for me]. I guess they would look after me, if a sale came out of it, they would credit my account or whatever, or, "next time you want to come up, we'll buy you an air ticket or whatever." They're a good company like that, they look after us...*

*It's all on the word, gentleman's agreement...Everything, and if we bring a shipment in and I know that we're not going to be able to pay for it for 60 days, I say, "look on this project we're not going to be able to pay you until the customer pays us."*

To a large extent price does determine success or failure in Tendering, although *MM*'s commitment to providing the most effective technology solution has on occasion been rewarded by the customer reconsidering their previous selection. In fact the strength of the connection to *MM* may extend to future work for the same customer whereby they allow Nate to design the Tender document so that it best fits his response to the same.

*... If they are buying a lot of hardware, then typically we will put in a certain amount of engineering content for nothing as a means of building relationship with the customer, basically getting them going, because...they'll install a system and over the next three to five years they'll expand it.*

*...So then what we had to do was help the customer write the specs so we got the Tender (laughter) and that's what happens in tendering...*

Whilst it is not possible for all of *MM*'s relationships to be bilateral or social exchange based as not all parties wish to interact in this manner (e.g., Pels et al., 2000), Nate makes every effort to filter his relationships (e.g., Wilson, 1995) to include only those that are. To the extent that this strategy has been successful this has allowed for the retention of a tight infrastructure, risk absorption, and international market growth. Summary evidence of this is shown in Table 4.7 and in the participant statements in appendix one. It is important to note given the complexity of relationships and the immense range of interactions that take place within, that Table 4.7 reflects only the 'overall' position of the MCE in this regard.

**Table 4.7**  
**Mobile Manager Form of Governance and Relational Mode**

Observed Governance				Relational Mode				
Relationship Type	Decision /Action	Bilateral	Unilateral / Market	Relationship Type	Reciprocity	Commit	Trust	Norms
<i>Internal</i>	Strategic	NA	NA	<i>Internal</i>	NA	NA	NA	NA
	Tactical	NA	NA					
<i>Suppliers</i>	Strategic	■	□	<i>Suppliers</i>	■	■	■	■
	Tactical	■	□					
<i>Distributors</i>	Strategic	■	■	<i>Distributors</i>	■	■	■	■
	Tactical	■	■					
<i>Support</i>	Strategic	■	■	<i>Support</i>	■	■	■	■
	Tactical	■	■					
<i>EPOs</i>	Strategic	NA	NA	<i>EPOs</i>	NA	NA	NA	NA
	Tactical	NA	NA					
<i>End-users</i>	Strategic	■	■	<i>End-users</i>	■	■	■	■
	Tactical	■	■					

■ = Dominant  
 ■ = Partial  
 □ = Limited or None

■ = Strong  
 ■ = Moderate  
 □ = Weak or None

It is clear from Table 4.7 that most of *MM*'s relationships are characterised by high levels of bilateral governance in both strategic and tactical areas of the business. A SE mode of interaction is also apparent as evidenced by strong levels of reciprocity, trust based commitment (both attitudinal and instrumental as reflected through mutual transaction-specific investments), and relational norms present. It is important to note that more moderate levels of these constructs are observed when the relationships are new (e.g., Scanzoni, 1979) and more specifically, where *MM* is subject to participating in a competitive tendering process.

The strategy of (and in some instances the necessity for) *MM* to “go where the work is” and to “chase every opportunity” means that whilst established relationships are not lost<sup>11</sup>, new relationships often have to be forged. The intent of Nate is to always engage these in the same manner, however the temporal nature of relationship development means that elevated bilateralism and trust are cannot be immediately present. The means of accelerating these occurring is to large extent reliant on the increasing number of

<sup>11</sup> It is not unusual for distributor, supplier, or end-user relationships to become dormant until the next collaborative opportunity arises.

“reference sites” and thus satisfied customers that *MM* can leverage trust from (e.g., Doney and Cannon, 1997).

#### **4.4.4 Mobile Manager – Conclusion**

*MM* provides a potent example how a miniscule, technology based business, is able to penetrate the international market, catering for resource deficiencies through the leveraging of close relationships. This is consistent with networking literature (e.g., Chetty and Blankenburg Holm, 2000; Coviello and Munro, 1997) however the case shows how the SE underpinnings of these relationships facilitates effective network function.

The market in question is price competitive and largely subject to a Tendering regime although ironically, this does not often prevent *MM* from winning work, even if up against a lower competitive bid. Nate’s approach of circumventing procedure via personal and transparent communication with decision makers often proves effective, which is surprising given “the tendering business [being characterised by] all sorts of corruption and rubbish.” *MM*’s relational approach also yields dividends on occasions where customers, still constrained by the requirement to “put the work out to Tender”, wish to reciprocate by employing a contractor that can be trusted to provide the right solution. *MM* clearly succeeds in providing an assurance that it is just such an organisation.

It is also suggested that *MM*’s stagnation is not a reflection of Nate’s inability to foster bilateral relationships, nor interact on the basis of SE. In fact a partial explanation may be found in the strategy of reliance on others being so successful, that a compulsion to build up ones own resources is not present. This is a situation which is further compounded by an aversion to financial risk and somewhat modest organisational goals. Ultimately though, *MM* competes in an international market niche which is knowledge intensive, requires participants possessing advanced levels of technical proficiency, and demanding a highly interactive approach for success.

## 4.5 Fancy Foods – Christchurch Specialty Foods Firm

*Fancy Foods (FF)* commenced operations in 1999<sup>1</sup> after Roanne, passionate about the creation of up market *organically based condiments (OBC's)*, decided to extend her production beyond supplying just family and friends. Initially manufacturing three core products from home and selling via personal representation at local market days, growing demand necessitated relocation to a shared space in a commercial kitchen. Today *FF* targets its range to the “upper end of the market” and has a small but growing international following of “foodies”, consisting of chefs, cuisine writers, specialty retail outlets, and informed consumer publics.

In March 2003 *FF* experienced a complete reversal of its internationalisation position. Before this time export intensity remained constant at around 10% of revenues, however a large order from a US retail chain resulted in an immediate sales portfolio comprising 90% international and 10% domestic trade. Whilst this “gusher effect” (Chetty and Campbell-Hunt, 2003) was not without its logistical challenges, the overall result has been one of successful market and product expansion and relatively secure long-term orders. In essence, this single largest client provided the resources for Roanne to investigate additional product and market opportunities. Current sales are NZ\$250,000 per annum at an average GP margin of 80%, and foreign orders are being fulfilled to the US, UK, Singapore and Australian markets. Furthermore, whilst the balance of these sales is still very much weighted towards the US, recent Australian and UK initiatives should result in rapid overall sales growth and a more even spread over the range of markets.

*FF's* core strengths are the quality and popularity of its products with end-users, based on claims that only “natural, New Zealand sun-ripened, seasonal ingredients are used”. The promotional leverage gained from this is significantly boosted by awards and by world leading authorities offering regular endorsements<sup>2</sup> and publication of alternative food applications using *FF* produce. Presently *FF* offers its clients eight different products, six of which have been designed and developed by Roanne with the remaining two being sold under license. Whilst Roanne prefers to retain total creative control and

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<sup>1</sup> *FF* was not registered as a company until 2000.

<sup>2</sup> For example, *FF's* products were profiled by a leading food writer in the New York Times.

not be driven by the “sometimes fickle demands of the consumer”, she does occasionally incorporate reseller and/or consumer developmental suggestions, especially when needing to respond to differing western taste palettes. This feedback is usually not from face to face communication but gleaned from *FF*'s recently developed website.

The mode of selling is primarily via domestic and international distribution, although an important sales portal to consumers and potential resellers is also retained through the well crafted but investment intensive website. *FF*'s story can be characterised by the following comment from Roanne. “In New Zealand it's a harder market for me than international. If America rings up they order pallets [of boxes]. Here they order six so I have to break up half a box!”

#### **4.5.1 Factors Underpinning Business Formation and Continuity**

Roanne's desire to “get involved with food” started as a child (“I used to hunt for mushrooms and watercress and tickled trout”) and continued right throughout her secretarial training and subsequent employment as a young adult. From the early stages it seemed inevitable that she would eventually formalise a business as evidenced by the original successful forays into designing furniture and crafts. However, the birth of *FF* would have to wait until her children had completed their schooling years indicating that the values associated with raising a family took precedence over the otherwise strong entrepreneurial leanings.

Initial production in 1999 took the form of adding value to imported ingredients but this was soon supplanted by the manufacture of *OBC*'s from New Zealand grown produce. Of interest here was that profit was second in priority to maintaining integrity of origin and quality. Furthermore, the decision to produce particular food items was not based on any formal market research but on what Roanne personally liked, reasoning that everybody else should think similarly. This however did not diminish the roles that creativity, innovation, and enthusiasm played in bringing *FF*'s range to fruition.

*...I'm so excited about this. It's so quintessential New Zealand...and a big part of my marketing is the whole New Zealand story...I [also] have a real thing about, I don't use any additives or preservatives. Wherever possible I use organic food I like. I'm a great believer in being truthful about ingredients...and that's not going to change. But I suspect that if a big company came along to buy me out, there would be all sorts of changes...*

A catalyst to growing the business beyond a subsistence basis occurred serendipitously at a local market day. A visiting American woman, convinced about the marketability of the range offered to “take it to the States”. Ironically, after a limited and informal effort in this regard she discontinued all contact, however the input was enough to motivate Roanne to explore further opportunities.

*She said, ‘I could sell ten thousand jars of this’...and I was thinking what does ten thousand jars look like in this small commercial kitchen that I’ve got here. And anyway, she kept getting back to me and pressuring me to do something...*

It is clear that the initial and ongoing momentum of *FF* was the almost universal popularity of the products to all those who were exposed to them. This factor alone generated an enormous amount of free publicity prompting the advent of US market awareness and demand. It also meant that resources that would otherwise be earmarked for promotion could be spent on additional product development, albeit that this was not a significant expense in itself.

*...I’ve kind of done it differently. I’ve spent very little on promotion. The way I promote is by packaging and what’s in the bottle. All my other promotion has been to appeal to the hearts and minds of food writers and people like that, and they’ve written stories. ...Apart from that I’ve developed a lot of recipes and things.*

*...tomorrow I have a reporter/journalist coming, and on Friday week I am cooking lunch for a number of people, and it’s going to be photographed by \_\_\_\_\_New Zealand’s foremost food photographer...and they are doing a seven page spread on it...that kind of exposure...you couldn’t put a price on...I [also] got an article in the New York Times by \_\_\_\_\_ who is probably one of the top food writers in the States...*

Roanne commenced *FF* with essentially no knowledge of its international prospects or how to tap into those that did exist. However, previous business and project management experience provided critical business development skills, especially in the areas of logistics coordination and the fostering of “contacts”.

*...co-ordinating it all was very important, very important learning experience because that’s a big part of what I do now...[Some years ago] we were building a house in Akaroa...and I decided that I would take a year out to manage the contract. So I managed the whole contract, employing people on a labour only basis and bringing the whole thing together. And that worked extremely well, great experience, I loved that!*

*...I might be wrong, and my own experience has taught me this. It’s the effort you make and the contacts that you make, and your business is largely has a lot to do with contacts...I haven’t been introduced to anybody, I’ve gone out [myself and found them]...*

It is obvious from these statements that Roanne possesses a high degree of independence and self reliance, entrepreneurship observations (e.g., Kets de Vries, 1977) further reinforced by the refusal to engage any business or financial partners. The early decision not to grow infrastructurally, but to commissioning external contractors wherever possible, adds further weight to this observation. A resolution which continues in perpetuity, Roanne freely admits the barrier it creates to the numerous market opportunities which exist. It is suggested that part of this declaration is underpinned by the desire to retain control of *FF* to “within the comfort zone”.

*I don't want to. I have no interest in it. I don't want to employ people directly. It's just too much of a nightmare.*

*I can manage it very well. I have a contract manufacturer...people who make labels for me, people who make cartons for me. I buy bottles. I buy lids. I use a graphic designer. I use a professional photographer to photograph these images here. I use a lot of different people, but I can do all that outside.*

*...I do it [planning] in my head.*

*...I develop new product in the kitchen here. Actually I run it very cheaply. My office is upstairs and everything is contract manufactured for me, so my outlay is actually very little. I did have a loan from the bank which I don't have any more.*

The company website has proved to be a critical “arms length” communication tool for *FF*, enabling some contact with the market and also a relatively inexpensive means of profiling new products as soon as they are developed. Roanne has also discovered that the site expands *OBC* to the mainstream market ensuring that *FF* does not become marginalised to “selected health food outlets”.

*...Every single product has my website address on it, and there I have recipes, information...I want people to email me with their recipes...*

*[They] are a very upmarket supermarket, but they've got a real strength in organics and whole foods...Although this is an organic product, I haven't marketed it into organic type stores because the people that frequent organic store...will move heaven and earth to buy this product for a start and then they don't buy a lot of it, so it's not huge...*

Apart from ‘testing’ *FF* products at home, family involvement in the business is nominal and home life is kept completely separate from commercial concerns. Of further interest here is that Roanne chose not to use any family capital<sup>3</sup> to commence or develop the business, preferring instead to secure a modest bank loan for these purposes.

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<sup>3</sup> Even though there would seem no shortage, given Roanne’s comments and the interview surroundings.

It seems clear that *FF* will succeed or fail on its own merits. Roanne is non-negotiable about its mode of operation and her view completely pragmatic in the manner its domestic and international prospects are advanced. Where long term goal setting and strategic planning have not assumed great importance, product integrity has been paramount. In assessing this case it seems that *FF* will continue in its present form until such time as Roanne decides to sell or seek another challenge. In fact she states that there is a high probability of this occurring within a five year time frame, should a significant enough offer be made.

*...I suspect that if a big company came along to buy me out, there would be all sorts of changes because they would want to do huge sales...What I do have in mind is that in five years time I will sell this company and by that time I will have something to sell. I think - I know I already do have something to sell...Yeah, so I'm building my business so that eventually it will be something that somebody will buy...*

*If I had a turnover of five hundred and fifty thousand, the company should be worth around about five million, shouldn't it? The great thing is...if the person that bought it was a manufacturer, it's got huge potential to make a lot of money...*

The factors described in this section were instrumental in the formation of the business. The original goals regarding mode of operation have been adhered to throughout *FF*'s five year trading history. There is a strong determination to maximise contractual relationships for manufacturing, marketing, and distribution activities. It is obvious then that the associations with the appropriate stakeholders required formation and development. Before outlining the relational approach employed by *FF* to gain and expand the foreign market, a breakdown of the internationalisation and related outcomes is included in the next section.

#### **4.5.2 Internationalisation and Related Outcomes**

Roanne decided that the most logical strategy for international expansion, particularly in the US, was to secure the interest of a large retail chain. The reasoning here was to leverage its resources to promote *FF* products in ways that would be impossible with the existing resource base and market knowledge (e.g., Johanson and Vahlne, 1977). Where the initial motivation to enter the US had come from a serendipitous approach at a local produce fair, subsequent market awareness and demand came from some compelling international publicity, generated initially by NZTE creativity.

*...I decided that if I was going to get into the States it had to be through a company like [XYZ retail chain] because they will promote my product in a way that would be impossible for me to pay for...*

*...Trade NZ bought a number of bottles...like a 120 or 130 or something to give to food writers and chefs in the States just to kind of promote New Zealand...and I got that list of people who received that product. So...I sent a press release to every single person who had received that product and I got a response. This was a response which is just fantastic, from the New York Times... also I had a call from Bon Appetite...is like Cuisine here in [NZ]...and is right throughout the States...I [also] got an article in the New York Times...*

Roanne's tactic of a direct-mail follow-up to the recipients of the free product, together with the popularity of the range itself, ultimately yielded a formidable New York based reseller and a subsequent but separate distribution agreement with a San Francisco company. This has culminated in her range currently being sold across the US. Perhaps fortuitously, the increase in *FF's* international profile has also lead to greater success in the domestic market. Roanne's challenge in this regard is to optimise how much time she spends between domestic and international activities.

*...I got hold of [XYZ retail chain] and now [also] have a distributor and am selling throughout America. And that began last year, my first shipment went away last July, and since then they've reordered...they sold incredibly quickly...and are now looking at taking [more of my range]...*

*...Only last year I really started to focus on export. Interestingly enough now that my New Zealand business is starting to build as people have read about my products [international profile]...*

Whilst a small amount of direct (website) export sales had been made to Singapore and Western Australia by this time, it is obvious that *FF* had not determined to seek foreign markets from inception. The fact that significant international interest did occur, was through emergent rather than planned strategy and even here serendipity played a critical role. However once activated, Roanne demonstrated commitment to international expansion through significant non-retrievable investment (Gundlach et al., 1995; Williamson, 1979), including the sending of free samples, website development, applications for relevant international quality standards, international travel, and representation at trade fairs.

*...Two days later they rang me back and said they were very interested, so I sent them samples and it took six months before we finally sent our first shipment.*

*...They hadn't given me an order but they were committed to the product, but until we satisfied their requirements in terms of compliance... nearly 70 pages...right down to the weight of the cardboard...pages and pages of stuff to wade through. We even had to have the boxes drop tested in Hong Kong...*

*...all my energy has really gone into the States. It's so phenomenally big and the potential is just massive and I've had a fantastic response...*

*...a number of people had approached me through my website which I'm about to spend a lot of money on, revamping completely...*

*...The most extensive chain of hotels in the world...has requested samples...they want it in...little one-ounce jars for room service and to support the restaurant menu...this kind of thing takes up a lot of my time...*

*...I had contributed to the space at the Fancy Food Show (New York)...which I was willing to do.*

*...I'm a member of OPENZ, who are Organic Product Exporters of New Zealand who have taken a space at Bio-Fair, which is the biggest organic food show in the world...I had to pay four hundred and fifty dollars and for that...*

*...I went and saw them in Sydney...*

*FF's* internationalisation commitment has also recently extended to the UK market and at the time of interviewing, negotiations were taking place with a potential resident distributor. Interestingly though, Roanne's states that new markets are not likely to be sought beyond those countries that are psychically close to New Zealand. The perception proffered by her is that the differences in language, culture, and market structure are too problematic to bridge, and sufficient gains can be made in "closer" markets. It does seem though, that this resolution might be reconsidered where resellers from international markets such as India and Japan persist in approaching *FF*, thus partially absorbing the developmental risks and costs associated with a lack of market knowledge (e.g., Eriksson and Chetty, 2003).

*At the moment I'm working on a distributor in the UK...I've met him, I was over there last year...But I definitely plan to be there by the middle of the year. That's my aim.*

*...I get a number...like India...and Slovakia...but it's too hard really. How can I promote something in India? It was a missed opportunity and I should have done something about it. It was very slack on my part. It's a huge market I understand now...If India came back I would look at them.*

*I just think it's far better to put my energy into a market that I really know there is a market. I know there is a market in Japan, and I really have to look at it. I had a very small company who bought... they said to me, 'that we are absolutely confident there is a market in Japan for this'...I will definitely go for it at some point...Once you choose a market, it takes a lot of energy and time and you've got to do it properly and that's why the American market is really worthwhile...The fact that they speak our language makes it far easier.*

Roanne is seemingly committed to the continued development of the range internationally and this even extends to the possibility of selling some new products, under a different label, for the food service industry and more price conscious consumers. However tactics such as these have not been enacted without significant prior US and subsequent UK interest and demand for *FF* offerings. An example of this is occurred when the main US reseller ran out of stock, resulting in Roanne receiving

around 60 emails per day requesting product, even at twice the retail price. Furthermore, although it is not possible to patent any of the range, encouragement has been derived from the lack of competing alternatives to *FF*, a factor which Roanne attributes to not attracting the attention of the larger food manufacturers.

*...I'm actually looking at alternative packaging for the food service industry and for further down the market, not under the FF label. It'll be under another label...*

*...I've got a distributor there who has just been at the Food Show who...was just completely bowled over...Because the products are different and Americans are really interested in that, and there's a fascination with New Zealand and what were doing in terms of our food, apart from the movies...*

*...America is selling this for twelve American dollars. They [end-users] were buying product from New Zealand, by the time it got back to their door, they were paying twenty-two dollars!...*

*...I had the most amazing opportunity. A New Zealander set up a New Zealand fashion store in London in Waltham Street, right in the heart of London and bought a hundred bottles...to give away [to] fashion writers from all the major publications...the food writer of the Daily Telegraph [subsequently] wanted to do an article about it saying 'we really love this product, it's fantastic'...*

*...I haven't really got competition...in this area...*

A threat to the continuity of *FF*'s international business is a lack of the domestically grown organic produce required. It is exacerbated by Roanne's determination not to source produce offshore and "to remain faithful to New Zealand ingredients". This problem has to date been overcome by stressing that the products are "organically based" rather than 100 percent organic. The tight supply situation has in part contributed to the decision to diversify the range so as not to place undue pressure on any one group of growers.

*...It's an important part of our marketing...in fact there is quite a lot of research that supports that...because of our direct sunlight, our climate and the quality of our soil, we are actually producing food which has a higher nutritional value, than same food grown in other countries, and in particular Europe.*

Despite a number of unexploited market opportunities, *FF*'s current internationalisation position, both by its own definition and from the findings presented, is fairly robust. Evidence of this robustness is summarised in Table 4.8.

**Table 4.8**  
**Fancy Foods Internationalisation and Related Outcomes**

<b>International Outcome Dimensions</b>	<b>Market Factors</b>	<b>Product Factors</b>	<b>Demand Factors</b>	<b>Supply Factors</b>	<b>Export Perform</b>	<b>Network Factors</b>
Representation in multiple countries	•					
Representation in domestic market	•					
International market niche	•					
Distribution in “low psychic distance” markets	•					
Distribution in “high psychic distance” markets						
International brand recognition	•					
Foreign direct investment						
Regular travel to foreign markets						
Internalised knowledge of foreign markets						
Increasing number of foreign markets	•					
Unique selling proposition/s		•				
Inimitable technology and/or patent protection						
Product line diversification/expansion		•				
New product manufacturing alliances		•				
Market/client customisation		•				
Demand for distribution rights/alliances			•			
Pull from end-users			•			
Repeat purchases/customer satisfaction			•			
Brand preference over generic preference			•			
High and stable distributor commitment						
Multiple supply options						
High and stable supply commitment					•	
Responsive supply base					•	
Offshore manufacturing or materials sourcing						
Market dominance						
High export intensity					•	
Sustainable profitability levels					•	
Global market coverage						
Revenue protection through currency hedging						
Long term growth prospects/plans					•	
Interaction with social network						•
Interaction with end-user network						•
Interaction with supplier network						•
Interaction with industry network						•
Interaction with previous employment network						
Interaction with professional services network						

Even though there is currently no direct competition, revenue performance is fairly modest. However, the impressive product and demand outcomes together with the upward trend in revenue and export intensity, suggests that *FF* has significant expansion potential. Perhaps the greatest threat to this occurring is an over-reliance on Roanne’s

own inputs, together with a lack of reliance on others to contribute bilaterally. It would seem that this is a situation may lead to stagnation in sales or even business decline. The probability of this occurrence may be heightened by the “arms length” approach applied to relationships and an intense dislike for most forms of business networking.

*...This business is me.*

*...[If I “dropped out” tomorrow, those taking over] would have a list of contacts. They would have a list of sources and um and what else would they need? I mean I can point them in the direction of the factory ha ha....*

*[Networking]...it’s so boring, it’s all men...they ask all the wrong questions as far as I’m concerned. They’re not really interested in what I do. They want to know how much money I’m making...I stay at home and see manufacturers and distributors when I have to...*

It is suggested that FF’s internationalisation outcomes are largely due to product uniqueness creating *demand pull*. A heavy dependence is also placed on industry partners for manufacturing, promotion and distribution solutions, but under the auspices of market or unilateral governance rather than bilateral governance. Roanne’s input has been critical in the creation of a world-class product range. However the necessary expertise for other activities has been procured from external contractors. The next section explores the key relationships that FF developed before and during its internationalisation journey. In particular, it highlights how a unilateral form of governance and TCA relational mode are embraced in facilitating the achievement of foreign market objectives.

### **4.5.3 Relationships and Internationalisation**

#### *4.5.3.1 Key Relationships*

Whilst internationalisation was not the first objective of *FF*, it was immediately clear given the method of operations employed in the domestic market and the non-consideration of capital expansion measures, that developing relationships with value chain participants would be critical to foreign performance. As *FF* comprises a sole working proprietor, its international progress has been absent of input from employees or financial partners. Even Roanne’s husband retains a distant and non-financial interest in activities, strengthening the observations made herein that a desire for business independence is paramount. Furthermore, self reliance was emphasised on a number

occasions during interviewing indicating that the development of relationships for the achievement of business objectives is neither easy nor immediately desired.

*...I develop new product in the kitchen here. Actually I run it very cheaply. My office is upstairs and everything is contract manufactured for me...I did have a loan from the bank which I don't have any more...*

*...my support in the marketplace is winning the hearts and minds of food writers and chefs and people like that who will promote my product by using it...*

*I don't want to. I have no interest in it. I don't want to employ people...it's just too much of a nightmare.*

*...I'm a holistic person. I have to know everything before I embark on anything...I know it could be [a ten million dollar business in five years]. It's entirely up to me.*

As can be seen, the absence of a close internal relationship is not of great concern to Roanne and in her view is in fact advantageous. What assumes far greater importance is a manufacturing solution to meet *FF*'s stringent quality standards. Ironically, the choice of a manufacturer (a South Island firm that had extra capacity at the time) occurred within a week of searching, and it is an association which continues today. Because of an obvious unilateral mode of governance, the manufacturer's responsibilities are kept firmly within the confines of the production process, with Roanne preferring to retain control over raw materials production and ordering. Interestingly, the desire to maximise product quality through managing the process herself does not seem to have translated through to being particular about the choice of growers.

*...By that time I had a contract manufacturer who...is down in Central Otago and I still have them.*

*...this company that had this product which just hadn't worked and therefore they had a whole lot of space...So within a week of looking for somebody, I had somebody.*

[In terms of growers]...*I choose whoever is available.*

Appointment of both domestic and international distributors has also been critical to the development of the foreign market. Customers worldwide are able to order directly from *FF*'s sole New Zealand distributor<sup>4</sup>, an Auckland based business that has been contracted to manage an online sales portal for smaller volumes. However the main gains in sales have arisen from focussing on the US and in this market the bulk of activity has come from one large retail chain<sup>5</sup>. Whilst Roanne secured them “through a

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<sup>4</sup> The small number of New Zealand based retailers who also stock *FF* products are supplied directly by the manufacturer.

<sup>5</sup> This analysis treats them as a distributor, because of their responsibility for ordering for hundreds of geographically dispersed outlets.

phone call”, and by undertaking the ensuing six months of compliance activities, this may not have occurred if the original publicity generated by NZTE had not taken place. It follows then that the subsequent securing of a West Coast US distributor may also be related to such publicity.

*[XYZ retail chain] did the most amazing promotion of this product. They've got these very beautiful stores and they have some kitchenware as well, but they have shelves and there would be three bottles there, three bottles there and three bottles there and then they'd develop recipes in their kitchen. They promote it in their catalogue which comes out quarterly...it's pretty amazing really. And they also have it on their website.*

*...it's so phenomenally big and the potential is just massive and I've had a fantastic response. I've got a distributor there [West Coast USA] and he said he was just completely bowled over...very high end stores...because of the publicity, because of the New York Times and Trade NZ...*

*...their involvement is not only as the agent, but they have a freighting company and so they can freight at a very competitive rate, and that's very attractive to [XYZ retail chain]. So it's very fortuitous, they happened to be around when I was looking for someone to give me some assistance...So now they have set up a distribution in the States as well...*

FF experienced further good fortune when the main American client prompted Roanne to establish a relationship with their local distribution firm (who also had an office in Australia). The internal freighting service offered by this firm not only provided cost efficiencies but enabled Roanne to divest herself of challenging logistical responsibilities. These benefits forced her into the realisation of the importance of distributor interaction, and in fact provided the motivation for increasing investigations into the UK market. However again, these alliances are established with some reserve and even distrust of those representing her. Furthermore, Roanne's limited knowledge of what is occurring in these main markets is further evidence of the distance she prefers to keep from them. It seems that unless potential relationship partners are themselves “foodies”, then they lack the credibility to be relied upon<sup>6</sup>.

*...food area and he's very interested and keen about food and that's what I like so much about him. Distributors are often...I'm very wary, because they're wanting customers, and they're not really interested in anything else... just dollar signs. But there's no reason why you can't be in it for dollar signs and food if you're in food distribution.*

*No, no, no, I haven't actually got the list of all the people that are buying it, but I know that Dean and Deluca who are probably the most prestigious delicatessen in the world take my product. They're in New York. I think that they might be in a few other places as well but I'm not sure exactly where. Just as well that I'm going in May. I'll be able to find all this out....*

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<sup>6</sup> This could be considered a manifestation (or lack thereof) of referent trust proposed by Doney and Cannon (1997).

Whilst the domestic market has not declined with the onset of international sales, activities to stimulate reseller interest have reduced. It was found to be too labour intensive and frustrating when the original Auckland distributor appeared to lack commitment to *FF* products. The relationship was summarily terminated by Roanne whereby her focus returned to international market development and sporadic sales visits to local retailers. The effect of this on New Zealand representation has been a small concentration of specialty food stores and supermarkets within Christchurch and lower South Island but little anywhere else.

*...I don't go to any markets now, whereas I could do that. There is lots more opportunity to sell apart from what I'm doing in the supermarkets. I mean I don't even have - I had a distributor in Auckland who was absolutely hopeless so I hardly have an outlet in Auckland, because I focus on export.*

*...because I don't have a distributor here, like in Christchurch I manage it myself, but anywhere else it's important, it's essential to have a distributor because they have to merchandise it and they make regular visits to the stores...*

Perhaps the most influential relationships in the advancement of *FF*'s initial and ongoing internationalisation outcomes have been those of Support and EPOs. This is ironic given Roanne's minimal attempts in developing these, reinforcing the notion that it is the strength of the product range which has compelled their involvement<sup>7</sup>. It is fair to say however that chefs and food writers are her "kind of people" and she is more inclined to foster these relationships over others. On other occasions unpaid<sup>8</sup> support is called upon when required to assist with such things as bureaucratic mix-ups or deficiencies in export procedural knowledge.

*...Peter Gordon is a real fan... thankfully and...his latest cookbook [has recipes] using my product.*

*I really like talking to chefs. I like talking to people who know about food...*

*...I have a reporter, journalist coming...and am cooking lunch for a number of people...*

*...Trade NZ bought a number of bottles...to give to food writers and chefs in the States just to kind of promote New Zealand...*

*...I've kind of done it differently. I've spent very little on promotion. The way I promote is by packaging and what's in the bottle...*

*It did give me a panic, so I got on the phone and...I had a barrister in Wellington. I rang the local MP. I rang [the Minister of Trade and Industry]. I spoke to... an exporter who helped me with all the business of getting the stuff to America...So we all came down on New Zealand Food Safety and they panicked and they got the NZ Consulate in the States to approach USDA...*

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<sup>7</sup> *FF* has increased its profile with EPOs by receiving food awards from internationally recognised institutions.

<sup>8</sup> An example of this is the receipt of free advice from a leading Barrister (a friend of Roanne's husband's).

*...they were absolutely impossible. They are a bunch of the crappiest bureaucrats you've ever come across. It was just extraordinary and what really surprised me was that they had no will whatsoever to make it happen for me.*

*...I don't think they quite realised who they were taking on. They didn't realise the strength of my will.*

As is shown, Roanne is not beyond being adversarial with those that she perceives to be hindering *FF*'s performance. Whilst this same disdain is not extended to EPOs, she assesses them overall as adding little value to the small exporter, with the exception of the Los Angeles office of NZTE and other more industry specific organisations.

*...I expected something more than that and I just found their approach to be so unprofessional and I decided to do my own thing. But since then, Rachel who is based in Los Angeles, she is, in fact their whole office...are really interested in food and I've just had tremendous support from them...*

*...I had approached them for information on markets [in the US] which I found to be highly unsatisfactory quite frankly...I think they're too general...*

[For the inquiry regarding Germany] *they got a Trade New Zealand guy to wander up and down the aisles of a supermarket and they were going to ask me to pay for that and I said 'that's ridiculous!'...*

*...I'm a member of Organic Producers and Exporters New Zealand who have taken a space at Biofair, which is the biggest organic food show in the world...[Their representative has] taken my product, promotional materials and he's going to do a report, so that's pretty good.*

Given that *FF* is selling a range of low value consumer goods albeit at an upmarket level, interaction with end-users is somewhat nominal. However, Roanne does derive value from consumer feedback such as website postings of recipes. The purpose here is to generate a consumer sub-culture encouraging communication but ultimately promoting purchase. Overall, it is the responsibility of retailers and in some cases distributors to respond to end-user communication. The commissioning of an Auckland online gift firm to market her range directly is a manifestation of this strategy. One exception to this approach though, is the face to face interaction which occurs when potentially large clients (such as a hotel chain) demand it.

*...I get a huge amount of emails, particularly from America. Especially when [XYZ retail chain] ran out of product.*

*...I would prefer [less contact with end-users] - I now have online a gift business in Auckland who will sell it online.*

*...I had an enquiry yesterday from...the most extensive chain of hotels in the world and the executive chef through Trade New Zealand has requested samples...I'm having to investigate this right now. This kind of thing takes up a lot of my time...*

#### 4.5.3.2 Governance Form and Relational Mode

*FF*'s continuity centres on the guiding principle of “remaining true to the ingredients” and this in itself reveals a profound insight into the relational style employed. Whilst Roanne considers her contract partners to be “friends”, she chooses not to bond with them on a social or emotional level, and finds activities beyond that of experimentation with recipes and the solicitation of “foodie” responses to be tedious. This finding is somewhat concealed by the internationalisation success experienced to date, but it is suggested that a less than unique product would not have yielded the outcomes achieved. It is not proposed here that proportions of success can be assigned to product or relationship factors, although Roanne's employment of a unilateral management approach does indicate the former carries more weight.

*I can manage it very well. I have a contract manufacturer. I have people who make labels for me, people who make cartons for me. I buy bottles, I buy lids, I use a graphic designer, I use a professional photographer to photograph these images here. I use a lot of different people, but I can do all that outside.*

If product quality is of paramount importance, then the manufacturing relationship assumes no less significance. It seems that *FF* is committed to the present manufacturer given the longevity of the connection to date. However, the years of interaction have not engendered a high degree of trust or bilateralism. For instance, when a problem occurred threatening a production deadline, although immediately communicated to Roanne, she arrested control of the situation from the manufacturer. Other episodes that would usually be the sole domain of the manufacturer were treated in a similar manner. On the face of it, it does not seem that the manufacturer's competency is in question. In fact the advance warning given would indicate the converse to be true. Roanne's unwillingness to trust that the right outcome would be achieved is the more likely explanation. After making a significant effort to organise, transport, feed and accommodate a “truckload of university students” to fulfil the order, Roanne eventually found that the manufacturer had sought and implemented a solution as promised.

*...We had a timeframe. The manufacturer, the manager of the factory...rang me three weeks before the shipment was due out and said, 'Roanne, we can't do it'. And I said, 'Fred, we can'. And I said 'what will it take' and he said 'look we don't have enough staff [at the moment] but leave it with me'... but I ignored that...*

*...this was about putting labels on, because all the labels are hand applied. Every single label, they had a template where the label was to go on the bottle...and one thing I stressed [was that] the labels had to be absolutely straight, and they had to be in exactly the same position on every single bottle...that's what I told the factory. They knew that, so that's exactly what happened.*

[With respect to raw materials]...*I just source it and send the factory in that direction.*

Although *FF* production represents ten percent of manufacturer revenues, attempts by the latter at fostering the relationship do not appear to be reciprocated (e.g., Perugini et al., 2003). For example, when looking for a location to hold stock, the manufacturer offered to warehouse it at no extra charge. This and other gestures of goodwill have not secured a commitment from *FF* beyond current activities, and even these are subject to certain contractual conditions and competitive criteria being met.

*...I'm actually kind of considering that I [need to find a manufacturer with more capabilities] although I feel that I do have a moral obligation to them, but we'll see what happens.*

*...I have a contract whereby they do my manufacturing and they have the right to do other manufacturing for me, but they've got to price it and it doesn't stop me looking for other manufacturers that may be able to do the same product for less and they either match it or lose the business...It's very much all in my favour...*

*I [also] have a confidentiality agreement...and they are bound by that. It's my intellectual property and if anyone in their business should tell somebody else about it then they are in trouble!...I am protected as much as I can be by the confidentiality agreement.*

The appointment of distributors and other resellers was also a significant challenge for *FF*. Roanne initially tried to do the bulk of the selling herself, partly via direct fulfilment of website orders but primarily through attendance at market days throughout New Zealand. The frustration experienced in attending these events built to the point where a more viable growth solution was sought. The dearth of speciality health food outlets in New Zealand resulted in some additional successful approaches being made to supermarkets, although here Roanne had little or no control over merchandising. A subsequent attempt to stimulate business through an Auckland distributor also fell far short of expectations. Ultimately, it was through the referral of a personal contact that an alternative online merchandising solution was secured. While these events were occurring, a few Australian and a solitary Singaporean retailer requested product via the website and the first international sales began “trickling in”.

*...did a Christmas Heritage [market day] and I worked with a woman there and she tried to...muscle in on my area and it got very unpleasant. After it finished I said 'I don't want anything to do with it [again]. It was just too unpleasant. And I realised then that I needed my own space, I am a control freak in that regard.*

*[I have sold to] specialty food outlets, of which there are very few in New Zealand. Some supermarkets...*

*...I don't even have - I had a distributor in Auckland who was absolutely hopeless so I hardly have an [retail] outlet in Auckland [as a result of that]...*

Distribution through the US retail chain has yielded the most success for *FF*. As stated, although the contract was largely serendipitous in origin, Roanne's efforts since then have accelerated the pace of internationalisation through this and the other US based distributor. The difference between these and previously formed "lower level" relationships is that the balance of power resides with the distributors. They choose to engage *FF*, as is likely with their many other suppliers, on a unilateral basis making sure that Roanne complies with all product and packaging specifications prior to the signing of a contract. Apart from being impatient with the time taken for compliance, it does in fact suit Roanne's relational style. Of note here is that since the completion of these initial tasks by *FF*, the main US distributor's commitment to the range has been high including commissioning of several promotional and merchandising campaigns.

*...I had to send the samples. They tested them in their kitchen...they liked the product and decided to take the product in. But then we had nearly 70 pages of compliance, right down to the weight of the...cardboard box. It was amazing...*

*[The distributor] did the most amazing promotion of this product. They've got these very beautiful stores...and there would be three bottles there...and there... they'd develop recipes in their kitchen. They promote it in their catalogue which comes out quarterly...and they also have it on their website.*

Other than to the single largest American reseller, *FF* has not demonstrated a high level of attitudinal commitment (Gundlach et al., 1995) to its distributors in New Zealand, Australia, or the US. It seems that the surviving relationships have continued to suit Roanne's requirements or there has been a "sense of moral obligation" (Gouldner, 1960) compelling their retention. However, it is likely that this suasion would not stand up to competitive challenges, even though the present distribution partners do commit significant resources and concessions to developing the relationship with Roanne. Whilst stating her sincere appreciation for their assistance, particularly in situations where she is devoid of the required skills and knowledge, reciprocal gestures indicating relationship stability have generally not been present. An exception to this is where Roanne promised the Western Australian distributor protection from the other Australian representation in that territory.

*[The Auckland online distributor] had all that knowledge and they've been enormously helpful. I don't have a contract with them so I could go direct to [the customer] now if I wanted too.*

*In Australia it's really growing...the first shipment went for Christmas and that was to...our distributors...throughout Australia. Because of my relationship with the Western Australian business...it is off limits to [them] but they distribute throughout the rest of the place. And they're really excited about that...*

*[I would not appoint other distributors in Australia] although I could probably...No, no, no [exclusivity contract]...A head shake and a wink (laughter)...Yeah [it favours me more]...It does surprise me that they are happy [to distribute without a contract].*

*He's resident in San Francisco...he's going right throughout [the US]...he kind of sub distributes it [as well]...I don't have a contract which restricts me to one distributor so I could use other distributors...I'm actually just putting one together. But I don't want to be tied to one distributor and he knows that. So it's very much in his interest to make things happen...*

It is evident here that Roanne prefers to employ a TCA approach to the formation and maintenance of distribution agreements, but will accept attempts to engage on a SE basis when the outcomes of such remain in her favour. For instance, while the San Francisco distributor is “making things happen” and meeting Roanne’s albeit unspecified expectations, then his exclusive position is not under threat. However, increasing success in and knowledge of new opportunities, has prompted her to write a contract detailing matters of compliance at the same time as preserving the right to appoint competing distribution alternatives.

*...I'm actually just putting one together...I don't want to be tied to one distributor...[Contractual conditions will include]...that they use in promotion of my product only the materials that I give them...payment obviously is another one.*

*...I mean it's in his interests, obviously to get as many sales as he can...*

It seems that *FF*'s relational style is also mirrored in its Support and EPO associations. For instance the external contractors employed to undertake ancillary tasks related to the production and marketing of the range are kept at a distance and not considered as part of a team. It is also evident that Roanne does not have a support consultant, advisor, or mentor who could easily assume management responsibilities if required. Furthermore, recipe confidentiality agreements are insisted upon with those coming in contact with the production process. In summary, Roanne retains as much control of both strategic and tactical areas of the business as possible.

*I can manage it very well...I use a lot of different people, but I can do all that outside.*

*...I do the whole thing. I source all the material, and I arrange for deliveries...*

An irony is that although NZTE was a major catalyst to internationalisation, Roanne’s overall view is that a bilateral relationship with them adds little specific value to *FF*.

Even in light of their contribution, her commitment only extends to services that are offered free of charge. A cynical attitude towards support agencies and consultants seems in part to have come about as a result of a botched audit by New Zealand Food Safety and the bureaucratic melee which followed. At the time of interviewing *FF* was an active member of Organic Product Exporters of New Zealand whose aim is support and encourage those involved in the industry. For similar reasons to those already detailed, *FF* is no longer a member, an attitude reflected in the following statement.

*...I know my market and I know the kind of people that I want to reach and they've got a sort of fixed idea of who you are going to reach...[but] they don't know what it's about, they're not interested in food...I think they've got criteria which they stick to...but they don't look outside the square.*

As can be seen from the selection of external relationship interactions, *FF*'s approach converges on unilateralism and TCA. Summary evidence of this is shown in Table 4.9 and in the participant statements in appendix one. It is important to note given the complexity of relationships and the immense range of interactions that take place within, that Table 4.9 reflects only the 'overall' position of the MCE in this regard.

**Table 4.9**  
**Fancy Foods Form of Governance and Relational Mode**

Observed Governance				Relational Mode				
Relationship Type	Decision /Action	Bilateral	Unilateral / Market	Relationship	Reciprocity	Commit	Trust	Norms
<i>Internal</i>	Strategic	NA	NA	<i>Internal</i>	NA	NA	NA	NA
	Tactical	NA	NA					
<i>Suppliers</i>	Strategic	□	■	<i>Suppliers</i>	□	■	□	□
	Tactical	■	■					
<i>Distributors</i>	Strategic	■	■	<i>Distributors</i>	■	■	□	■
	Tactical	■	■					
<i>Support</i>	Strategic	□	■	<i>Support</i>	□	■	□	■
	Tactical	■	■					
<i>EPO</i>	Strategic	□	■	<i>EPO</i>	□	□	□	□
	Tactical	□	■					
<i>End-users</i>	Strategic	□	■	<i>End-users</i>	■	■	NA	NA
	Tactical	■	■					

■ = Dominant  
 ■ = Partial  
 □ = Limited or None

■ = Strong  
 ■ = Moderate  
 □ = Weak or None

It is clear from Table 4.9 that *FF* is characterised by high levels of unilateral and/or market governance in both strategic and tactical areas of the business. A TCA approach

to interaction is also apparent as shown by the absence of strong SE indicators within relational mode. It is important to note that due to most end-user contact being via the website, a moderate level of reciprocity can be observed in that for instance *OBC* recipes are both shared and received. This can also on occasion translate into Roanne creating a new product reflecting a certain level of commitment to satisfying end-user wishes. A concluding summary of this case is now given.

#### **4.5.4 Fancy Foods – Conclusion**

*FF* demonstrates how the development of high quality, universally popular products by a small, traditional manufacturing business, can penetrate the international market without significant investment in other marketing mix or relationship assets. Shown here is an entrepreneur whose main focus is on perfecting key product attributes (e.g., Styles and Ambler, 1994) in order to generate *demand pull* from consumers and distributors alike. Whilst *FF* has been dependent on supply, distribution, and support partners to reach its market, the types of relationships fostered with these have been unilateral and TCA based. Paradoxically, Roanne considers her relationships to be more SE in nature than they really are, referring to her contacts as “friends” but “business only”. Whilst a lack of interaction outside of the business context cannot in itself be construed as TCA, an aversion to making more than situational commitments can be.

*FF* is also disinclined to rely on the good intentions of its key stakeholders, with Roanne being somewhat suspicious of distributors, and in particular those who are not “foodies”. To this end, written contracts have been the mode employed to ensure compliance except in situations where these documents may have resulted in the unwanted outcome of “being tied to one distributor”. To a large extent this indicates reliance upon a market mode of governance (e.g., Heide, 1994) for optimal international performance. Of interest here is that Roanne seems to have revelled in working through the 70 pages of compliance requested by her single largest client, suggesting that she views the request and subsequent fulfilment of the same as relationship stabilising. Pinpointing the origin of her distrust is difficult, although being “badly let down” by the original Auckland distributor may offer some insight. Being surrounded by and socialising with the legal fraternity (through her husband’s profession) may also indicate that she views contractual conditions and remedies to be entirely normal

relationship activities. Furthermore *FF*'s lack of internationalisation knowledge, demonstrated by the aversion to psychically distant markets, signifies a desire to manage risk formally.

In conclusion, whilst *FF* seems to be growing its internationalisation activities and achieving some robust outcomes, it is proposed that bilateralism and a SE mode, combined with an excellent product, would have exceeded the progress made to date. In particular, divesting more of the strategic and tactical control to manufacturers and distributors, would have freed Roanne to further pursue her passion for product development. It may have also resulted in the allocation of more time to the other internationalisation opportunities that have arisen (in the UK, Japan, India and Korea), tasks that in her words “she should have got on to”.

## 4.6 Biting Buddy - Auckland Skin Protection Products Firm

*Biting Buddy (BB)* began operations in 1997 after Howard<sup>1</sup>, determined to resurrect the fortunes of skin protection products (*SPP*'s) he had developed many years earlier<sup>2</sup>, resumed domestic sales from a South Auckland manufacturing base. Once a household name with significant international potential, a series of alleged frauds and costly redress seeking lawsuits perpetuated the company's demise and the subsequent attempts at re-launch. With years of claims and counter claims reaching a conclusion, a renewed passion for business provided the genesis of the current operation. In fact at a stage in life where most would be considering retirement, Howard complemented the original offering through expansion of the range, and proceeded to secure retail representation throughout New Zealand. However the various breaches of trust and acts of opportunism which had taken place would greatly influence his future approach to relationship development.

By 1975 the forerunner to *BB* (commenced in 1961) was among the most successful retail businesses of its kind in New Zealand, employing over twenty staff and spawning the development of new but unrelated business initiatives. Howard's energy and determination to succeed financially resulted in a number of New Zealand 'firsts', including the attainment of a highly sought after domestic distribution license for a prestigious overseas brand. Furthermore the proprietary *SPP* created in 1970 achieved considerable domestic market penetration, and the decision had been made to enter the Australian market to the point where investments in "pseudo-medical"<sup>3</sup> product registration taken out. By 1978 although still experiencing rapid growth, the business was challenged by an issue of liquidity, namely the ongoing need to retain a large and ever burgeoning overdraft. During a chance encounter with a sporting colleague<sup>4</sup>, Howard agreed to a proposal to externally divest the management of the business accounts and transactions, enabling him to focus on developmental rather than administrative activities. It was to be a decision that would determine Howard's fortunes until the present day.

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<sup>1</sup> Verbatim quotes are from Howard unless indicated otherwise.

<sup>2</sup> The origins of *BB* can in fact be traced to 1970 with the creation of the core product, and although this period is used to provide explanatory insight into subsequent events, the analysis is primarily concerned with the current organisation's internationalisation path.

<sup>3</sup> Whilst not in the category of pharmaceuticals, it is a term used to describe products which still require formal government approval.

<sup>4</sup> Howard's varied interests extended to playing a number of sports at a regional representative level in his youth.

*...I had a thirty thousand dollar overdraft with [clients regularly] owing me a hundred thousand dollars...You don't have to be a rocket scientist to figure out that it's hard work, and when you are expanding a business and you have to wait for your accounts...unfortunately for me I ran into a guy that I played hockey with. He was an accountant, and I was complaining along the lines...that I was sick to death how we were being treated...and he said, 'I suggest we put in a special secretary to do all the book work', because that's where I was having a difficult time...*

According to Howard, the three year period of 1978-1980 witnessed the incremental theft of \$150,000 by the appointed company accountant. An ultimately unsuccessful court battle ensued along with the forced sale of the business at under market value. The sale proceeds enabled Howard to commence marketing of his skin care range<sup>5</sup> to Australia, an activity in which he invested heavily. However, the subsequent and unexpected loss of the fraud case drove this venture into liquidation resulting in the forfeiture of the family home, farm and further business.

*...I planned to launch in Queensland because we were legally entitled to, and I had to do all the new products, the labelling, all the bits and pieces. I was absolutely committed. I had no idea that I wasn't going to get the money. No-one one ever told me...Obviously I was pretty gutted by this...because of the fact that I had sold the business and had no money. I had to pay up all the stock. My exports to Australia were totally stuffed...To get out of it, I had to sell my farm which as a forced sale was a disaster...I didn't have enough to pay for all the stock...I was one hundred and fifty thousand dollars short...we basically had nothing left to live. I ended up losing three businesses, my home, my 60 acre farm...the building business and the export opportunities in Australia in that one foul hit...I was completely bugged...*

Determined to recover from this second round of calamities, Howard sold the original Australian bound stock door-to-door throughout New Zealand, and relocated with his family to Auckland in an attempt to re-establish a business profile and credibility. Further appeals on the lost court case resulted in another eight years elapsing and whilst making a modest living during this period, a significant amount of money was invested back into litigation. In 1989, Howard finally received the amount of the initial fraud as settlement, an outcome viewed as highly unsatisfactory given the estimated \$900,000 of costs, damages and lost revenues incurred. Feeling compelled to pursue several professional service organisations for alleged negligence in their handling of the case (including the Inland Revenue Department), Howard sought additional legal redress.

1989-1992 proved to be a time of business growth and with most of the litigation being handled in the background, the second incarnation of *BB* grew well domestically especially given the adaptation existing products for the New Zealand armed forces. In

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<sup>5</sup> It was fortuitous that a separate business entity had earlier been formed for this range.

fact, sales to the latter led to increased international awareness culminating in the establishment of a UK sales office. Once again, trading was to be temporary with the bank finance secured for the venture suddenly and inextricably withdrawn in 1992. Whilst nothing was ever proven, Howard was convinced of certain “powerful players” (from prior and concurrent legal actions) being complicit in the removal of fiscal support<sup>6</sup>. With irreversible upfront commitments made by *BB*, the outcome was again catastrophic and a second home and business was lost to a forced sale.

*...I knew that I'd played it well. I'd worked my absolute ring out to get where we were...the business [then] had a turnover of 1.25 million...and a GP of 53%...And there was no tax because of the all the losses before, so I took the bull by the horns...and based on the [interest expressed by] people I met around the world, I set up an office in Portsmouth to launch BB UK wide.*

*...We got it going, got all the brochures done, the deals done. I had a manager. We had our own offices which we leased. We set the whole thing up, and I actually went ahead, and we started going...when out of the blue, everything ready to go, quarter of a million dollars worth of stock made, most of it on the water...We had fourteen reps, the first container arrived and I had paid for that, forty thousand pounds, which I haven't gotten back to this day. So...the bloody bank called in...the facility they had given me, for six hundred and fifty thousand...They gave me a month's notice to get out of it...I was a victim of a conspiracy to block me...*

Howard's intuition served to protect the core innovation of a business which was not to be revived again until 1997. The intellectual property of *BB* was sold to a Family Trust for a nominal sum prior to the failure of the second attempt at business, a factor not discovered by the competitor purchaser until they in turn resold it to a multi-national enterprise (MNE) nine months later<sup>7</sup>. On hearing of the sale, Howard approached the MNE's New Zealand management demanding they surrender *BB*, arguing that without the intellectual property all that they owned was the current stock but no production rights. After three years of lengthy and acrimonious negotiation he finally re-secured the brand and core products<sup>8</sup>.

*...fortunately I had put the intellectual property, the tools, the dies, the whole lot, which I believe are priceless in the Trust...they had isolated me illegally out of the company...and I said, 'you have coerced me to do this!' And my wife was devastated to lose her home which we did for a second time...I still don't know who got the money. We were just financially raped...*

*...I protested right from the start that they had no entitlement to the intellectual property...*

During the legal wrangling Howard relocated again, this time to the far North Island to purchase a business in the trade he had not practised for over a decade. It was almost

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<sup>6</sup> This reinforced the mindset that internationalisation was high risk and demanded the implementation of protective mechanisms.

<sup>7</sup> The resulting litigation did not stop the MNE from profitably marketing *BB* products for the next three years.

<sup>8</sup> In return for *BB*, Howard had to give over all rights to a number of the new products he had developed.

immediately profitable and resulted in the procurement and growth of additional retail outlets, enabling the continued funding of court action against the MNE. The fact that the present business was itself highly successful was completely incidental to the desire to get *BB* back. The ultimate accomplishment of this was overshadowed by the enormous loss of time and resources incurred through focus on litigation rather than internationalisation. However 1997 witnessed the third and current incarnation of *BB*, whereupon Howard again determined to restore its domestic dominance and pursue long sought after international opportunities.

*...In the end they agreed that they had to give it back...I had to pay a token amount because they didn't want to admit liability...I gave them bugger all. But I had to buy the stock, all the brands...and a number of other products... I just didn't have the money to buy all the stock...so I said, 'right I'll take back the \_\_\_\_\_ brands...you can have the \_\_\_\_\_ and a couple of the other ones'...So that's how I got the business back. I sold up North...repurchased *BB* and started it basically from 1997 again. And we have built it up during that time, [although the MNE had let lapse] my registration in Australia which had cost me one hundred thousand, and taken me five years to do...*

Despite ongoing legal action<sup>9</sup>, *BB*'s current sales are now at NZ\$1.1 million per annum at an average GP margin of 55%, with 10% of sales being derived from exports to Australia. Whilst holding between 30-40% of the domestic market, expectations of commencing distribution in the UK and US, as well as a manufacturing facility in Thailand have not been met. Frustration with the current stagnation has been amplified by *BB* possessing an international award winning product, with consumer benefits that competitors have not been able to emulate. The range includes over twenty products, many of which have been stalled in the international arena due to lack of finance and ongoing professional conflicts. *BB*'s story can be characterised by the following statement. "I think I've been well respected and applauded in lots of areas but what I won't put up with now...if anyone rips me off, they get a real serve back. I don't take any prisoners mate."

#### **4.6.1 Factors Underpinning Business Formation and Continuity**

Howard's technical training in chemistry and the ensuing career in pharmacy provided the knowledge needed to develop the present *SPP* range. Many of the years prior to commencing *BB* were spent as a retailer in the South Island where daily interaction with

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<sup>9</sup> Some of this stems from as far back as the late 1970's.

clients yielded a large and compelling<sup>10</sup> database of information on a common skin complaint. The physical geography of the area in which the retail business was located also presented opportunities for testing the efficacy of the samples on some of the more willing customers. Eventually, through continued refinements based on customer feedback and the anecdotal data collected on the few competing alternatives, an innovative core product was introduced.

*...you could buy tubes of [the alternative] but they were very cheap and poor quality...I suddenly came up with that technology which I have used to today and no-one has [yet] picked up on it...*

A strong financial motivation played an important part in the establishment and development of *BB*, and this was especially evident in the intention of exploiting its foreign market potential. Given the previous business failures it is somewhat surprising that Howard was prepared to expose himself and his family to further financial risk. But two further motivations prompted the current attempt at business, producing a product to address an increasingly global skin condition, and securing enough resources to seek redress for the alleged frauds of the past. What is clear is that rather than be shut down by the host of past and current problems, Howard remains motivated by *BB*'s significant international prospects and that he, rather than a more highly resourced company, should be the one to realise them.

*...we can make these products for a dollar fifty New Zealand, and sell them at four pound ninety nine to eight pound ninety nine [in the UK]...you don't need to be a rocket scientist, and that's highly competitive with the other British products, in fact better value...*

*...what I can say is, it's taken a hell of a toll on our business. But I just felt that I want to keep going. Basically, what has happened is, the [skin] diseases around the world, there are virtually no good product around most of the markets. This applies to Asia, UK, Europe, Africa, and the Americas. We are the only ones in the world that have [these base ingredients] registered...I don't think the formulas could be beaten...*

*...This is what really disturbs me, if I don't have a crack at it now - I don't think I've got anything to lose. We will get the financial support eventually and all the problems will be over. I think it would be a huge waste if we don't carry on and do what we're doing...I'm not prepared to put up with white-collar crime and corruption...*

*...According to [a potential UK distributor], he has already got people in Algeria and other oddball countries... they will take our products straight away but obviously we aren't in a position to do that...I want to give it a go. We've put up with twenty years of bloody hell! We've now come out of it and I'm coming near the end of my working life...*

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<sup>10</sup> Compelling in the sense that this highlighted new product opportunities.

The early and sustained domestic success of the range, particularly the continued demand by the New Zealand Army since 1990 for a customised range of *SPP*'s, is an additional factor keeping Howard from closing or divesting control of the business. Whilst numerous difficulties have arisen in various business relationships, he remains the creative force behind product development and expansion of the offerings. Furthermore, the lengthy process undertaken in registering the core product and ingredients gives Howard confidence *BB* should avoid any serious competitive attempts at emulation for a further five to ten years<sup>11</sup>.

*...I made that product for them fifteen years ago and it's been an absolute boomer. It's had a lot of credibility - the top tropical medicine doctors in the Army all said what a wonderful product it was...I said to the New Zealand Army would they be interested if I did them some new products in the preventative medicine field, and they said yes...East Timor came along...we developed some technology which allowed us to use the [products] in the tropics...our sample was the only product that they didn't have to reapply all day...of course they were highly excited about that...and since then it's just been great. I mean the interest in it is huge...*

*Well the point is this. I have been in business for nearly forty years. I'm proud of what I've done ...we are sitting here with an absolute gold mine...*

Howard's lengthy professional career has included the ownership and direction of a significant SME through to being self employed selling product door to door. Whilst not against *BB* expanding per se, he believes that a few people directing the required external contractors in manufacturing, distribution and support presents a better internationalisation strategy than internalising these activities. This is somewhat surprising given the plethora of problems experienced with contractors since business inception, although he indicates that remaining small affords more cost efficiencies and disperses the risks associated with vertical integration (e.g., Larson, 1992). This attitude is also reinforced by one of Howard's earlier attempts to launch *BB* into Australia, whereby the distributor at the time was left with a large amount of embargoed stock due to fraudulent registration procedures of a third party<sup>12</sup>.

Whilst keeping the business structure small is important, the decision was made to employ Doug (an accountant from South Africa) in 2003 as the Administration/Marketing Manager, allowing Howard to focus on product related activities. This internal divestment of decision making and interaction has resulted in

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<sup>11</sup> It is clear from this that Howard places a heavy reliance on contractual and Intellectual Property protection mechanisms, factors which seem to hinder the development of international relationships (e.g., Macauley, 1963).

<sup>12</sup> Although *BB* still ceased trading, the impact on future activities would have been far greater had the stock been owned internally.

*BB* being a more stable entity in that there are indications of greater emphasis being placed on business development and less on litigation. Each partner also brings significant knowledge from their respective professional backgrounds, Howard with international data from decades of travel and informal research into skin conditions, and Doug from experience in a number of industry contexts. At the time of interviewing, both believed *BB* to be poised to take advantage of opportunities that the combination of their skills created (e.g., Chaston et al., 2000). To this end, a more systematic plan of market entry has been forged including the overcoming of legal, financial, and marketing barriers which have hindered past progression (e.g., Shaw and Darroch, 2004).

*HOWARD: I've done it over twenty five years, I've accumulated a library of stuff and I didn't even realise how valuable it was...*

*HOWARD:...I've been around the world. I've had a good look at the American, the European markets. I've been in Canada - and our products are simply grossly superior...*

*DOUG:...if we cracked just...twenty percent of the pharmacy market in the UK...There's no reason why he can't do twenty percent...It's about seven or eight times of the existing turnover in New Zealand per annum. So even if we got five percent, we're gonna double the turnover.*

It is clear that the initial strength and ongoing viability of *BB* as a business proposition resides in the quality and uniqueness of its offerings, and the sustained demand which this creates. In fact these are features which have probably enabled *BB* to continue in spite of the flood of financial and litigious setbacks experienced. That *BB* remains a going concern with substantial opportunities is due both to a market place gap yet to be filled and the tenacity of the owner determined to fill it. Should the various barriers be overcome, the market intelligence gathered by *BB* together with the regular expressions of interest received from potential resellers suggests a high potential for internationalisation success. Ironically, one caveat to this is the number of years that Howard can realistically commit to the business given his age and somewhat fragile health. However, he does not seem to be against selling *BB* to the right party if a true reflection of its value can be secured. Furthermore, whilst expressing obvious pride in the creative achievements of the venture, he clearly does not yet consider *BB* to be a “success”.

The factors described in this section, particularly those prior to 1997, have been instrumental in the formation and operational mode of *BB*. However, the original goal

of marketing the range of *SPP*'s in multiple countries has not been achieved. Whilst there continues to be an emphasis on developing and retaining contractual relationships for supply, distribution, and support, the outlined problems with these continue to hinder business progress. Before uncovering the relational approach employed by *BB* to gain and expand the foreign market in particular, a breakdown of the internationalisation and related outcomes is included in the next section.

#### 4.6.2 Internationalisation and Related Outcomes

Although *BB*'s internationalisation progression has been sluggish, both attitudinal and instrumental commitments to expanding foreign markets have been present from the outset. This has been manifest in; the regular international travel for research and promotional purposes; funding of foreign experts to visit New Zealand for evaluation of the *SPP* range; a long term display of products at Auckland's permanent exhibition centre for export goods; development of a website, booklets, and an international television campaign; fulfilment of foreign trade protocols and registration procedures; FDI in the UK (albeit in a previous attempt at the business); regular line and range expansion; establishment of multiple local manufacturing options; attempts to license a Thai manufacturing firm to service the Asian market; securing large amounts of bridging finance; and evidence of both inwards and outwards internationalisation activities (e.g., Jones, 1999).

*...I took the bull by the horns...I set up an office in Portsmouth to launch BB UK wide...got all the brochures done...I had a manager. We had our own offices which we leased...We had fourteen reps...[I got approval for a] seven hundred and fifty thousand overdraft...*

*...in 1997 I started again. It took me another three years and nearly another hundred thousand dollars to get my registration again.*

*...bought some machinery the other day to help the manufacturing process...paid eighty thousand...purpose built that can fill three four or five panels at once...I've had to build the tooling...*

*...if we happen to land a manufacturer under license that we can control in Thailand, we can supply all of Asia...with no duty...then we can compete...*

*...We're doing a big TV promotion in America with our products...*

*...We got it going in Australia. We had the product in three languages including Mandarin, Japanese and Korean...*

*BB* possesses a product range which has wide consumer appeal and true global potential. However a real strength resides in the product class belonging to a specific

but growing market niche, due to the proliferation of certain skin conditions. Howard's intention from product inception has always been to distribute worldwide, achieving this by proving product efficacy via the collection of large amounts of usage data and expert testimonial. That it is currently only sold in pharmacies and supermarkets in New Zealand and Australia is seemingly due to a combination of broken or dysfunctional business relationships, time and investment intensive registration requirements from the likes of the American Food and Drug Administration (FDA), and a lack of supportive finance. These variables have in effect placed *BB* in "limbo", a situation likely to continue in perpetuity given the trading history to date. Not surprisingly this is a continued source of frustration for Howard given periods of proven sales, wide and varied demand from potential resellers, compelling product efficacy data, and a long safety record in the domestic market.

*...At the moment though we're still only really exporting to Australia. It's going slowly. We haven't had a lot of money put into it...*

*...I [previously] had \_\_\_\_\_ selling it in Australia. They started off and it went really well...it was twice above budget. We would have got a million bucks worth of sales [if financial support had not been withdrawn]...*

*...I was able to negotiate an indefinite term license for two and half percent for export. Not only can I sell this retail wise around the world, but I can sell it to all the other armies as well...*

*...we can supply all of Asia...into the top of the market...with the ASEAN agreement...*

*...this English guy has opened an office in Rhode Island solely to [attempt to] sell this range to the armies of America. He has already taken this stuff to the American army and they are absolutely gob smacked. They've never seen such quality before.*

*This is a known growth market...[but] with under developed product...That is proved because we have most of the top tropical medical doctors all chasing us. They've made up there own minds...*

*...This guy was an American guy from a Supermarket group...and he said 'I want a million of those'...there are simply none available in America. Now all we want is a bit of money to register them.*

Most of the business ventures (successful and unsuccessful) over the years have come about through Howard's significant array of personal and professional contacts from a variety of network contexts. Some have been personal friends or sporting colleagues. Others have come about through being made aware of *BB* via a third party or even weaker ties (Granovetter, 1973). Of interest here is that many of the occurrences leading to the business failures have stemmed from the actions (or inactions) of one or more of

these network ties, the prior assumption made by Howard that they would in fact support rather than hinder *BB*.

*...unfortunately for me [as it turned out] I ran into a guy that I played hockey with. He was an accountant...*

*...I had some very good friends in business, members of the club which were accountants and policemen...*

*Well, through these products I got an invite...*

*...one of Doug's friends, that I met possibly before Doug...they are in the export institute and they came to me and said, 'we would love to sell this for you in America, and in Australia'...*

It is clear that remarkable scope exists for the international marketing of the *BB* range. To support the pursuit of these opportunities, a long term contract has been in place with Howard's main Auckland based manufacturer. Supply is an area where the business has experienced the least problems and not surprisingly it is an association which has lasted since 1995. It is ironic given the relative stability of the relationship, that Howard remains in constant search of "cheaper" manufacturing alternatives both domestically and offshore.

*...we've just had an offer...to manufacture under license in Thailand. If we do it, the margins would become huge...*

*...The last couple of weeks I've had a couple of top manufacturers that will...they are giving me really good prices...They are a [locally based] American firm [with excess capacity]...*

*...I've built up a network – just about all my suppliers support me. I hate using them [their extended credit] sometimes but at least we've stayed in business...*

On the basis of the evidence presented *BB*'s internationalisation position can not yet be considered as robust. Technical competence and product excellence are certainly present, as well as domestic and international credibility. Business failures and a dearth of financial input have all but halted market development, and growth in revenues (much of which is still dedicated to ongoing litigation or product registration) is slow. A summary of *BB*'s international outcomes is presented in Table 4.10.

As can be seen *BB*'s export performance is unreasonably poor given its length of time trading and the relative strength in most of the other factor categories. It is suggested the greatest barrier to achieving its international potential has not been finance or conspiracy, but the manner in which Howard has always managed his key relationships. It does seem that the very real harm created by a professional services supplier in the

1970’s has in fact effected the approach taken to subsequent affiliations, especially in the reticence shown to letting go of past wrongs.

**Table 4.10**  
**Biting Buddy Internationalisation and Related Outcomes**

<b>International Outcome Dimensions</b>	<b>Market Factors</b>	<b>Product Factors</b>	<b>Demand Factors</b>	<b>Supply Factors</b>	<b>Export Perform</b>	<b>Network Factors</b>
Representation in multiple countries						
Representation in domestic market	•					
International market niche	•					
Distribution in “low psychic distance” markets	•					
Distribution in “high psychic distance” markets						
International brand recognition	•					
Foreign direct investment						
Regular travel to foreign markets	•					
Internalised knowledge of foreign markets	•					
Increasing number of foreign markets						
Unique selling proposition/s		•				
Inimitable technology and/or patent protection		•				
Product line diversification/expansion		•				
New product manufacturing alliances		•				
Market/client customisation		•				
Demand for distribution rights/alliances			•			
Pull from end-users			•			
Repeat purchases/customer satisfaction			•			
Brand preference over generic preference			•			
High and stable distributor commitment						
Multiple supply options				•		
High and stable supply commitment				•		
Responsive supply base						
Offshore manufacturing or materials sourcing						
Market dominance						
High export intensity						
Sustainable profitability levels					•	
Global market coverage						
Revenue protection through currency hedging						
Long term growth prospects/plans					•	
Interaction with social network						•
Interaction with end-user network						•
Interaction with supplier network						•
Interaction with industry network						•
Interaction with previous employment network						•
Interaction with professional services network						•

The data also implies that Howard's failure to realise this has compounded the problem right up until the present time, evidence of which is shown by the stark contrasts of the following statements.

*I've got a fantastic product which could earn millions in foreign exchange...but can't even penetrate the local market successfully because of obstructions...My biggest problem is that I have no working capital. I'm still working on getting a seasonal overdraft of fifty thousand dollars. I could spend that in two days!*

*...if anyone rips me off, they get a real serve back. I don't take any prisoners mate. And I know according to what Doug told me this morning that I've got \_\_\_\_\_ worried. I told \_\_\_\_\_ that if they 'dare to rip me off again, I'll go public', and of course I've got all this bloody information. It's all documented. I'll drop them right in it! So after a fight, they've backed off!...*

The next section explores the key relationships developed before and during internationalisation. In particular, it highlights how a unilateral form of governance and TCA relational mode have hindered and in some cases prevented the achievement of foreign market outcomes.

### **4.6.3 Relationships and Internationalisation**

#### *4.6.3.1 Key Relationships*

Internationalisation featured early in *BB's* plans, although given its small resource profile and Howard's determination not to relinquish too much control over the operation, manufacturing/supply and distribution functions have been developed to advance international prospects. In the last two years the management of some of these functions has been internalised, with the employment of Doug as co-director and small shareholder<sup>13</sup>. In fact Doug's industry experience, shared values, and "total confidence" in *BB's* prospects has led to his input usurping that of the close family members employed since the outset<sup>14</sup>. Given that *BB* has also been more stable during this time indicates that the internal relationship between Howard and Doug assumes the most importance in the planning and execution of business strategy.

*...it's a small industry and the business ethics are disgusting. Now fortunately for me, Doug...has come in and helped us get over it – you know, some of the legal problems. And we're nearly out of it...*

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<sup>13</sup> Doug's desire to get involved and Howard's lack of means to pay him a substantial salary lead to the allocation of shares. It is possible that Howard may have also viewed Doug's appointment on this basis as an opportunistic means of managing risk in that if Doug fails to add value to *BB*, then the financial costs to the business will be marginal. This also suggests a lack of commitment to the relationship by Howard (e.g., Morgan and Hunt, 1994).

<sup>14</sup> It is not suggested that any ructions have been caused by this although Howard's son decided to set up his own distribution company handling *BB* products around the time of Doug joining.

Although Howard began by producing his own product, contract manufacturers and packers were quickly appointed as orders accumulated. The important factors in their selection were capability, capacity, proximity, and cost. Notwithstanding that a number of manufacturers are at present retained by *BB* for a variety of specialised inputs, a single contractor still handles the bulk of the production. It does seem though that there is frustration with the lack of choice in some of the manufacturing processes especially in terms of attempting to maximise cost efficiencies.

*...we've never defaulted on any debts. We've got two that I have to deal with that treat me like an arsehole where they make me pay for the goods in advance. That really pisses me off...*

Despite trouble experienced with distributors around the times of early business failures, the establishment of relationships in both the domestic and international marketplace remains critical to operational performance. Being in the Fast Moving Consumer Good category requires a high level of logistics management and frequent interaction between value chain members. Soliciting overseas distribution is no less arduous and perhaps partially explains *BB*'s past failures and slow current progress in this regard. Of interest is that whilst potential reseller demand has always been high, evident by the regular approaches being made to *BB*, inevitably either operational or relational difficulties have resulted in either non-fruition or their demise shortly after establishment.

In recent years domestic distribution has become somewhat more stable<sup>15</sup> with the appointment of Howard's son Peter to take this over in its entirety. Key issues with international distribution have typically arisen from either the financial difficulties of *BB* or the range of *SPP*'s comprising only part of the reseller's interests. Whilst Howard attempts to support them with promotional material, leads and efficacy data, ultimately the responsibility for market expansion resides with the distributor. To this end, recent efforts have been made to stimulate involvement in the UK market.

*...[because] we've got our products in the trade centre in Auckland...we were getting two and sometimes three [potential distribution inquiries] per day and I couldn't cope with them...I asked them to only send very serious ones...*

*...We could sell millions of bucks worth if I had the money to complete the registration in America...*

*...we're still only really exporting to Australia...We haven't had a lot of money put into it...the distributor over there whilst he is moving it, he's pretty slow.*

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<sup>15</sup> This stability is suggested in the context of less fragmentation of domestic distribution and proximity to *BB*.

*We've done a deal where we give [our UK distributors] fifty percent of BB UK. They're doing all the work and organisation in the UK at no cost. We're doing all the work at this end...*

In Howard's view, private and public sector support organisations such as accountants, financiers, lawyers, and the IRD have been the catalysts to almost every one of his business failures to date. Howard states his extreme bitterness exists towards most of these organisations, in part because of the large sums of money spent on their services for little return, and because of their alleged collusion in "blocking" BB's progress. In view of this, the current importance assigned to developing support relationships, apart from those with medical experts who endorse the product, is nominal.

*DOUG: I think one of New Zealand's biggest industries is business plans by accountants...A massive amount of money gets spent on these and they're a bloody waste of time...science fiction I used to call it. Essentially there is a whole thing going down between the banks and the accountants, getting business for each other and that kind of work is not productive...*

*HOWARD:...I tell you how we first got noticed. Dr \_\_\_\_\_ is a tropical medicine authority for the Australian government. He did a [worldwide] survey...Unbeknown to me he bought some BB [product]...and others from around the world. He took some to the Amazon, and ours came out on top...We have Dr \_\_\_\_\_ in Thailand...we have Dr \_\_\_\_\_ in Canada...We have the top tier of tropical medicine doctors saying they want this product...*

EPOs historically have played a limited role in furthering BB's internationalisation prospects. Whilst some funding has in the past been secured from them, frustration exists with the complexity of securing it, as well as scepticism regarding their ability to provide anything beyond generic advice (e.g., Bell et al., 2000). Because of this no attempts are now made to cultivate relationships with EPO's.

*DOUG:... essentially there is no beef in it...the New Zealand Trade Commission...a government think tank that 'helps' people in industry and exporters to develop offshore markets...[just people] with really well paid jobs... doing pretty much nothing...I mean we're not making fluffy teddy bears!*

*DOUG:...there are a whole lot of them. I've got a list of them where you can actually apply for grants. The problem I have with that is that it's open to corruption...[like the giving of] fifty thousand dollars to some bright eyed, talkative people that can convince the government bureaucrats that they have a good idea...*

*HOWARD:...[We now won't get the money] until February, so we lose six months! No one can make a bloody decision in this country...because it's difficult, because it's niche, it goes in the too hard basket. So we suffer...*

The other relationship considered important by BB is that with the end-users. Whilst there is no longer a large amount of one-on-one interaction here, the original inspiration for the core product arose from the request of retail customers (end-users), and today both anecdotal and formal research on demand and effectiveness continues to drive

creative activity. There is also a requirement for occasional interaction with direct clients such as the military for product pricing, formulation, and performance issues.

*HOWARD: ...I got a whole lot of guys...came in and said, 'look Howard, is there any chance you can help us out? Our skin care product doesn't work' ...and I said, 'give us a few weeks and I'll look at it'.*

*HOWARD: ...all of a sudden the Army came to me. They were very pleased with what I had done, and they asked me if I'd do [something else for them]...*

In summary, *BB* has and continues to leverage a number of relationship types. The manner in which these types are individually nurtured is now considered.

#### 4.6.3.2 Governance Form and Relational Mode

It is not surprising that the turbulent history of *BB* has left Howard suspicious of people's motivations, especially those external to the business. The appointment of Doug however, albeit on the basis of limited instrumental commitment, has revealed a more bilateral approach to the internal relationship at both a strategic and operational level. Furthermore as the relationship has persisted it is evident that Howard has grown to trust Doug and allows him to carry out his role with minimal interference (e.g., Zaltman and Moorman, 1988). Of interest is that the origin of this trust may have occurred at a time before Doug was even employed by *BB*, in that he volunteered to conduct some informal market research with no expectation of personal reward.

*HOWARD: ...fortunately for me, Doug who is a South African has come in and helped us get over it...has been a huge help in sorting this out...has actually solved it...*

*HOWARD: ...Half of his time has been tidying the crap that I've had to put up with. From the tax to all sorts of things...*

*HOWARD: ...We're gonna do the prices Doug and I when we get a breather...We will [also] get hold of our partners [in the UK] and we'll confirm a deal...If you want to...discuss it with Doug...*

*DOUG: ...We are going to get this off successfully in the UK, and then we can list this company...*

*DOUG: I was in England last year...and I saw that supermarkets...had three or four brands...I wasn't working for Howard then but I was friendly with him and said that I would check it out for him while I was there...*

*HOWARD: ...based on the research between what Doug has done and what I've done is that we will go into the UK...*

Whereas it is clear that the internal relationship may be characterised by increasing interdependence, this cannot be said of associations with the other key stakeholders. For

instance, there does not appear to be a high level of commitment to the existing base of contract manufacturers in the advent of improving internationalisation prospects. Howard seems to view these relationships as functional and necessary but takes a largely unilateral and TCA approach to their management. This may explain the lack of flexibility and mutuality demonstrated by them in return.

*I do the design and formulation... We have a contract manufacturer. I have just gone through an exercise and I've actually come up with some quite substantial savings... I'm going to buy all the chemicals myself and not have to pay another margin... in most of the cases, I buy the main active ingredient, and buy all the components, like caps, bottles etc...*

*... We've got two that I have to deal with that treat me like an arsehole where they make me pay for the goods in advance. That really pisses me off...*

*... We've got provisional rights and agreements with them, confidentiality, and a license to manufacture with them...*

*... We've got plenty of other places as well but they would do the bulk of our work. The contracts, the confidentiality agreements and all the rest of it applies... They're pretty good with that. There's always a bit of a risk though... We protect ourselves as best we can...*

*... Obviously they are never going to cope [should a really large order come through].*

Marketing a high volume product range has necessitated the existence of a wholesale distribution function since the first inception of *BB*. As such, interaction and soliciting the retail level of the value chain has traditionally been the role of the appointed New Zealand or overseas wholesaler. In Australia, a distribution relationship with origins dating back to Howard's early days of retail has failed to perform well since the 1997 recommencement of activities. Although "sticking by" Howard after he left them holding a large amount of non-compliant stock, they have since seemed to lack the effort required to significantly advance sales in this market, perhaps in reciprocation for not being reimbursed for the earlier losses incurred (e.g., Perugini et al., 2003). In New Zealand a long standing distribution agreement was terminated altogether, when Howard discovered their efforts to fraudulently take business away from *BB*. The replacement solution was to semi-internalise this activity by the establishment of a distribution agreement with his son Peter.

*... I had \_\_\_\_\_ selling it in Australia. They started off and it went really well, it was twice above budget, we would have got a million bucks worth of sales... [but these days] they find it a bit hard to sell...*

*... in 1997 I started again... By that time we had \_\_\_\_\_. They are a distributor who were supposedly distributing our products properly... [but they] not only copied my*

*products, but they refused to pay me one hundred thousand for the stock I had. And I finally won the case...*

*...[My son] took over everything from \_\_\_\_\_. We've done that so that we can keep control of it. It's worked quite nicely...*

The motivation behind the strategy to involve Peter in domestic distribution at first appeared to be a case of appointing an individual that could be trusted. Upon closer examination however it seems that Howard's expectation was to be able to exert more control over a key relationship that was not previously possible. It could be argued that this is understandable given the alleged disloyalty of the former New Zealand distributor, although it is an approach which has placed a strain on the current relationship. For instance Peter, having started out by locating his business in BB's own warehouse space, has now relocated to another part of town for no apparent logistical advantage. Another example where a relationship seemed to start well and where mutual commitments were made was in the embryonic UK market. Howard's initial attitude towards this joint venture with an international distributor was one great enthusiasm, but the unexplained "conflict of interest" led to its sudden collapse.

*...Peter does his own thing...He's got his office in another location now... We've got a loose contract with him [but it] needs tightening up a bit...*

*...[The UK distributor]...is a highly respected supplier to the British army...and he knows all the key deals in these places...We've have actually given him 50% of BB UK - it's a win-win situation - we are allowing [them] the license to sell our products in England, Europe, the Middle East and sort of parts of Asia...*

Where Howard attributes BB's poor distribution performance in the international market entirely to a lack of finance, it is clear that a lack of commitment to, and trust in, those representing him also plays a part. For example, current distribution agreements tend to be short term, as little as three months. Furthermore much of the "needed" monetary resources are earmarked for the development of elaborate contracts, an element of business which Howard considers to be essential. Ironically, he considers the contractual approach taken over the years to have been "a saviour".

*Very strong ones. Even with the \_\_\_\_\_ company, we paid a lot of money...to do it properly. It was done by a top Barrister...*

*I routinely have confidentiality agreements and that sort of thing. We've always done it well. At the end of the day it's been a saviour. The \_\_\_\_\_ one we had was a very good agreement and they just simply breached it.*

*...these things take so long working through all the contracts and supplying the efficacy data...*

*...There were a number of reasons [for terminating their agreement]...so I gave them warning of the three months supply agreement that I had, because I wanted out!..*

Although existing and potential distributors have been treated with some suspicion, it is minor in comparison to the attitude held towards support relationships. It seems evident that the referent trust (Doney and Cannon, 1997) extended by Howard to these parties in the earliest days of business ownership, once betrayed, was not to be present again in future relationships. In fact, apart from those necessary for operational or legal purposes, Howard avoids the development of such associations where possible. The long embedded distrust for this group of suppliers has manifested in a highly unilateral and TCA approach being taken to their appointment and retention.

Today both Howard and Doug hold a joint belief that such professionals do not possess a mutual interest in advancing *BB*, in that they generally only want to be “loaded up to the gills with lolly”. The unfortunate outcome here has been reflected in support relationships, with the near impossibility of obtaining emerging market investment finance, due to the repeated business failures and associated lawsuits. Furthermore, those private investors that do offer capital input place unreasonable demands on *BB*, especially with respect to the amount of strategic control they wish to exercise.

*...After a short time, they instituted a system where I wasn't told the codes to code the cheques...she was able to pinch a thousand cash a week...*

*...The level of ethics of banks, some of the top businessmen in Auckland, some of the professionals, is nothing but bloody disgusting. Perhaps I was naive to believe that if you went to an accountant or lawyer, that they would do the job and tell you the truth...*

*...we need people with balls to get out there. I'm happy enough to give away some control to get the thing going, but I don't want to be ripped off again. It's as simple as that...*

*...Peter showed him these products and he said, 'I want a million of those'...there are simply no [products like this] available in America...Now all we want is a bit of money to register them...that would open up tens of millions of dollars worth of business...*

*...[The Bank accountant] came round...I didn't want a huge lot of money and they guaranteed us that there would be absolutely no problems. I spent lots of hours with this guy, and things just didn't go right...thirty thousand dollars later...we got absolutely nothing.*

As can be seen from the selection of external relationship interactions, *BB*'s approach converges on unilateralism and TCA. Summary evidence of this is shown in Table 4.11 and in the participant quotes in appendix one. It is important to note given the

complexity of relationships and the immense range of interactions that take place within, that Table 4.11 reflects only the ‘overall’ position of the MCE in this regard.

**Table 4.11**  
**Biting Buddy Form of Governance and Relational Mode**

Observed Governance				Relational Mode				
Relationship Type	Decision /Action	Bilateral	Unilateral / Market	Relationship	Reciprocity	Commit	Trust	Norms
<i>Internal</i>	Strategic	■	■	<i>Internal</i>	■	■	■	■
	Tactical	■	■					
<i>Suppliers</i>	Strategic	□	■	<i>Suppliers</i>	□	■	□	□
	Tactical	□	■					
<i>Distributors</i>	Strategic	□	■	<i>Distributors</i>	■	■	■	□
	Tactical	■	■					
<i>Support</i>	Strategic	□	■	<i>Support</i>	■	□	□	□
	Tactical	■	■					
<i>EPOs</i>	Strategic	NA	NA	<i>EPOs</i>	NA	NA	NA	NA
	Tactical	NA	NA					
<i>End-users</i>	Strategic	□	■	<i>End-users</i>	□	■	□	□
	Tactical	■	■					

■ = Dominant  
 ■ = Partial  
 □ = Limited or None

■ = Strong  
 ■ = Moderate  
 □ = Weak or None

As is evident from Table 4.11, apart from internal and distribution types, negligible levels of reciprocity, commitment, trust, and social norms are present in *BB*'s relationships. Ironically, support organisations which are held in the utmost disdain by Howard are arguably the most important in furthering *BB*'s internationalisation initiatives. Furthermore, they are the ones which appear to have “tarred the other types with the same brush”. The impact of this approach is also obvious in that bilateral inputs are only sought to address tactical issues. A concluding summary of this case is now given.

#### 4.6.4 Biting Buddy – Conclusion

*BB* epitomises how a small traditional manufacturing business in possession of high quality products, can fail to penetrate the foreign market. On the face of it, a reasonable conclusion is that it lacked the necessary capital and infrastructural resources required for the effective international marketing of a Fast Moving Consumer Good range. Whilst this was undoubtedly a contributing factor to the existence of these barriers,

many of those key stakeholders who *originally* retained a mutual interest in *BB*'s performance did not receive the necessary inputs from Howard, largely due to emphasis and expenditure on the development of contractual tools and remedies. This approach, seemingly caused by him 'taking his eye off the ball' due to events of many years earlier, perpetually drains the company of development finance essential for internationalisation performance.

*BB* will continue to need supply, distribution, and support partners to reach its market, but persisting with a provocative approach characterised by a lack of trust carries long term implications for overseas performance. Furthermore, the case data suggests a threat to the robustness of the domestic market, given the increasing distance between Howard and Peter, his sole New Zealand distributor. In conclusion, *BB* has possessed considerable internationalisation potential for over quarter of a century, but without a change in ownership or relational style, the evidence suggests that this will remain largely unexploited.

## 4.7 Theatre Thespians – Wellington Visual Production Firm

*Theatre Thespians (TT)* was registered as a company in 1999 after Sam, Jim, and Darren<sup>1</sup> had successfully spent the previous eighteen months collaborating on a large scale *visual production (VP)* for an internationally lauded tourist attraction. All had professional backgrounds in visual communications production and experience of working with each other on many occasions, leading them to conclude that combining these competencies presented a potent business proposition. It was at this point that *TT* was formed, and it now develops high technology *VP's* for the museum and visual arts industry sectors. In the five years since inception, their unique approach to the development and marketing of *VP's* has culminated in a company with a growing international profile and industry credibility.

Their relationship building approach to domestic and foreign market exploration has produced some robust outcomes, particularly in the volume and varied nature of client contracts attained. Although not currently at a point of profitability that provides for the desired level of wealth or product development, *TT* has reached a stage where its three directors (having an equal equity interest) are confident in its long-term viability. Revenue has grown to NZ\$1.75 million per annum, comprising an average GP margin of 30% and an export intensity of between 25-50%<sup>2</sup>. Not all years have resulted in financial growth, with Sam joking that they were reduced to months of “eating stone soup” in 2002. This rationalisation did not dampen their resolve to continue fostering existing and new international relationships and today *TT* works with clients<sup>3</sup> in Australia, UK, US, and Singapore. Although the first three of these are at an embryonic stage of development, dependence upon the Singaporean market is being reduced by significant resource commitments being made to the others. Furthermore, considerable progress has been made in securing contracts in both Dubai and India.

*TT* pursues a highly innovative and original approach within the broader context of a well established *VP* industry. Being ostensibly the first independent company in the

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<sup>1</sup> Case data is drawn from interviews with both Sam and Jim.

<sup>2</sup> The large year-on-year variation is due to individual contract size.

<sup>3</sup> As *TT* is a purely business-to-business organisation, the term “client” in this case is synonymous with the term “end-user” employed in the tables and participant quotations.

market<sup>4</sup> has resulted in the creation of a sub-industry. It is a move which has been beneficial in terms of being able to present a unique selling proposition, but has also brought with it the challenge of educating and convincing a largely uninformed marketplace. Today *TT* possesses a strong client and product base from which to pursue a global market niche (e.g., Oviatt and McDougall, 1994) including having created one of the worlds largest and well known itinerant *VP*'s. Projects are usually awarded on the basis of Tender submissions and can range from a few thousand through to several million dollars in value.

Sam characterises *TT*'s story with the following statement. "...Knowing which frog to kiss is the name of the business...I wake up in the morning with a big grin on my face wondering what pickle I can get myself into today...We're a tiny little business but we're pitching big work to significant people overseas. I love that."

#### **4.7.1 Factors Underpinning Business Formation and Continuity**

A common motivating catalyst for the partners to join forces<sup>5</sup> was frustration with the tedious nature of their employment and a belief that they were not able to maximise their potential in the existing environment. It seems this was compelling enough to override the need for evidence of financial and market viability.

*SAM: Though I didn't have a business sense of what it might return me in terms of an income, it gave me such a relief from kind of – I suppose the nasty atmosphere that was developing in television...so mostly an emotional decision it was...*

*JIM:...We had all done work on TV commercials, videos, product launches...but ultimately the content is boring...you don't feel proud afterwards about your work...So the really great thing about this work was the content was always interesting by definition...we thought it would be great if we could make a go of this as a company because it's just more satisfying, even though the rewards are not necessarily as great...*

A factor of equal importance in business inception was the large contract won by Sam requiring not only his expertise, but the diverse skills of the colleagues he had worked with in the past. Being given the opportunity to interact with the client as equals together with the creative latitude offered, resulted in a *VP* project that was both satisfying to work on and popular with all stakeholders. It was in stark contrast to prior

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<sup>4</sup> The museum and artistic sectors have traditionally developed *VP*'s in-house.

<sup>5</sup> Darren joined *TT* shortly after its formation.

employment experiences and encouraged a mutual commitment to pursue similar opportunities for their offering.

*JIM:...we had a bit of latitude and [the client] also knew they wanted to do something different. We didn't have much of a budget for the VP, a million dollars...and we didn't make any money out of it, but at least...they were prepared to experiment...So it was good...that gave people confidence that allowed them to develop things that hadn't been done before...not just in New Zealand, but anywhere really...*

*SAM:...we don't think of work as work. We think of work as personal fulfilment so that's a real difference.*

Perhaps a disadvantage of such enthusiasm is that it has often been at the expense of an ability to be dispassionate about opportunity evaluation. This seems to have translated through to a somewhat slower rate of growth than would have been possible had a financial business model been adopted. Whilst part of the justification for accepting small, “cash strapped” projects was that it increased *TT*'s business profile, more significant factors were a commitment to the art form and a dedication to enhancing its quality. It has been only in the last year that the team has assumed more of a profit orientation, a strategy which has manifestly improved operational stability and market focus.

*SAM:...The local Trust wanted to spend a dollar twenty on this thing...I picked up the phone, rang the guy and said, 'what are you doing about the concept?' And he was so surprised to hear from *TT* and thought we were way above their league...and I said 'no...we will do a job of any scale'...*

*JIM:...one thing we have to learn still is to be able to say no to those sort of jobs, and just say, 'sorry but we can't'. Mainly because quality, you can't do it justice and that's bad for your name...[although] inevitably it will get in the way of something big which turns up shortly afterwards.*

*SAM:...at the moment it's great, we've got eighteen months of full on work ahead of us...*

*SAM:...All the things that you have to respond to and deliberate on and design, and the budget of this is twelve thousand dollars. 'Get a life, go away!'...and you know damn well that you will put ten thousand dollars worth of work into responding...[but] we can't do that pure business model, yet. Maybe one day when we've got twenty employees and an office in Beijing.*

*JIM:...I think we're getting better, gradually less naive in terms of our business...we've started to quantify...*

The realisation that not all work is profitable has meant the development of some mutual business goals and a strategic plan to achieve them. The most important of these include preserving a passion for the business; building value chain relationships as opposed to “empire building”; eliminating the dependence on domestic contracts;

attaining an international reputation where their expertise is called upon but where less “selling” is required; fostering local small business development; and knowing at any one time what *TT*'s projects will be for the ensuing three years. Of interest is that structural growth or large resource commitments are not considered as primary strategies to achieve them, but rather an increasing development of and reliance upon, critical supply, client, and support relationships. The partners are in favour of moderate internalisation particularly in the number of staff required for large contracts, but prefer to manage risk and in their view enhance business performance, through “clustering” teams of skilled contractors (e.g., Chetty and Patterson, 2002).

*SAM:...one day our dream I guess is to be able to say we don't need work in New Zealand because we're on this international circuit...we want to be working on projects of magnitude and we want a [large] proportion of those projects to be international...New Zealand is too small...*

*SAM:...our business plan is to get to the point that with the number of jobs that we've got we can say, 'that's what we're paying ourselves this year and for the next three years', but to do that you have to have signed contracts...*

*SAM:...it would be about managing our time and the time of our sub-contractors in delivering to our client. I don't think we ever want to buy, or build a design shop, or have a whole bunch of people slaving over CAD machines, we certainly don't want any of the machinery needed...Who needs that?*

*JIM:...stitching together a lot of small, specialist businesses and working on big plans...absolutely, that's really a huge part of what we do...one of the strengths of our company is that we sit in the middle...*

*SAM:...Right now we're doing a VP for...the World Expo. We're the lead contractors...in order to win that pitch...we went, 'what are we going to need? We will need architecture, digital post production, audio visual...so we will need some really clever human interface design, lighting definitely, so lets put together a team'...we're happy to thread people together with different businesses...*

*TT* has determined that a further critical growth factor is project diversity, in that the greater variety of work undertaken the better the foreign market profile is likely to be. Jim expresses this by stating the importance of “people associating us with a complex of things rather than a single thing” and to be known as “story tellers” rather than specialists in a particular medium. An issue which has arisen from commitment to this strategy is a clash with the ideal of only accepting work with artistic integrity. The team have waived this condition for a period of five years in order to maximise market awareness and penetration.

*JIM:...They are not necessarily the world's most satisfying jobs. In this business people need to be reassured that the people that they are considering taking on have been validated by others...*

*JIM: ...we're facilitators...we don't have a vested interest in using one medium over another. We don't have any investment in it...*

Whilst strategic and tactical business planning have not been of historical significance to the current position of *TT*, an increase in the number of contracts being won in the last twelve months has resulted in this activity assuming greater importance. To this end, all five FTE employees are involved in a monthly meeting which is “religiously kept” with the partners agreeing that it has greatly improved both management processes and financial performance. In particular, because of the reticence to expand human resources, it has assisted with time management and the allocation of roles and responsibilities, resulting in the ability to circumvent additional employment in the foreseeable future. An activity which continues to drain the resources of *TT* is the 50% of management time spent on generating business, indicative of the progress still to be made in areas of market awareness and demand.

*TT* started with an office, a desk, and a five hundred dollar investment from each partner. Much of the first five years has been spent either seeking or producing *VP*'s of optimal quality, to add to a growing international portfolio of completed work. Quality and innovation are key strengths of the firm, as is an ability to contend with much larger competitors by building and adapting the appropriate team of independent contractors. Of interest is that although these collaborative efforts are characterised by open communication and flexibility, both Sam and Jim attribute the ongoing success of this approach to insisting wherever possible that *TT* be the lead contractor. The rationale comes both from their professional backgrounds in production where they are used to managing teams of people, and the belief that nurturing the client relationship necessitates that one point of contact be offered and maintained. Furthermore, it has been reinforced by the difficulties experienced when attempting to make an international “pitch” as a joint action group (JAG) of manufacturing businesses (e.g., Chetty and Hamilton, 1996), possessing no defined leadership.

*JIM: ...he's got more of a technical skill, had to take on role as producer and run with jobs, and then build up teams that would make those jobs work...*

*SAM: ...When I'm working through the JAG...it's too confused. I end up trying to persuade Asian business men that this is a cluster of equals and that I am a servant of that cluster and collectively this cluster has strength but individually we're all SMEs...and most of them their eyes cloud over...because in Asia...it's who is the boss? Who is the big chap who pissed on all the corners? Who drives the biggest car? And who goes down if this doesn't work?...*

*SAM:... We try and take the lead, always.*

Success for *TT* seems to comprise three components namely, artistic, international and financial. The partners agree that whilst the first is achieved on an ongoing basis, satisfying expectations on the latter two will take a further three to five years. With joint commitment being made to the business for at least this period of time, it appears likely that *TT* will achieve them.

*SAM:...the company is only five years old, it's a service which didn't exist before we raised our ugly faces. So I think we're doing pretty well for where we're at now and I think that there is a future...*

*SAM:...we want an international reputation as being the kind of consultants you get when you really have something that you want to fascinate your audience with...*

*SAM: My definition of business success is to have as good a life as I've always had, just a little bit more income than I have now...to feel really good about the things that I'm achieving. To blow myself away with even better stuff and to make audiences just thrill...and to never stop doing that...*

*SAM:...I think we've made that commitment. We know that at least three years from now, we want to be earning one hundred and fifty thousand dollars each and working on international projects of magnitude...*

The factors described in this section were instrumental in the formation and continuity of the business. Whilst goals were not formalised at inception, recent years have seen a more purposeful strategy being employed. The size and range of contracts is increasing, largely made possible through nurturing a network of skilled local and foreign suppliers. Before outlining the relational approach employed by *TT* to develop its foreign market activities, a breakdown of the internationalisation and related outcomes is included in the next section.

#### **4.7.2 Internationalisation and Related Outcomes**

Two years elapsed before any international work was secured. A project in Singapore came about as a result of a successful Tender assisted by client knowledge of *TT*'s high profile in New Zealand. Where client referrals had been of significant influence in domestic development, it seems that operating in a small albeit global industry has meant that they also bridge the gaps to foreign markets.

*TT* now undertakes projects in four countries although their current internationalisation strategies reflect the strengths and weaknesses imposed by a specific skill set and a

small organisational structure. The first is to focus on countries which are predominantly English speaking or that have an English heritage. As *VP*'s are primarily communication tools, the partners believe that they produce the best work by drawing on their own culture and language. The second is to concentrate efforts on exploiting the opportunities of a few markets only (Singapore in particular), to maximise the effectiveness of the limited resources held. The third is to pursue as many opportunities for client or prospective client interaction as possible even when not directly linked to potential sales, the justification being that this increases market place presence, credibility, and a holistic approach to client development. It is an approach which enables *TT* to compete with large international companies for prestigious projects.

*JIM: ... China? Not so far... it's not easy with the language barrier. Because what we do is complicated packages of media, complicated concepts and content... to export what we do involves often needing to understand the culture. You can't barge in there and say, 'hi I'm from New Zealand. I'm here to help you!'...*

*SAM: ... we're staying with Singapore because we want to see what happens now that the first wave has gone by. We're mature in Singapore. We can go in there and sell the *TT* brand, not the *JAG* brand, and just see how that collective weight of the work we've done in Singapore pays off now. So we're targeted on that market still. There's a lot still to do there.*

*SAM: ... Overseas we've found the exact same thing is true. It doesn't matter how big the market, it's who you are that gets the job... They look at who you are, what your track record is and who you are associated with... They go for glamour too...*

*JIM: ... it's really important to go to the openings [overseas], to be there, to wave the flag and talk... It's really, really important that we do those sort of things.*

*JIM: ... we went to LA and met some really interesting people... every trip we've been on like the one last year with Darren and Sam to US and London was great, to meet peers in the industry... we [also] travelled an awful lot back and forth to Singapore...*

*TT* is highly committed to developing its international markets. In the first two years when all work was domestic, marketing tactics involved publicising the previous contracts completed and making personal visits to prospective clients throughout the country, notwithstanding these are often highly speculative. In spite of the significantly increased costs of doing so, the same approach was employed when seeking initial international clients. Where most industry opportunities today are publicised through Tender websites, *TT*'s commitment to making exploratory overseas journeys does not appear to have lessened.

*JIM: ... It depends how spec is spec... I went to Perth on spec, a site inspection and we didn't get it. Sam's been to Dubai, nothing's come up from that yet. Last year we went to the US and the UK which was pretty much on spec...*

*SAM: ... We went up to Singapore with our CV. We made a DVD show reel...threw a wine and cheese function at Trade New Zealand headquarters on the fifteenth floor...we invited 60 of Singapore's museum directors, tourism operators, the lot...and we thought out of 60 invitations we would get ten people, and the room was packed. In the next six days we were doing three private boardroom meetings a day...and pitching for the biggest job in history...*

*SAM: ...if we had say an eighteen-month job in Singapore to do something major...I wouldn't hesitate to get an apartment and move there.*

*SAM: We carve our budget out of current. We just say, 'we've gotta do it'...we take a big smack in the face and not draw any money from the company in order to get ourselves out there and market...*

Although this places a significant drain on resources, there continues to be an increase in international outcomes. Costs are partially offset by sporadic success in obtaining local and central government grants, some of which are attached to the industry JAG in which *TT* has been involved for three years.

*JIM: ...Prestige is important, it sounds very shallow, but people love it. You say to people, 'we did the \_\_\_\_\_ VP', and in England they've seen it on TV...they have read about you on the front pages of the Daily Express...And that's important...If you have a spread of international clients, they go, 'wow, the clients like them in Singapore, in Yorkshire, and New England. Maybe these guys are good'...*

*SAM: ...we poured our resources into trying and we got so close...our competition were \_\_\_\_\_ International from New York and the \_\_\_\_\_ from London. I mean these are legends! And here we were this little pimple from New Zealand...so we got some work in Singapore...four consecutive VP's...*

*SAM: Singapore is post-colonial, English speaking, Asian hub, rich...*

*JIM: ...We almost never have only one project, even in the quietest times...at the moment we would have four or so going...*

*SAM: ...we are building a widget right now...for the \_\_\_\_\_ in Boston...They're growing [but] ...we haven't had one above five million yet.*

*TT* has today outgrown the JAG which was pivotal in its initial internationalisation activities, however some of the complementary linkages formed have been retained and even expanded to alliances with participants from other industries (e.g., Granovetter, 1973). This evolving supplier network strategy not only results in expanding competencies and subsequent exposure to a more diverse range of opportunities, but also ensures a skilled team of professionals can be formed to pitch for and complete contracts ordinarily beyond the scope of *TT*.

*SAM: ...we got together with some other Wellington companies that we had worked with on...different things here and there - specialist providers, they might be in the web industry or robotics or special paint techniques...*

*SAM:...the idea was we would continue to compete with each other in the domestic market, but we would look at the internationally as a collective to offer – I guess collective grunt...*

*SAM:...we were match made with a team in Sydney called \_\_\_\_\_ with a big track record...*

*SAM:...When I'm marketing TT and not the JAG I say that, 'we are a small company working with a collection of sub contractors and have delivered these things of scale, successfully - and I'm the man'.*

On the basis of the evidence presented *TT's* internationalisation position can be considered as somewhat robust. Internationally they are becoming known for innovation and excellence. The growing number of contracts won is stabilising their financial position and providing capital for existing market development and new market investigation. Whilst financial performance is still relatively modest, the commitments made by the partners and their external stakeholders places *TT* in an ideal position to experience significant revenue growth in the short to medium term. Furthermore, the growing number of satisfied clients seems to be creating a multiplier effect in the number of pitches that *TT* has a realistic chance of winning. A summary of their international outcomes is presented in Table 4.6.

As can be seen *TT's* results on most factor categories is impressive. It also seems likely that export performance will further improve, and quite dramatically so, with the winning of one or two large international contracts “currently in the pipeline”. Perhaps a rider here is the potential for overdependence on this type of job should it occur. For instance, had the \$12 million Singapore contract been won, it undoubtedly would have absorbed all of *TT's* operating capacity as well as requiring an up-scaling of internal resources. Accepting it would have also been at the expense of other client and market opportunities, ultimately increasing exposure to business failure.

*SAM: If I get a ten million dollar gig in Dubai, then it will be our number one earner for the year...This coming year [our largest job] is about 60 percent, one big gig.*

*TT's* internationalisation outcomes have not been achieved without the inputs of others. The next section explores the key relationships that have been developed before and during its internationalisation journey and in particular, highlights how the form of governance and relational mode adopted, facilitates the achievement of foreign market outcomes.

**Table 4.12**  
**Theatre Thespians Internationalisation and Related Outcomes**

<b>International Outcome Dimensions</b>	<b>Market Factors</b>	<b>Product Factors</b>	<b>Demand Factors</b>	<b>Supply Factors</b>	<b>Export Perform</b>	<b>Network Factors</b>
Representation in multiple countries	•					
Representation in domestic market	•					
International market niche	•					
Distribution in “low psychic distance” markets	•					
Distribution in “high psychic distance” markets						
International brand recognition	•					
Foreign direct investment						
Regular travel to foreign markets	•					
Internalised knowledge of foreign markets	•					
Increasing number of foreign markets	•					
Unique selling proposition/s		•				
Inimitable technology and/or patent protection						
Product line diversification/expansion		•				
New product manufacturing alliances		•				
Market/client customisation		•				
Demand for distribution rights/alliances			•			
Pull from end-users			•			
Repeat purchases/customer satisfaction			•			
Brand preference over generic preference			•			
High and stable distributor commitment			NA			
Multiple supply options				•		
High and stable supply commitment				•		
Responsive supply base				•		
Offshore manufacturing or materials sourcing				•		
Market dominance						
High export intensity					•	
Sustainable profitability levels					•	
Global market coverage						
Revenue protection through currency hedging						
Long term growth prospects/plans					•	
Interaction with social network						•
Interaction with end-user network						•
Interaction with supplier network						•
Interaction with industry network						•
Interaction with previous employment network						•
Interaction with professional services network						•

### 4.7.3 Relationships and Internationalisation

#### 4.7.3.1 Key Relationships

Internal relationships are the most critical in determining the stability and performance of TT. A history of both professional and social interaction prior to business inception translated into a high degree pre-existing trust being present (e.g., Doney and Cannon, 1997), as well as goal mutuality and a knowledge of each others work ethic. Of significance is that the relationships have endured and there are no indications that any of the directors will part company in the medium-to-long term. It seems this can be largely be accounted for by each demonstrating a consistency in attitude and inputs (e.g., Gundlach et al., 1995). These factors are also apparent in TT's internal recruitment activities, whereby any additional staff employed appear to be from the same mould as the founders.

*SAM: ...I came up with an idea and ran it past an old friend of mine [Jim]...whose writing style and head space I particularly liked...*

*SAM: ...so I said to the guys, 'lets formalise and make a company out of this aye? This looks like more fun than television'...*

*JIM: ...the really great thing about this work was the content...we felt like learning about it, a bit more satisfied by it. So we thought it would be great if we could make a go of this as a company because it's just more satisfying, even though the rewards are not necessarily as great or as easy...*

*SAM: ...Clare who came to work with us for the \_\_\_\_\_ exhibition...went away and worked for [a major client] for a year and got even more skills...They poached her...we poached her right back...We would be pissed off to lose her...perhaps we need to be growing one or two more...*

As TT typically takes the role of lead contractor, supply relationships are critical to meeting project specifications, keeping within budget, and delivering on time. Sam in particular assumes a project management responsibility often leading large numbers of both external contractor and client personnel. Given the complexity of each VP and the heavy reliance on being able to integrate each party's output into the finished offering, frequent transparent communication between all involved is the norm. This is a constantly challenging aspect of TT operations as most of those concerned have creative and independent personalities, and often possess individual beliefs regarding VP construction. Sam therefore places considerable effort into building a team for each VP that can collaborative well together, and where possible uses those that TT has either a

direct or indirect knowledge of. In the case of international VP where it is not feasible to use a regular supplier, referrals to local suppliers are relied upon.

*SAM: ...So we won the pitch...and then I got on board a theatre, television and film designer who I had worked with on and off for twenty years...*

*SAM: ...normally we would want to be the turnkey operator and we pay everyone else as a subcontractor...It's the only way really that we can manage the processes by which we secure the concept in the construction. If you're not in charge, then your contractors have too much power over what it looks like as it's being built. Not good enough.*

*JIM: ...stitching together a lot of small, specialist businesses and working on big plans...absolutely, that's really a huge part of what we do...I think that's one of the strengths of our company is that we sit in the middle...*

*SAM: ...there is a great fold over between architecture and design. You just bring goodwill to that, you can't demarcate creativity...Everybody has to go, 'the outcome matters more than the personality, and if he didn't like my idea, it doesn't mean he doesn't like me...it means that it isn't working for the outcome of the project'...*

As project levels have grown in size and number TT has now appointed a professional project management firm, and although Sam still retains an oversight role he has more time for more client relationship building activities.

*SAM: We formed a relationship with \_\_\_\_\_ Group who were onboard...to manage the VP's fit out...they looked at what we were doing...and went, 'that's a really good way of doing it', and he took me aside afterwards and said, 'Sam you'll kill yourself if you keep trying to do that. Eventually you are going to be doing the kind of work where all of that needs to happen by remote, while your client and concept focused'...*

TT's access to a wide range of competencies is commensurate with the increasing number of supply relationships formed. An effect of this trend has been a reduction in the importance of the JAG, a critical support organisation in the early days of internationalisation and one which was supported by funds from local government. In fact continuing membership has become a distraction to business development. Although TT's withdrawal has not been popular with some of those involved, the partners justify the decision on the basis that as an organisation it was becoming inactive, insular, and counterproductive. Furthermore, individual supply relationships formed whilst in the JAG have grown more successfully outside of that context.

*SAM: ...to pitch for the big twelve million dollar job, we really needed to be able to say we have international design clout. We're certainly very good at the concept end, but only having one true designer on our staff wasn't enough...*

*SAM: ...I don't know whether the model still works. The cluster grew and became mature and then many of the businesses got international contracts, ours in particular, and then felt no longer the need to be dragging around the snail shell of the rest of the cluster...*

Where the significance of the JAG has dwindled, EPOs remain an important component of *TT*'s internationalisation strategy. Apart from the belief that NZTE is now a more disjointed organisation as the result of the merger with Industry New Zealand, their financial support, research services, and presence in foreign locations are critical to market selection decisions and ultimately the winning of clients. Local government organisations also fulfil a role in periodically assisting with international travel and research grants.

*SAM:...we will do a field study and pay Trade New Zealand to do foreground research for us into the market. And then we'll go up there and do a presentation to interested parties...and we chose Singapore.*

*SAM:... We went up to Singapore with CV...threw wine and cheese function at Trade New Zealand headquarters...gave me a list of introductions...*

Due to the nature of the offering, a separate distribution function does not exist within the industry. The link between *TT* and the general public is the client<sup>6</sup>. As projects may cost upwards of five million dollars there is a requirement for a tremendous amount of interaction with the client, both at a management and operational level. A remarkable aspect of this is *TT*'s determination and in some cases insistence upon complete creative and design latitude. Describing it at times to be a “torturous process”, Sam suggests that the creative versus monetary tension results in the “birth” of world leading *VP*'s. The approach has been so successful that much of *TT*'s future work is generated by referrals from well satisfied clients.

*SAM:...all very transparent, no surprises, and all very business like and well managed... We all approached it with goodwill and a real kind of archive of notes of how to work like this...*

*SAM:...certainly at the directorate level. That's where the decisions are made and that's where you want to have a relationship. Once there is a project, you want to be able to walk into the doer's level with a big smile on your face and a big welcoming gesture but you can only do that when you know that the entire management of the place wants you there.*

*SAM:...our direct client \_\_\_\_\_ was delighted that I had taken this kind of, 'how would the audience feel about this', project approach...*

*SAM:...she would sing our praises to whatever company and we would get calls as a result of that. We owe our business I think to the successful relationships that we have with our clients, even when it's been a prickly process. In the end, our clients like the work we've delivered for them and it has made them money...if you've delivered something to your client that's been successful at the box office, they are going to love you...*

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<sup>6</sup> In the context of this case *TT*'s client is considered the end-user.

In summary, this section clearly indicates the importance of a number of value chain relationships in achieving international outcomes. It could be argued that the very nature of the industry demands that this strategy be employed and that growing interdependence is a natural outcome of it. This being so, particular attention should be given to the manner in which these associations are developed and maintained. Both form of governance and modes of interaction are now explored in relation to *TT*'s relationship fostering activities.

#### 4.7.3.2 Governance Form and Relational Mode

It is apparent that *TT* commenced operations with the intention to seek out and nurture relationships with supply chain partners that would both facilitate the effective production of *VP*'s, and advance internationalisation. To this end, the identification of critical relationships is strategic and planned, but once entered into they are emergent and evolving through continued interaction. This is particularly so with respect to internal, manufacturing/supply and client associations and although the latest project often necessitates that new contractors be appointed, these are most often initiated by industry referral. Today, most of *TT*'s relationships appear stable and long term to the extent that from the client's perspective, the collection of them serve as a proxy for a larger, single organisation.

*JIM: ...It depends on the job. We're doing this thing in \_\_\_\_\_ and we're pretty much supervising every element of the job...We don't go barrelling into things that are beyond our sphere of our expertise, but we do hire people...So we're not architects, but we work with architects. We're not digital online type people, but we know a bit about it, and we'll work with people that are.*

Decision making within *TT* is highly bilateral with each partner demonstrating a mutual respect for each others skills, experiences, and opinions. Even though they are communicating daily, the monthly planning meeting is a tool which ensures important strategic and tactical issues are addressed. Interestingly, it is also a forum where challenges, frustrations, or differences of opinion can be voiced and constructively resolved. Language style is informal, if not somewhat irreverent, but it is clear that all are committed to both the continuation of the partnership and the seeking of agreement about its direction. One prominent feature of the management team's style of interaction is the creative autonomy given in individual areas of expertise, once work-in-progress planning has been completed. This is a successful approach because of their long collaborative history and a well founded reliance on final outcomes being effective

integrations of their respective inputs. This situation does not preclude them however from occasionally changing roles for personal and business growth purposes.

*SAM:...Three hours usually. We go through what we have on hand, what is it making us, who is doing what, what positions are we playing?...*

*SAM:...[In order to undertake the required international travel] we take a big smack in the face and not draw any money from the company in order to get ourselves out there and market.*

*JIM:...we took advantage of the [quiet] year to try and become a bit more systematic...for example, we've now got an online timesheet system. The idea behind that was not to check up on who was doing what or anything, but to purely be able to say, 'this is how many hours we've charged on this job'...we're trying to become a bit more professional in that way.*

*SAM:...We've known each other for a long time. Creatively if we're thrashing out a concept, it can get quite fraught. We can call each other all the names under the sun. We've had some screaming matches but that's very important. We would never back away from that. It can't be personal. If it's personal this business will fall apart...*

*JIM:...We tend to muck in a bit in terms of speciality within the business...Sam is very much a film kind of guy, producer and director. I'm very much a writer...and Darren is very much a 3D designer and that's where we come from, and we still favour that...[although] we thought we'll mix and match a bit more...otherwise we're essentially limiting the size of the company...*

TT's manufacturing/supply relationships seem to be extensions of the internal ones in that they are typified by high levels of interaction and socialisation. Where there is a deficiency in internal skills, outside contractors are called upon at both the planning and execution stages of VP development. Whilst not desiring to divest control of any particular project, the partners place significant value on the intellectual and practical inputs made by its suppliers, most of whom they have an extended history with. Furthermore, TT operates a policy of "total transparency" whereby all supply parties know exactly how much is being charged to the client and the profitability therein. Any doubt as to the level of disclosure (e.g., Davis and Skinner, 1974), can be dispelled by the fact that one key supplier has two of its employees on long-term secondment within the offices of TT.

*SAM:...I got on board a...designer who I had worked with on and off for twenty years...And we got stuck in and developed the idea, researched all the archives, and built this thing...*

*SAM:...once we did get some big work, we thought we'd get project management and see how that works, so we went back to \_\_\_\_\_ Group...works out of our office on a full time basis...*

*SAM:...through our friends at the \_\_\_\_\_ Group because of our growing symbiotic relationship, we gave ourselves a full day on business planning...*

Because of mutual commitment evident in these relationships, a culture of reciprocity has developed (e.g., Gouldner, 1960). For example it is not uncommon for potential work referrals to be exchanged or even contracts to be granted, sometimes in preference to the more efficient option. Interestingly, *TT* is concerned that they will not be able to develop the same relational style with US suppliers because of the perceived litigious nature of the marketplace.

*SAM: That was a marriage made in heaven. We love them and we're still working with them...We probably could have got that work done in Wellington but we preferred to work with friends...*

*SAM:...they find work in Australia and say, 'we need help in the concept end, we've got this big design gig', and we say, 'we've got this happening over here'. And we're growing together a result of that...*

*SAM:...It couldn't be better. \_\_\_\_\_ Group knows that the quid pro quo from that is, if they help us build this company, we'll have constant work for them...*

*JIM: It means that there's a constant trickle of possible leads that come in, and sometimes they're things we can feed to other people...*

*SAM:...lets put together a team. Let's get the best in the country who are our friends...*

*SAM:...[US suppliers]. They'll want lawyers at ten paces for everything that you do. And shit we just don't do that...*

The local JAG was the main source of support relationships in the early stages of internationalisation, but is of lesser importance today because of the expanding competencies being drawn on internally and from the supply chain. However, interactions with this support cluster still occur, largely because of the commitment *TT* retains towards assisting fledgling businesses also trying to expand their customer base. Irrespective of the frustration Sam holds regarding its state of inertia (e.g., Ford and Rosson, 1982), he retains a directorate position and promotes its interests when possible, at times even at the expense of *TT*'s own activities.

*SAM: We think we have [outgrown it]. The cluster still exists but it's going through a process of examining its continuance, and I'm still an executive member of it.*

*SAM:...we're staying with it because many of our friends and colleagues are still in there from other companies. Whether it survives the year - because instead of being a thrusting international export business, it's beginning to turn into a tennis club...*

The other relationships embodying elevated levels of interaction are those held with clients. Although being the purchaser, they generally elicit a positive response to the manner in which *TT* seeks to engage them. In fact in some instances *TT* even attempts to subtly educate the client in its preferred relational style by first demonstrating their own

commitment to the various stakeholders involved. This is motivated by the principle that if the client is prepared to demonstrate confidence through awarding a contract, then appropriate reciprocation is to become a seamless part of a larger team.

*SAM: ...we got a contract to design it and construct it. We were on that notionally, conceptually, politically, and then right through all of the negotiations, staying in touch, staying with it and then...design, construction management, and delivery...So we work very closely with our clients, whatever form they take...*

*SAM: ...we work on a milestones basis so that our client is able to say to us, 'look guys, we're not happy with the way this thing is developing'...it's the CEO and me trying to make it work...but above all of that, there is...the CEO going, 'I love the way that's looking', and that matters to me more than all of the other formal things...*

*SAM: ...we describe that visitor's experience...and think through how what we are doing is going to impact on them and we find our clients really like that, because they can see it for the first time and...put themselves in the place of their own client or customer...*

*SAM: We basically say [to the suppliers], 'this is your scope of work guys [based on the budget given by the client]...can you put a price on that?'...and we look at all the prices together. And we go, 'holy Toledo. OK guys, let's all of us back off equally', and that works...it was one point four million...in reality it should have cost them three million but...everybody was contributing...*

*JIM: ...It's the best way to do business. When you do pull off a contract... someone has put their faith in you as a person, a person who is going to deliver something that will inspire them...and that's a real reward...*

The consensus approach employed by *TT* with their clients is based on the premise that not only will this result in *VP*'s which have maximum buy-in from the staff who operate them, but that the pattern of goodwill established will likely result in the winning of future contracts.

*SAM: We never want to be subservient but in the client and supplier relationship it's almost endemic...one person pays the money in return for a service, so instantly that's there...So I guess that comes down to me. I'm the lips for the organisation, and it's up to me to ensure that the relationship is established well in the beginning and that people who have a fear of their patch being invaded can be persuaded that in fact they will look great if they work with us...and everyone will love them...we never want to undermine anybody's work, and that we will fit in with them, and will be like employees standing along side them...what's the saying? 'Speak quietly and carry a big stick'...*

*JIM: ...in countries like Singapore where things are done largely by consensus, everyone has to be happy with it, so you have to meet a whole bunch of people all at once and say this is what we suggest and hear what they are saying back. And that's how it works.*

Some of the international projects that *TT* pitches for hold political and public significance necessitating regular communication and cooperation with the likes of *NZTE* right through to the highest levels of government. Although more abstract in their

focus, these associations are still bilateral and reciprocal in nature, generating outcomes that *TT* states have significantly advanced their internationalisation position.

*SAM: Fantastic, truly fantastic. I mean, apart from the fact that [the Prime Minister] has opened more than a couple of our VP's, that she may go to Singapore for the opening of \_\_\_\_\_ VP, that she's actually given me time with me behind the camera shooting a piece from her supporting the \_\_\_\_\_ VP presentation at the international association...She, through NZTE, knows our company pretty well now...*

*SAM: Certainly there is an expansive mood that has come out of Helen Clark's administration. We're working with New Zealand Trade and Enterprise...on a presentation for the visiting [international] journalists at the premiere...*

*SAM:...Now working with NZTE on the \_\_\_\_\_. We've got friends at court; that matters...*

Whilst *TT* desires to engage key stakeholders on a trust basis, the governance structure of the typical client organisation usually demands that detailed contracts and specifications be drawn up, prior to *VP* commissioning. Sam feels that this exercise rather than be anti-relationship is an opportunity for significant positive interaction to take place right at the outset. *TT* in fact attempts to embed itself in this process as much as possible, assisting client management with project design and appointment of roles and responsibilities. The stated upside of this is that once written, the documents not only provide a map of how to arrive at the completed *VP*, but liberates those involved to work bilaterally and with optimal commitment. The requirement for formal contractual components has also come about through the need for intellectual property and income protection.

*SAM:...we're happy to do that because in fact, we know...we're good at project management. We manage very well. Any project of a scale we bring on professional project management to make sure that we deliver, because delivery is everything...*

*SAM: Some people tried to rip us off. Concept is a hard thing to sell, that we found out to our dismay, the moment we tried to work overseas.*

*SAM: We have designed our own form of contract which we offer to our clients whenever we're talking about a job and they may or may not accept that and give us one back. We look at our contracts very carefully and whether we're protecting our IP and what our indemnity is to the finished project and all of those kinds of things...is there a passive income that can form out of this work?...*

Whilst it is not possible for all of *TT*'s relationships to be bilateral or SE based, they make every effort to ensure that those they choose to engage with are prepared to interact in this manner. Overall, it is a strategy which has enabled the retention of a small internal team with maximum absorption of risk through reliance on others in the development of the international market. Summary evidence of this is shown in Table

4.13 and in the participant quotes in appendix one. It is important to note given the complexity of relationships and the immense range of interactions that take place within, that Table 4.13 reflects only the ‘overall’ position of the MCE in this regard.

**Table 4.13**  
**Theatre Thespians Form of Governance and Relational Mode**

Observed Governance				Relational Mode				
Relationship Type	Decision /Action	Bilateral	Unilateral / Market	Relationship	Reciprocity	Commit	Trust	Norms
<i>Internal</i>	Strategic	■	□	<i>Internal</i>	■	■	■	■
	Tactical	■	□					
<i>Suppliers</i>	Strategic	■	□	<i>Suppliers</i>	■	■	■	■
	Tactical	■	□					
<i>Distributors</i>	Strategic	NA	NA	<i>Distributors</i>	NA	NA	NA	NA
	Tactical	NA	NA					
<i>Support</i>	Strategic	□	■	<i>Support</i>	□	□	□	□
	Tactical	□	■					
<i>EPOs</i>	Strategic	■	■	<i>EPOs</i>	■	■	■	■
	Tactical	□	■					
<i>End-users</i>	Strategic	■	□	<i>End-users</i>	■	■	□	■
	Tactical	■	□					
■ = Dominant □ = Limited or None				■ = Strong ■ = Moderate □ = Weak or None				

It is clear from Table 4.13 that most of *TT*'s relationships are characterised by high levels of bilateral governance in both strategic and tactical areas of the business. A SE approach to interaction is also apparent as evidenced by strong levels of reciprocity, commitment, trust, and relational norms present. What is apparent is that whilst significant interdependence exists with key stakeholders, this has developed over time either in the context of interacting with *TT* or through having a history with the partners in their previous roles. In some instances and often through necessity, relationships have “leapfrogged” expected stages of development (e.g., Ford and Rosson, 1982) yielding high mutual commitment and trust shortly after the respective parties being introduced. The risk of early exposure here has been somewhat attenuated by belonging to a relatively tight industry network (even on an international scale), and by the willingness of known participants to vouch for the reputations (e.g., Wilson, 1995) and skills of others.

#### 4.7.4 Theatre Thespians– Conclusion

*TT* provides an illustration of how a small, labour intensive, technology based business operating in a specific market niche is able to penetrate the international market, catering for resource deficiencies through the leveraging of close relationships. Whilst the market is price competitive, *TT*'s unique selling proposition is an ability to gently cajole the client to create a project vision reflecting their own needs, rather than be fixated on issues of pragmatism or budget. This helps the parties focus upon ultimate values rather than immediate returns, the essence of social exchange based relationships. The partners own benevolence regularly facilitates this process through the conducting of informal market research, even in situations where they are not guaranteed the job (e.g., Huston and Burgess, 1979). This commitment to artistic integrity, whilst often not yielding immediate financial returns, seems to act as a client magnet for current and future work. The resulting strong reputation is also enhanced by *TT*'s willingness to work alongside others (particularly the client's own internal personnel), assuming a project leadership role without diminishing the value of team input.

Perhaps the most effective internationalisation strategy employed by *TT* is the mobilisation of their extensive contractor network in completing the varied *VP* opportunities which arise. Whilst trust in the ability and intentions of these organisations is clearly temporal, new suppliers are also engaged on the basis of bilateralism and SE. Where a party demonstrates an unwillingness to interact in this manner, a natural separation usually occurs. Case evidence reveals that “stitching together” the right team and then presenting it as seamless to the client comprises a significant proportion of *TT*'s business activities. The mutual commitment to this approach has resulted in current robust international outcomes and strong future prospects.

## 4.8 Kids Korner – Auckland Children’s Toy Firm

*Kids Korner (KK)* commenced operations in 2001 as a husband and wife partnership specialising in the design and manufacture of hand-crafted *wooden kitset toys (WKT’s)* targeted at the two to eight year old market. Whilst original attempts at selling unconventional hand-craft items in 1999 were unsuccessful, Mike and Paula<sup>1</sup> came to realise that a relatively untapped niche existed in high quality traditionally manufactured toys, a market that had largely been usurped by cheaper plastic alternatives. Although an initial large order from a nationwide retail chain led to a domestic sales focus being adopted, within two years *KK* secured a distribution relationship in Europe and interest was being expressed by potential distributors from other parts of the world.

From the outset, *KK* has operated in a resourced constrained environment, particularly in finance where the cost of manufacture and the rising New Zealand dollar have reduced profitability in an already price competitive market. At one stage threatening the viability of the operation, it is a situation which has since been managed through offshore manufacturing and the sale of half the business to an *Angel Investor*. Revenue has now grown to around NZ\$500,000 per annum, comprising an average GP margin of 60% and an export intensity of 60%. Furthermore, *KK* continues to increase its range of *WKT’s* whilst at the same time expanding its foreign market commitments, particularly in Europe (over ten countries), the US and Australia. International sales have also been supported by an expansion in domestic activities with 65 retailers currently stocking *KK* products.

Although very popular with end-users, *KK* competes in a rapidly changing and somewhat fickle children’s toy market. However, the safety, durability and endearing designs of the *WKT’s* do ensure some insulation against sudden declines in sales, with these features particularly appealing to parents. Furthermore, qualitative investigations of children’s interactions with the toys ensures that *KK* continues to monitor trends and today an increasing range of different products are being sold into overseas markets.

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<sup>1</sup> Case data is derived from discussions with Paula.

Distribution opportunities have also increased culminating in a successful bid to participate in the New Zealand Pavilion at the prestigious Nuremburg Toy Fair in 2004.

*KK's* decision to operate from home does not appear to have hindered its internationalisation progress (e.g., Pickering, 2005) in that relationships have been employed to facilitate the achievement of Mike and Paula's business objectives (see 4.81). This is perhaps best illustrated by Paula's position on making relationship commitments and the outcomes which may occur. "Half of five million dollars is better than all of nothing... We have taken an unpainted *WKT* out of the garage ...and it is now on sale in one hundred and forty nine German toyshops, with floor to ceiling window posters advertising it. I mean, how many New Zealanders in this street are doing that?"

#### **4.8.1 Factors Underpinning Business Formation and Continuity**

In 1999 Mike and Paula were faced with the dilemma of needing to generate some extra household income whilst also allowing for Paula to remain at home to care for their two children. Mike's declining health had resulted in a change to a lower paid job with no prospects of advancement, so after receiving encouragement from friends and family the two decided to investigate whether his creative abilities could be developed into a viable business proposition. Original prototypes of hand-crafted household items, whilst popular, proved too labour intensive and uncompetitive with mass produced alternatives. The ensuing two years were therefore a journey of experimentation with various ideas until *WKT's* were chosen as the products upon which to form *KK* in 2001.

*...everybody said 'yay', but I wasn't convinced... a friend of mine was walking through the house and she saw it and she stopped and said, 'Wow...you should be selling those'. And this time it actually registered. I mean there must be a right time and place...*

*...and I said to him, 'design me something big that we can have manufactured and we can sell in shops. I don't want to stand in a craft market in the pouring rain anymore and I don't want you working two jobs like 24/7 for the rest of your life'. So he went away and came back with a *WKT*...and he put it on the floor in the lounge...and people just loved the bloody thing, loved it, loved it, loved it...*

The varied interests and employment backgrounds of the two differed greatly although yielded complementary product development and administration skills which proved vital in early business progress. Paula's years of computer systems development and small business advice in both the private and public sector were also invaluable in implementing marketing strategies, and her experience with government departments

meant she had knowledge on how to best access various EPO support schemes. Mike's continued full-time employment also afforded the flexibility of being able to survive small returns in the first year while manufacturing and distribution relationships were established.

*...so it was a loss making enterprise, however we knew that and...we believed that we were investing in our future...We sold like...\$7000 worth of products, and it cost us \$12000 to do it...*

Goals upon business inception were formed around the ability to nurture existing and new relationships rather than on particular measures of financial performance or infrastructural growth. These included: (1) "restoring Mike's self esteem" through generating meaningful employment related to his enthusiasm for design; (2) preserving Paula's role as a "stay at home Mum"; (3) providing an outlet for her continuing passion in small business development; and (4) the introduction of a high quality "traditional" product range that would be unique in the marketplace. Another factor which seemed to strongly influence the formation and perpetuation of *KK* was Paula's dislike for traditional hierarchical employment, preferring instead an environment of self determination.

*...I think that while I am a mother, I'm responsible for doing it properly, and that if I can be here at nine and home at three, then that's good...*

*...what I am passionate about is going out and meeting people who are starting small businesses, and realising that I have knowledge that they don't. And being able to give it to them in a manner that hopefully encourages them to think differently about what they're doing...*

*...I am a Business In The Community mentor, so I am constantly working with other people...challenging my thinking by measuring it against what other people are doing, and how I can help them...I am free to do that because I'm not sitting in a shop trying to sell WKT's. I love the business of doing business, that's why I do it. I love it...I am passionate about it, I am passionate about doing it better...To offer different ways of approaching people to the existing model...*

*...The advantages? Being here. Not having to go out to work, not having to put up with the politics and bullshit...it does for me...I really would find it hard to ever stomach [being an employed executive again]...The kind of people who tend to be good employees are a different kind of person from innovators and entrepreneurs...*

Although Mike's employment provided only a modest family income, the early commitment of personal resources to *KK* was substantial. This willingness to take risks was and continues to be a factor driving the business's product and market development initiatives. In fact within the first year a sizeable loan from a family member (e.g., Cameron and Massey, 1999) was used to fund packaging and marketing specifications

deemed necessary for sales success. What makes this commitment more significant is that no international orders had been received at this stage.

Furthermore, part way through the second year of business it was decided to seek an equity partner by way of offering a 50% share of *KK* in return for a \$20,000 cash injection. Whilst a difficult decision at the time, it was ultimately proved effective in building domestic catalogue sales to end-users, which in turn *pulled* retailers into stocking *WKT*'s.

*We have a reliable income. We're not completely insane...[although] I would like to get Mike working for us full time because I don't like him having to work two jobs...*

*...we borrowed on the house...funded it by borrowing. The company still owes us money.*

*Half the company. She wrote us a cheque. It was a huge amount \$20,000.00, which we then promptly had to re-invest back into the business.*

Of interest is that much of the early motivation to pursue the business was derived from gestures of encouragement and support not only from those close to the founders, but also from as high up as the Minister for Trade and Enterprise. Accepting an invitation to visit *KK*'s manufacturing base (their home garage) he showed tremendous enthusiasm for the *WKT* line. His visit together with a small amount of export assistance received from an EPO, were considered as much precursors to market success as the securing of a major export order.

*...we applied for and received an Enterprise Award, and that was great in that we suddenly became flavour of the month, and everybody from [the Minister] down came to visit, shake our hands, and tell us how clever we were...having that sort of reinforcement has a value...I believe it had a value beyond price...*

Use of EPOs seems incongruent with Paula's somewhat negative attitude towards formal strategic planning. Where EPOs stress the importance of planning, her belief is that it is both time wasting and of limited value in ensuring the success of future ventures. She also finds it humorous that tertiary institutions offer qualifications in entrepreneurship, a subject she insists cannot be learned from books (e.g., Handy, 1995). It is ironic therefore that many of the activities and interactions she recounts being involved in encompass planning and market intelligence gathering.

Clearly, *KK* places a great emphasis on strategic decisions being made with as much prior information as possible. Time spent talking to key stakeholders and industry

participants often produce very clear resolutions on courses of action. For example, the decision to manufacture in China came about as a result of almost a year of travel to, and research on, various domestic manufacturing options. In frustration at the lack of a competitively priced local solution, an offshore contractor was sought. The internet proved critical in facilitating this and other relationships including those with KK's equity partner and US distributor.

*You can tell I didn't go to University, because I don't believe in following the brief which is why I'm innovative and not got a Degree in innovativeness....*

*No, we don't do planning. I mean I don't believe in writing business plans and that sort of nonsense. I believe in going with where you're going and focussing on what you're doing and doing it properly now...*

*...we had two or three, three different [focus] groups...*

*...we decided that this year we would leave the busy work...for 2003 we would concentrate on growing our retail base in New Zealand, and reviewing the product that we were offering them...*

*...the next 6 months was spent on research, market research talking to people, trying to find packaging, trying to find manufacturing. We seriously went from as far north as Maungataroto and Kaitaia...to actually travelling ourselves to Ashburton to meet with wooden toy manufacturers...*

*Our strategic plan for next year is to take Mike out of his paid employment for a month and have the company pay him...*

*By hunting round and talking to people and listening to people, and finding out where people go. I've made it my business to know about the business. That's what I do. That's the advantage...I go to the Trade breakfasts. I go to the Industry New Zealand functions. I talk to people...*

Key to being able to retain a small infrastructure as well as avoiding a shift from a home base into commercial premises is the ability to initiate and nurture supply and distribution relationships. Whilst initial small volume manufacturing took place in Mike's garage with the resulting output being sold by Paula at market days, it was clear that external competencies would ultimately be needed to fulfil these functions. It is a strategy which continues to be beneficial both in the absorption of risk associated with the cost of capital development, as well as in providing immediate access to international markets where no prior presence or knowledge is held (e.g., Ibeh et al., 2004).

*...we got part time cutters, what a nightmare, and we paid people to paint them, and we hired gear...Out there in the driveway, we had them lined up, and there were blue ones and yellow ones and orange ones, a conveyor belt system of these things...*

*...we asked around and we spoke to some other industry people who were successful and they said, 'yeah, that's just the reality of New Zealand, we can't manufacture [here]... We went to the factory in China...they did a minimum order on one item of*

*50, no problem at all. We asked for samples to be manufactured and sent all over the world. They did it.*

*...I decided that we should have a distribution agent in the U.S. I did the same thing as I'd done with the factory...I jumped on the internet...and I found a couple of people who were selling things that were so beautiful that I thought, I want to be associated with those people...he said that it was perfect timing for him...*

The future of *KK* is not entirely clear but selling to an international competitor at some point is a very real possibility. Initially family friends and colleagues showed a significant amount of interest and moral support, but this has somewhat dissipated with the establishment and growth of the business, creating at times a sense of isolation in Paula (e.g., Douglas, 2005). Interestingly, her conceptualisation of success is not just based on the creation and successful internationalisation of a unique range of products, but also on being the facilitator of a new configuration of interactive stakeholders. In this regard Paula considers *KK* to have attained success already, even though there remains considerable potential growth in markets and profitability.

*I won't be running it in ten years, it will be gone I hope...I don't actually aspire to the million dollar holiday home at Omaha...We will either carry on to the point where we are all heartily sick of it and we will put it on the market...I suspect that the sensible thing would be to offer the whole lot to one of our overseas competitors...*

*...it's never been about money...success to me? I think what we've done now is success...*

The factors described in this section were instrumental in the formation and continuation of *KK*. The original goals developed at inception have been adhered to throughout its trading history, particularly in the determination to internationalise through relationship building. Before outlining the relational approach employed by *KK* to gain and expand foreign market entry, a breakdown of the internationalisation and related outcomes is included in the next section.

#### **4.8.2 Internationalisation and Related Outcomes**

*KK* did not commence with an objective to internationalise, the wisdom heeded at the time being to invest all resources into first establishing a local market (e.g., Cavusgil, 1980). However, necessity arising from struggling to compete in the small and highly fragmented domestic market compelled the partners within the first year of trading to attempt direct exporting into several Australian retail chains, a venture which ultimately proved unsuccessful.

Shortly thereafter, serendipity played a key role in initiating a European distribution relationship (e.g., Ellis and Pecotich, 2001), with a New Zealand businessman residing in Germany, seeing the *WKT*'s advertised in a local retail client catalogue. Upon his rapid appointment as European distributor, *KK* became highly committed to developing other international relationships in *psychically close* markets, particularly in the US.

Commitments included product-market customisation, adjusting to country specific packaging needs, representation at international trade fairs, and travel to China for bilateral manufacturing meetings on new *WKT* design and production. Further to this, positive sales outcomes in Europe encouraged another attempt to stimulate the Australian market, albeit via direct selling techniques.

*I can't say truly that I can remember thinking about it much. It certainly has been the best thing that ever happened to us, manufacturing in China for export purposes, but it wasn't really something I thought of. I was still thinking I've got to sell it in New Zealand first...*

*Every bit that we had pretty much made on the [the first domestic order] was invested in trying to meet the requirements of the Australians, and despite them all saying that they were going to buy it and despite handshake deals and everything else, they didn't follow through, not one of them, not one of them...*

*...he rang me and said, 'could I be the European agent for *KK*?' I said, 'oh well there's a queue a mile long, come to the front, sign here'. So that was how it came about...*

*...we used our own money to travel around...*

*...Mike went to China twice...He will complete all the new designs of which there are four, for next year. Then all those will go to China for sample making and pricing, and samples will go to Nuremburg and to Boston for exhibiting...*

*...I thought, 'this Australia thing is really bugging me'...Dave by now was doing really well in Europe...so what we decided to do initially was...have this advertisement put in practical parenting magazine in Australia, and that cost us a couple of grand, and we got mail order from it...*

*KK*'s internationalisation progress to date is most evident in Europe with their distributor securing retail representation in a growing number of EEC countries. Orders have also begun to emerge from the US and Canada and there is a limited market presence in Australia. Of interest is that Paula does not wish to actively investigate new international markets but chooses to focus on developing the few key existing distribution relationships. She attributes this attitude to wishing to retain a simple, family orientated life where the business does not become the centre of their existence,

but is also concerned that more markets will result in lower quality relationships in that less interaction will be possible with each.

*...Well there's Germany, there's the United Kingdom...Australia obviously, Scotland, the U.S. and Canada, Portugal, Luxemburg, France, and the other odd place is Norway...*

*...For example we don't pursue Japan because I know pretty much what the Japanese buy...My perception at the moment is that I don't believe that [Asian countries] are all that interested...it's a European concept...wooden toys are a western product.*

*All these things come back to a lifestyle choice. I could travel to all these Toy Fairs. I could stand on these stands with my agent and solicit other agents and other distributors and other distribution networks. I could spend my life running my business, I choose, and we all choose not to.*

KK's current internationalisation position can not yet be considered as robust as most markets are still in their embryonic stage, the business has yet to provide the directors with a sustainable income, it remains vulnerable to currency and product/market fluctuations, and the resolution to ignore many of the growth opportunities which arise, all threaten its stability and longevity. However, the near universal popularity of the WKT's with their target market does seem to indicate that a position of long-term international viability is well within reach of the partners. Evidence of robustness is summarised in Table 4.14.

As can be seen, KK's relationship strength with its manufacturing and distribution partners has yet to be converted into many robust market outcomes. Marketing has commenced in multiple countries particularly within Europe, although the low level of commitment to overall market expansion is of concern given the pressure on profitability by increasing industry fragmentation, substitution, and a fluctuating exchange rate.

In summary however, regardless of there being little that is discernibly unique about the WKT's, high quality workmanship using the best materials, regular range expansion, flexibility in customisation, together with their popularity with end-users, does seem to indicate that KK should continue on its present path of growth.

*...We tried to make them fun and affordable, and it hasn't worked that well, and we have ended up moving our concept to, 'let's do really interesting things the same as everybody else, high priced'. We've moved from trying to be volume to being value. In my experience that is the hardest shift to make...*

*...we're competing with every Tom, Dick and rip off Harry at the moment...*

**Table 4.14**  
**Kids Korner Internationalisation and Related Outcomes**

<b>International Outcome Dimensions</b>	<b>Market Factors</b>	<b>Product Factors</b>	<b>Demand Factors</b>	<b>Supply Factors</b>	<b>Export Perform</b>	<b>Network Factors</b>
Representation in multiple countries	•					
Representation in domestic market	•					
International market niche						
Distribution in “low psychic distance” markets	•					
Distribution in “high psychic distance” markets						
International brand recognition						
Foreign direct investment						
Regular travel to foreign markets						
Internalised knowledge of foreign markets						
Increasing number of foreign markets	•					
Unique selling proposition/s		•				
Inimitable technology and/or patent protection						
Product line diversification/expansion		•				
New product manufacturing alliances						
Market/client customisation		•				
Demand for distribution rights/alliances			•			
Pull from end-users						
Repeat purchases/end-user satisfaction			•			
Brand preference over generic preference						
High and stable distributor commitment			•			
Multiple supply options						
High and stable supply commitment						
Responsive supply base				•		
Offshore manufacturing or materials sourcing				•		
Market dominance						
High export intensity					•	
Sustained profitability levels						
Global market coverage						
Revenue protection through currency hedging						
Long term growth prospects/plans						
Interaction with social network						•
Interaction with end-user network						•
Interaction with supplier network						•
Interaction with industry network						•
Interaction with previous employment network						
Interaction with professional services network						•

The next section explores the key relationships that *KK* developed before and during its internationalisation journey and in particular, highlights how the form of governance and relational mode adopted facilitates the achievement of foreign market outcomes.

### 4.8.3 Relationships and Internationalisation

#### 4.8.3.1 Key Relationships

From business formation, relationships have played a key role in the development of *KK* both domestically and internationally. This is due to a number of factors including Paula's expressed desire to work in an interactive manner (e.g., Håkansson, 1982), extreme resource constraints necessitating significant reliance on the inputs of others (e.g., Pfeffer and Salancik, 1978), and a lack of internalised knowledge of the foreign markets chosen (e.g., Yli-Renko et al., 2002) resulting in a complete dependence on resident distributor expertise and activities.

As *KK* is a husband and wife team, the internal relationship is the most important to business continuity. In fact Paula's goal to create more satisfying and health preserving employment for Mike was the main catalyst to business commencement. Whilst Mike still works full-time in a job he has held for many years, he derives personal and professional satisfaction from being responsible for *WKT* design.

*...[design]...that's his passion and strength...I think that's one of the crucial things that keep us going...*

The other internal relationship is that which is held with the fifty percent equity partner Jelena, who joined *KK* shortly after its establishment. This retains its importance not only for the contribution made to business capital and expenses, but also for the personal interest held in both the industry and small business development in general. Jelena also has a long and successful track record in running her own enterprise, holds significant knowledge in product based marketing, and devotes as much time as is needed in assisting the other two with *KK*'s activities.

*...[Bringing her on as a partner] was the best decision we ever made...*

The relationship established with their manufacturer located in China is also critical to product performance and business profitability. As sustained initial attempts at trying to get product made locally at realistic prices proved impossible, the eventual offshore alternative selected actually saved *KK* from having to cease trading altogether. Mike now makes regular visits to the factory to discuss the latest designs and packaging needs and the parties also frequently communicate via email, telephone and facsimile. Furthermore, apart from significantly lowering the overall costs of production, the

quality of the output is excellent and there is maximum flexibility in terms of WKT design variation and minimum order quantities allowed.

*...[The local manufacturers] wanted me to pay \$180 per sample...and it's got a retail value of \$19.95!..They won't invest in their own futures, never mind ours, so that's why we manufacture overseas...*

*...We went to the factory in China...they did a sample of something...the Chinese will do it for nothing...they [also] did a minimum order for one item of 50 to test the market...no problem at all. We asked for samples to be manufactured and sent all over the world. They did it...*

If obtaining the right quality and mix of WKT's is critical to international success, establishing distribution is of no less importance. Managing domestic retail business herself from home, Paula relies entirely on her overseas distributors for the generation of KK's export revenues. These relationships have become increasingly interdependent (e.g., Dwyer et al., 1987) and are characterised by frequent communication and on occasion, personal meetings, where for instance Paula and Mike assist in exhibiting at European Toy Fairs.

As KK seems most committed to European market development at this point in time, it is not surprising that relationship interaction is more intensive there than in the other markets. Of particular interest regarding distribution relationships is that whilst all have been enduring to date, no particular filtering criteria (e.g., Wilson, 1995) were employed in their initial selection apart from observing a “passion” for the range. Furthermore, *exclusivity* in large geographical areas was given immediately without a relationship history or formal assessment of the competencies or access held to purchasing networks in each country.

*...it's all about finding the person with the passion, and he was the person with the passion. And he said, 'I love those. I want to sell them...'*

*...he rang me and said, 'could I be the European agent for KK?' I said, 'oh well there's a queue a mile long, come to the front, sign here'. So that was how it came about, a huge amount of forethought and planning [tongue-in-cheek]. He rang up out of the blue and asked if he could be our agent...*

*...I decided that we should have a distribution agent in the US...so I jumped on the Internet...and two of them came back and said, 'yeah, we'd be interested'. I thought choice, pretty cool. So anyway I can't quite remember why we settled on Richard, maybe he was more interested or something...*

KK has benefited from the personal and sometimes financial support of family, friends, and industry colleagues in the advancement of its internationalisation prospects. The financial inputs from certain family members were critical to initial survival before the

time the partnership with Jelena was established. Furthermore, other relationships like that developed with local media have yielded a significant amount of free publicity, dramatically increasing domestic market awareness of the WKT's.

*...we already owed my brother some money...he's one of the friends, fools, and family investors...*

*...we asked around and we spoke to some other industry people who were successful...*

*...Small Business Magazine took photos and we donated WKT's to the \_\_\_\_\_ ... so they came and everybody shook hands. And the thing is you never know where it's going to lead, because then a film crew rocked on up...so we got TV commercials for free...*

*...did the Good Morning Show...talking about the WKT's...*

*...Home and Garden came to us and said... 'Can we put it in our magazine?' And we said, 'yeah why not?' Free advertising, yes please. And I sold heaps of WKT's from that...I very rarely pay for advertising.*

The role of EPO relationships has been mixed in the growth of KK's overseas markets. As well as winning an *Enterprise Award*, partial research funding was received during the early phases of product development and one-on-one advice was sought regarding available manufacturing alternatives. Paula states that her knowledge gained from previous employment in a Government department also helped her with access procedures to the available assistance and gave her confidence in “getting on the phone” to the appropriate departmental experts for guidance in times of stress. However, whilst interactions with individuals within EPOs are largely positive, Paula's belief is that the organisations themselves do not offer enough flexibility and specific support for small businesses, wrongly focussing on sales turnover rather than market potential or profitability.

*...so we went to Industry New Zealand and said, 'what do we do to find out whether this is going to be commercially viable?' ...any time I get stressed, I pick up the phone and ring a government department and say, 'okay what to I do now?'...*

*...I got on the phone to Wellington and said, 'this is rubbish. You say you encourage small business [and] you've got these enterprise awards. I want to run a company in New Zealand...but I can't make it work. What do I do? I'm despairing!'...*

*...[he] decided if he could get New Zealand Trade and Enterprise to approach the organisers, and ask for a space for a New Zealand Pavilion, we could probably get in that way...*

*...it's all turnover. And I can inflate my turnover any way you like, so if I can, I am sure everybody else can. And they're also only really interested in people who are prepared to constantly spend money on consultants. If I am prepared to buy a consultant and buy an accountant and buy a lawyer, the Government will fund it. What is that about?...*

As WKT's are sold en-masse via distribution and retail, KK's focus in any end-user relationship is an indirect one and in the context of obtaining market data and feedback on product design, pricing and distribution. Whilst responsive to the input gathered from the likes of consumer focus groups and Toy Fairs, most of Paula's time is devoted to working with value chain participants and in so doing relies on them for communication of market trends and end-user issues.

*...We got a person to come in and actually do independent research. So, we hired a space and had parents and their kids come and we put the parents and the kids in the room with the WKT's, and just watched what everybody did...We had worked out the questions that we wanted answered. Where would they find it? How much would they pay? Would they buy them unpainted? And so on...*

In summary, this section indicates the high strategic and tactical importance of internal, manufacturing, distribution, support, and EPO relationships in achieving international outcomes. An examination of the development of these relationships from the position of both governance form and relational mode is now made.

#### 4.8.3.2 Governance Form and Relational Mode

KK places high dependence on its relationships and has done since its first days of trading. Although resource limitations and an aversion to expand infrastructure are motivating factors for this, Paula's expressed desire to adopt an interactive approach with the value chain explains why SE rather than transaction cost is the basis upon which relationships are initiated and nurtured. There is also evidence of bilateralism internally, but to a much lesser extent with manufacturers and distributors, preferring that those in possession of the international market knowledge take unilateral action in its development (e.g., Gundlach and Achrol, 1993).

*...No, I'll never invest in bricks and mortar...*

*... I am constantly working with other people. I am constantly challenging my thinking by measuring it against what other people are doing...*

*...I found a couple of people who were selling things that were so beautiful that I thought, 'I want to be associated with those people'...*

*...I've got no idea [of Bob's strategy]...I sort of do. He does all the Boston and New York trade shows...He also has sales teams on the West Coast based in California, and in the middle, Mid-West and you know, all around the place and up into Canada...*

Many of *KK*'s relationships emerge fortuitously and with limited evaluation made of their likely value to the business, but they have all ended up being long-term and characterised by high levels of trust, commitment and relational norms. What Paula describes as having “a good feeling about people” in her selection process has in fact transpired into a group with a mutual determination to ensure *KK* succeeds internationally, despite occasional marketing failures.

*...[Bob is] finding it hard to understand why [a particular WKT] isn't working. He believes it should and it isn't. But every time I offer him an out he says, 'no way. I want to do it. I believe in them...'*

This level of commitment is also apparent elsewhere and although one would expect a husband and wife business partnership to display this, the internal relationship with Jelena also works on the same basis, with her incurring half of the expenses and being co-involved in strategic decision making where possible. Jelena's commitment is evident in her unwavering support for *KK* even when encountering intense competition and less than expected financial returns. Furthermore whilst she remains completely uninvolved in the day to day business operations, Paula is able to rely on her planning inputs and willingness to be empathetic to the pressures of making a new business succeed (e.g., Aldrich and Auster, 1986).

*...so it was a loss making enterprise, however we believed that we were investing in our future...that it is not your first product that makes you money and it is probably not your second...*

*...what she did was she gave us belief in ourselves. She gave us confidence to go on and she bought a deal to the table that has been priceless...and she gives me somebody to talk to. It's not always about money...[She invested at a time] when I had no retail outlets. All I had was products...*

*...she is the kind of person who truthfully, if you sat down and wrote a list of top ten people to buy into your business, she would be in your top two...*

*...I felt that she knew the children's' market, and I believed that she would bring a different perspective to the table, and she has...it is quite a good combination...she said, 'let's get a whole range of products. Let's put out a catalogue'...*

*...we've just had a strategy meeting. We've all agreed on our strategies...*

*...Jelena's goals are really that it works for us...and she was prepared to inject capital and support us in our bid to grow a company that worked. So that's her motivation.*

*KK*'s relationship with its much larger Chinese manufacturer continues to be based on mutual commitment, trust, and flexibility, factors which have been present since the outset. With some trepidation arising from being informed about the propensity for

Asian businesses to ignore Intellectual Property laws, Paula risked sending WKT prototypes to them requesting pricing and evaluation feedback. Not only did they do this, but also returned perfectly reproduced samples in quick time and no cost, indicating their delight at the opportunity of becoming KK's manufacturer. To this day they also keep the company's modest Intellectual Property in total confidence, even partitioning off and securing a small storage area for KK designs and inventory<sup>2</sup>.

Ironically, an earlier attempt at securing a New Zealand manufacturer resulted in a cheap copy being made and marketed locally, something that Paula believes would not happen in the present supply relationship. Furthermore, although only Mike and Larry<sup>3</sup> have met at this stage, a strong international friendship has developed between the two families (even to the point of exchanging letters and photos of a social nature). It seems that KK's commitment to making face-to-face contact at least on a yearly basis has cemented mutual trust and also provided opportunities for collaboration on tactical matters of design and manufacturing.

*...So I fired off a sample and got back these two really lovely WKT's. They're beautifully made and they were cheap as chips...they have honestly been wonderful, they are just wonderful.*

*...they did a minimum order on one item of 50, no problem at all...and do you think that guy's regretted it for a minute? Not bloody likely when I actually sat down and worked how much money we've put through that company in the last two years...They were the smartest people...*

*...my understanding is that it's nothing for them to do a hundred thousand bead sets of one design, so yes as far as they're concerned it's small beer, but they are still investing in us...*

*...[We needed] to talk with them about how to improve the packaging...Mike went up there to work with them on the best possible result...*

*...I pen pal the guy's nephew, you know it's just no different to dealing with New Zealanders, except they're not so frigging dishonest.*

KK's lack of internal knowledge about the foreign markets entered translated into an immediate reliance being placed upon the distributors chosen. Furthermore, in that the market had practically no knowledge of KK meant that there was not "a queue a mile long" of those wishing to be considered for a distribution role. It seems that the first one to make an inquiry in this regard was summarily chosen, particularly in the case of the European market. Nevertheless, all distribution relationships to date have developed in a

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<sup>2</sup> Apparently this service provided is the norm for all of their clients.

<sup>3</sup> Larry is the owner of the Chinese factory.

SE manner, as evidenced by the high levels of mutual trust and commitment present. Of interest is that significant behavioural (intended) commitment (Gundlach et al., 1995) was made by *KK* to Dave<sup>4</sup> very early in the relationship by granting him exclusivity in the whole of the UK and Europe. Dave immediately reciprocated (e.g., Perugini et al., 2003) by insisting on the setting of high sales targets so that *KK* would not feel bound to a non-performing agreement. These gestures meant that the resulting written agreement was of minimal importance to both parties and would not be used as a tool for punitive action (e.g., Anderson and Weitz, 1992).

Perhaps of more significance though is the absence of the exploration period (Scanzoni, 1979) between *KK* and Dave that could be reasonably expected of relationships of such importance. Even though the intention was that the alliance would lead to long-term mutual success, the apparent lack of relationship filtering increases the risk of its demise. Notwithstanding this, *KK* appears very satisfied with Dave's effort, so much so that shortly after his appointment "his replica" was sought for the US and Canada.

*...I looked at his CV and thought, yeah that's it. The thing is he was in the same place at the same time as my brother, who's the same age...so I could relate to where he was at...*

*...he's doing Trade Shows, and because he's intelligent and well educated he has managed to [get *KK* into]...the biggest fair in the world at Nuremburg...*

*...The other thing I liked about him was, we tried to get a distributor agreement in New Zealand and nobody had anything, so he went and got an English agreement, and he set up how much he would sell...I knew he couldn't possibly sell 10,000 *WKT*'s this year [and so did he]...it provided an out...but why would I fire him?...*

*...Certainly [I agree with exclusivity] to start with. I didn't see why he should or would want to invest, if we weren't prepared to commit to him.*

*...I signed it and I haven't regretted it for a minute...*

*KK*'s reliance on distributor knowledge of the respective markets, combined with an unwillingness to become too involved in strategy formulation outside of their area of expertise, has resulted in a largely unilateral governance style to this relationship being adopted. In particular decisions on the selection of country, promotional media, and retail targets are made by the distributor with no input from *KK* who prefers to focus on production and domestic market issues.

*...all of a sudden he got this huge deal with this German toy shop chain, and it's changed the whole complexion of it...*

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<sup>4</sup> Dave is the European distributor.

*...he is pretty vigorous. I mean he's shown me photos...*

*...Dave has done a hell of a lot of trade shows with our product in a very short time...*

*...I've got no idea of his strategy...*

A historical feature of *KK*'s internationalisation strategy has been the reliance placed on support relationships with family and friends for provision of attitudinal and instrumental inputs especially at times where emotional or practical assistance is needed. Whilst rarely involved in the strategic direction and operation of *KK*, family in particular have been willing to invest capital into a business with no track record and little guarantee of a return. Paula has attempted to reward this commitment by making regular loan repayments (even when there was no expectation to do so) as well as seeking external help<sup>5</sup> to fulfil additional financial needs. Of importance here is that although the level of commitment is high between *KK* and its supporters, the latter remains uninvolved in any issues related to governance. A rare exception to this occurred when an independent market researcher was commissioned to assist in deciding which *WKT*'s would be most popular with parents and children. When using other professional services however (such as freight forwarders), Paula does not concern herself with the details.

*...Friends, family. When we first started everybody was really interested...*

*...we already owed my brother some money, I forget how much...*

*...we've used everything [my brother lent]...and I don't want to ask for any more because I'm not entirely sure that we have a viable business...*

*...it was excellent, it was very valuable. I mean she fortunately didn't give us any nasty shocks. I mean the key thing was that it confirmed my belief, so that when I went out and said...I know this is going to sell. I know how much people are going to pay for it...*

*...those ships go the longer way round. It must be something to do with who takes consolidated shipments...Not that it's my problem. I'm paying someone to sort that out...*

Paula's frustration with EPO bureaucracy and their inflexible eligibility criteria has not prevented bilateralism in relationships with them or in placing trust in the advice that they give. For example, when trying to establish a manufacturing solution it was EPO personnel that she called on for recommendations regarding manufacturing out of China.

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<sup>5</sup> For example, a reluctance to ask family members for more funds resulted in bringing Jelena on board as an equity partner.

It seems that whilst commitment and trust in EPO employees is evident, she considers the organisations themselves to be inept and unable to understand or cater for the specific needs of smaller internationalising concerns. Perhaps then it is paradoxical that she has reciprocated by devoting a significant amount of time to EPO initiatives, in particular as a Business in the Community Mentor helping other small enterprises achieve their market goals.

*...what we did was after we got this quiet wink, nudge, 'go overseas [to manufacture]. You may as well. At least you'll create some export earnings', which is absolutely what has happened, so they were damn well right...*

*...I think [Enterprise Waitakere] put me on to them...And I said, 'that sounds like a mighty fine idea', so we [did it]...*

*Well that's just the sort of Trade NZ, Industry New Zealand common ethos...that you should saturate your own market first...that was the wisdom at the time...*

*...The New Zealand-German business group [within the EPO] want to give it to us so we can go to Nuremburg, and the food person won't release it to the creative person, because they've set their budgets for the year...*

*...NZTE said to me, 'Oh you can push bad product down a good distribution network. You've obviously got a good distribution network. That's the only value in your company'...*

*\_\_\_\_\_ is a guy that I was asked to speak to by Industry New Zealand, because he was looking to export and he wanted some advice...*

As stated *KK*'s contact with its end-users (parents and children who buy the *WKT*'s) is nominal with an exception being in the very early days of the business when Mike and Paula were fulfilling orders directly from their home. Whereas distributors now take ownership of the *WKT*'s in the international market, retailers provide a similar function domestically. The growing base of retailers in New Zealand has led to the development of a database whereby *KK* can keep in touch with its reseller network via occasional newsletters outlining product, pricing, and general promotional news of potential interest. As many of the retailers are in numerous supply relationships themselves, any interactions with *KK* are perfunctory and transactional and there exists almost no commitment with respect to continuity of demand.

Although ongoing efforts are made to continue increasing the retail presence in New Zealand, once on-board, Paula's level of interaction with individuals is nominal preferring instead to focus on the fewer, more strategic relationships of manufacturing and distribution. It seems that this approach has come about from the logistical

challenges posed with managing too many relationships, but also possibly from the disappointments experienced in the first six months of trading. In these instances, *KK* made significant instrumental commitments to several large retail chains in New Zealand and Australia with the results being either a single order or a reneging on purchase promises made. Not only did these events denude *KK* of all its cash reserves, but formed Paula's determination to not make such relational commitments in the future.

*...they all expressed interest in buying our product. They were all keen to see it, and we went over and they all had individual requirements...So we paid to have all that done...\$23,000 in design fees and film and packaging. Every bit that we had pretty much made on the [solitary] Warehouse deal was invested in trying to meet the requirements of the Australians. And despite them all saying that they were going to buy it and despite handshake deals and everything else, they didn't follow through. Not one of them. Not one of them.*

A summary of *KK*'s relational approach is presented in Table 4.15 with additional substantiating participant statements in appendix one. It is important to note given the complexity of relationships and the immense range of interactions that take place within, that Table 4.15 reflects the 'overall' position of the *KK* in this regard. For example, whilst its form of governance in a particular relationship may be principally bilateral, there may also be instances where interactions are clearly unilateral or market based.

It is clear from Table 4.15 that *KK*'s relationships are divided between bilateral and unilateral governance in both strategic and tactical areas business input. However, irrespective of the form of governance, a SE mode is also apparent as evidenced by strong levels of reciprocity, commitment, trust, and relational norms present. Even so, what is perhaps most surprising is the high survival rate of relationships, given that most "leapfrogged" an exploration stage into an immediately high commitment mode (e.g., Turnbull, 1987). It seems that a contributing factor to this is the value that *KK* places on nurturing those in the value chain with frequent and transparent communication, and transaction specific investments where possible.

**Table 4.15**  
**Kids Korner Form of Governance and Relational Mode**

Observed Governance				Relational Mode				
Relationship Type	Decision /Action	Bilateral	Unilateral / Market	Relationship	Reciprocity	Commit	Trust	Norms
<i>Internal</i>	Strategic	■	□	<i>Internal</i>	■	■	■	■
	Tactical	■	□					
<i>Suppliers</i>	Strategic	□	■	<i>Suppliers</i>	■	■	■	■
	Tactical	■	■					
<i>Distributors</i>	Strategic	□	■	<i>Distributors</i>	■	■	■	■
	Tactical	□	■					
<i>Support</i>	Strategic	■	■	<i>Support</i>	■	■	■	■
	Tactical	□	■					
<i>EPOs</i>	Strategic	■	■	<i>EPOs</i>	■	■	■	■
	Tactical	■	■					
<i>End-users</i>	Strategic	NA	NA	<i>End-users</i>	NA	NA	NA	NA
	Tactical	NA	NA					

■ = Dominant  
 ■ = Partial  
 □ = Limited or None

■ = Strong  
 ■ = Moderate  
 □ = Weak or None

#### 4.8.4 Kids Korner – Conclusion

*KK* provides an illustration of how a small and new manufacturing business operating in a highly competitive mass market is able to internationalise, catering for resource deficiencies through the leveraging of SE based relationships. In investigating this, it appears that *KK*'s willingness to demonstrate high levels of trust and commitment to mostly new relationships has accelerated international activities to some extent, particularly in Europe. This has also been reflected in the offering of a fifty percent equity share to an unknown party, in exchange for a modest injection of capital. Decisions such as these seem to indicate a sincere desire to offset market entry risks through reliance, albeit untested, on relationship partners.

Although *KK* has adopted a SE mode in relationship initiation and maintenance, the precise governance mechanism employed is less clear cut. Internal, manufacturing, and EPO relationships all reveal a bilateral approach to decision making whereas a more unilateral and/or market form is the basis for distribution and support relationships. With distributors, *KK* prefers to “let them get on with the job”, and interactions with

family, friends and industry professionals tend to be more transactional in nature, with little requirement for joint inputs into decision making.

Finally, all of *KK*'s relationships have endured through a period of almost no sales being made, through to recent times where some promising international outcomes and mutual rewards are now being achieved. This focus upon ultimate values (Huston and Burgess, 1979), indicates that expectations of longer term relational outcomes are anticipated providing some evidence that SE relationships are inherent therein. Overall, from observing the evidence presented in this case, it highly likely that the relational approach taken to date will continue for as long as the founders are involved in the business, irrespective of outcomes achieved.

## 4.9 Cross-Case Analysis and Discussion

Before embarking on an analysis and discussion of how the cases in this study both converge upon and diverge from each other, the purpose of this thesis (incorporating the business problem) and the research questions therein are restated. What is not the intention of this section is a compilation of the individual cases and empirical findings into a single contrived account, and there are three reasons for avoidance of just such a strategy.

Firstly, each case presents a unique story and although they can all be marginally categorised as either technology-based or traditional manufacturing businesses operating in the same New Zealand economic and political environment, they differ widely<sup>1</sup> in a number of areas. For instance variance can be seen in product and market type, founder background (including knowledge and competencies), catalysts to business formation, operating activities and financial performance, and long term business goals. Secondly, it is suggested that a comparison of these distinct contexts is not only of little explanatory value to the research topic, but also somewhat of a distraction to the real findings of interest in respect to MCE relationships and internationalisation. Finally, each case on its own merit may be viewed as a focal point of analysis (Dyer and Wilkins, 1991), and has in fact been presented as such.

Therefore this section of the thesis presents empirical findings which reveal how the resource stricken MCE (as exemplified by the seven cases) goes international through the development and maintenance of its key relationships. These are revealed in the four sub-sections aligned with the four research questions (see chapter one) including; (4.9.1) what is the significance of internationalisation the New Zealand MCE; (4.9.2) what are the key relationship types critical to the development of MCE internationalisation strategy; (4.9.3) what relationship approach is adopted for each of these relationship types and; (4.9.4) how does the relationship approach adopted impact upon the international outcomes attained. These questions are now addressed across the cases.

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<sup>1</sup> Similarities which exist are explored to the extent that that they relevant in addressing the research questions e.g., as in Table 4.16.

#### 4.9.1 The Significance of Internationalisation to the New Zealand MCE

Internationalisation in this research has been accepted as “the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries” (Beamish, 1990). By this commonly accepted definition, all of the firms have sold their offerings into other countries, but given that internationalisation has been conceptualised as a sequential process of increasing commitments rather than an end state in itself, they could all be considered as having only taken the first few steps (Johanson and Vahlne, 1977; 1990). For instance none of the firms has yet to go beyond using overseas distribution as the main mode of market entry and because of their common objective to remain small, they are never likely to. In this sense, only the first part of any stage model is of use in explaining the MCE’s internationalisation process.

From a managerial decision making perspective it can be seen from the cases that all of the focal firms were effectively propelled into the international market, for a variety of reasons. Firstly and perhaps most importantly, the small size of the New Zealand domestic market was not enough in some instances to ensure firm survival (Coviello and Munro, 1995; Pope, 2002), or to provide adequate working capital for product/market developmental purposes. For example, *RR* knew from the outset that the greater number of potential end-users of their technology resided in the US and therefore set in place a strategy - based upon relationship development - to penetrate that market.

Secondly, while it may have been possible to remain in the domestic market to the point where the necessary resources for international entry were internalised<sup>2</sup>, most wanted to advance their revenue prospects through leveraging one or more network contacts (e.g., Coviello and Munro, 1995). Thirdly, all opted to take advantage of early unsolicited export opportunities which arose (Reid, 1981), effecting an acceleration of the internationalisation process. Fourthly, some did not wish to get entrenched with a domestic orientation (Autio et al., 2000), preferring early foreign market entry, immediately increasing the sales opportunities available to them. For example *KK*

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<sup>2</sup> This refers to a process of growing the firm’s assets and resources internally as opposed to external sourcing.

whilst lacking a domestic market base, decided within 18 months that it would be easier to compete internationally than it would be locally.

It is clear that the decision to internationalise and the subsequent efforts therein have been highly significant in contributing to the financial and marketing performance of each firm (see Table 4.1). Had they not internationalised at the time that they did, the case evidence suggests that a number of them would no longer be trading<sup>3</sup>. Furthermore, the presence of innovation and/or inimitable technology (e.g., Oviatt and McDougall, 1994), have motivated the founders to seek foreign buyers in the belief that they can secure a unique market position or compete with the offerings of much larger and often more reputable counterparts (e.g., Wernerfelt, 1984). In addition, the fact that all commenced internationalisation activities within two years of establishment paved the way for them to perform well in subsequent years (Moen and Servais, 2002).

What is of equal interest though is that all the founders express various statements revealing a desire for higher levels of lifestyle flexibility, facilitating a more interactive and socialised environment (Håkansson, 1982) than what was possible in their previous employment. The fact that none of them reveals a desire to grow infrastructure beyond present levels seems to confirm this in that it provides the opportunity for fewer but closer relationships to be developed (e.g., Yli-Renko et al., 2001).

A summary of how significant internationalisation has been (and continues to be) to the seven MCEs is presented in Table 4.16. The table has been categorised into four separate dimensions comprising multiple items, reflective of the distinct areas derived from participant responses. It is important to note that the factor categories and items therein, have been used to capture the individual participants own view of what the significance of internationalisation has been to their business. That is, the items have no absolute measures attached to them. As an example, where *personal financial success* is indicated in one case, it is merely reflective of the participant's subjective view of what *personal financial success* is to them and caution should be taken in making a comparison across the cases. However, it is obvious that many of the other items can be meaningfully compared such as *expanded domestic market opportunities* or *prompted*

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<sup>3</sup> RR provides the best example of this in that 99% of their sales are made in overseas markets.

*development of website.* For instance *MM* and *FF* experienced difficulties in penetrating the domestic market prior to foreign market entry. The credibility and publicity gained from their overseas activities subsequently made the domestic market easier to penetrate. Similarly, whilst all firms currently have a website, some of them were not prompted to develop one until such time as they went international.

There are a number of interesting observations that can be made from Table 4.16. Firstly, many of the items raised by the participants as being the result of internationalising seem to confirm existing “SME” or “Born Global” literature. Some of these examples include exploiting a potential competitive advantage or market niche (Bell, 1995; Knight and Cavusgil, 1996; Oviatt and McDougall, 1994), establishing foreign sales when international opportunities seem greater than domestic ones (Bloodgood et al., 1996; Coviello and Munro, 1995), increasing knowledge and competencies resulting in further development of products and/or markets (Johanson and Vahlne, 1977; Welch and Luostarinen, 1988; Yli-Renko et al., 2002), and developing relationships to facilitate market growth (Coviello and Munro, 1995; Chetty and Eriksson, 2002; Larson, 1992).

Secondly, both early and more recent literature (Cavusgil, 1980; Fillis, 2000; Knight, 2000) suggest that formal strategy and planning are not features of the small and resource poor exporting firm, particularly in the initial stages of their international activities. By contrast, all seven firms in this study do take a planned approach to entering and penetrating their international markets. However, where the firms do differ with respect to embracing a planning philosophy is in their conceptualisations of just what planning is, as contrasted by the following statements.

*KK: No, we don't do planning. I mean I don't believe in writing business plans and that sort of nonsense. I believe in going with where you're going and focussing on what you're doing and doing it properly...we don't want to repeat the mistakes of some people, which is running around all over the place trying to be all things to everyone...*

*TT: [We have a meeting on] the first Tuesday of every month, 9 o'clock...religiously kept...we gave ourselves a full day on business planning, no individual work to be discussed, just business planning. What do we want over the next five years, how do we get it, when will we know we we're satisfied, how will we aim in that direction as a company, do we want to grow, don't we want to grow, all those sorts of issues. We have them as a set of notes. I read them from time to time...*

**Table 4.16**  
**Significance of Internationalisation to the MCE**

<b>Product Dimension</b>	<b>R</b>	<b>O</b>	<b>M</b>	<b>F</b>	<b>B</b>	<b>T</b>	<b>K</b>
	<b>R</b>	<b>O</b>	<b>M</b>	<b>F</b>	<b>B</b>	<b>T</b>	<b>K</b>
Enabled establishment of unique market position and/or competitive advantage	•	•	•	•	•	•	
Provided evidence of ability to compete with larger, more established counterparts	•	•			•	•	
Provided alternative to maturing or saturated domestic market	•	•					
Provided alternative to non-existent or unsustainable domestic market			•			•	•
Expanded domestic market opportunities			•	•		•	•
Expanded opportunities for existing and/or new product development	•	•	•	•	•	•	•
Provided revenues for developmental projects	•	•	•	•		•	•
Prompted the securing of formal Intellectual Property Protection		•			•		
Facilitated alternative range/market exploration	•	•	•		•	•	
<b>Operational Dimension</b>							
Attracted domestic/foreign buyers					•		
Attracted equity investors/shareholders		•					•
Prompted or accelerated adoption of planning philosophy	•	•	•	•	•	•	•
Facilitated transformation from a non-viable business into viable business	•		•			•	•
Prompted development of website	•	•	•	•	•	•	•
Prompted the occurrence of domestic and/or international publicity	•	•	•	•	•	•	•
<b>Personal Dimension</b>							
Provided solution to previous employment or financial issues/problems	•				•	•	•
Provided personal validation	•	•			•		•
Provided professional industry recognition	•	•	•		•	•	•
Provided personal financial success	•	•	•	•	•	•	
Provided opportunities for fulfilment of self employment goals	•		•	•	•	•	•
Provided opportunities for employment of existing knowledge and/or competencies	•		•	•	•	•	•
Provided opportunities for development of new knowledge and/or competencies	•	•	•	•	•	•	•
Provided a means of expressing patriotic and/or philanthropic sentiments				•	•	•	•
Provided means for international travel opportunities	•	•	•		•	•	•
<b>Relationship Dimension</b>							
Prompted development of new internal or external relationships	•	•	•	•	•	•	•
Created opportunity for expansion of relationship types	•	•	•	•	•	•	•
Created opportunity for expansion of relationship activities	•	•	•	•	•	•	•
Facilitated increased interdependence of internal and/or external relationships	•	•	•	•		•	•
Increased effectiveness of relationship activities	•	•	•	•		•	•

Clearly *KK* and *TT* differ in their approach to planning to the point where the former does not even realise that it is an activity in which they are involved. This does have managerial implications and these are elaborated upon in the final chapter. Irrespective of the differences that exist between the cases in this regard, all seem to converge on a strategy of developing key relationships (Dwyer et al., 1987; Ford, 1980; Morgan and Hunt, 1994; Wilson, 1995) in order to facilitate and accelerate the internationalisation process. This is supported by a third observation which can be made from Table 4.16,

that adopting an internationalisation strategy is significant in that it compels the firms to enter into a range of relationship types in order to achieve desired market outcomes.

To summarise this section, internationalisation is of significance to the seven cases in this thesis not just as a means of market exploitation or gaining financial rewards, but also as a vehicle providing for the development of relationships. To this end, the types of relationships initiated and developed by the firms for the purposes of internationalisation are now examined.

#### **4.9.2 Key Relationship Types Developed in MCE Internationalisation**

Relationship marketing (RM) is an increasingly important area in the discipline and has been shown in the previous section to be both an input and an outcome of the MCE's internationalisation strategy. Morgan and Hunt (1994) state that the *RP* is one which can be applied to a whole host of relationship types including internal, supplier, lateral, and buyer categories. Furthermore, recent internationalisation literature in the area of networking highlights that the interactions, influences and dependencies of various sets of relationships are critical in determining market outcomes (Dodd et al., 2002; McAuley, 1999; Sadler and Chetty, 2000; Styles and Ambler, 1994), and even more so for the smaller firm (Coviello and Munro, 1995; Larson, 1992; Yli-Renko et al., 2001). There does however seem to be a lack of published empirical evidence pertaining to the portfolio of relationship types developed by the internationalising MCE and more particularly, the relative importance of each type in achieving desired internationalisation objectives.

With respect to the seven firms in this study there is clear evidence indicating that not only are multiple relationships developed both prior and subsequent to the onset of foreign market activities, but that they have a collective impact on the outcomes achieved in those markets (e.g., Larson, 1992). Furthermore, there is considerable degree of convergence in terms of the which relationship types are key and characterised by high levels of interaction (Hallén et al., 1987; Håkansson, 1982) during the internationalisation process, as opposed to those which are merely discrete or transaction based (Macneil, 1980; O'Toole and Donaldson, 2000). Whilst MCEs in this study (as with all organisations) undoubtedly enter into a wide variety of discrete or

market based transactions with various parties (Heide, 1994), the focus here has been on identifying key relationships types where this form of governance is less prevalent. To this end, an analysis based on the observation of mostly bilateral or unilateral governance is justified and reflected upon in the following discussion.

**Table 4.17**  
**Key Relationship Types, Importance<sup>1</sup>, and Governance Form<sup>2</sup>**

Type	RR		OO		MM		FF		BB		TT		KK	
	Key	I:G	Key	I:G	Key	I:G	Key	I:G	Key	I:G	Key	I:G	Key	I:G
Internal	•	1: B	•	1:B					•	1:U	•	1:B	•	1:B
Manufacturer/Supplier	•	3: B	•	2:U	•	1:B	•	4:U	•	3:U	•	2:B	•	2:U
Distributor	•	2: B	•	3:U	•	2:B	•	3:U	•	2:U			•	3:U
Support	•	4: B	•	4:U	•	4:U	•	1:U	•	5:U	•	4:B	•	4:U
EPO			•	5:U			•	2:U			•	5:B	•	5:U
End-user	•	5: B			•	3:B	•	5:U	•	4:U	•	3:B		

<sup>1</sup> “I” (Relative importance) at the head of the column is ranked on a scale from 1 to 6 where 1 is the most important.

<sup>2</sup> “G” (Governance form) at the head of the column shows the dominant form of governance observed for each relationship based on both strategic and tactical interactions. “B” indicates a largely Bilateral form of governance and “U” indicates a largely Unilateral and/or Market form of governance.

As is revealed within the cases, the range of key relationship types that each firm has developed during its internationalisation journey include internal, manufacturer/supplier, distributor, support, EPO, and end-user (client/customer). Whilst no attempt at *relationship counting* (e.g., Shan, Walker, and Kogut, 1994) is made in this research, an assessment of the relative importance<sup>4</sup> of each relationship type to foreign market development is included. Furthermore, observations as to the form of governance (Heide, 1994) employed overall<sup>5</sup> for each relationship type are made, the reasoning being that governance is in some way linked to relative importance. The results of this analysis are shown in Table 4.17.

An initial observation from these results and the earlier individual case analyses is that there exists variance in the range of key relationships developed, in the relative importance of each to the firm, and in the form of governance employed in the initiation/maintenance of each type. There are a number of points of convergence worthy of attention however.

<sup>4</sup> Assessment of relative importance from the cases is as objective as possible in the context of the data from which it drawn. In some instances participants have made categorical statements in this regard. In other instances, the weight of response centred on particular relational types (and the comments therein) have been interpreted as being indicative of relationship importance.

<sup>5</sup> At this stage of the analysis an overall assessment of governance is made. This is further decomposed for each relationship type in section 4.93 which better reflects the more subtle differences in governance between the firms.

Firstly, notwithstanding that two of the firms are sole traders, what is immediately apparent is that the *internal* relationship is the most important. There seems to be some common reasons for this, including mutual commitment of non-retrievable resources and acceptance of risk (Gundlach et al., 1995), skill complementarities, a desire to interact, a respect for the other's competencies, and a desire for the other to succeed, as illustrated by the following statements.

*RR: I saw it this way, if Bob can help me sell twice as many and we take 50 percent each, I'm still square, and we're likely to do a darn sight better than that.....giving Bob half of the action would probably mean that I get a hell of a lot more of the action than if I attempted to do it on my own...*

*BB...it's a small industry and the business ethics are disgusting. Now fortunately for me, Doug...has come in and helped us get over it...*

*RR:...he said he knew nothing about sales and marketing and needed someone to help him in the States...*

*TT:...he's got more of a technical skill, had to take on role as producer and run with jobs, and then build up teams that would make those jobs work...*

*TT:...I came up with an idea and ran it past an old friend of mine...whose writing style and head space I particularly liked...*

*RR: [It is great] to see Geoff get a real big smile on his face when he stands up at an [event]...and gets recognition from those [end-users] that we made a difference to their sport worldwide...he would be the most intelligent person I've ever met.*

*RR:...the partnership with Bob is a partnership made in Heaven.*

*KK:...Jelena's goals are really that it works for us...that's her motivation.*

Whilst these clearly reflect the extant literature regarding SE relationships the last three statements in particular do indicate an extension to thinking in this area. That is the *internal* relationship may be initiated and maintained with a desire for the other's success being the main motivation for doing so. Norms of mutuality and solidarity have certainly been accounted for in the context of each party being able to achieve their own desired outcomes (e.g., Gundlach and Achrol, 1993; Macneil, 1980) but the extent to which these norms develop has largely been associated with increased socialisation and the degree of potential benefits that each party might accrue. The present results suggest that whilst the promise of individual benefits is important, it may be in some instances superseded by a desire for the relational partner to succeed first and foremost. Furthermore, this finding is not limited to the *internal* relationship but may also be of

significance in the formation of other relational types as illustrated by those involved in the *support* of *RR*.

*RR: ...we call them our Board of Advisors. We get together every three months, we go over projections, we go over where we've been, over all the financials...and they look at things from different aspects...It works absolutely wonderful...I said to them, 'why won't you charge us?' [They answered] 'because if you take note of our advice... you'll be on a growth path, and secondly, it gives us...an investment in helping a new business remain successful'.*

As can be seen here *RR*'s professional "Board of Advisors" takes an altruistic approach to their inputs into the firm's development preferring not to charge for their services, instead indicating their desire to maximise the chances of a good business proposition succeeding in the international market. Another view of this might be that they are merely taking a long term view of their investment and that the rewards will accrue when *RR* can afford to pay them for the services rendered. This can be largely discounted in that *RR*'s objective to retain a small infrastructure means that they will never require the paid services of such a team on an ongoing basis.

The second point which can be made from Table 4.17 results is that the *manufacturer/supplier* or *distributor* types are usually ranked either second or third in importance to the MCEs. This concurs with previous research stating that the small firm is highly dependent on the outsourcing of critical value chain activities to effectively serve the needs of their market (Bonaccorsi, 1992; Coviello and Munro, 1995; De Chiara and Minguzzi, 2002; Larson, 1992; Oviatt and McDougall, 1994). Of further interest with respect to the MCEs in this study and an extension to some of the descriptive networking literature (e.g., Chetty and Blankenburg Holm, 2000; Coviello and Munro, 1997; Yli-Renko et al., 2002) is that external relationships including manufacturers, suppliers and distributors sometimes serve as either proxy to (as in the sole trader cases) or complementary to internal relationships. This is particularly evident for those who take a largely bilateral stance on governance (see Table 4.17) as evidenced by the following statements.

*RR: [The distributors were prepared to take three days out of their business time to help us plan]...They knew this was the hottest product on the market.*

*RR: They all do different components, and then we get them [the manufacturers] all assembled together and we have production flows to watch what we're doing...*

*MM:...They are our prime supplier, probably 80 percent of our product...[Communication occurs with them] several times a day, probably twenty emails a day...*

*TT: ...through our friends at the \_\_\_\_\_ Group because of our growing symbiotic relationship, we gave ourselves a full day on business planning...*

It is clear that these firm's relationships with the value chain partners often go beyond that of contracting and in fact form a critical component of international market entry. The same degree of integration cannot be said for those which adopt more of a unilateral and/or market form of governance though (see Table 4.17) as is suggested by the following statements.

*OO: ...and we did use another chappie for marketing consultancy. We [also] just got a media PR person... We use all sorts of people.*

*FF: [In terms of growers]...I choose whoever is available.*

*FF: ...I do the whole thing. I source all the material, and I arrange for deliveries...and they just manufacture it.*

*BB: No [the Distributor and I don't plan together]. Peter does his own thing. He's got his office in another location now...we don't see that much of him at this time of the year...*

*BB: ...[I got a] barrister and a QC...A year and a half later, and sixty thousand dollars to him...*

While the statements do indicate that the development and leveraging of these relationship types are important to achieving international outcomes, they also suggest that the unilateral manner in which they are governed would necessitate a greater commitment of resources by the MCE to them over the longer term. This would occur in a number of areas. For instance, what *RR* is receiving for no financial cost from its *supporters* is by comparison a significant source of expenditure for *OO* and *BB*. In addition, *FF* and *BB* are likely losing their comparative advantage in taking on tasks unrelated to their core strengths, whereas *RR* and *MM*'s willingness to accept bilateral inputs might actually enhance their position of advantage. Furthermore, additional transaction costs would be incurred when replacing existing or indeed increasing the number of relationships overall, which may be required for the effective undertaking of business activities.

A third observation which is offered from Table 4.17 results is that beyond the *internal* relationship there is no obvious linkage between form of governance and relative importance of each type. In fact the approach to governance appears *firm* dependent rather than relationship dependent. That is, the firm is likely to adopt an overall

unilateral or bilateral approach to relationships irrespective of their individual importance in the value chain or significance to the internationalisation effort overall. An interesting aspect to this finding is that with the exception of *BB*<sup>6</sup>, all firms employ a predominantly bilateral approach to their *internal* partnerships. It suggests that there exists contrasting motivations between the firms as to why bilateralism is common practice for the *internal* relationship. For instance, whereas those adopting a largely bilateral approach to most relationship types might place high importance on the mutual achievement of goals, those with an overall unilateral approach to external relationships might indicate that *internal* bilateralism is mainly motivated by the promise of individual rewards.

The generally less important types in Table 4.17 include those of *support*, *EPO*, and *end-user* relationships. From the cases it is apparent that this is so either due to less interaction held with them and/or because they are seen to add a small amount of value to the MCE's core proposition. For instance, *OO* and *BB* pay professionals including consultants, financiers, and lawyers out of company revenues and in doing so attempt to minimise the expense by restricting the amount of input purchased. In fact, *BB* holds their *support* relationships in absolute disdain due to their alleged ongoing involvement in preventing *OO* from succeeding internationally, as indicated below.

*RR: I think one of New Zealand's biggest industries is business plans by accountants...A massive amount of money gets spent on these and they're a \_\_\_\_\_ waste of time...Essentially there is a whole thing going down between the banks and the accountants, getting business for each other and that kind of work is not productive...*

*RR:...the \_\_\_\_\_ Bank called in the overdraft, the facility they had given me, for \$650,000, which was [pre]approved. I had got all the stock ready, had done all the work and then they called it in...I still don't know if I was a victim of a conspiracy to block me by [the Bank and other consultants]...*

Paradoxically in the case of *BB*, it is apparent that maintaining and nurturing good *support* relationships is in fact critical to their international progress, in that securing the significant amounts of investment capital required (due to the nature of the industry) is somewhat dependent on recommendations made by the professionals they engage. This suggests that *BB* should rank *support* relationships higher in importance than they currently do.

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<sup>6</sup> At the time of interviewing *BB*'s *internal* relationship was less than six months old new but even at this stage signs of bilateral inputs such as joint decision making and planning were evident.

*FF* in contrast does rank *support* and *EPO* types as most important. Its founder, being a sole trader, places significant effort on soliciting unpaid inputs of specialist and general media, and is very successful in doing so. Being in a niche consumer goods industry *FF* is extremely reliant on generating maximum publicity in both domestic and international markets. Even though the level of relationship interaction here is high, the driving motivations behind it are more reflective of the benefits accruable to each party, namely, increased readership for the media firm in question, and increased custom for *FF*. This importance does not however translate into joint planning or decision making - two of the key dimensions of bilateralism (Heide, 1994). A similar approach is employed with respect to involving EPOs in that they regularly provide (albeit paid for) specific market data critical to *FF*'s market entry strategy but are ultimately retained at 'arms length'.

Finally, whilst it could be argued that *end-users* are the most important relationship type for any business in that these determine demand for the product/service, they are typically ranked lower by virtue of interaction with them being focussed around the offering rather than the MCE's business development strategy. In essence this would seem to largely represent *value exchange* rather than *value creation*, which is a key characteristic of RM. Exceptions to this include *MM* and *TT* whereby their end-users are critical to both the joint development of the offering as well as furthering the MCE's internationalisation prospects through referrals. This is illustrated by the following statements.

*MM: ...for example in the electricity industry, they may not have RDP people, but they've got lines people and we might sell them the system and part of that system...I don't install. So what we will do is sub-contract back to their own staff...and that works fine.*

*TT: ...We all approached it with goodwill and a real kind of archive of notes of how to work like this which has grown out of our relationship with [our client]...she would sing our praises to whatever company and we would get calls as a result of that. We owe our business I think to the successful relationships that we have with our clients...*

To summarise this section, there is clearly some degree of convergence as to the relationship types which are important to MCE internationalisation. Furthermore, the relative importance of each type seems to be linked to the extent of their interaction within the value chain (Larson, 1992). Outside of the internal relationship however,

there does not seem to be a link between importance of relationship type and the overall form of governance employed, although this further expanded upon together with the MCE's relationship approach in section 4.93.

### **4.9.3 Relationship Approach Adopted for each Relationship Type**

Findings in the previous section demonstrate that MCEs do indeed develop a number of common relationship types when implementing their internationalisation strategy. There also seems to be some congruence in the 'pecking order' of these types with the level of interaction being a key determinant of this.

#### *4.9.3.1 Governance Form*

A unique feature of the present research was the attempt to separate *governance form* (Table 4.18) from *relational mode* (Table 4.19) in acknowledgement of the possibility that these constructs are not necessarily always positively related as has been historically suggested (e.g., Gundlach and Achrol, 1993). The results of decomposing *governance* and *mode* are presented in the aforementioned tables and a discussion follows each. The final part of this section involves the integration of these two constructs (Figure 3) which surprisingly reveals some degree of separation between them.

Firstly, in support of the manner in which Table 4.18 is presented Heide (1994) emphasises that departure from market governance of interactions can lead to non-market stance anywhere between unilateralism and bilateralism. To this end the focus of the analysis has been on those relationships developed during the internationalisation process which can be described as predominantly non-market based. In further support of Heide's contention and as can be seen from Table 4.18, the overall stance of any of the firms towards its portfolio of non-market relationships is neither purely unilateral nor bilateral, but a mixture of the two. Viewing it from another perspective none of the seven firms is in possession of perfect information nor involved in absolute cooperation with their relational partners. Having said that, there seems clear evidence that each does take a reasonably fixed stance on governance and to this extent there exists a high degree of consistency across relationship types.

**Table 4.18**  
**Key Relationship Types and Governance Decomposed<sup>2</sup>**

Type	Decision/ Action	RR		OO		MM		FF		BB		TT		KK	
		Bilat	U/M	Bilat	U/M	Bilat	U/M	Bilat	U/M	Bilat	U/M	Bilat	U/M	Bilat	U/M
<i>Internal</i>	Strategic	■	□	■	□	NA <sup>3</sup>	NA	NA	NA	■	■	■	□	■	□
	Tactical	■	■	■	■	NA	NA	NA	NA	■	■	■	□	■	□
<i>Man / Supp</i>	Strategic	■	□	□	■	■	□	□	■	□	■	■	□	□	■
	Tactical	■	□	■	■	■	□	■	■	□	■	■	□	■	■
<i>Distributor</i>	Strategic	■	■	□	■	■	■	■	■	□	■	NA	NA	□	■
	Tactical	■	□	■	■	■	■	■	■	■	■	NA	NA	□	■
<i>Support</i>	Strategic	■	□	■	■	■	■	□	■	□	■	■	■	■	■
	Tactical	■	■	■	■	■	■	■	■	■	■	■	■	□	■
<i>EPO</i>	Strategic	NA	NA	□	■	NA	NA	□	■	NA	NA	■	■	■	■
	Tactical	NA	NA	□	■	NA	NA	□	■	NA	NA	■	■	■	■
<i>End-user</i>	Strategic	■	■	NA	NA	■	■	□	■	□	■	■	□	NA	NA
	Tactical	■	■	NA	NA	■	■	■	■	■	■	■	□	NA	NA

<sup>1</sup> Governance is measured at both a strategic (planning) and tactical (implementation) level.

<sup>2</sup> The dominant form of governance observed for relationship strategic or tactical interactions is indicated with a solid square. The lesser or partial form of governance observed is indicated with a hollow square. A blank space indicates non or very limited observation of the governance form in relationship strategic or tactical interactions.

<sup>3</sup> Not Applicable - where no meaningful interaction was observed with a particular relationship type.

This consistency is most clearly shown by *RR*, *MM*, and *TT* demonstrating significant bilateralism in both strategic and tactical areas of the business as it manifests in each relationship<sup>7</sup>. For example, at a strategic level *RR* held a three day planning meeting with its foreign distributors to decide various aspects of the marketing mix with respect to the offering in the US. These same distributors were then instrumental in assisting in the implementation of the marketing plan at a tactical level. Similarly, *RR*'s end-users continue to play a critical role in the design and development of the product, and are also regularly involved in facilitating the sale of *VAE*'s to the sports clubs to which they belong. The level and type of strategic and tactical involvement between distributors and end-users is quite different here but *RR*'s intent to engage key stakeholders in this manner is consistent.

Conversely, *OO*, *FF*, *BB*, and to a lesser extent *KK* embrace unilateralism in both strategic and tactical relationship interactions. For example, *FF* retains complete control of product design and materials sourcing and involves the manufacturer only to the extent of handling their own in-house production issues. In fact even when the manufacturer indicated a potential problem with producing an international shipment on time, *FF* attempted to wrestle total control of the situation. This was a move which

<sup>7</sup> Strategic and tactical interactions in the context of one relationship type may differ from those of another relationship type.

ultimately provided a solution at twice the cost of what it would have been had manufacturing assistance been sought to resolve it. Even though *FF* wanted to monitor uncertainty in the situation (Gundlach and Achrol, 1993), the outcome turned out to be the converse of the *economic efficiency* asserted by these authors.

Similarly, although engaging in interactions of a quite different nature with EPOs, *FF* is inclined to “purchase” their services and is quite explicit about the requirements thereof, rendering little opportunity for joint inputs to be made. This is in contrast to *KK*'s approach to EPOs in that although somewhat unilateral, there remain opportunities for bilateralism as is illustrated by the following statement.

*KK: ...so we went to Industry New Zealand and said, 'what do we do to find out whether this is going to be commercially viable?' ...any time I get stressed, I pick up the phone and ring a government department and say, 'okay what to I do now?' ...*

These and many other examples of bilateralism can be observed from the interactions of the aforementioned firms and are reflected in both participant statements (appendix one) and the tabular results in this section.

Of key importance in these results is that the governance approach employed by the MCE is not necessarily indicative of relationship duration. For instance *OO* has been with their manufacturer since the early days of operation and increasing levels of interdependence is testament to the relationship's robustness. However, *OO* clearly delineates the roles and responsibilities of each party and actively seeks to limit the extent to which manufacturing and other relational partners embed themselves in strategic and tactical processes. This unilateral stance has not changed throughout the life cycle of the business as indicated by the following:

*OO: ...we started at five per cent of their work. Five percent, ten percent and now we are ninety per cent of their work. Not that we like that, we don't really like being ninety per cent of their work...*

*OO: ...[Even though] we have quite a close association with them...we pay them for developing samples up there....because we don't want them to ever own any intellectual property.*

Another finding of interest is that the form of governance adopted by the MCE appears generally consistent across relationship types even though these may be developed at different stages of the firm's trading history. Contrary to seminal literature indicating relationship evolution (Dwyer et al., 1987; Morgan and Hunt, 1994) this suggests the

MCE's approach, at least in terms of governance, is neither dynamic nor temporal in nature, and as such poses a distinct challenge to the manner in which relationships have been traditionally modelled.

One explanation for this is that not all firms desire to enter into close collaborative activities for reasons such as fear of opportunism, overdependence on partner resources (which may pose a threat to the development of internal competencies), or differences in company cultures. The findings herein are further confirmed by some literature highlighting the need to adopt a portfolio approach to developing relationships in which the "portfolio" conceivably comprises a strategic balance of firms in the various forms of relational mode (Krapfel, Salmond, and Spekman, 1991; Ellram, 1990).

In summarising this part of the discussion, it seems that MCEs do embrace either unilateralism or bilateralism in their key relationships and their approach is consistent across *type* and through time. Whilst lack of resources dictate that governance overall is less hierarchical<sup>8</sup> for these diminutive firms (e.g., Wren et al., 1998), there are still those that seek to protect their relationship investments through stipulating the precise terms of reference for each party and then putting in place mechanisms to ensure that these strategic and tactical boundaries are not crossed. Others take a more flexible stance and as will be shown in section 4.9.4, some additional internationalisation outcomes accrue because of this (e.g., Yli-Renko et al., 2001). Attention is now turned to how social norms (such as flexibility), trust, and commitment form the MCE's *relational mode*.

#### 4.9.3.2 Relational Mode

The extant RM literature largely conceptualises the relational paradigm (RP) from either the SE or TCA perspectives to help us understand the various forms of governance firms adopt. It contends that bilateralism manifests within the context of SE interaction whereas unilateral or market governance is a feature of a TCA perspective on relationship development (Heide, 1994; Noordewier et al., 1990; O'Toole and Donaldson, 2000). Whilst this study finds general support for this notion, it is also asserted that the MCE's portfolio of relationships (Krapfel et al., 1991), cannot be comfortably assigned to polar ends of a relational continuum (Heide, 1994; Coviello,

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<sup>8</sup> Heide (1994) uses the terms unilateral and hierarchical interchangeably.

Brodie, Danaher, and Johnston, 2002). Instead, although not demonstrating the dynamism suggested by Pels et al., (2000), confirmation of their conceptual model is found to the extent that each of the MCE’s relationship types does reside at some point along the transactional-relational continuum. That is, the direction of MCE governance or relational mode varies and in fact one may have a moderating effect over the other and not always be positively related as the current literature would suggest.

**Table 4.19**  
**Key Relationship Types and Relational Mode<sup>1</sup> Decomposed<sup>2</sup>**

Type	RR		OO		MM		FF		BB		TT		KK	
	Trust	Norm												
<i>Internal</i>	■	■	■	■	NA	NA	NA	NA	■	□	■	■	■	■
<i>Man / Supp</i>	■	■	□	■	■	■	□	□	□	□	■	■	■	■
<i>Distributor</i>	■	■	□	□	■	■	□	□	■	□	NA	NA	■	■
<i>Support</i>	■	■	□	□	□	□	□	□	□	□	□	□	■	■
<i>EPO</i>	NA	NA	□	□	NA	NA	□	□	NA	NA	■	■	□	□
<i>End-user</i>	□	□	NA	NA	■	■	□	□	□	□	□	■	NA	NA

<sup>1</sup> Evidence of SE (as observed through the presence of trust and social norms) as opposed to TCA is shown. The rationale here is that high SE indicates low TCA and vis-à-vis.

<sup>2</sup> Strong observance of the SE relational construct is indicated with a solid square. A moderate incidence of that construct is indicated with a partially filled square. A completely hollow square indicates weak or no observation of the relational construct. NA indicates either absence of the relationship type or no meaningful interaction was observed for that particular relationship type.

Having discussed separately the MCE’s approach to governance, the focus is now placed upon relational mode. Table 4.19 shows evidence of a SE or TCA mode as represented by the degree of trust and social norms present in each relationship type. Whilst a similar table in each of the cases comprises the additional constructs of commitment and reciprocity, it is accepted that these are inherent in trust and social norms respectively (e.g., Berthon et al., 2003; Gundlach et al., 1995), and therefore not included again separately in the analysis here.

As can be seen the most prominent feature is that four of the firms, *RR*, *MM*, *TT*, and *KK* adopt a principally SE mode to relationship development, whereas *OO*, *FF*, and *BB* all adopt a largely TCA mode, and a number of interpretations can be offered of which the most noteworthy are now discussed.

Firstly, as *RR*, *MM*, and *TT* are technology based businesses they are likely to be amenable to more intense information exchange (Hallén et al., 1987) and/or committed to employing external *social capital* (Yli-Renko et al., 2002). In this they will place reliance, the foundation of trust (Doney and Cannon, 1997; Marshall, 2003), on one or more relationship partners and in some instances competitors (Chetty and Wilson, 2003) for the securing of contracts. As can be seen this is certainly the case with *MM* and *TT* where their offerings are often just components of tenders submitted by consortiums of firms.

*MM: ... Often when we're tendering, apart from selling RDP's... because we're trying to integrate things, we might be buying aerials from a local company, power supplies from someone in Auckland, we might be working with another company in... Wellington or whatever... and also importing ...*

*TT: ... the idea was we would continue to compete with each other in the domestic market, but we would look at the internationally as a collective to offer – I guess collective grunt...*

Countering this view though is Coviello and Munro (1995) who contend that small technology based firms also vie for position and power through opportunistic behaviour, indicating a TCA mode. Furthermore, *KK*'s offering is traditional rather than technology based, which has not prevented it from developing its closest external relationship with a large manufacturer in China.

This in fact poses a challenge to a second explanation for the differences in relational mode adopted by the MCE. That is, that firm characteristics (Aaby and Slater, 1989) together with the industry and its participants, to a large extent dictate the manner in which relationships are initiated and developed, particularly where there is a significant disparity in power and dependence between the relational partners (Frazier and Summers, 1986; Leonidou, 1989; Pels et al., 2000; Wilson, 1995). Given that all MCEs would have relationships with value chain partners where this disparity exists, it is reasonable to expect that the larger the partner organisation, the greater the preference for formality and structure would be. However, this does not account for those MCEs (such as *KK*) found to have relationship partners where the disparity is apparent, but where relationship nurturing still occurs in a SE mode as is illustrated by following examples.

*KK: ... my understanding is that it's nothing for [the manufacturer] to do a hundred thousand bead sets of one design, so yes as far as they're concerned it's small beer, but they are still investing in us... I [even] pen pal the guy's nephew...*

*RR: ...we have a very close relationship with our suppliers...six major suppliers all here in Christchurch...the suppliers stuck with us and gave us extended credit and hung in there, which was good...*

*MM: ...So a customer in South America comes up with a problem, and they want to do something special, a sales guy in Miami [employee of manufacturer] will email me and say "Nate, do you want to talk to this guy and see if you can tell him what he needs to do?"*

This leads to a third contributory explanation which involves the characteristics of the MCE's key decision maker. Whilst all in the study could be considered as international entrepreneurs in that they are innovators and risks takers (McDougall, 1989; McDougall and Oviatt, 2000), those adopting a SE mode take the strategic position of risk attenuation through increasing relationship investment. That is, their strategy to moderating the traditional knowledge and resource related barriers to internationalisation is to develop close, trust based relationships which in effect shares product and market entry risks with others (e.g., Chetty and Blankenburg Holm, 2000; Johanson and Mattsson, 1985). This can be contrasted with those developing a TCA perspective in that not only are they more cautious in relationship development, but a lack of trust and social norms means that they do not enjoy the same degree of insulation provision from their partners when product and market entry problems arise. Furthermore, when these situations do occur, the absence of relationship robustness may also have an impact on performance outcomes, as is vividly illustrated by the following divergent statements.

*TT: ...[We said] lets put together a team. Let's get the best in the country who are our friends...That was a marriage made in heaven. We love them and we're still working with them...they find work in Australia and say, 'we need help in the concept end, we've got this big design gig', and we say, 'we've got this happening over here'. And we're growing together a result of that...It means that there's a constant trickle of possible leads that come in, and sometimes they're things we can feed to other people...*

*BB: ...We got it going, got all the brochures done, the deals done. I had a manager. We had our own offices which we leased. We set the whole thing up, and I actually went ahead, and we started going...when out of the blue, everything ready to go, quarter of a million dollars worth of stock made, most of it on the water...We had fourteen reps, the first container arrived and I had paid for that, forty thousand pounds, which I haven't gotten back to this day. So...the bloody bank called in...the facility they had given me, for six hundred and fifty thousand...They gave me a month's notice to get out of it...I was a victim of a conspiracy to block me...*

It seems then that MCEs which nurture SE relationships do so because there are a number of performance related benefits to be gained, not the least of which is a reduction in transaction costs (Noordewier et al., 1990). They are also able to gain

easier access to resources through these types of relationships (Larson, 1992) than they would be able to through a TCA approach. Furthermore, the characteristics of the MCEs key decision maker/s are also determinants of the relationship development strategy pursued, and it is to this point which further consideration is now given.

It is clear from the study that *RR*, *MM*, *TT*, and *KK* are highly motivated to build trust based relationships and some of the reasons have already been outlined for this. Whilst it is beyond the scope of this research to analyse the various personality types (e.g., nature versus nurture) involved in the seven MCEs, they all experienced one or more catalytic events either in their employment or business interactions and/or life circumstances which reflected the manner of their relationships development thereafter.

At one level trust transference processes (Doney and Cannon, 1997) are evident, and particularly so in the SE firms. For instance, *RR*'s founders both had well established industry reputations before commencing a business together and their mutual respect for each other meant that the duration of relationship courtship leading to higher levels of commitment (Scanzoni, 1979) was relatively short. Similarly, *OO*'s internal partnership was characterised by a mutual respect for the other's employment background as well as being at a similar stage of life, being that of early motherhood. This quickly translated into a reliance on the others intent and abilities to progress the business, to the extent that working from residences in different countries did not seem to hinder business development. In another example, *TT*'s three founders joined forces "to have fun and make some money" after all having had decades of experience in an industry where employers would break long standing relationships, sometimes on a whim. The absolute belief in each other's integrity however was formed from years of working on projects together, or with others who had vouched for them.

At another level, it is asserted that previous relationship interactions play a part in forming the MCE's future relational strategy. For instance, *MM*'s founder experienced poorly implemented redundancy<sup>9</sup> after many years of service to a large organisational employer. The negative incident resulted in him possessing a determination never to treat others in such a manner. The complete opposite reaction was observed from *BB*'s

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<sup>9</sup> This also happened to one of *RR*'s founders.

founder when a close business associate allegedly abused his trust<sup>10</sup> in a financial transaction. In fact the event motivated a career long crusade to “take no prisoners,” ultimately affecting the quality of future relationships and thus taking focus away from internationalisation activities.

From these examples it is obvious that establishing what causes one firm to adopt SE over TCA is a complex matter, and inasmuch as it influences the relationships of the firms in this study, it is worthy of comment. Whatever the underlying reasons might be, what is clear from the results in Table 4.19 is that four of the firms were able to adopt a SE mode beyond the confines of the internal relationship.

Whilst these four firms relationships can be characterised as emergent and evolving (the acknowledged pattern of SE), there is also evidence of elevated levels of reciprocity (Gouldner, 1960), attitudinal and instrumental commitment (Gundlach et al., 1995), and self disclosure (Leuthesser and Kohli, 1995; Davis and Skinner, 1974) at very early stages of relational exchange. That is, the firms clearly enter relationships with the intent of them being close and long term (Anderson and Weitz, 1992; Dwyer et al., 1987) by making upfront relationship specific investments often without the protective mechanisms of a contract being first put in place. Furthermore, when these relationships are formed the goals are often open ended therefore the parties rely on presence of social norms to act as moderators of control (Gundlach and Achrol, 1993; Joshi and Arnold, 1997). The following are examples of this form of commitment occurring in both internal and external relationships.

*RR: Bob invited me for coffee and that was when he said, ‘what you’re doing is one of the best things that I’ve seen come across my desk. Would you consider letting me join you?’ It was as straight forward as that...giving Bob half of the action would probably mean that I get a hell of a lot more of the action than if I attempted to do it on my own...*

*RR: And we hid nothing from [the manufacturers]. We were absolutely open, put all the books on the desk. It’s the only way to be. It works wonders...As soon as they get the feeling that you’re hiding something, it’s when the shutters start to come down...*

*RR:...So what we did was, we flew [all the distributors] up to Las Vegas...*

*MM:...the severance cheque that I received when I left...was really only enough to get an airfare to Canada [to meet with the manufacturer] and buy some groceries for the first two or three months...*

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<sup>10</sup> OO also experienced abuses of trust in early distribution relationships.

*TT: ...It couldn't be better. [The support company] knows that the quid pro quo from that is, if they help us build this company, we'll have constant work for them...*

*KK: Half the company. She wrote us a cheque. It was a huge amount \$20,000 which we then promptly had to re-invest back into the business.*

Whilst it is difficult to account for the reasons why some of the MCEs approach their relationships in this manner and others do not, there are some indicators from what motivates the key individuals within. Firstly, all the SE oriented firms demonstrate a desire to help others to achieve goals, often at the expense of short term gains that might accrue (e.g., Anderson and Weitz, 1992). For instance, *RR* and *MM* have the inclination to see their local business communities prosper and to that end seek to appoint manufacturing firms within the region, even if at times it is uneconomic to do so. Similarly, *TT* chooses to remain supportive of a Wellington based manufacturing cluster that has long since ceased to be of tangible value to their business. *KK*'s founder volunteers her services as a business mentor, partially in reciprocation of the support she has received over the years (e.g., Perugini et al., 2003), but also because she wants to help others avoid some of the pitfalls she experienced when starting out in business.

The foundation of this benevolence (an underpinning of trust) (Zaltman and Moorman, 1988) seems to consist of a belief that “good things will happen” in return, even if not from the original recipients of the gestures. Furthermore, it appears that most of these activities are genuine and unconditional in that no publicity or payment in kind is sought. Typical of this attitude is the benevolence demonstrated by one of *KK*'s shareholders.

*KK: ...Jelena's goals are really that it works for us...and she was prepared to inject capital and support us in our bid to grow a company that worked. So that's her motivation.*

Secondly, whilst the SE firms share a common goal not to grow their internal infrastructure, they also all demonstrate the desire to model their external relationships in the same manner as their internal ones. For instance, *TT*'s reaction upon securing a large international contract was to establish “which of their friends” were available for its undertaking. The inference here is that forming a team comprising of close and trusted associates takes precedence over what in the first instance might be a more logistically or contractually viable course of action.

This is related to a third motivation for MCEs to adopt a SE mode, that of aspiring to develop relationships with those who possess similar expectations regarding behaviour, or in other words, with those who possess the same set of relational social norms (Axelrod, 1986; Macneil, 1980). Norms of solidarity, mutuality, flexibility, role integrity, and harmonisation of conflict (Gundlach and Achrol, 1993) are all highly visible in the interactions of the four firms (see appendix one). The following two examples show how *TT* resolves conflict, and how *RR*'s reacts to a new relational partner found not to demonstrate the behaviour expected of a distributor.

*TT: ...there is a great overlap [between us and the architect on the job]... You just bring goodwill to that. You can't demarcate creativity... Everybody has to say, 'the outcome matters more than the personality, and if he didn't like my idea, it doesn't mean he doesn't like me... it means that it isn't working for the outcome of the project. And I may disagree with that and we'll fight. But there'll be a resolution and it has to be quick because the client wants an answer by Friday'. So that's how that happens.*

*RR: Geoff had a distributor lined up in Australia... and I got rid of him as soon as I met him... Just told him straight, he was out... He was using our product as a loss leader on his own product. He was an ignorant man, and I don't want ignorant men working for our product. I want nice people working with our product that people respect...*

These examples also point to *how* MCEs are able to develop SE relationships in that whilst they might express the desire to interact in a highly socialised manner, the outcome is still largely dependent on whether the partner wants to reciprocate in kind (e.g., Ford and Rosson, 1982). Furthermore this reciprocation, in order to maximise the chances of the relationship enduring, needs to extend beyond the attitudinal level to include a mutual willingness to make significant and irreversible relationship commitments (Venkataraman and Macmillan, 1997). Given this, it is suggested that a key difference between the SE and TCA oriented firms in this study is in their pre-relational strategies, in that the former is better willing or able to filter relationships to include only those indicating a desire to adopt the same relational approach. Further discussed in chapter five, it is likely to have significant managerial implications for how MCEs enter the foreign market. This *filtering* (Andersen and Buvik, 2002; Wilson, 1995) does appear to be a strategy which maximises the chances that the MCE's relationships will be long term and characterised by trust and commitment, as opposed to the opportunism (Williamson, 1985) evident in many of the relational exchanges of the TCA firm. The following examples illustrate the contrasting approaches between the two.

*MM:...we will put in a certain amount of engineering content for nothing as a means of building relationship with the customer, basically getting them going, because typically the first project that they do is not their whole requirement. They'll install a system and over the next three to five years they'll [probably] expand it.*

*BB:...what I'm pretty proud of is...I was able to screw [the distributor] down to twelve and a half percent for this...*

What is most clearly demonstrated by these examples is an apparent difference in belief within the MCE about the value of the relationship. This can be proposed as a fourth motivation for the MCE adopting a SE orientation, that of the desire to build enduring relationships because of the extended value which may be derived from them (e.g., Blankenburg Holm et al., 1999; Huston and Burgess, 1979). It is apparent that *BB*'s focus is profit maximisation in the short term with the probable costs of such a strategy likely to include low relational and product commitment on the part of the distributor. Conversely, *MM* demonstrates a commitment to maximising the lifetime value of their client (e.g., Bialogorsky, Gerstner, and Libai, 2001). *TT* exhibits the same strategy with an example being their extreme generosity shown in reducing the fees of a large corporate project. Indeed *TT*, credits much of their subsequent success in the international market to the resulting plaudits given by the CEO of this organisation, which they believe was in part fuelled by this and other goodwill gestures.

The final two motivations for a SE mode observed in this study are centred on relationship performance, which has been shown to have linkages to international performance (section 4.94). It is evident that those firms which develop SE relationships are realising a number of benefits in doing so including; less incidences of opportunism in that they seem to avoid the occurrence of lawsuits, bad debts, and breaches of intellectual property (e.g., Noordewier et al., 1990); greater access to relationship partner resources in the absence of internal infrastructure (e.g., Coviello and Munro, 1995; Larson, 1992); a reduced need to monitor performance thus leading to lower transaction costs (e.g., Venkataraman and Macmillan, 1997); and lower replacement costs in that relationships tend to be long term (e.g., Gundlach et al., 1995). In fact, the following statement by *RR* seems to typify the sorts of benefits accruable to those that are SE oriented, whereas the subsequent statement by *BB*, indicates the increased exposure to operational difficulties which may be associated with a TCA approach.

*RR:...we've ended up with one very small bad debt...But it's minor. It's less than one tenth of one percent of our sales...our philosophy is if you are going to get ripped off, you are going to get ripped off, and a piece of paper will only make you*

*spend money to chase it. So if you spend more time looking at the people you're dealing with, the piece of paper is worthless...*

*BB:...if anyone rips me off, they get a real serve back...I'll drop them right in it!...I've got a fantastic product which could earn millions in foreign exchange...but can't even penetrate the local market successfully because of obstructions...My biggest problem is that I have no working capital. I'm still working on getting a seasonal overdraft of fifty thousand dollars...*

What is vividly shown here is that *RR*'s reaps the results of investing in enduring relationships engendering partner loyalty and commitment, which logically has a flow-on effect to the achievement of internationalisation outcomes. *BB* on the other hand, not only invests heavily in seeking punitive damages from those that have "ripped him off", but also subsequently struggles to secure meagre working finance due to the business community's reticence to deal with him. Furthermore, it is obvious that pursuing the perpetrator of these offences will not restore the relationship, and in fact deprives *BB* of valuable resources for exploiting its international prospects.

In summarising the above discussion on *mode*, this study finds general support for the notion that MCE relationships are indeed temporal and that increased levels of interaction and socialisation leads to greater relational interdependence (Dwyer et al., 1987). However, there is also evidence to support a *leap-frogging* of accepted relational stages in that trust transference processes (Doney and Cannon, 1997) and inherent management characteristics (Aaby and Slater, 1989) may facilitate earlier than expected commitments, particularly in the form of non-retrievable transaction specific investments (Heide and John, 1988; Venkataraman and Macmillan, 1997), being made. Furthermore, it has been shown that those MCEs adopting SE, garner greater direct and indirect benefits from their relationships than those who adopt a TCA mode.

#### 4.9.3.3 *Integrating Governance Form and Relational Mode*

Notwithstanding this, separating *governance form* from *relational mode* also provides a more precise understanding of how initiating and nurturing takes place, in that whilst a SE mode might be adopted, unilateral governance may also be manifest in some relationships and vis-à-vis. Whereas, to this point the focus has been on examining these two constructs separately, attention is now turned to reintegrating them and the resulting picture that this provides of MCE relationships overall.

Conceptually it involves “averaging” the extent that bilateralism and unilateralism<sup>11</sup> is present over the range of relationship types and showing this as a point on the X axis. The same process is conducted in considering the manifestation of SE and TCA, which is then shown on the Y axis. This is important because if Heide’s (1994) seminal work holds true then one would observe high convergence between bilateralism-SE and unilateralism-TCA. The results of the integration are shown in Figure 3.

Figure 3 provides a vivid depiction of where each of the seven MCEs is positioned on SE – TCA and bilateral – unilateral continuums<sup>12</sup>. These were calculated by assigning metric values to each observation on the relational construct in the individual case tables (see sections 4.2-4.8). That is, governance observations (strategic and tactical) for each relationship type were assigned scores<sup>13</sup> of -4, -2, 0, +2, or +4 depending on the strength of bilateralism and/or unilateralism observed in that instance. Similarly, observations of an SE relational mode (reciprocity, commitment, trust, social norms) received scores of -2, 0, or +2 depending on its strength in each relationship type. The MCEs *form* scores were then totalled and divided by the number of important relationship types to obtain an overall score for governance. *Mode* was similarly treated. Then the seven vectors of *form* and *mode* were plotted (Figure 3), providing an accurate depiction of where each firm is positioned in relation to the others in respect to the relational strategy employed<sup>14</sup>.

There were a number of reasons for taking this type of analytical approach. Firstly as has already been posited, study results show that governance form (such as bilateralism) and relational mode (such as SE) are not always highly convergent. In fact, incidences of their divergence challenge the work of Heide (1994). Furthermore, it can be seen that considering the two constructs separately provides a richer insight into the makeup of the firm’s relationship portfolio and builds on the conceptual model of Pels et al., (2000) who argue that positioning the portfolio on a single continuum is myopic.

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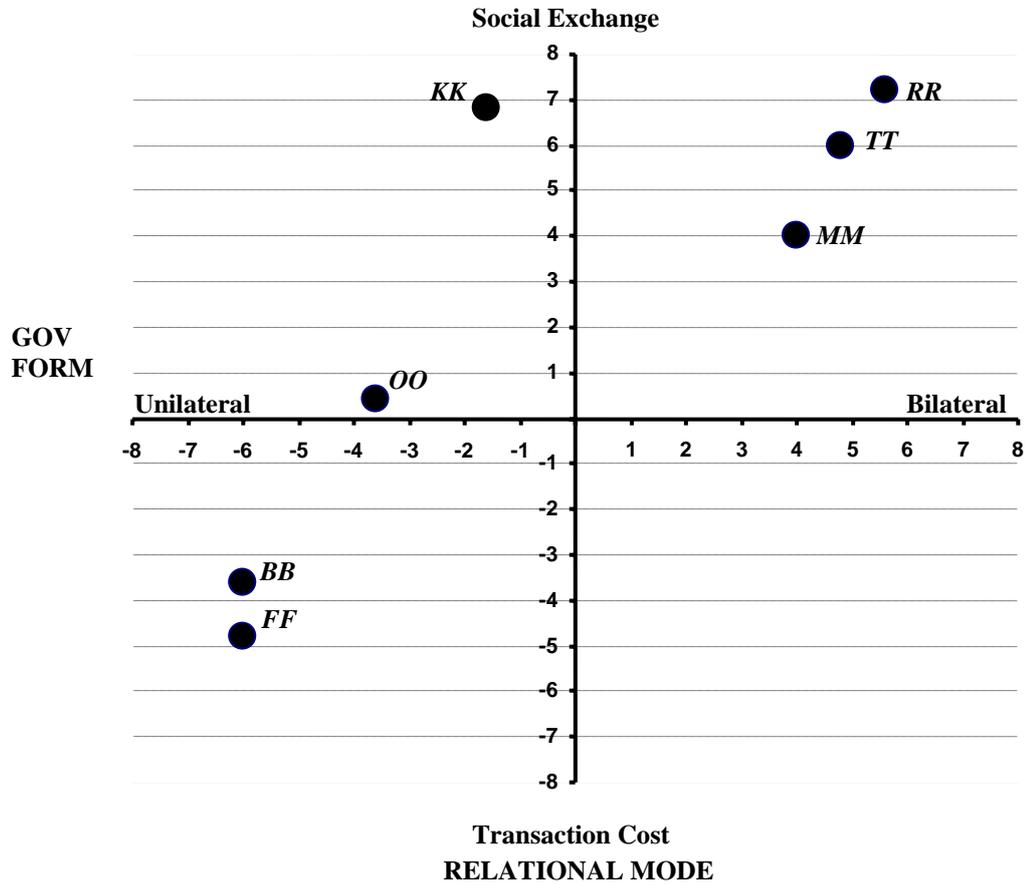
<sup>11</sup> As has been indicated elsewhere, unilateralism for the purposes of this thesis also encompasses incidences of market based interactions.

<sup>12</sup> It is worthy of note that an early version of this figure was presented in a paper to the prestigious Industrial Marketing and Purchasing Group Doctorial Consortium in Copenhagen, 2004. It subsequently received a “Best Paper Award”. Full reference to this and other works by the author at various stages of developing this thesis are presented in Appendix 7.

<sup>13</sup> These scores whilst possessing no mathematical significance are merely a means of illustrating directional differences in relational strategy between the firms.

<sup>14</sup> See appendix five for a working example of these calculations.

**Figure 3**  
**Integration of Governance Form and Relational Mode**



Secondly, such an approach provides an opportunity to observe the strength of a MCE’s relational strategy relative to that of the others in the study. For instance, whilst *RR*, *MM*, *TT*, and *KK* may be considered similar in that they adopt a SE mode, there in fact appears to be a significant difference between them in terms of mode strength. When form of governance is factored in, the overall difference in relational strategy is made even more apparent.

Thirdly, as the overall relational strategy *position* comprises inputs from each relationship type, this would indicate that the likes of *RR* and *FF* show a high degree of

relationship *crystallisation*<sup>15</sup> and consistency in terms of how they initiate and nurture all of their relationships. This being the case, it is worth considering the effect this crystallisation has upon both relationship and international outcomes (see 4.94). However in order to set the context for this, the results in Figure 3 are now discussed.

What is immediately discernible from these results is that there exist two distinct groupings of firms, those that are *High SE – High Bilateral* (HiSE-HiBL) in their relational strategy and those that are *High TCA – High Unilateral/Market* (HiTCA-HiULM). This would seem consistent with the literature both in terms of these constructs being related, and also with respect that the firms do not sit at polar ends of a relational – transactional continuum but because of a pluralistic approach are somewhere along it (Coviello et al., 2002; Pels et al., 2000). However, it is apparent that there exist two other relationship strategy positions previously unobserved in the literature, those of *Low SE – High Unilateral/Market* (LoSE-HiULM) and *High SE – Low Unilateral/Market* (HiSE-LoULM). These positions are now evaluated in turn.

*RR*, *TT*, and *MM* are clearly consistent in their strategy not only in expressing their trust and commitment to key relationship partners but also demonstrating it by engaging these stakeholders in joint inputs and decision making at both strategic and tactical levels. These MCEs recognise that maximising the benefits from leveraging relationship resources (Larson, 1992) involves allowing others to share responsibility for business direction. This is most clearly confirmed by the following statements showing *RR*'s HiSE–HiBL attitude towards their whole range of relationships and also the behavioural aspect in the manner they actually engage these key stakeholders.

*...You like the word network. We call it creating relationships. But relationships are the bottom line and that's really paid off...*

*...The [suppliers] gave us as much input as they could as well from their own positions from what they had been selling.*

*...we redesigned the board twice...[because] I didn't have the industrial experience...So I said to [the manufacturer], 'you help me lay out the board that will work'...Their layout proved to be [effective] and some interesting innovations were suggested to me...*

*I'm off to Europe in three weeks time to a major trade fair to start to locate some of the distributors that will take us into the European market with these other products...It's all about supporting the distributors and getting to know them...*

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<sup>15</sup> *Crystallisation* in a relationship sense has not previously been referred in the literature although it has been used in consumer behaviour to describe how the different dimensions of social class may interact (see Hawkins et al., 1983).

*And the third [key relationship] is our company support. So after about eighteen months working by ourselves, we came to the realisation that the only input we were getting was from our own knowledge and that was limiting us.*

*...I had to adjust the gain of the system...and I took [some end-users] out to the [sports] club...and we [tried] them, and it's when the guys said, 'hey! This is working, this is the recipe'.*

Clearly from these statements and other evidence presented, *RR* treats these external partners as an integral part of their management team, even to the point of soliciting product design input from end-users. Furthermore, whilst there exists a mutual respect for the integrity of the role that each plays (Gundlach and Achrol, 1993), bilateralism manifests to the point where each is encouraged to make inputs into areas outside of their expertise. For instance end-users, although assisting with product development, are also engaged in joint initiatives with *RR* to market the core offering back to their respective sports clubs, and in some instances this has evolved into a distribution role. Ultimately this approach reveals how *RR* consistently adopting bilateralism fosters mutual dependence, information sharing, collaborative planning of future initiatives, and constructive problem solving (Sriram, Krapfel, and Speckman, 1992). This provides impetus for strengthening the SE mode and vis-à-vis.

Almost at polar ends to the approach adopted by *RR*, are *FF* and *BB* who seek to minimise joint inputs from others in apprehension of them demonstrating opportunistic behaviours (Williamson, 1975). *FF* is consistent in exemplifying this approach preferring to rely on internal competencies and those which have been bought, even then with some reticence, but invariably via the protection of explicit contractual mechanisms. Paradoxically, *FF*'s products possess no patentable intellectual property and in fact have been in the public domain in various forms for generations. This does suggest that *FF*'s fears are somewhat unfounded but more importantly the complete lack of trust in and joint input from key stakeholders, does increase the difficulties and costs associated with internationalisation which is discussed after the following examples.

*...co-ordinating it all was very important, very important learning experience because that's a big part of what I do now...So I managed the whole contract, employing people on a labour only basis and bringing the whole thing together...*

*...I'm a holistic person. I have to know everything before I embark on anything...I know it could be [a ten million dollar business in five years]. It's entirely up to me...I'm building my business...*

...[The distributor] *told me what a huge job it was. I didn't really understand that it was. I could have [and would have liked to] done it myself but it would have been really difficult.*

...*Distributors are often...I'm very wary because they're [just] wanting customers, and they're not really interested in anything else...just dollar signs. But there's no reason why you can't be in it for dollar signs...*

...*I had a distributor in Auckland who was absolutely hopeless so I hardly have an outlet in Auckland [now]...*

As can be seen, there is a demonstrable lack of commitment shown to and by early distribution partners. On this basis it would be safe to assert that *FF's* desire to *control* all aspects of the relationship increases the amount of effort required to establish and maintain a strong presence in its international markets. For instance when one distribution relationship fails, *FF* is then required to expend valuable time and resources in securing a new relationship. In fact not only would these direct costs be incurred, but disruptions like these may result in a slowing of international momentum through the potential loss of contacts and business generated by the previous distributor. *FF's* customers and suppliers are also likely to be impacted by such problems, further increasing the pressure on an already limited amount of internationalisation resources. Finally, examples such as those given do imply that any MCE taking such an approach to distribution management may spend more resources for fewer positive outcomes, than those adopting a trust based, participative approach.

It should be noted that whilst *FF's* HiTCA–HiULM relationship strategy is visible across interactions with all key stakeholders, some moderation of this evident in that end-users are encouraged to submit new recipes, or feedback on existing recipes. However even this should be viewed in the context of *FF* considering such tactics as this to be low risk and non-threatening, as well as a means of conducting inexpensive market research. What is markedly different about *RR* and *FF* in this regard is in the language they use to describe the manner in which they grow their business. *FF* is clearly self-reliant with its proprietor emphasising that success or failure resides with her. *RR* on the other hand freely admits to deficiencies in product and market knowledge, thereby welcoming the participation of others in furthering its prospects.

*KK* sits in the third relational strategy position observed (HiSE–LoULM) which is reflected particularly through their distribution relationships, whereby there is limited

knowledge of what the distributors are doing but a total reliance on them doing it. In terms of the relationship type, this could be considered ‘blind faith’ in that *KK* deals with its lack of international knowledge by assuming that others will implement a market strategy that is both optimal and in the best interest of the MCE. This belief in the good intention of others is confirmed by extremely limited relationship filtering processes to the point where there is a sense of gratefulness to those distribution partners that choose to take on *KK*’s range. Whilst it is a strategy which has delivered a modicum of foreign market success, it is suggested that *KK*’s lack of direct involvement in this area may increase the incidence of distributor disinterest and therefore the risk of market failure.

*...I’ve got no idea [of Bob’s strategy]...I sort of do. He does all the Boston and New York trade shows...He also has sales teams on the West Coast based in California, and in the middle, Mid-West and you know, all around the place and up into Canada...*

*...he rang me and said, ‘could I be the European agent for *KK*?’ I said, ‘oh well there’s a queue a mile long, come to the front, sign here’. So that was how it came about...*

*Every bit that we had pretty much made on the [the first domestic order] was invested in trying to meet the requirements of the Australians, and despite them all saying that they were going to buy it and despite handshake deals and everything else, they didn’t follow through, not one of them, not one of them...*

While the extent of *KK*’s devolution of the distribution function is shown by the first two of the statements above, the third gives an example of Australian market failure which was in fact due to the absence of effective filtering processes (Wilson, 1995), resulting in an inadequate foundation upon which to build SE relationships.

On the face of it, it would seem that distributor relationships are more characterised by *market* governance as opposed to a unilateral form in that dimensions such as relationship planning and monitoring are either non-existent or reactive in nature (Heide, 1994). However, this view can be moderated by observations of elevated levels of trust and commitment present and regular interaction and socialisation with distributors, indicating a non-market form. Furthermore, *KK*’s manufacturing relationship although trust based is more classically unilateral as is shown below.

*...when we sent the sample to the Chinese we said, ‘we want to package this in a full colour box, with a carry handle’, and they said, ‘fine’...We did the photography and all the artwork and design work here, and we had the film made and we sent them the film...and they take the film to the printers...we wanted it to be English...we wanted New Zealand children on it...So I fired off a sample [to the manufacturer]*

*and got back these two really lovely WKT's. They're beautifully made [copies] and they were cheap as chips...*

Finally, the LoSE–Hi-ULM relationship strategy of *OO* is the fourth position observable from Figure 3, in that it provides a depiction of a firm which wishes to exercise optimal control over its relationships at the same time as demonstrating a moderate amount of trust in each. This position can be explained by a retrospective look at *OO*'s progression in that it reveals a company which commenced with an original intention of trusting others, but modified its approach when that trust was abused, as made evident by the following statement.

*Everyone knew about [our designs being copied and the subsequent action taken] and they would think twice before they made an ISP, but we actually tell people now we'll take them to court, we make it known that we aren't going to be messed around with.*

Of all the firms in this study, *OO* most clearly presents an example of how a relationship strategy can be adjusted (Coviello and Brodie, 1998; Pels et al., 2000). It does suggest though that as the firm increases in size and in the number and forms of relationship interaction, this would give rise to a greater incidence of the opportunism of the sort given in the example. Therefore the nature of the *adjustment*, termed *dynamic* by Pels and colleagues, may mostly be unidirectional moving from trust to contracts, from inclusion to a state of autocracy. So for firms such as *OO*, trusting any future manufacturer with intellectual property may prove unrealistic given the abuse of trust by an earlier manufacturer. Counter to this observation though, is *RR*'s response to negative acts of opportunism, in that they minimise the consequences of these on their relational approach by simply ending the aberrant relationship and then improving subsequent filtering processes for future relationships.

In summarising section 4.93 overall, it has been shown that whilst the firms in this study generally conform to adopting a relationship strategy or approach consistent with either a SE or TCA mode, variance does exist in the strength of the approach when empirical observations over all key relationship types are factored in. Furthermore, there appears to be merit in considering the approach from a two dimensional perspective by separating governance form from relational mode, in that it produces a more precise picture of the 'relational gaps' between the firms. This is important because it clearly has implications for the manner in which relationships are being modelled and

understood by scholars and managers alike. Such implications are further discussed in chapter five.

So far, the analysis has centred on the key types of relationships that the MCE initiates and develops, as well as the manner in which these are nurtured during the internationalisation process. Whilst it has been indicated that variance in this respect impacts upon MCE internationalisation performance, the final section in this chapter examines these impacts in more detail in the context of specific product, market, and relationship outcomes.

#### **4.9.4 Impact of Relationship Approach upon MCE International Outcomes**

The impact of firm and management characteristics on internationalisation performance has been well documented in the literature (e.g., Aaby and Slater, 1989; Chetty and Hamilton, 1993), as has to a lesser extent the impact of the relationship approach (e.g., Blankenburg Holm et al., 1999; Rosson and Ford, 1982; Leonidou and Kaleka, 1998). Whilst performance has been conceptualised in a number of ways including measures of export intensity, firm size, sales, profitability, product and market characteristics (Thirkell and Dau, 1998), MCE internationalisation outcomes as a consequence of its relationships have not been examined in the literature. Furthermore, given the very nature of the MCE it seems justified that this analysis also incorporate more subjective and “richer” performance measures of strategy and management objectives (Cavusgil and Zou, 1994) to complement economic ones.

The MCEs in this study were all faced with the common dilemma of being resource constrained and to this end compelled to leverage their way into the international market via their relationships. However as proposed in chapter two, variance was indeed found in the internationalisation outcomes of those adopting an overall SE approach as opposed to those adopting a TCA approach<sup>16</sup>, as shown in Table 4.20.

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<sup>16</sup> This section of the analysis does not separate governance from mode but instead considers the firm’s relational approach in its entirety to be either largely SE or largely TCA.

**Table 4.20**  
**Internationalisation Outcomes by Overall Relational Approach**

Firm	Relational Approach	RR	OO	MM	FF	BB	TT	KK
		SE	TC	SE	TC	TC	SE	SE
<b>Market Factors</b>								
Representation in multiple countries		•	•	•	•		•	•
Representation in domestic market		•	•	•	•	•	•	•
International market niche		•		•	•	•	•	
Distribution in “low psychic distance” markets		•	•	•	•	•	•	•
Distribution in “high psychic distance” markets				•				
International brand recognition		•	•	•	•	•	•	
Foreign direct investment			•					
Regular travel to foreign markets		•				•	•	
Internalised knowledge of foreign markets		•		•		•	•	
Increasing number of foreign markets		•		•	•		•	•
<b>Product Factors</b>								
Unique selling proposition/s		•	•	•	•	•	•	•
Inimitable technology and/or patent protection		•	•			•		
Product line diversification/expansion		•	•	•	•	•	•	•
New product manufacturing alliances		•		•	•	•	•	
Market/client customisation		•	•	•	•	•	•	•
<b>Demand Factors</b>								
Demand for distribution rights/alliances		•	•	•	•	•	•	•
Pull from end-users		•	•		•	•	•	
Repeat purchases/end-user satisfaction		•	•	•	•	•	•	•
Brand preference over generic preference		•	•		•	•	•	
High and stable distributor commitment		•		•			NA	•
<b>Supply Factors</b>								
Multiple supply options		•		•		•	•	
High and stable supply commitment		•	•	•	•	•	•	•
Responsive supply base		•	•	•	•		•	•
Offshore manufacturing or materials sourcing				•			•	•
<b>Export Performance</b>								
Market dominance		•						
High export intensity		•	•	•	•		•	•
Sustained profitability levels		•	•		•	•	•	
Global market coverage		•						
Revenue protection through currency hedging			•					
Long term growth prospects/plans		•	•	•	•	•	•	
<b>Network Factors</b>								
Interaction with social network		•	•		•	•	•	•
Interaction with end-user network		•	•	•	•	•	•	•
Interaction with supplier network		•		•	•	•	•	•
Interaction with industry network		•	•	•	•	•	•	•
Interaction with previous employment network		•		•		•	•	
Interaction with professional services network		•	•	•		•	•	•

Initial impressions from the evidence presented in Table 4.20 are that there exist few clear discernible differences in internationalisation outcomes<sup>17</sup> between SE and TCA firms, and this is particularly so in observations reflective of the traditional export performance measures mentioned (e.g., Katsikeas et al., 2000). For instance in considering market factors, all but one of the MCEs have entered multiple albeit mostly psychically close (Ford, 1980) foreign markets, and all have an established domestic base. This would seem in line with stages theory predicting that firms take a cautious sequential approach to entering more distant markets (Johanson and Wiedersheim-Paul, 1975).

A fairly even spread of outcomes between SE and TCA firms can also be seen in regards to many of the product, demand, supply, export performance and network factors. However in a number of areas irrespective of the relational approach adopted, the performance of these MCEs is quite remarkable and worthy of comment.

Contrary to stages theory (Bilkey and Tesar, 1977; Johanson and Vahlne, 1977) but consistent with Born Global literature (Knight and Cavusgil, 1996; McDougall, 1989), all entered into the foreign market early in their existence (see Table 4.1), five have either created or exploited an international market niche, all are diversifying or expanding their range, and all customise their offerings to individual buyer and/or market requirements. The strength of each MCE's offering is reinforced by observations of high distribution demand and end-user satisfaction, as well as enjoying international brand recognition. With respect to export performance, apart from high intensity and the assurance of long-term international prospects, most have yet to realise their market or financial potential. This however seems consistent with the age and size of the firms (Aldrich and Auster, 1986) particularly in the context of their short exporting histories (Leonidou and Kaleka, 1998).

Clearly all of the firms in this study possess offerings with significant international potential which from an analytical standpoint provides a level playing field for assessing the impacts that relationship approach has on outcomes. Of interest here is that as both SE and TCA firms are involved in a common range of networking activities, this would

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<sup>17</sup> The manner in which *outcomes* are derived is addressed a number of times in the first three chapters of this thesis.

indicate that the network perspective of internationalisation (Chetty and Blankenburg Holm, 2000; Johanson and Mattsson, 1988b; Sharma and Blomstermo, 2003) lacks the precision and richness of findings (within this emerging body of literature) in this instance, to yield much of explanatory value. By evaluating Table 4.20 in the context of SE theory though, the underpinnings of the relationships which form their interconnected networks can be examined.

As has been observed, SE relationships are both inputs to and outcomes of internationalisation (see 4.91), and while the SE and TCA firms cannot be differentiated in terms of the types developed (see 4.92), the manner in which these types are nurtured does vary (see 4.93). From this, a number of important findings emerge.

Firstly, from Table 4.20 it can be seen that SE firms possess a greater amount of internalised knowledge<sup>18</sup>, an outcome consistent with the literature indicating that elevated levels of socialisation and interaction between the firm and its relationship partners increases knowledge and technical exchange (Håkansson, 1982; Yli-Renko et al., 2002). In fact Yli-Renko et al., (2001) would suggest that MCEs interacting in this manner are likely to accrue a source of competitive advantage via reducing costs and access to complementary resources.

It is also in line with sociology literature in that reciprocity of self disclosure (Davis and Skinner, 1974) has the effect of facilitating knowledge exchange and providing a mode for managing risk, particularly in the context of the recently internationalised MCE. That is, the SE firm is able to be less concerned about market risks associated with knowledge deficiencies and more focussed on growing interdependence with its relational partners. The mutual insulation that this provides is especially evident in *RR*, *MM*, and *TT* in that those within their respective value chains all maintain a vested interest in international success being achieved.

Secondly, SE firms are regularly increasing the number of foreign markets that they are active in whereas TCA firms are not. Whilst this could be partially accounted for by variations in industry type, a better explanation is that SE firms are more willing and

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<sup>18</sup> It is argued that *BB*'s internalised knowledge is more a result of the founder's 40 years of experience in previous incarnations of the business, than due to the quality of its relationships.

able to exploit a greater number of distribution and/or end-user opportunities available to them. *MM* and *TT* are exemplars of this occurring in that both they and their distribution/purchasing partners rely on trust transference processes (Doney and Cannon, 1997), in place of the significant negotiation and contractual mechanisms so often characteristic of a TCA approach. An extreme example of the latter is seen with *BB* whereby distribution agreements can take years to finalise and as occurred in one instance in the UK, still fail to materialise even after all contractual terms are satisfied.

Furthermore, the manifestation of transferred trust reduces much of the transaction costs (Noordewier et al., 1990), associated with identifying and establishing distribution/purchase agreements. The increased flexibility and reduced monitoring in these relationships (Gundlach and Achrol, 1993), also gives the partner greater scope to experiment with new product and market variations. Examples of this occurring in SE firms include *RR*'s distributor creating a new manufacturing alliance for an alternative product range, *MM*'s client inviting him to manage their internal staff on projects, and *TT*'s client playing a direct role in securing a large international contract. In contrast to this is *FF*'s approach to evaluating new market opportunities as shown below.

*...I had an enquiry yesterday from...the most extensive chain of hotels in the world...I'm having to investigate this right now. This kind of thing takes up a lot of my time...*

What is important here is that although the “inquiry” came arguably from a highly credible organisation, *FF*'s main emphasis when this opportunity arose was to spend significant time and resources undertaking *due diligence*. This came possibly at the expense of maximising the relational benefits with the particular prospect, but certainly at the expense of other profitable relationship and marketing activities. Given that the MCE typically has no spare management resource, the cost of adhering to a TCA approach in such circumstances would only be exacerbated.

A third observation which can be drawn from Table 4.20 is that SE firms benefit from higher levels of commitment from their distributors than TCA firms. This is evident in respect to both relationship longevity and also the extent to which attitudinal and instrumental commitments are reciprocated. *RR*, *TT*, and *KK* reveal many examples of where and how this commitment has accelerated and strengthened their

internationalisation strategy, as patently illustrated by the following statements pertaining to *RR*'s experience with distribution.

*...we've got four [distributors], we've got three originals, so we've replaced one [over a five year period]...they are friends and that's what it's about and they will stick with us.*

*...a guy, who is still our top sales person in America, he said, 'I would have walked over cut glass to get that product into my portfolio, I knew this was the biggest thing in [the sport]'.*

The second statement clearly illustrates a highly desirable international outcome of the SE relationship in that whilst *RR*'s offering is compelling, it is their approach to nurturing their distributors that secures a consistency in their commitment. *RR* achieves this because their relationships are fuelled through reciprocal action (Perugini et al., 2003) in that the structure of the commitment between the parties is both proportional and mutual (Anderson and Weitz, 1992; Gundlach et al., 1995). For example, *RR* flew their US distribution team to Las Vegas for a planning meeting, but individuals that made up the team were prepared to commit three days from their own schedule of activities to do so.

A fourth observation, and for similar reasons to those just outlined, is that SE firms are more willing to and better able to develop multiple manufacturing/supply options. On the face of it this would seem to demonstrate a lack of commitment to individual suppliers. However in *MM*'s case, whilst retaining a "main supplier", the flexibility afforded by a SE approach enables it to quickly customise purpose built installations for clients by sourcing components (on terms of credit) through a number of alternative specialist suppliers. Often there is no transactional history between *MM* and the new source, although this may be overcome by the main supplier or even the client vouching as to *MM*'s trustworthiness (e.g., Doney and Cannon, 1997). *TT* also demonstrates a similar flexibility in supply relationships which enables them to fulfil contracts in any part of the developed world.

What is obvious from these examples is that it is easier to engage multiple suppliers for the requirements of a particular contract if the cost of monitoring and compliance is small (Williamson, 1975). This is certainly the case for the SE oriented MCEs in this study whereas greater difficulties and costs may be incurred by the TCA oriented firms. For instance, *OO* retains a long term agreement with its single manufacturer. It is this

exclusion of others which may ultimately lead to supply failure in the event of a sudden *gusher effect* (Campbell-Hunt, Corbett, and Chetty, 2000) in demand. Paradoxically, *OO* may manage the risk of opportunism through focussing on the dyad but in doing they reduce the availability of alternatives, in effect exposing both businesses to the risk of one or the other failing.

The final observation which is drawn from Table 4.20 is SE firms are more willing to source inputs from overseas manufacturers or suppliers, and in doing so, often benefit from cost advantages such as those to be gained from production efficiencies. *KK* provides the most compelling example of this in that their business was not able to cover costs until such time as the relationship was developed with their manufacturer in China. Interestingly, psychic distance proved not to be a barrier to relationship formation, primarily due to prior negative experiences with potential New Zealand manufacturers, as shown below.

*...[The local manufacturers] wanted me to pay \$180 per sample...and it's got a retail value of \$19.95!... They won't invest in their own futures, never mind ours, so that's why we manufacture overseas...*

From this example it seems clear that a SE approach sanctions the MCE to engage in value adding relationships where the ability to monitor and/or control partner activities is nominal. In fact the upfront trust demonstrated by *KK* towards its manufacturer stimulates a pattern of reciprocal commitment and growing interdependence.

To conclude this section, although there appears to be little observable variance between SE and TCA firms with respect to traditional measures of international performance<sup>19</sup>, there is clear evidence showing SE firm achieving better market, demand, and supply outcomes because of the manner in which they structure relationships. These, along with their associated benefits, include; greater knowledge exchange facilitated by self disclosure and access to partner resources; an increasing number of foreign markets due to trust transference lowering investigatory transaction costs; more stable distribution relationships because of the reciprocity inherent within partner commitments; and access to a greater number of domestic and offshore manufacturing/supply alternatives providing potentially greater capacities and cost savings.

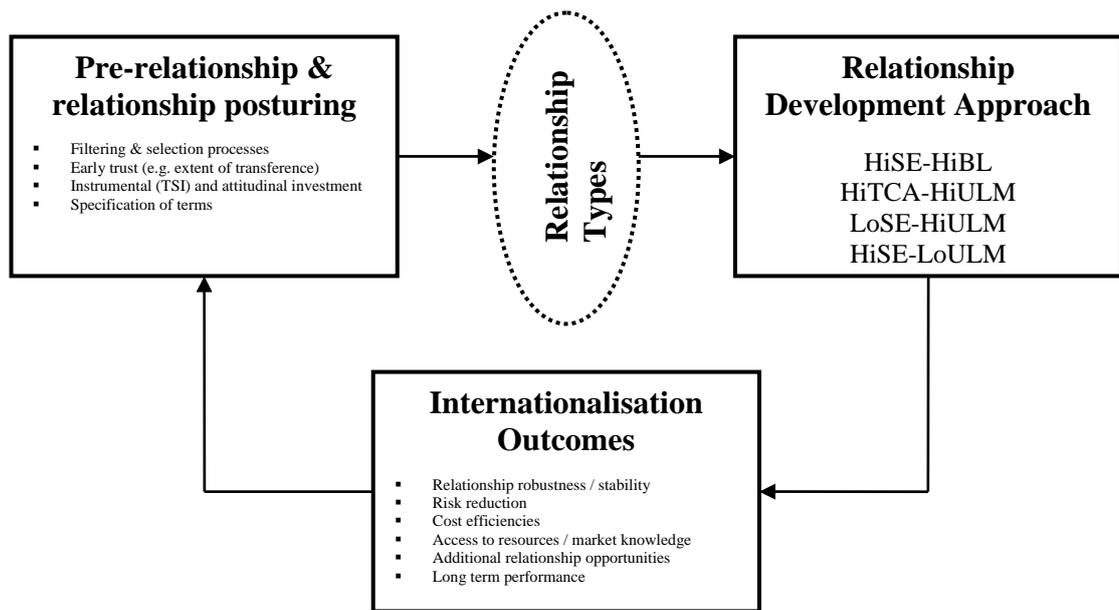
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<sup>19</sup> See Aaby and Slater (1989) and Zou and Stan (1998) for a summary of these.

#### 4.9.5 Model of MCE Internationalisation

To offer an overall conceptualisation of the findings<sup>20</sup>, Figure 4 models MCE internationalisation as a function of its relationships.

**Figure 4**  
**MCE Internationalisation as a Process of Relationship Development**



All the facets within this model have already been discussed but there are a few points worth reiterating here. Firstly, it is suggested that the quality of filtering and selection processes (Wilson, 1995) may determine how much influence the MCE has over the subsequent relationship approach adopted. This is in recognition that the relationship approach preferred by the MCE is not necessarily going to be reciprocated by the partner firm, but there is a higher likelihood of this occurring if factors such as filtering are present. Secondly although not found in this research, alternative configurations of relationship approach may be possible. Finally, it is important to note that relationship robustness is proffered as an international outcome because of the flow-on benefits it has been shown to have on traditional international performance measures (e.g., Leonidou et al., 2002). From this it is tendered that although the SE oriented firms in

<sup>20</sup> Whereas Figure 1 (section 2.7) presented a literature derived general framework which broadly defined the analytical boundaries for this research, Figure 4 reflects a more precise, data driven model, which is consistent with actual case findings.

this study are young in international trading terms (Autio et al., 2000), they will ultimately achieve superior market, sales and profitability outcomes than TCA firms.

#### **4.9.6 Cross-Case Analysis - Conclusion**

In addressing the research questions, sections 4.91-4.94 have included rich contextual evidence revealing both the significance of internationalisation to the New Zealand MCE and the role that close relationships play in this process. From this we can see how the findings have contributed to current knowledge in this area in a number of areas.

Firstly, it has been revealed that internationalisation to the New Zealand MCE is very significant in that many of these firms would subsist or otherwise cease trading altogether. This is particularly so for those firms which develop offerings with a predominantly international demand.

Secondly, it clear that development of a number of key relationship types is critical to both initial and ongoing international activities, in that these often provide the MCE with the knowledge and resources necessary to overcome production and marketing barriers. To this end the firms in this study have been shown to initiate and nurture a number of non-market highly interactive relationships including internal, manufacturing/supply, distribution, support, EPO, and end-user types.

Thirdly, there exists clear variance in the manner in which MCEs both govern and nurture these relationships, although each firm demonstrates a high degree of consistency across the relationship types. An exception to this is the internal relationships which is typically bilateral and SE in nature irrespective of the approach taken to external relationships.

Fourthly, analysis of the cases both individually and collectively reveal justification for separating governance form from relationship mode in that whilst a relationship may be governed unilaterally, it does not preclude a SE mode and vis-à-vis. In addition, separation of the constructs in this manner enables a more precise picture to be developed of a firm's relationship approach relative to that of others. Furthermore, plotting the vector of form and mode in a two dimensional space shows the MCEs to

have adopted one of four relationship approaches namely, HiSE-HiBL (*RR*, *TT*, and *MM*), HiTCA-HiULM (*FF* and *BB*), LoSE-HiULM (*OO*), and HiSE-LoULM (*KK*).

Finally, those MCEs adopting an overall SE (*RR*, *TT*, *MM*, and *KK*) as opposed to TCA approach (*OO*, *FF*, and *BB*) achieve greater international outcomes in respect to knowledge acquisition, rate of new foreign market development, level of both attitudinal and instrumental distribution commitment, and access to supply alternatives.

The research findings pose a number of clear implications for both academics and practitioners. Going international is a strategic decision, and even more so for the resource stricken MCE. Not only is building relationships critical to that process but the precise manner in which they are built also has an impact. This adds to the current thinking in internationalisation, networking and RM literature in that it exposes some inadequacies in the way that internationalisation has been modelled to date, particularly with respect to the small firm. These are now explored in the final chapter.

## **5 Conclusions, Implications, Limitations and Directions**

*The purpose of this thesis is to describe and explain the internationalisation of the New Zealand MCE in the context of its relationship building approach. The final chapter discusses how integrating thesis findings into contemporary internationalisation and relationship marketing literature, extends the current state of knowledge in this regard. On the basis of the findings to the research questions, a number of specific conclusions are made. Then limitations of the present study and future research directions are considered. Finally, implications for the MCE manager are addressed including specific strategies for maximising the value of internationalisation relationships in a resource constrained environment.*

### **5.1 Theoretical Implications**

#### **5.1.1 Summary**

The main impetus behind this research was the apparent paucity of literature pertaining to the manner in which the MCE is able to successfully enter the international marketplace. In fact, the MCE as a unit of analysis hardly appears at all in internationalisation research (see McAuley, 1999; Moen, 1999; Philp, 1998), therefore at present, theory as developed for the SME must be used as a proxy in considering how MCE foreign market entry occurs. In so doing, knowledge deficiencies are highlighted in that whilst existing theoretical perspectives are shown to be satisfactory at a descriptive level, they lack the precision to explain the phenomena that is the internationalising MCE. Furthermore, the evident failure of scholars to investigate the MCE suggests that they are not taking the smaller open-ended economies seriously and this study also serves the purpose of highlighting the significance of these types of firms.

In acknowledging that the MCE likely lacks the required knowledge and capital resources (Aldrich and Auster, 1986; Birley, 1985; Knight, 2000; Westhead et al., 2002) to follow the expected internationalisation path of increasing commitments (Bilkey and Tesar, 1977; Johanson and Vahlne, 1977; Johanson and Vahlne, 1990), an analytical framework modelling the role of relationships in this process is proffered. The rationale behind this is that the absence of internal infrastructure would likely compel the MCE to

leverage its relationships to achieve any measure of international success (e.g., Larson, 1992; Leonidou et al., 2002; Styles and Ambler, 1994). Furthermore, whilst a minority of MCEs such as those fitting into the Born Global category may derive competitive advantages through possessing inimitable technology or resources (Barney, 1991; Oviatt and McDougall, 1994; Moen, 1999; Wernerfelt, 1984), the vast majority do not enjoy such market positions in that they compete with much larger counterparts in well established industries.

Existing literature stating that firm internationalisation is gradual and often sequential, facilitated by active links to both formal and informal networks, holds true for the MCE to the extent that its relationships are indeed temporal and embedded within the context of a group of relationship types (e.g., Andersen and Buvik, 2002; Jones, 2001). Although RM is expressed from a number of theoretical perspectives (e.g., Bruhn, 2003) the SE approach in particular (Dwyer et al., 1987; Hallén et al., 1987; Homans, 1961; Morgan and Hunt, 1994; Thibaut and Kelley, 1959) provides for a greater understanding of how the underpinnings of these relationships have consequential effects on international outcomes and performance (e.g., Leonidou and Kaleka, 1998; Leonidou et al., 2002). Furthermore, by juxtaposing SE against the other major analytical perspective of TCA (Noordewier et al., 1990; Williamson, 1979), this thesis establishes that MCEs which demonstrate a propensity towards adopting a SE approach will achieve better international outcomes in doing so, and at the same time attenuate foreign market risk through reliance on others.

This general conclusion can be drawn because whilst the various approaches to explaining relationship development in the RM literature depict how firms are able to account for risk, opportunism and uncertainty (Kingshott, 2005), under conditions of SE these relationships are found to be more robust. Indeed this is reflected in the MCE's international relationships because of the trust based commitment which is clearly evident (see Doney and Cannon, 1997; Ford, 1980; Gundlach et al., 1995; Schurr and Ozanne, 1985; Wilson, 1995). Furthermore the increased flexibility inherent in SE facilitates the easier accounting for both relational and marketplace uncertainty.

The overall findings of the study's research questions and implications of each are now discussed.

### **5.1.2 The Significance of Internationalisation to the New Zealand MCE (R<sub>q1</sub>)**

The strategic decision to internationalise, particularly at an early stage, is found to be of critical significance to the selected New Zealand MCEs long-term growth and survival prospects. Reasons for this include a non-sustaining or non-existent domestic market, a more accelerated rate of growth than would be possible from solely pursuing domestic opportunities, more robust financial returns, and a greater likelihood of establishing a market for technically innovative or niche based offerings.

Furthermore, embarking upon internationalisation activities ultimately causes an increase in the knowledge and competency base of the MCE, especially in areas of strategic and tactical planning as the manager seeks to overcome resource deficiencies. This is consistent with Bell (1995) and Sharma and Blomstermo (2003) who state that involvement in international networks provides learning advantages not available to the firm with a domestic orientation. In addition, Moen and Servais argue that “the future export involvement of a firm is, to a large extent, influenced by its behaviour shortly after establishment” (2002, p.49). However, these authors indicate pre-exporting behaviour to be focussed on creating an internal resource base, whereas the MCE’s activities are necessarily directed towards the development of external relationships as a resource.

The internationalisation process itself also stimulates the MCE to develop its base of both domestic and international relationship types. Apart from needing the inputs and resources of others to take it into the international arena, external relationship development facilitates the retention of small operating infrastructure. This desire to remain small via leveraging relationships poses a challenge to the generalisability of stage models which indicate that the internationalising firm will ultimately adopt a strategy of increasing commitments to the point where FDI occurs. This is plainly not the case for the MCE in that their chosen mode of export entry and expansion is relationship rather than resource driven and FDI is unlikely in any form at any stage of this process. It does however fit well with relationship process models (Dwyer et al., 1987; Ford, 1980; Wilson, 1995) in that growing interdependence as a result of regular interaction and exchange is a manifestation of increasing commitment to internationalisation.

Internationalisation whilst significant to the MCE from the perspective of facilitating the achievement of economic and market performance objectives also provides a means of fulfilling personal objectives (e.g., Katsikeas et al., 2000). These include individual validation, industry recognition, self employment, philanthropy, and travel. To date, these measures (and others like it) have not been factored in to internationalisation theory although this is likely due to a historical bias towards the study of larger (thus more impersonal) organisational forms.

Overall, in addressing R<sub>q1</sub>, the following major conclusion is submitted:-

- ***Internationalisation is highly significant to the New Zealand MCE.***

### **5.1.3 Key Relationships Developed in MCE Internationalisation (R<sub>q2</sub>)**

It has been established that internationalisation is significant to the MCEs in this study and that relationships take precedence over resources as being most critical to this process. In fact the diminutive nature of the MCE does not prevent it from achieving foreign market success, although recent internationalisation literature would suggest that this is normally only seen in the most competitive of small firms inasmuch as they possess proprietary or management based advantages (Calof, 1994; Moen and Servais, 2002; Oviatt and McDougall, 1994).

This study, whilst not undermining the importance of management competency or a unique offering, proposes that it is the set of key relationship *types* developed (e.g., Hallén et al., 1987; Morgan and Hunt, 1994) which largely determines the MCE's international prospects. It extends work such as Bonaccorsi (1992) by submitting that not only is cooperation important at various levels of the value chain, but it is the degree of integration within that set of types which produces variation in MCE performance. To this end, key relationships observed being developed by the MCE include internal, manufacturer/supplier, distributor, support, EPO, and end-user types.

Not surprisingly, the internal relationship is the most important as it is typically highly interactive and the parties involved have a vested interest in firm success. Those who become partners in the MCE, whilst not necessarily originating from the same industry or professional backgrounds, do tend to possess skill complementarities and demonstrate a mutual willingness to commit both attitudinally and instrumentally from the outset of the business (e.g., Gundlach et al., 1995). Bilateral governance (Heide, 1994) is predominant in internal relationships irrespective of whether this extends to other relationship types. This suggests that internal bilateralism may manifest as a result of varying motivations ranging from the presence of social norms such as mutuality and solidarity through to a realised potential for joint opportunism. These subtleties in motivation and in particular, their effects on the form of governance adopted for external relationships, have yet to be explored in the RM literature.

Another finding of this thesis is that there appears to be some consistency between the firms as to the relative importance of each of the external relationship types, although no obvious correlation is observed between external relationship importance and the form of governance adopted by the MCE. Manufacturing/supply and distribution types are typically the most important outside of the internal relationship in that they not only provide critical outsourcing functions, but for the MCE are often proxies for an internal management team, especially in those firms where bilateral governance is embraced. This finding offers an extension to networking literature (e.g., Chetty and Blankenburg Holm, 2000; Coviello and Munro, 1997; Sharma and Johanson, 1987) regarding the degree to which external parties may become involved in management and administrative functions of the MCE.

Support, EPO, and end-user relationships are generally ranked as less important relative to that of manufacturer/supply and distribution, and this because of a reduced amount of interaction with the MCE. However, three of the seven firms do actively engage these types in decision making and market/product developmental efforts and often receive this input at no financial cost. This is in contrast to those MCEs adopting a unilateral approach that commission others (often at significant expense) to undertake tasks with specific terms of reference.

It is clear that MCEs develop a number of key relationship types to facilitate internationalisation efforts and that these types vary in importance. Overall, in addressing R<sub>q2</sub>, the following major conclusion is submitted:-

- *Key relationships critical to the development of MCE internationalisation strategy include internal, manufacturer/supplier, distributor, support, EPO, and end-user types.*

#### **5.1.4 Relationship Approach Adopted for each Relationship Type (R<sub>q3</sub>)**

It is commonly accepted that SE and TCA are the two dominant *modes* of relationship development and that these by in large correspond with bilateral and unilateral/market *forms* of governance respectively. However, the findings of this study indicate that mode and form can be separated in that whilst a relationship maybe characterised by interactions of a SE nature as manifest by reciprocated trust, commitment, and social norms, it may also be governed unilaterally and vis-à-vis. By implication, in determining the strength of these constructs separately for each and every key relationship, it has been shown that a MCE's overall relationship approach (or strategy) can be precisely calculated and positioned against the approach taken by other internationalising MCEs. Taking this theoretical stance extends the current one-dimensional thinking of the firm residing at some point along a TCA-SE continuum. By adding governance, the intersection of *form* and *mode* can be plotted in a two-dimensional space.

Furthermore, Pels et al., (2000) argue that relational approach is dynamic and as such may be transactional at one point and relational at another, dependent on the exchange situation and needs of each partner. This clearly extends traditional models (e.g., Dwyer et al., 1987; Håkansson, 1982) which indicate that whilst exchange may begin at arms length, trust based commitment will progressively increase via the moderation of social norms. However, the findings of this study are at variance to some extent with both of these notions.

Whilst the relationships of the four SE oriented firms in this study (*RR*, *MM*, *TT*, and *KK*) can be characterised as emergent and evolving at a behavioural level, in that continued mutual exchange and commitment has led to increased interdependence (see individual case accounts), MCE manager attitudes towards commitment seem to a large extent static. This can also be observed in the TCA oriented firms. In fact, it is argued that the MCEs have not significantly varied their relational approach over time and this is irrespective of relationship type or duration. Those adopting an overall SE orientation have done so from the outset, aided by such processes as relationship filtering (Wilson, 1995), trust transference (Doney and Cannon, 1997), and preformed expectations of behaviour based on the existence of social norms (Heide and John, 1992). Conversely those observed as being TCA in nature, have taken early measures to guard against opportunism, in that they possess low expectations of partners engaging in mutually beneficial behaviour (Joshi and Arnold, 1997).

It appears then that the approach adopted by the firm is more correlated with key decision maker characteristics (with respect to the focal firm) than it is affected by temporal factors, exchange situation, or individual partner needs. That is, the MCE manager is either trusting or suspicious by nature and moderation of either attitude through repeated interaction is nominal. This is not to say that interactions which abuse or strengthen trust do not have any effect on relationship approach (e.g., Pillai and Sharma, 2003), merely that MCE managers appear to enter business with a preformed mindset and method of conducting exchange.

A further clue as to the lack of dynamism in the MCE's relational approach may reside in the suggestion made by Heide (1994) in that a relationship historically governed in a bilateral manner may in fact be damaged by attempts at unilateral governance in future interactions. This would seem to be a common problem for organisations which have grown from being diminutive to being significant in size, necessitating administrative and contractual procedures be more closely adhered to (e.g., Coviello et al., 2002). It can manifest when a smaller organisation is subject to an ownership change or buyout from a larger concern, whereby the 'style' of the previous owner is replaced by the management systems of the new owner. Of interest is that the MCEs in this study have all resisted opportunities for infrastructural growth or buyout, and the value of their portfolio of relationships to them may be a contributing reason for this.

By decomposing *form* from *mode* and then subsequently reintegrating them in a two-dimensional space, this thesis finds that the MCE's relational approach, as determined by the set of key relationship types, can be depicted as residing in one of a number of positions therein. These include HiSE-HiBL (*RR*, *MM*, and *TT*) HiTCA-HiUL (*FF* and *BB*), LoSE-HiUL (*OO*) and HiSE-LoUL (*KK*). Where the first two are consistent with existing conceptualisations (e.g., Heide, 1994), the latter two, indicating varying degrees of unilateralism in a SE relational environment, appear not to have been previously observed in the literature. Furthermore, although not identified in this study, the results also suggest that other configurations of form and mode are possible.

The major theoretical implication here is that there is a need to remodel RM in a MCE context. This should reflect the less than dynamic nature of their relationship approach, and the complexity associated with separating governance form from relational mode. Overall, in addressing R<sub>q3</sub>, the following major conclusions are submitted:-

- *MCEs gravitate towards adopting a mostly SE approach or a mostly TCA approach to its relationship types.*
- *The MCE's relationship approach remains relatively unchanged through interaction.*
- *Relational mode and governance form may be observed as separate constructs.*

#### **5.1.5 Relationship Approach Impact Upon MCE International Outcomes (R<sub>q4</sub>)**

With respect to traditional measures of internationalisation performance such as export intensity, firm size, sales, profitability, and market characteristics (e.g., Aaby and Slater, 1989), there appears to be little discernable difference between those MCEs adopting an overall SE or TCA approach to their relationships. Given each firm's relatively short exporting history, this in itself is not a surprise (e.g., Leonidou and Kaleka, 1998). However, this thesis has shown that the international *stage*, *networking*, and *resource* based research which encompasses these measures, does not go far enough in explaining the more subtle, but no less important, variations between the firms. In fact some internationalisation authors argue for a more holistic approach to uncovering the richer performance variables inherent within strategy as opposed to just economic ones

(e.g., Cavusgil and Zou, 1994; O'Toole and Donaldson, 2000; Thirkell and Dau, 1998). By tapping the increasingly significant paradigm of RM and aligning it with internationalisation thinking, a number of differences are found in the foreign market outcomes of SE and TCA oriented MCEs.

SE firms benefit from a greater amount of internalised knowledge, a higher rate of increase in the number of foreign markets being activated, more demonstrable commitment from distributors, and greater flexibility in supply options, particularly with respect to developing offshore manufacturing relationships. The reciprocal nature of the SE approach (Gouldner, 1960) facilitates these outcomes via more dyadic self disclosure (e.g., Davis and Skinner, 1974), trust transference (e.g., Doney and Cannon, 1997) and relationship filtering processes (e.g., Wilson, 1995), as well as ongoing mutuality of commitment between partner firms (e.g., Gundlach et al., 1995). Whilst the TCA oriented MCEs do not appear to enjoy these benefits there is also evidence of their internationalisation process being hindered through higher transaction costs (e.g., Heide and John, 1988; Noordewier et al., 1990), lack of flexibility in governance (e.g., Wren et al., 1998), and an overdependence on certain relationships due to the high cost of introducing and monitoring alternatives (e.g., Williamson, 1975).

The major theoretical implication from the findings outlined in this section is that modelling of firm internationalisation needs to take account of the effects of relationship management strategy on performance. Furthermore, the parameters of performance require expanding to include the outcomes arising from the implementation of that strategy. There are those that advocate such considerations (e.g., Cavusgil and Zou, 1994; Coviello and Munro, 1995; 1997; Oviatt and McDougall, 1994), but there remains inadequate attention being devoted to this area and this is especially so for the extent to which relationships effect the smallest of internationalising concerns. Overall, in addressing R<sub>4</sub>, the following major conclusions are submitted:-

- *MCE internationalisation outcomes are impacted by the relationship approach adopted.*
- *MCEs adopting a SE approach will achieve better international outcomes than those adopting a TCA approach.*

### **5.1.6 Limitations of the Study**

The limitations of this research arise from four general areas namely, unit of analysis, industry context, methodology, and the potential for integrating the empirical results with other studies. In assessing these though, one should be mindful that “there are no perfect research designs. There are always trade-offs. Limited resources, limited time, and limits on the human ability to grasp the complex nature of social reality necessitate trade-offs” (Patton, 2002, p.223).

In some cases only one person was able to be interviewed. Given that three of the MCEs comprise a single proprietor this was unavoidable, although it was offset by the benefit that only key decision makers were interviewed enabling the complete and reliable recounting of the internationalisation journey. Other potential shortcomings that were considered in choosing the MCE as a unit of analysis included; the increased probability of business failure given liabilities of smallness and newness (Aldrich and Auster, 1986), and the shortage of documented corroborating evidence for the primary data due to small businesses not being disciplined record keepers (Chetty, 1996).

Not choosing MCEs from the same industry also meant a lower level of contextual comparability across the cases. The selection process however was driven by the desire to select exemplar small exporting businesses and this was facilitated by the recommendations of various EPOs including NZTE. Furthermore, it was felt that irrespective of the industry in which the MCE competes, size and resource constraints dictate that all must make strategic decisions regarding relationship development.

“Methods of qualitative data analysis are not as well formulated as its quantitative counterpart and the analyst faced with a bank of qualitative data has very few guidelines for protection against self delusion, let alone the presentation of unreliable or invalid conclusions...” (Miles, 1979, p.591). The method employed although entirely appropriate for investigating the relatively unexplored area of MCE internationalisation (e.g., Eisenhardt, 1989), does naturally lead to some uncertainty regarding the extent to which relationships and their effects have been interpreted correctly. However, every effort has been made during the research design, data collection and analytical stages to

ensure consistency in both approach and assignment of meaning. Ultimately it is the work of further research to both refine and extend the findings of this study.

Internationalisation theory still suffers from a lack of theoretical integration (Coviello and McAuley, 1999; Madsen and Servais, 1997; Miesenbock, 1988), and although this present study is somewhat exploratory given the topic, efforts have been made to ensure intellectual synthesis through integrating various streams of literature (e.g., Redding, 1994). That is, in understanding MCE foreign market progression, stage, networking, and RM research have been drawn upon. Despite this however, the real emphasis has been on relationships, and although parsimony is essential it does increase the risk of critical factors being missed altogether. With this in mind, future research directions are now discussed.

### **5.1.7 Future Research Directions**

Notwithstanding the opportunities presented by the conclusions in this study, additional theoretical and methodological issues need considering when contemplating further research into MCE internationalisation. The study presents a number of challenges in this regard.

Firstly, whilst findings have indicated that relationship approach has an impact on outcomes and ultimately performance, translating these into statements of international “success” is somewhat more problematic. In fact McDougall and Oviatt (1997) state that traditional theories of internationalisation and transaction cost economics aren't easily translatable to the small firm, and because of the absence of a strong theoretical base, predicting success remains highly contentious. It is suggested that this study has begun to address the issue by proposing that the quality of relationships is central to the success of the smallest of internationalising concerns. This would indicate that SE provides the robust theoretical underpinning called for in future research.

Furthermore studying the strength and depth of network relationships greatly enhances our understanding of the internationalisation process (Sharma and Johanson, 1987). Apart from a few studies which examine various aspects of relationships in the context of a firm's foreign market activities (e.g., Ellis, 2000; Leonidou, 1989; Leonidou and

Kaleka, 1998; Styles and Ambler, 1994), it would seem that the field of RM still has much to uncover in this context. Chetty and Blankenburg Holm (2000) perhaps unwittingly make the point that the SE perspective has been used in the development of business network theory in internationalisation. The irony here is that the network perspective in its many forms is increasingly studied, but the role of the SE relationship is still not well understood. This thesis in a sense takes a retrospective approach by revisiting the foundations of networking, subsequently uncovering some major areas worthy of further investigation.

Firstly, more research is required into the separation of form of governance and relationship mode. Whilst reasonably compelling evidence is presented here suggesting that such a separation is justified, this could be further developed by comparison across industry contexts and other factors such as firm size and age. Secondly, additional studies could be conducted into the dynamism of the firm's overall relational approach and in particular the impact that founding personnel have upon relationship progression. Thirdly, there is some evidence to suggest that technology based MCEs are more likely to adopt a SE approach than traditional manufacturing MCEs. Future studies may wish to factor this into their analysis as at this stage the literature is not in total agreement on such a finding (e.g., Aulakh et al., 1996; Coviello and Munro, 1995; Leonidou et al., 2002).

These findings would also be enriched through conducting further research employing an actual as opposed to a retrospective longitudinal approach in the data collection phase. Obviously availability of resources and willingness of participants will always pose challenges here, but repeated interviews with a smaller number of subjects may address this to some extent.

Finally, internationalisation literature as a whole would benefit from a greater understanding of the MCE, as even the largest of concerns can trace their origins to these diminutive structures. In the meantime however, this thesis poses a number of implications for managers of small and large firms alike.

## 5.2 Managerial Implications and Conclusions

There appears to be some truth in the saying “small but beautifully formed”. The MCE manager might take solace in the fact their business does not have to be large in order to achieve international market entry at a level which is both sustainable and profitable. Where much research indicates consistent growth in overseas activity is commensurate with increases in both knowledge and internalised resources, this study presents evidence where the absence of these factors has not hindered, and in fact may have stimulated, the firm’s international progress. Implicit within this statement is that business owners wishing to exploit these opportunities may transfer much of the associated risk onto their relationship partners. Furthermore, whilst the large firm is not advised to become smaller it should take heed of the value of leveraging its relationships in a similar manner.

The internationalising MCE should give serious consideration to adopting a SE approach in place of committing scarce resources to monitoring and enforcing partner contractual obligations. Even elaborate legal mechanisms may still not prevent opportunistic behaviour from occurring. Furthermore, the managerial time and expense incurred could cause the business to take focus off the more important goal of international expansion. In short, the SE based relationship provides the resource constrained MCE with a more efficient means of absorbing market entry risk than the TCA based relationship.

This thesis shows that adopting a SE as opposed to a TCA approach also engenders flexibility in exchange governance which concurs with the statement that flexible governance can have a “significant influence on the long-term development and competitive advantage of an entrepreneurial firm” (Yli-Renko et al., 2001, p.530). The managerial implication here is that not only does SE provide significant advantages over TCA in an international setting, but these advantages are likely to be greatly enhanced by employing this approach with consistency over all relationships.

Furthermore, competitive advantage will be acquired not only from relationship outputs but also from incurring less costly inputs, thus freeing up valuable developmental resources. *BB* provides a clear example of this, ostensibly a profitable business with a

unique product in high demand, but hamstrung by ongoing litigation over contractual disputes. *RR* in contrast takes a different approach to those who fail to reciprocate their actions. They simply terminate the relationship and seek to develop another that will. Whilst this may mean that some initial relationship and fiscal resources are lost, damage and disruption to the business is minimised. These examples suggest that even when let down by a relationship partner, the manager should think seriously before abandoning a trust based approach.

Fostering SE relationships should not be confused with entering blindly into new, largely untested ones. Even the most ancient of wisdom would recommend that “you do not cast your pearls before swine, lest they trample them under their feet, and turn and tear you in pieces” (Holy Bible, 1982). Clearly, managers should minimise the risk of this occurring through the implementation of relationship filtering measures. Two of the most effective of these include seeking the recommendation of a credible third party and checking on the outcomes of a prospects past activities.

The sole proprietor MCE should also consider the benefits to be gained from the presence of a trusted internal relationship partner. It is accepted that one of the most difficult growth phases occurs when contemplating either sharing equity or employing another full-time person. However, *RR*, *TT*, and *KK* all provide examples of where the combination of internal production and marketing skills can accelerate internationalisation activities, particularly in the development and management of external relationship types. Furthermore, internal relationships also provide opportunities to hone the skills needed for translating a trust based approach to key external parties.

This study has suggested that MCEs do not seem to adjust their relationship strategy due to preformed attitudes regarding trust and commitment. Pels et al., (2000) differ from this view stating that a firm may adjust its approach to partners based on situation and need. Whilst this may be simple for the larger firm employing a mixture of management personnel, the MCE by virtue of having fewer (but likeminded) individuals is more likely to resist changing their relationship approach. It seems that those MCE managers with an existing TCA orientation, when seeking internal partnerships, might benefit from selecting those who possess a SE orientation. This then increases the

possibilities for the manner in which future relationships are nurtured. This lesson can be learnt from *BB's* founder, who chose to clone himself (e.g., Aldrich and Auster, 1986) thus exacerbating the propensity to suspect the intentions of others, ultimately not improving the quality of external relationships.

It is not suggested that all relationships be SE based. For the larger business-to-consumer firm in particular, this is neither feasible nor profitable (Coviello and Brodie, 1998), and even in other industrial contexts short-term opportunistic behaviour appears to be the accepted norm (Low, 1996). What is being advocated though, given the somewhat vulnerable nature of the MCE, is that the manager makes every attempt to engage value chain partners in an interactive and socialised manner, encouraging behaviours motivated by trust and flexible governance.

In conclusion, it is proposed that MCEs can reduce the constraints imposed upon them as a consequence of size, and become reliant upon the exchange partner. Internationalisation success then becomes largely a function of the capability to develop strategies which build trust, norms and commitment, and corresponding increases in commitment to the foreign market may occur without fear of opportunism by others. The distribution of rewards accruable to all of those involved has the added benefit of increasing relationship robustness and thus loyalty.

Finally, policy makers would do well to recognise that MCE internationalisation is indeed critical to New Zealand's economic prosperity particularly given the high number of businesses which fit this profile and the significance of their collective contribution to total economic output. Case evidence from this study would suggest that a dedicated government focus assisting MCE internationalisation is entirely warranted. One point frequently mentioned by participants included the need for inexpensive or free customised advice during the development of market entry strategy. At present, what is on offer is either too generic to be useful, or too expensive rendering it inaccessible. The other point stated with some regularity was that there is at present insufficient financial support for attendance at international trade shows, an activity particularly important for the establishment of distribution relationships. Ultimately it seems that the MCE offers a vast, albeit untapped, potential for overseas success which policy makers would do well to take notice of.

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## Appendix One: Thematic Selection of Verbatim Comments<sup>1</sup>

### Rifle Rangers

#### *Bilateral Governance*

##### *Internal*

*BOB: ...So that's really where the product came from, Geoff's involvement and then I guess, my joining in the sales and marketing side of it.*

*BOB: Purely a business proposition, which is why we set it up with four criteria...we would never employ any staff, we would never have an office other than working from our own homes, we would never pour good money after bad...*

*GEOFF: ...we were talking about founding principles. One was creating relationships, and we were able to actually finance this thing through cash-flow and extended credit from our suppliers...*

*BOB: No, a lot less in New Zealand... Geoff had set the price before I came on board so we were much lower. We've got the price up now, to \$\_\_\_\_\_ in New Zealand...*

*BOB: I go to his house, or he comes here if he's in town, he's out in New Brighton, or I go over and catch up with him. We talk on the phone half a dozen times a day...*

##### *Manufacturer / Supplier*

*BOB: ...we have a very close relationship with our suppliers...we see ourselves as having three support networks. One is our...six major suppliers all here in Christchurch...we went to them and said 'this is where we are at' we obviously couldn't get a loan from the bank...a few of our suppliers got a bit twitchy but we simply laid it on the table, had a meeting with them every week, gathered them round the table...and gave them all the updates...They gave us as much input as they could as well from their own positions from what they had been selling.*

*BOB: ...They all do different components, and then we get them all assembled together and we have production flows to watch what we're doing...so between them, myself and Geoff we manage the inventory levels.*

*GEOFF: ...I very quickly moved on to another past contact to start getting circuit boards made...I didn't have that industrial experience, appropriate to those processes. So they said the problem lies with how your board is laid out. So I said 'well you lay out a board that will work.' So their board layout proved to be, and some interesting innovations were suggested to me...*

*GEOFF: ...So I went back to John [a supplier] and said 'how do we turn this thing into a double?'*

##### *Distributor*

*BRUCE: ...So what we did was, we flew them to Las Vegas and we flew up and we had three days around a table...with them...and we sat there for three days and talked about it...talked round the table, set the pricing policy, we set all sorts of stuff in there, warranty and service issues, and went through the whole gamete of how the product works, so they could go away completely comfortable with putting this product in the*

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<sup>1</sup> Verbatim quotes from the cases are prefaced with Manufacturer / Supplier, Distributor, Support, EPO, End-user, or Other types, but they do not necessarily refer to the same parties within each of those types.

*marketplace...We talked through the pricing a bit up there, because we were a bit unsure as to where we were going to be, and we took a fair bit of advice from them on it...*

*BOB:...They go out and do their own advertising. They sell right across America so there is no territory involved...*

### **Support**

*BOB:...So after about eighteen months working by ourselves, we came to the realisation that the only input we were getting was from our own knowledge and that was limiting us. So...we went out to our accountant, our solicitor, we had a couple of relationships with some businesses in town... one looks at business advice from the financial aspect, the hard nosed aspect, and the other one looks at it from the personnel aspect. We also had a tax specialist and a bank manager, so we went to all those people, those six people and we said 'we'd like to have quarterly meetings, so instead of coming to see each of you individually, we want you to all get round the table, we'll have a quarterly meeting and bring you up to date with where we are going, what we're doing and we'll deal with all the business in one hit. What do you think about that for an idea?' They all said that sounded absolutely wonderful.*

*BOB:...we call them our board of advisors. We get together every three months, we go over projections, we go over where we've been, over all the financials... and they look at things from different aspects... And we've got the solicitor there looking at things from the legal viewpoint and we've got the bank manager there to see what we're doing as far as the exchange rates are concerned, forward cover, business money and all that sort of stuff. It works absolutely wonderful...*

### **End-user**

*GEOFF:...after we had done this demo...he said, 'look I'll go and bring some people back from the clubhouse'...they came down...I wanted to solve the problems and they encouraged me [with suggestions how] to do that.*

## **Social Exchange Relational Mode**

### **Reciprocity**

*INTERNAL (BOB):...I had decided that I was looking for something... there are a lot of good products out there, but there's not that many good people out there...but Geoff was one of the few that was willing to let go of fifty percent of his business.*

*MANUFACTURER / SUPPLIER (BOB):...we have a very close relationship with our suppliers...[we said to them] 'we think this product is a winner, and we're prepared to run with it. If you guys are prepared to hang in there with us for the long haul, we'll make sure it works'...and they sat back and said 'look guys we think you know what you're doing, just keep on going'.*

*MANUFACTURER / SUPPLIER (BOB):... They gave us as much input as they could as well from their own positions from what they had been selling.*

*DISTRUBUTOR (BOB):...what we did was, we flew the other four to Las Vegas and we flew up and we had three days around a table at Las Vegas with them. We paid for all those guys, reimbursed them their airfare and got them there...*

*DISTRIBUTOR (BOB): [They were prepared to take three days out of their business time because] they knew this was the hottest product on the market.*

*DISTRIBUTOR (BOB):...we've been dealing with those rotten Australians for years [said with humour] and we've never had a bad debt out of them.*

*DISTRIBUTOR (GEOFF):...there were some real serious problems to crack... \_\_\_\_\_ said, 'look this guy Ben \_\_\_\_\_ in New York has seen this thing and he's an audio engineer and he wants to talk to you about cables and connectors and things, why don't you give him a ring.' So I gave him a ring in New York and he had some ideas... And over the next six weeks or so Ben and I had a lot of phone conversations...He became a distributor.*

*SUPPORT (BOB):...I then said to them, 'why won't you charge us?' [They answered] 'because if you take note of our advice, we're going to get business out of you anyway because you'll be on a growth path, and secondly, it gives us ownership of what you're doing and investment in helping a new business remain successful'.*

*END-USER (BOB): : [It is great] to see Geoff get a real big smile on his face when he stands up at an [event]...and gets recognition from those [end-users] that we made a difference [and] to their sport worldwide.*

### **Commitment**

*INTERNAL (BOB): I was working fulltime for Trade and Enterprise...So I...resigned from there and bought half the business and we kicked it off.*

*INTERNAL (BOB): No income, absolutely. Took a complete punt on it. The reason I did that was, Geoff had the opportunity to go to a major shoot in America and show his product...*

*INTERNAL (GEOFF):...I saw it this way, if Bruce can help me sell twice as many and we take 50 percent each, I'm still square, and we're likely to do a darn sight better than that...Giving Bruce half of the action would probably mean that I would get a hell of a lot more of the action than if I attempted to do it on my own...Bruce wasn't asking for half, I offered half...*

*MANUFACTURER / SUPPLIER (GEOFF):...We've poured a lot into assisting [our manufacturer and now] they are starting to be very highly thought of in Australia...*

*MANUFACTURER / SUPPLIER (BOB):...And eventually we got through it. So the suppliers stuck with us and gave us extended credit and hung in there, which was good.*

*MANUFACTURER / SUPPLIER (BOB): Pretty much stuck with the originals. We've made one change to one of the suppliers and that's it.*

*DISTRIBUTOR (BOB): Nothing is sold through retail...The dealers are other people that sell them to the \_\_\_\_\_ market...I know them, but I don't concern myself with them. They want to become distributors and buy them off us direct, but they can't, I won't wear it.*

*SUPPORT (BOB):...so we went to all those people, those six people and we said 'we'd like to have quarterly meetings... and bring you up to date with where we are going, what we're doing...What do you think about that for an idea?' They all said that sounded absolutely wonderful...I said to them, 'how much is it going to cost us to have you all on board?' And all bar one said 'nothing'.*

*END-USER (GEOFF):...I had to adjust the gain of the system...and I took them out to the [sports] club...and we [trianled] them, and it's when the guys said, 'hey! This is working, this is the recipe'...and they said, 'right we are going to hold the Canterbury*

*champs in four or five weeks time, if you can provide us with four systems to this recipe, we'll use them'.*

*END-USER (GEOFF):...They are still using one of those systems which I gave them, one of those original systems is still out there...And that worked brilliantly and as a result of that...I sold two off the grounds.*

### **Trust**

*INTERNAL (GEOFF):...I think it's been very important that this is a 50/50 business...He's seen people go to the grave with a good idea, because they don't have the trust to let someone take the risk...*

*INTERNAL (BOB): He came into the Trade Development Board as a wannabe exporter...there are a lot of good products out there, but there's not that many good people out there who own those products, but Graeme was one of the few that was willing to let go of fifty percent of his business.*

*MANUFACTURER / SUPPLIER (BOB):...[The suppliers] had known Geoff for a number of years anyway through his work, because he had been in Christchurch and how he worked and I guess my joining also gave him extra credibility...*

*MANUFACTURER / SUPPLIER (BOB):... Things got fairly tight a couple of times...a few of our suppliers got a bit twitchy but we simply laid it on the table...and said 'this is where we're at, this is the sales, these are the bills, this is everything that is going on out there', gave them all the updates. We never hid a thing from them, and they sat back and said 'look guys we think you know what you're doing, just keep on going'.*

*DISTRIBUTOR (BOB):...I had found out who in the UK was well known, who was in the actual game selling product... and as a result of that I appointed one of the guys [as a distributor]...*

*DISTRIBUTOR (BOB):...These people aren't distributors with us now, they are friends and that's what it's about and they will stick with us.*

*DISTRIBUTOR (GEOFF): So I did this trip, and I met this \_\_\_\_\_ and he decided he liked it, and I left the system with him, he wanted to demonstrate it, he was quite interested in distributing this thing...*

*DISTRIBUTOR (BOB): [We have no contracts with them. It is all] built on trust...[and it works] absolutely fine...our philosophy is if you are going to get ripped off, you are going to get ripped off, and a piece of paper will only make you spend money to chase it.*

*DISTRIBUTOR (BOB):...we never signed any agreements with them, we only shook hands.*

*END-USER (GEOFF):...There was [a guy] who took one to the West Coast...and the other one went to the North Island with [another guy]...Both of these guys are good [at the sport]...I paid him a commission and he demonstrated this system to a whole heap of clubs in the North Island.*

*OTHER (BOB): I talk about it...With a lot of people, with business partners, distributors, our advisory board, I'll talk to anybody.*

**Norms**

*INTERNAL (BOB):...We're just lucky that we set the company up that way, so he focuses on R and D and I focus on sales and marketing.*

*MANUFACTURER / SUPPLIER (BOB): And we hid nothing from them. We were absolutely open, put all the books on the desk. It's the only way to be. It works wonders...As soon as they get the feeling that you're hiding something, it's when the shutters start to come down...*

*DISTRIBUTOR (BOB): If it's under warranty, it needs sorting out, then they sort it out. They buy the parts off us...there's a twelve-month warranty on the goods and they look after it.*

*DISTRIBUTOR (BOB):...flew them for three days, talked round the table, set the pricing policy, we set all sorts of stuff in there, warranty and service issues, and went through the whole gamete of how the product works, so they could go away completely comfortable with putting this product in the marketplace.*

*DISTRIBUTOR (BOB):...We have occasions when they bitch and moan about each other and I sort those problems out for them...*

*DISTRIBUTOR (BOB): It varies, each of them are slightly different. I know their patterns, and I know when one of them has gone past a certain date and I can call and say, 'put some money in the mail!'*

*SUPPORT (BOB):...So I then said to them, 'why won't you charge us?' 'Because if you take note of our advice, we're going to get business out of you anyway because you'll be on a growth path'...*

*END-USER (BOB):...It's really important that he's there, because he's doing the development side of it so he's got to see it from the customer's viewpoint.*

*END-USER (BOB): [There is a type of business person] that want to throw their weight around and they don't think about the customer out there, they don't think about the person who's getting the delivery of the product...*

## **Ozone Officers**

### ***Bilateral Governance***

#### ***Internal***

*...nothing on the market, and she said 'can you sew?' I said 'yes' so we got together and started researching for something for our own children. We came up with some kind of prototype that we both used, and of course the response was from our own coffee group, 'well hey I want one of those' ...So we did some more research...*

*...That's part of my skill...finding the right materials...and Esther does all the marketing and the advertising. She couldn't care how it was done you know, just get on with it.*

*...We discuss what we need. I let her go off and see how she's going to market it and I go off and find out how it's going to be done...then we bring it all in together and then we discuss together the results of everything...*

*We both did. Esther is a real stickler for it though, but we both looked at it and I think we used a lawyer to get a confidentiality form template and I think we just wrote something up that was really brief. But no, we both wanted that, so that was that...*

*...So what we did was we decided we were going to sell into Australia.*

#### ***Manufacturer / Supplier***

*[We evaluate the differences between UK and New Zealand market preferences] through their demand really. We send them the original design and they say, 'look we really like it but this needs to be hotter or warmer', then I go off to the [manufacturer], and talk to the main woman...and we talk together about how to further develop it.*

*...industry in New Zealand was going down hill...at the same time we came along and said 'can you cut this [material]?' They had never cut the [material] before. They said 'yes we can do it.'*

#### ***Distributor***

*Our manager in Australia...had a look at all the baby shops, looked at pricing for things...*

*...UK's really good, and they do all their own advertising, we contribute towards it but they tell us what they are going to advertise in and what they need from us, so we are working with them real close...*

*We did a lot of education at the beginning and now we rely on our distributors to do it...*

#### ***Support***

*... We do employ several people to do our awards for us and they put together business plans with our input obviously...*

*...I pay him for his time and advice. Esther and I use him as a third ear. If we disagree about something - we need a third person. You know, 'this is how I think it should happen' or 'this is what I can offer you from my experience in this field' ...good mentor person, not even a mentor now, more of a [friend], because there's only the two of us, we are so close to the product we need someone else to look at it and say...*

## **Unilateral or Market Governance**

### **Manufacturer / Supplier**

... We said 'can you make them?' [They said] 'Yes we can make them.' 'How soon can you make them?' 'Oh, you know give us a couple of weeks.' ...and they made samples up and so we were quite happy with that.

... We said if you provide us with a finished product, have some kind of surcharge on it, then we will commit to providing you with so many thousands units a year...

... actually decided that it was now kind of a commodity that some body else could do and that is actually what we do a lot...once it gets too much we get other people in to help and contract it out...'

We have to give them our forecast, and they say they can make our capacity as long as they have enough time to make it and now we are coming quite big buyers...

...we have quite a close association with them and we pay them for developing samples up there.

We have got an agreement that we won't accept ten container loads and that for any large orders, we need three months lead time...

We didn't want green because you see green everywhere and...we couldn't lock [the supplier] into an exclusive for that...

### **Distributor**

... We said this is how we operate, there was a minimum amount you could buy, we'll ship it like this and this is how it comes...

... She brought product, gave her the standard terms, she was actually going to start a distribution company...we had two people here lined up she could also use, people that she was keen to work with, but she could only advocate our products.

In the end we decided that we would make the \_\_\_\_\_ for them. So we came to the agreement that yes, whatever shade they wanted we would make it

We have a deal with retailers but I know that some of the distributors have problems with retailers. They want a particular colour and they use that colour and that's fine. They want to do that deal, then we will agree to it...

... We told them what we would sell it for and they accepted it...

...so we went and met with them [in the UK]. In the end they decided they would take our products...and they were amazing...I went to Australia last week and met up with him, he came over from England, came over to Australia...we talked about repackaging the product making it more UK friendly...

...she knew about the English market, so as a result of that we formulated a plan of how it was going to work...but there was a lot of kind of really intense emails, not aggressive, just really intense...

### **Support**

...we decided to go to a design company...very nice people, just so easy to work with. We said 'look we've decided we want a brand name' ...and they came up with all sorts of things...they came up with the name, we paid them to come up with a brand...

## **Social Exchange Relational Mode**

### **Reciprocity**

*INTERNAL: ...she comes over every six to eight weeks, every couple of months, or I go there.*

*MANUFACTURER / SUPPLIER: ...They gave us a price which is still standing today and that was like six years ago for that one...*

*MANUFACTURER / SUPPLIER: ...and in the end we said... 'We can go to somebody else if you are not willing to help us' and the guy said 'I wish you would.' So...he's missed out on hundreds of thousands of dollars worth of business because he's an arsehole and he couldn't work with women.*

*DISTRIBUTOR: ...We contribute in the first two years of their set up with free products and we will pay towards approved advertising...and we are actually discussing with him now, that it is about time he took it over and started paying for it...*

*DISTRIBUTOR: ...So we met her here and we decided to give this a go. So we set up a few more agreements and things, oh no we didn't and that was our problem. We started shipping product to the UK [first].*

*DISTRIBUTOR: ...we knew it would be difficult to get out cause of the whole good will thing. We didn't want to say to her 'stop distributing' because she set up a couple of shops and had a couple of things still going, and we didn't necessarily want to pay her out...*

*DISTRIBUTOR: She wanted us to pay her out for what she set up. We are pretty reasonable - we probably would have paid her some money but her husband got in on the act, and he sent an absolutely revolting email. We felt quite threatened by then...*

*DISTRIBUTOR: ...I said, 'no actually it's our stock because you haven't paid for it.' ...there was about five thousand dollars worth of stock there, and they said 'we are going to offload it cheap,' and we said 'that's fine, if you feel you need to do that...'*

### **Commitment**

*INTERNAL: We are still in the business together...*

*INTERNAL: Full time, we are both doing it full time. Well, actually we say that we spend twenty hours a week but we don't...we are full time.*

*INTERNAL: About \$50 a week or something, we were getting some money but we were putting it all back in again...because I was working part time as a nurse and she ...was working...doing her husband's books and things for the building [company]...*

*MANUFACTURER / SUPPLIER: ...They gave us a price which is still standing today and that was like six years ago for that one...*

*DISTRIBUTOR: [Distributors choose to deal with us]...because of our service and reliability. We back them, we provide a lot of point of sale information, the marketing information, and we back them up.*

*SUPPORT: But now we've got a good network of people. We've got a good lawyer, good mentor person, not even a mentor now, more of a [partner], because there's only the two of us...*

### **Trust**

*INTERNAL: ...Esther and I met through a new parent's group when both of our children were babies... We didn't know each other beforehand...*

*INTERNAL: ...That's part of my skill...finding the right materials, even though I have no history in that...and Esther...couldn't care how it was done...just [that I] get on with it.*

*MANUFACTURER / SUPPLIER: ...industry in New Zealand was going down hill...at the same time we came along and said 'can you cut this [material]?' They had never cut the [material] before. They said 'yes we can do it.'*

*MANUFACTURER / SUPPLIER: ...We did a lot of education at the beginning and now we rely on our distributors to do it...*

### **Norms**

*INTERNAL: ...Eileen being the marketer said 'great, huge potential' and me being the safe nurturing nurse...*

*INTERNAL: Absolutely, we are chalk and cheese. She's designer label, must look the part, and I'm make do...there is no point in us both doing the same job. That's her skill and my skill is over there...the only time we have our contentious times, is when we try and do each other's job.*

*MANUFACTURER / SUPPLIER: ...We met with them, and we said 'we want a colour and we want our own colour, can you do it?' This guy said 'oh yeah, I'll do that for you.' And to our specifications and everything.*

*MANUFACTURER / SUPPLIER: ...we don't really like being ninety per cent of their work, we would rather be seventy. So if we did fall over they would have some kind of back up. Not that we are going to fall over...It is their problem, yeah. But because it was their problem they wanted some commitment from us.*

*DISTRIBUTOR: They manage that. They tell us what they need to enter the award and we supply that but they do their own bit.*

*DISTRIBUTOR: ...we swore blind we were never going to deal with a lawyer again, we would never dealt with someone who wasn't established. Well, the New York woman is a lawyer...and Jewish, which is good for us...and really keen.*

### **Transaction Cost Relational Mode**

*MANUFACTURER / SUPPLIER: ...we said that we would only use them if they would only use us...*

*MANUFACTURER / SUPPLIER: ...we weren't really prepared to do that. But what we were prepared to do was if they take on the whole buying of the componentry and the assembly, and providing the finished products and holding all the costs involved in holding stock...plus all that material holding and everything. We said, 'if you provide us with a finished product, have some kind of surcharge on it, then we will commit to providing you with so many thousands units a year. Not our total business but we will never ever drop below forty thousand units per year.' That gave us [space as we actually demand] about sixty thousand units a year. We could actually take twenty thousand units somewhere else.*

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*MANUFACTURER / SUPPLIER: [The agreement] is for three years...but fair enough they had to tool up and everything and get organised. We have all sorts of out clauses and it's really good for us.*

*MANUFACTURER / SUPPLIER: We didn't want green because you see green everywhere and...we couldn't lock [the supplier] into an exclusive for that...*

*DISTRIBUTOR:...No one gets any retainers except for our foreign people, and that's just a payment in advance really more than anything, not really a retainer.*

*DISTRIBUTOR:...So we met her here and we decided to give this a go. So we set up a few more agreements and things, oh no we didn't, and that was our problem. We started shipping product to the UK [first].*

*DISTRIBUTOR:...we knew it would be difficult to get out cause of the whole good will thing. We didn't want to say to her 'stop distributing' because she set up a couple of shops and had a couple of things still going, and we didn't necessarily want to pay her out...*

*DISTRIBUTOR:...what we have actually done in Australia was split the distribution in Australia, so we actually have two distributors in Australia now...and that has made more sales...[It upset the original one] a little bit. The whole of Australia is too big for [her]...*

*DISTRIBUTOR:...it's huge, huge [the USA market]...We decided if we didn't go with this woman, then we might not do the States for three or four years, so we decided to put her on a limited contract, so while she was performing, not just for sales expectations but marketing, advertising, a whole heap of other measurable things...she could have exclusivity...I think it was eighteen months, as long as she was meeting these targets...we would actually stay with her.*

*MANUFACTURER / SUPPLIER:...we've committed \_\_\_\_\_, another New Zealand based firm into only supplying us that colour which has been great...I don't know how we did it but...we said that we would only use them if they would only use us...We are sorting through...some kind of agreement, but it hasn't got any further...*

*MANUFACTURER / SUPPLIER:...but we decided no, it's too easy to get [a particular additional colour] and we couldn't lock [them] into an exclusive for that.*

*MANUFACTURER / SUPPLIER:... We haven't signed that. That's what they wanted us to sign, because we asked them to sign exclusivity...*

*MANUFACTURER / SUPPLIER:...we've drawn up an agreement that they will never make less than forty thousand units while we are selling forty thousand units.*

*MANUFACTURER / SUPPLIER:...we don't want them to ever own any intellectual property.*

*DISTRIBUTOR:...we rang him and said, 'look we've got this product, we've got it made. How would you like us to supply it and you can be our wholesaler?' So he came up and met with us and he said, 'Yeah okay then. I'll give it a go.' He's a handshake sort of a guy and didn't like screeds of paperwork so we said, 'look we'll have something. Because we need to have something to say that you won't go off and do it [without us] once your up and going'...as much as we had a really good relationship he actually regretted doing that because he saw that the potential was huge of course...*

## Appendices

*DISTRIBUTOR: ...So the agreements aren't so much about copying and not copying anymore, they are more about how it is going to be sold. What is the distributor going to do for our money?...We are now a sizeable product, what are they going to do to help sell our product. So it's more about those things, terms and conditions rather than about restraining trade.*

*DISTRIBUTOR: ...we swore blind we were never going to deal with...someone who wasn't established...*

*DISTRIBUTOR: ...she wasn't totally green, but we actually spend a lot of time with the agreement with our lawyer, and pushed it her way and she would push it our way...*

*SUPPORT: ...So we went to EPO. We met a guy there called \_\_\_\_\_ ...and he gave us a few hints of the fact that we were entitled to a first visit with a Patent Lawyer...*

*OTHER: [A handshake]...used to be [good enough] until we got stung. We got more and more and more litigious and we've got a lawyer in Paratai Drive...he's a barrister.*

*OTHER: ...I now own a company called \_\_\_\_\_. They hold all the intellectual property...*

*MANUFACTURER / SUPPLIER: ...we decided we needed some fire results and a few bits and pieces and they were really stubborn about it and in the end we said 'Well look you know. We can go to somebody else if you are not willing to help us' and the guy said 'I wish you would.'...*

*DISTRIBUTOR: ...we have had a major problem in England we had to change distributors cause she was too small cottagy, didn't answer our e-mails, real problem, had heaps and heaps of issues and she just wasn't performing, came over here for a three months [for a holiday] and didn't come and see us...*

*DISTRIBUTOR: ...she brought product, gave her the standard terms...*

*DISTRIBUTOR: ...she just wasn't performing...one of our main bugbears is that people don't e-mail you regularly, if we ask a question we expect a reply within a week and this just wasn't happening...*

## **Mobile Manager**

### ***Bilateral Governance***

#### ***Manufacturer / Supplier***

*They give us a lot of support. Canadian companies I think are easier to work with than US companies and they seem to like working with Kiwis.*

*[We would communicate with them] several times a day, probably twenty emails a day.*

*...the Vice President of Engineering was here towards the end of last year...What's happened is, because I'm a bit of a terrier I suppose, chasing every opportunity...their salespeople now know all these different things that I've done that haven't been done elsewhere. So a customer in South America comes up with a problem, and they want to do something special, a sales guy in Miami will email me and say, 'Neville do you want to talk to this guy and see if you can tell him what he needs to do?'*

*...We've never branded anything...from the point of view of making sales, it's easier for us to have [our manufacturer's] brand on it, because it's a well known brand, respected brand...I'm representing MM, not [the manufacturer], but I use the size [of their company] all the time...New Zealand Police for example...they wanted RDP's...we kind of repositioned ourselves and said 'we're not actually selling you the system. We are the local interface for you and [the manufacturer]'*...

*...We would have worked with probably...an offshore company, to get the software with it, and interface with their database...*

#### ***Distributor***

*...What I've done up until now is to focus more on finding these joint venture partners who aren't competitors [and work with them] because they don't have their own product, but on the other side, need the product to be able to sell their own.*

*...Or we might know for example that a tender in the railway industry that a particular company worldwide focuses on that market, so I'll go off and find the local distributor for that company and say to them 'how are you going to do the RDP's component of that project?'*

*...we've teamed [to work] with a Australian company to do that, and that's a potentially a five or six million dollar sale if we can get it.*

*...he hadn't done much with RDP's. So...he knew I was involved in it...and it was natural for him to come to me and say 'can you help me?' He was working for a company in Ireland, so ...not only have we got involved with him in Brunei, but also with their whole sales force, one in Malaysia, one in Hong Kong, one in Egypt and the Head Office in Ireland.*

#### ***Customers / End-Users***

*I think the most common scenario is for us to help the customer design the system to meet his needs, and then they either do the work themselves or they employ another company like \_\_\_\_\_ to do the physical installation.*

*...they may not have RDP people, but they've got lines people and...I don't install, so...will sub-contract their own staff back to them...and that works fine...*

*I don't become an internal staff member as such, but their staff become my staff...*

*In Fiji...I did all the frequency planning, engineering and design and then went up there for three weeks and oversaw their technicians installing it all.*

*...There are also companies in New Zealand that...we have got to the point where we team with...because RDP is not their core business...*

*Typically what we'll do, is get in touch with companies that we can do a joint venture with and say 'look are you aware of this tender? Are you interested in chasing it [together]?'*

*We would have worked with their engineers to design the whole network to suit their coverage...*

*...and said 'we were very disappointed not to get a chance to respond to that tender.' And got talking to him, found out they were having problems, found out why [by jointly assessing the problems]...It turned into a quarter of a million dollar sale.*

*...we had to do was help the customer write the specs so we got the Tender (laughter) and that's what happens in tendering...*

### **Unilateral or Market Governance**

#### **Support**

*...in the last couple of years in particular, I have stepped back more from the installation side and where the customer asks for it, we'll do it, but otherwise, if they want someone to install it, I'll point them to someone else.*

*...It's important also to know your limitations. If we had got a big project like that, I also would have done was bring someone in from a consultancy firm to be the project manager. So I would have handed the role over and said 'you are responsible for that bit,' even to the point where they can kick me in the butt.*

#### **Customers / End-Users**

*...Very much like we did in Fiji, I handle the design of the network, and that's as much to satisfy myself as it is my work ability, to actually do what the customer wanted. It's fatal in any technology sector to sell something that doesn't work. That's what I mentioned before, support, support, support. So if something goes wrong, you just fix it, and if you end up making nothing on at job, too bad you just fix it because then the customer is happy. One unhappy customer can undo years of hard work.*

### **Social Exchange Relational Mode**

#### **Reciprocity**

*MANUFACTURER / SUPPLIER:...If we do [get the job], then someone from engineering and sales will come down...[At other times] say a customer in South America comes up with a problem, and they want to do something special, the [supplier] sales guy in Miami will email me and say 'Nate do you want to talk to this guy and see if you can tell him what he needs to do?'...But I don't mind that because it's all part of that relationship with the supplier.*

*DISTRIBUTOR:...he was looking for RDP's...he knew I was involved in them...and it was natural for him to come to me and say 'can you help me?' He was working for a company in Ireland...[Later on] I put him touch with \_\_\_\_\_ for a particular tender that he was doing up there, and he's got that project apparently...*

*SUPPORT:...We then got taken by the Canadian government to some trade fairs in Canada...[and as a result of that] I found [and took on] a couple more products there. The Canadian government is extremely supportive of their technology companies...*

*SUPPORT:...I've got to the stage now where I've got enough contacts now that we're starting to get invited to talk at some of the trade shows...It's typically the people who are organising the trade shows, and often they want to see that you are supporting their shows before they offer you a speaking invitation...through me they have access to the product [and] experience...we're supported three of their shows now...*

*CUSTOMER / END-USER...It really depends on the sale, if they are buying a lot of hardware, then typically we will put in a certain amount of engineering content for nothing as a means of building relationship with the customer, basically getting them going, because typically the first project that they do is not their whole requirement [and MM is later rewarded with additional work]...*

### **Commitment**

*MANUFACTURER / SUPPLIER:...We wear a bit of the freight costs sometimes, the warranty is on the hardware which is delivered back to the factory for repairs.*

*MANUFACTURER / SUPPLIER:...They are our prime supplier, probably 80 percent of our product...There was one year about three or four years ago, we actually did about ten percent of their export sales...*

*MANUFACTURER / SUPPLIER:...Some [prospects] will try and go around you and go straight to the supplier. Normally the supplier says 'no' and send them straight back to us.*

*MANUFACTURER / SUPPLIER:...If they, for example, found a company in Australia that wanted to sell our product to a particular customer, they would come to me and say 'Look this company is...going to sell this system. We will look after you...make sure you get a piece of that somehow'...*

*MANUFACTURER / SUPPLIER:...We get a marketing budget from them based on sales, so that actually paid for our booth in Sydney...*

*DISTRIBUTOR:...when we get involved with people, I say 'look this is a level playing field as far as we're concerned. Anybody that wants our product [to include in their tender submission] is going to get the same deal from us, unless they ask for something different.'*

*CUSTOMER / END-USER...Depending on whether we think the customer is getting a good deal or a bad deal in terms of the warranty. We might absorb some of the cost of that freight.*

### **Trust**

*MANUFACTURER / SUPPLIER:...So, we approached them and said 'we are interested in your product for New Zealand, is there any chance of having access to it?' and they said 'yes' and sent a distributor agreement. They typically look at your website, maybe ring one or two people to find out what you're like...within days of doing that, you'll find that they are feeding you sales leads...and say [to potential customers] 'go and see MM.'*

*MANUFACTURER / SUPPLIER:...Yeah the suppliers are great about that. If they can see you are making sales and you're two months behind with your account...they're still*

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*happy because 'the money is coming in and it's two months behind but so what, we're still going forward.'*

*MANUFACTURER / SUPPLIER: It's all on the word, gentleman's agreement...Everything...Honesty upfront and the same with them...I'd much sooner have a relationship like that than some agreement that says 'If you don't sell a product or you sell a competing product' or whatever...*

*DISTRIBUTOR:...the chap that I'm dealing with in Brunei used to work with me here in Christchurch...an ex radio tech. We know each other pretty well...*

*SUPPORT:...If we had got a big project like that, I also would have done was bring someone in from a consultancy firm to be the project manager. So I would have handed the role over and say you are responsible for that bit, even to the point where they can kick me in the butt.*

*CUSTOMER / END-USER: Sometimes there are [other people supplying quotes for the same work], but sometimes we get past that point by just proving to the customer that we know better how to do what they ought to do.*

*CUSTOMER / END-USER:...I've always said to customers, 'Look if you have any issues with me and my support of the product, here is the person you need to talk to...and that immediately gives them a comfort. So far no-one's done it, that I'm aware of.*

*CUSTOMER / END-USER:...We didn't actually know about the Tender, it had already been let, and it was only because I got talking to the consultant and spent about two hours on the phone with him...and I said 'I'll send you a couple of RDP's to trial,' and they worked straight away. I knew exactly what they were trying to do with it, and assured them that it would work and as a result, they scrapped that whole part of the Tender [with the other company]...*

*CUSTOMER / END-USER: [My goal] is to win the customers respect...before they do whatever project they want to do.*

*CUSTOMER / END-USER:...we got the Tender in Auckland which was for a council. As a result of that, other councils were watching...so since then we have picked up two more councils...*

*CUSTOMER / END-USER:...They just want an indication that you do know what you're talking about...*

### **Norms**

*MANUFACTURER / SUPPLIER:...from the customer's point of view, they are happy that...they've got a man here in our backyard to talk too. So again an example where flexibility is important...*

*MANUFACTURER / SUPPLIER:...we try and use other small businesses [because their] income streams tend to be erratic, its good to be able to call on people that are in similar situations because you can fill gaps in their sales.*

*DISTRIBUTOR:...because we were trying to sell RDP's, what I've always done there is when we get involved with [resellers competing for the same Tender], I've said 'look this is a level playing field as far as we're concerned. Anybody that wants our product is going to get the same deal from us, unless they ask for something different.'*

*DISTRIBUTOR: ...so by teaming with us we can do all the RDP's for them. Possibly quite happy to install it but they don't want to be responsible for the design and commissioning and that sort of thing. So that's another key word really...flexibility...*

*SUPPORT: ...So I would have handed the role over and say you are responsible for that bit, even to the point where they can kick me in the butt.*

*CUSTOMER / END-USER: We haven't turned away work because we haven't been able to do it. We've turned away work because we haven't got the right product for what the customer is wanting to do...*

### ***Transaction Cost Relational Mode***

*MANUFACTURER / SUPPLIER: ...they don't have any exclusive distributors anywhere. They never have and they've never offered. Well, I think they did in the early days and they got burnt and they've never had it since.*

*MANUFACTURER / SUPPLIER: ...we've got other products...[where] we had to sign an agreement like that to get it.*

*CUSTOMER / END-USER: ...They are typically technology literate type customers...[and some] are quick to jump on the internet...and find something alternative...[or] try and go around you and go straight to the supplier...*

## **Fancy Foods**

### ***Bilateral Governance***

#### ***Distributor***

*So they said 'look, how about we', as we developed the idea together...*

*...it just so happens that they had the ability to help in the way they did. I had no experience with freighting and that's a very specialised area...all the product has to be shipped to Memphis, and that's well inland and that would have been a nightmare for me to work out...*

#### ***Other***

*...what I'm doing is, I want a more interactive website, I want people to email me with their recipes if they use my product. I get a huge amount of emails, particularly from America...So I see that as potential to develop a culture and to develop a following....*

### ***Unilateral or Market Governance***

#### ***Manufacturer / Supplier***

*...I do the whole thing. I source all the material, and I arrange for deliveries...and they just manufacture it.*

*...one thing I stressed. The labels had to be absolutely straight, and they had to be in exactly the same position on every single bottle...that's what I told the factory. They knew that, so that's exactly what happened.*

*...I just source it and send the factory in that direction.*

#### ***Distributor***

*...I just told them 'this is the price', and they accepted it...Yeah, FOB Christchurch.*

*...then we had nearly 70 pages of compliance [to do], right down to the weight of the cardboard...*

*...that market came through my distributor who took a place at the San Francisco Fancy Food Show, probably the biggest...in the States...I've just been told by email that [a customer generated from the show] are going to take my line. [They] have twelve stores in Los Angeles. I don't know how many other stores they have throughout the country.*

*...I don't want to be tied to one distributor and he knows that...*

*[Contractual conditions are] that they use in promotion of my product only the materials that I give them. Payment obviously is another one.*

*I don't have any [control over merchandising]. Not really any...I don't have anything like that. I don't have any of that support material.*

#### ***Other***

*...I did a Christmas Heritage [market day] and I worked with a woman there and she tried to...muscle in on my area and it got very unpleasant. After it finished I said 'I don't want anything to do with it [again]. It was just too unpleasant. And I realised then that I needed my own space, I am a control freak in that regard.*

*I can manage it very well. I have a contract manufacturer...people who make labels for me, people who make cartons for me. I buy bottles. I buy lids. I use a graphic designer. I*

*use a professional photographer to photograph these images here. I use a lot of different people, but I can do all that outside.*

*...I'm a holistic person. I have to know everything before I embark on anything...I know it could be [a ten million dollar business in five years]. It's entirely up to me.*

### **Social Exchange Relational Mode**

#### **Reciprocity**

*MANUFACTURER / SUPPLIER:...they don't have facility to apply [the labels] any other way...I'm actually kind of considering [other options]...although I feel that I do have a moral obligation to them...*

#### **Commitment**

*MANUFACTURER / SUPPLIER:...I have another product...which I've just bought into my label, but I can't sell it into America because the company that produces it are already selling it there and don't want me to do it.*

*MANUFACTURER / SUPPLIER:...I said they'd be paid, their accommodation would be paid for, everything. They would be driven down, the whole thing, which I was prepared to do...*

*DISTRIBUTOR:...we had a timeframe, the manufacturer, the manager of the factory...rang me three weeks before the shipment was due out and said 'Roanne, we can't do it'. And I said, 'Fred, we can.'...'I will fill a truckload and I will bring them...and we'll work the weekend and we'll work 24 hours a day'...*

*DISTRIBUTOR:...the labels had to be absolutely straight...*

*DISTRIBUTOR:... Because of my relationship with the Western Australian business...it is off limits [to the other distributor]...*

*DISTRUBUTOR:... I don't do that anymore [but] I had paid for, I had contributed to the space at the Fancy Food Show [in New York], it's not a great deal [of money] because he was representing four other companies which I was willing to do...*

*DISTRIBUTOR:...she's left now. They have a huge turnover of staff...I actually told her that I would contact her, because I'm so grateful to her. She really gave me the opportunity...*

*SUPPORT:... The Chefs are really keen on these two products, so it would be worth my while putting it in a food service industry type of packaging, because the chef support is fantastic publicity.*

*SUPPORT:...So my support in the marketplace, is winning the hearts and minds of food writers and chefs and people like that who will promote my product by using it or writing about the product or featuring it in their magazine.*

#### **Trust**

*MANUFACTURER / SUPPLIER...He's...a really great guy. He's absolutely honest as the day is long and a thoroughly decent Kiwi...he rang me three weeks before the shipment was due out and said 'Roanne, we can't do it'. And I said, 'Fred, we can'...*

*DISTRIBUTOR:...I've had a number of distributors [approach me] since...but I really liked him. And he came recommended to me by Trade New Zealand.*

*OTHER: ...I might be wrong, and my own experience has taught me this. It's the effort you make and the contacts that you make, and your business is largely has a lot to do with contacts. And once you've got those contacts that you've sought...they become your friends, and that's a very good base...*

**Norms**

*MANUFACTURER / SUPPLIER: ...Yes we do. I give them warning [of what orders are likely to be coming up].*

*DISTRIBUTOR: No, not at this point. Not while I'm building up the business. I don't believe in putting any of those pressures on... to tie him into a volume.*

*DISTRIBUTOR: Very friendly one, well it is business only. I haven't met him, but I'm going to do that in May. He really likes what I do and that's great...he has a passion for it...*

*DISTRIBUTOR: ...they simply buy the product and from there on it's their responsibility to get it to [the client].*

*DISTRIBUTOR: ... Every time I have a new product and I send them news about it... Peter Gordon in his latest cookbook has used my product, so I told them about that. So any information I have that I think is of interest...I'll send them.*

**Transaction Cost Relational Mode**

*MANUFACTURER / SUPPLIER: ...we have a contract whereby they do my manufacturing and they have the right to do other manufacturing for me, but they've got to price it and it doesn't stop me looking for other manufacturers that may be able to do the same product for less and they either match it or lose the business... [Is it all in your favour?]. ... Yes, very much so. Very much so, yep.*

*MANUFACTURER / SUPPLIER: ...he rang me three weeks before the shipment was due out and said 'Roanne, we can't do it'. And I said, 'Fred, we can'. And I said 'what will it take' and he said 'look we don't have enough staff [at the moment] but leave it with me' ... but I ignored that...*

*MANUFACTURER / SUPPLIER: ...they sign a confidentiality agreement and they are bound by that. It's my intellectual property and if anyone in their business should tell somebody else about it then they are in trouble!...I am protected as much as I can be by the confidentiality agreement.*

*MANUFACTURER / SUPPLIER: ...they've got a big old building, which works very, very well for me...they don't charge extra to hold the stock (This indicates opportunism by FF).*

*DISTRIBUTOR: ...Distributors are often...I'm very wary because they're wanting customers, and they're not really interested in anything else, it's just dollar signs...*

*DISTRIBUTOR: ...I'm actually just putting one together. But I don't want to be tied to one distributor and he knows that. So it's very much in his interest to make things happen.*

*DISTRIBUTOR: ... [Contractual conditions are] that they use in promotion of my product only the materials that I give them. Payment obviously is another one...I have a*

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*confidentiality agreement...Not with the distributors. They don't ever need to know [the recipes]...*

*OTHER:...my own experience has taught me this, it's the effort you make and the contacts that you make...So I haven't been introduced to anybody. I've gone out [and achieved it on my own].*

*MANUFACTURER / SUPPLIER:...this why it took a little while to get off the ground, because they would only produce a certain amount which was more than I needed, so I had quite a lot of stock in hand. So it kind of held me back...*

*DISTRIBUTOR:...I don't think they even know that I've got [my website address] on there, but I'm sure they wouldn't have a problem. I couldn't think why they would, because it is promoting my brand which is surely in their interest.*

*DISTRIBUTOR:...I sold to stores, but I had a distributor that badly let me down...it's up to me to go in and push it...*

*DISTRIBUTOR:...I don't have a contract with them so I could go direct to [the client] if I wanted to.*

*DISTRIBUTOR:...No [I won't appoint other Distributors in Australia]...although I could probably...No [signed contract. Just] a head shake and a wink (laughter)...Yeah [it favours me more]...It does surprise me that they are happy [to distribute without a contract].*

*DISTRIBUTOR:...I'm going to find out [if he has enough ability] when I get over there. I don't have a contract which restricts me to one distributor so I could use other distributors.*

*DISTRIBUTOR:...Very friendly one...well it is business only...I haven't met him...*

*DISTRIBUTOR: Some of them do taste testing and they ask for free samples to do that, and then you get these free loaders who stuff themselves then leave and don't buy the product...I went to this food show, and honestly you felt like swiping them with something hard and nasty...I don't do that [give free samples] anymore...*

*OTHER:...They would have a list of contacts... a list of sources and um and what else would they need. I mean I can point them in the direction of the factory ha ha.*

## **Biting Buddy<sup>2</sup>**

### ***Bilateral Governance***

#### ***Internal***

*...fortunately for me, Doug who is a South African has come in and helped us get over it...has been a huge help in sorting this out...has actually solved it...*

*...We're gonna do the prices Doug and I when we get a breather...We will [also] get hold of our partners [in the UK] and we'll confirm a deal...If you want to...discuss it with Doug...*

*...based on the research between what Doug has done and what I've done is that we will go into the UK...*

#### ***Support***

*We have Doug and this other consultant...looking at this Business Angel system through the Government...*

*I had some very good friends in business, members of the club which were accountants and policemen. And they too like me, started to smell a rat, so they suggested that I sell the intellectual property...*

*I ran into a guy that I played hockey with. He was an accountant, and I was complaining along the lines...that I was sick to death how we were being treated...and he said, 'I suggest we put in a special secretary to do all the book work', because that's where I was having a difficult time...*

### ***Unilateral or Market Governance***

#### ***Manufacturer / Supplier***

*...I do the design and formulation...We have a contract manufacturer. I have just gone through an exercise and I've actually come up with some quite substantial savings...I'm going to buy all the chemicals myself and not have to pay another margin... in most of the cases, I buy the main active ingredient, and buy all the components, like caps, bottles etc...*

*...Obviously they are never going to cope [should a really large order come through].*

*I deal with one of the NZ authorities on package design. And if it's not right I tell him...*

#### ***Distributor***

*...they've had a bit of a hard job with the price...they find it a bit hard to sell because they find their prices [from us] are too high...*

*...[Peter] now does all the New Zealand distribution...We've done that so that we can keep control of it. It's worked quite nicely.*

*No [we don't plan together]. Peter does his own thing. He's got his office in another location now...we don't see that much of him at this time of the year...*

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<sup>2</sup> Unless otherwise mentioned, statements are made by Howard.

### **Support**

*...I got an accountant from down the road who was also a customer of mine, to do an [independent] audit...*

*...[I got a] barrister and a QC...A year and a half later, and sixty thousand dollars to him, he came up with a fact...that it was a hundred and fifty three thousand...that had been laundered. He did two brilliant reports...*

*...I can actually make that in New Zealand for a dollar twenty even with the freight, and there's no way [our graphics firm] in Britain...could look at the price...[So I prepare it all myself]...*

### **Social Exchange Relational Mode**

#### **Reciprocity**

*INTERNAL (DOUG):... I was in England last year...and I saw that supermarkets...had three or four brands...I wasn't working for Howard then but I was friendly with him and said that I would check it out for him while I was there...*

*MANUFACTURER / SUPPLIER :...we've never defaulted on any debts...[but] we've got two that I have to deal with that treat me like an arsehole where they make me pay for the goods in advance. That really pisses me off...One is a manufacturer of this product's packaging and...I'm looking to get our own tool. That would cut me out of that loop...*

*DISTRIBUTOR :...They're doing all the work and organisation in the UK at no cost. We're doing all the work at this end...*

*DISTRIBUTOR (DOUG): I'd like to write to the boys in America who have put a trademark on our name and show them a précis of the file that we've got on this thing. And say, 'withdraw it right now otherwise we are adding you to our lawsuit'.*

*SUPPORT :...she put, in his bank account, an average of nearly fifty thousand in cash [per year]...I went ape as you can imagine, and I got an accountant from down the road...to do an audit...*

*SUPPORT :...I accepted the deal and Mrs \_\_\_\_\_ agreed to that...when out of the blue she refused to sign...So I went back to the lawyer...another Barrister in Wellington...*

*SUPPORT :...That was just a pack of lies they told us, and what happened was, I complained...and I got right up them which I can do very nicely...*

*SUPPORT:...there was ample evidence...by that stage I had lost my lawyer because he wasn't doing his job...*

*OTHER ...I'm not prepared to put up with white-collar crime and corruption...I won't put up with now...if anyone rips me off, they get a real serve back. I don't take any prisoners...I'll drop them right in it!...*

#### **Commitment**

*INTERNAL: ...I have Doug working for me on a never never plan. He doesn't get overpaid. I'm giving him some export shares. Look I don't mind sharing but what I'm not prepared to do is put up with any shit, and I need to try and be careful who I choose...*

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*INTERNAL: (DOUG) I was in England last year...and I saw that supermarkets...had three or four brands...I wasn't working for Howard then but I was friendly with him and said that I would check it out for him while I was there...*

*DISTRIBUTOR: ...Because the bank rescinded the overdraft...I went over myself to London [to help] before they pulled the plug finally...and we had one rep that graciously went out for no pay and he sold twenty five thousand pounds worth...*

*OTHER: ...all of a sudden the Army came to me. They were very pleased with what I had done, and they asked me if I'd do [another skin product] so I did...They said others would be in it. So I put a real effort into coming up with what I call a revolutionary type formula. There was no favouritism shown. I was just a number...*

*OTHER: ...it's loyalty. We have a record of 25 years [in a special range of] 'pharmacy only' in New Zealand, and five years of 'pharmacy only' in Australia, and that's very important these days, loyalty, because the supermarkets are having inroads in pharmacies...*

### **Trust**

*INTERNAL: ...[You're welcome] to discuss it with Doug [without me being present]...*

*INTERNAL: ...He has been helping me...Half of his time has been tidying the crap that I've had to put up with. From the tax to all sorts of things...fortunately for me, Doug has actually solved it...*

*DISTRIBUTOR: ...you're welcome to speak to him. [He] is a highly respected supplier to the British army...Not only have we got the product and the opportunity but we have someone there with integrity that I can trust who's got the motivation...*

### **Norms**

*INTERNAL: Based on the research between what Doug has done and what I've done...*

*INTERNAL: ...Doug is doing a great job. He's on the export institute and he did some work to get the Hong Kong Bank...*

*INTERNAL: ...Doug knows [and agrees with] my views about some people and they're not very complimentary.*

### **Transaction Cost Relational Mode**

*MANUFACTURER / SUPPLIER: ...We're trying to get it so that they can manufacture for Asia so that we can avoid all the tariffs and duties...we've got provisional rights and agreements with them, confidentiality, and a license to manufacture with them...*

*MANUFACTURER / SUPPLIER: ...Yep, they're still doing the work for us. We've got plenty of other places as well...The contracts, the confidentiality agreements and all the rest of it applies to them as well...There's always a bit of a risk though...We protect ourselves as best we can...*

*MANUFACTURER / SUPPLIER: ...just about all my suppliers support me. I hate 'using' them sometimes but at least we've stayed in business...*

*MANUFACTURER / SUPPLIER: ...I have just gone through an exercise and I've actually come up with some quite substantial savings...I'm going to buy all the chemicals myself and not have to pay another margin...*

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*DISTRIBUTOR: ...what I'm pretty proud of, and Doug can confirm it...I was able to screw them down to twelve and a half percent ...*

*DISTRIBUTOR: ...we had this big agreement. They said, 'yeah, we'll put it right', but they didn't do it. So I...invoked the arbitration clause, and they've blocked it ever since...after me spending a couple of hundred thousand, to prove that they pinched all our intellectual property, all copyrighted...they put the company into liquidation...*

*DISTRIBUTOR: ...Very strong ones. Even with the Swedish company, we paid a lot of money for a top Barrister...*

*DISTRIBUTOR: ...I routinely have confidentiality agreements and that sort of thing...*

*DISTRIBUTOR: ...By mistake, we decided that we didn't need to check the data first. Because of all the contracts and confidentiality agreements we had in place, we thought we were protected...the whole thing collapsed...*

*DISTRIBUTOR: ...We're ready to go with it [in the UK]. We've got all the products registered...We're still looking for a distributor here. We had a number of offers but...are still looking out because of all these other problems...*

*DISTRIBUTOR: ...We've got a loose contract with Peter - needs tightening up a bit...*

*DISTRIBUTOR: ...They went out and copied my brand, the six variants. Then they went round the chemists and said that we couldn't service the market...it was another bloody attempt at destroying us...*

*DISTRIBUTOR (DOUG): We've got quite a few things that we haven't fired at them yet so we'll see how it goes. They are a big profitable company so they can afford to settle this [lawsuit].*

*SUPPORT: ...she was, quite incredibly, pinching the cash out of the till...twinking out the day books, writing contra cheques and double cheques...*

*SUPPORT: ...So that's when the shit hit the fan because I was absolutely devastated...and I went and got the police. The accountants were really pissed off with that...so we sued them...[but] they used every method to kick it into touch...it took me eight years to get to court...*

*SUPPORT: ...there was ample evidence...by that stage I had lost my lawyer because he wasn't doing his job...*

*SUPPORT: ...fortunately I had put the intellectual property, the tools, the dies, the whole lot...in the Trust...*

*SUPPORT: ...what they do these Yankee lawyer pricks is that they make a simple job last a long time...I'm just highly doubtful, and I'd have to have it in black and white before I spent my money...*

*SUPPORT : ...in the end, in total frustration and devastation I signed it and said to them, 'you've forced and coerced me to do this!'...So I went ahead and protested to everyone that it was nothing but a scam...*

*OTHER: ...I've always been contractual. I've always believed that there should be good contracts in place to protect our positions and assets...*

## Theatre Thespians

### *Bilateral Governance*

#### *Internal*

*SAM: ...I came up with an idea and ran it past an old friend of mine...whose writing style and head space I particularly liked. Between the two of us we built a proposal...*

*SAM: Three hours usually. We go through what we have on hand, what is it making us, who is doing what, what positions are we playing...*

*JIM: ...we've now got an online timesheet system. The idea behind that was not to check up on who was doing what or anything, but to purely be able to say, 'this is how many hours we've charged on this job'...we're trying to become a bit more professional in that way.*

*JIM: ...We tend to muck in a bit, in terms of speciality within the business...we thought we'll mix and match a bit more...we broadened it out quite consciously last year and that's how we're trying to run it.*

#### *Manufacturer / Supplier*

*SAM: ...We're certainly very good at the concept end, but only having one true designer on our staff wasn't enough...So we were match made with a team in Sydney...*

*SAM: We formed a relationship with \_\_\_\_\_ Group who were onboard...to manage the VPS fit out...because of our growing symbiotic relationship, we gave ourselves a full day on business planning...*

*JIM: ...we're not architects, but we work with architects. We're not digital online type people, but we know a bit about it, and we'll work with people that are.*

*JIM: ...stitching together a lot of small, specialist businesses and working on big plans [together]...absolutely, that's really a huge part of what we do...one of the strengths of our company is that we sit in the middle...we're facilitators...*

#### *Support*

*SAM: ...we developed a concept of clustering creative businesses...and this team very quickly swelled to about 30 small businesses, and the idea was we would continue to compete with each other in the domestic market, but we would look at it internationally as a collective to offer – I guess collective grunt...We said we would pool all our subscription money...we'll take five people and we'll target one market, and we will do a field study...then we'll go up there and do a presentation...*

*SAM: ...a new design partner we got from Sydney, because to pitch for the big twelve million dollar job, we really needed to be able to say we have international design clout...*

*SAM: ...because we're so cottage industry, and I took on board a production manager...who kept a tab of the figures and the reporting...we would discuss the schedule...*

*SAM: ...if we will be doing Maori work, which we do...we will take on board really good advice and give those people high-ranking input to the concept. We take their advice seriously and it's not until we have their blessing that we will begin...*

*JIM: ...When we did that targeting we did it as part of a group of companies.*

### **EPOs**

*SAM: Fantastic, truly fantastic. I mean, apart from the fact that [the Prime Minister] has opened more than a couple of our VP's, that she may go to Singapore for the opening of \_\_\_\_\_ VP, that she's actually given me time with me behind the camera shooting a piece from her supporting the \_\_\_\_\_ VP presentation at the international association...She, through NZTE, knows our company pretty well now...*

*SAM: Certainly there is an expansive mood that has come out of Helen Clark's administration. We're working with New Zealand Trade and Enterprise...on a presentation for the visiting [international] journalists at the premiere...*

*SAM:...Now working with NZTE on the \_\_\_\_\_. We've got friends at court; that matters...*

### **Customers / End-Users**

*SAM:...It was fantastic, the atmosphere was brilliant, we were running against the clock and working with people that had a big buzz...*

*SAM: We never want to be subservient but in the client and supplier relationship it's almost endemic...one person pays the money in return for a service, so instantly that's there...So I guess that comes down to me. I'm the lips for the organisation, and it's up to me to ensure that the relationship is established well in the beginning and that people who have a fear of their patch being invaded can be persuaded that in fact they will look great if they work with us...and everyone will love them...we never want to undermine anybody's work, and that we will fit in with them, and will be like employees standing along side them...what's the saying? 'Speak quietly and carry a big stick'...*

*SAM...it's the CEO and me trying to make it work...*

*SAM:...working together [with the client], we spent nearly two years persuading [backers to get involved]...We were on that notionally, conceptually, politically, and then right through all of the negotiations...*

*SAM:...Big VP's with big institutions - they will have research data on their audiences and we will analyse that and discuss that with them so that we know that our work is targeted...*

*SAM:...these are great institutions and they put money into research and development and they love ideas. We would love to work with them...*

*SAM:...we work very closely with our clients, whatever form they take...*

*JIM:...in countries like Singapore where things are done largely by consensus, everyone has to be happy with it, so you have to meet a whole bunch of people all at once and say this is what we suggest and hear what they are saying back. And that's how it works.*

### **Unilateral or Market Governance**

#### **Manufacturer / Supplier**

*SAM: We are dictating the terms because we hook the job and they wouldn't be talking to us if there wasn't a job that we got. We are dictating but you can dictate to them in a Hitlerian way or you can do it in a sort of Schumacher way, and I think we're a little bit more holistic...*

## **Social Exchange Relational Mode**

### **Reciprocity**

*MANUFACTURER / SUPPLIER (SAM):...it was one point four million...but in reality it should have cost them three million, but...everybody was contributing. I got stuff for free that nowadays people would charge like a wounded bull for. It was fantastic, the atmosphere was brilliant...*

*MANUFACTURER / SUPPLIER (SAM):...we love them and we're still working with them...they did our plans and designs for our own project here in New Zealand...we got them to do all the finished design work as a contract to us, and as kind of a way of saying, 'thanks guys, great!'...And we're growing together a result of that.*

*MANUFACTURER / SUPPLIER (SAM):...the quid pro quo from that is, if they help us build this company, we'll have constant work for them...*

*MANUFACTURER / SUPPLIER (JIM):...It means that there's a constant trickle of possible leads that come in, and sometimes they're things we can feed to other people...we can say, 'well that's not for us, but this one might be interested in that in Australia', and hopefully there is a bit of reciprocity there at some stage and they come back and say, 'thanks, I got that job. Do you want to work on this project with us?'...loyalty to us and that sort of thing.*

*SUPPORT (SAM):...again, someone from the JAG in the web enabling crowd...They had put their own money together and...buggered off to the Middle East to have a look at that...and they came back saying, 'Dubai, Dubai is the one. You should have a look at that, Steve!'...*

*SUPPORT (JIM):...one of the people [from the JAG] came to us and said, 'will you make us a video?' It was very much in the small jobs, not worth it [but we did it]...he has since been back [and offered us a large job], so that was a good example of something that...was worth nothing, coming to something.*

*CUSTOMER / END-USER (SAM):...she would sing our praises to whatever company and we would get calls as a result of that...if you've delivered something to your client that's been successful at the box office, they are going to love you...*

### **Commitment**

*INTERNAL (SAM):...we still had offers on the table for future work, so I said to the guys, 'lets formalise and make a company out of this aye?'...Split three ways...Though I didn't have a business sense of what it might return me in terms of an income...I think we came up with five hundred bucks each...*

*INTERNAL (SAM):...Clare who came to work with us for the \_\_\_\_\_ exhibition...went away and worked for [a major client] for a year and got even more skills...They poached her...we poached her right back...*

*INTERNAL (SAM):...we take a big smack in the face and not draw any money from the company in order to get ourselves out there and market...*

*INTERNAL (SAM):...we split any residue into four, one to the business, and give ourselves three...*

*INTERNAL (SAM):...The other thing I love is to surround myself with new young talent and to foster that and make sure it's happening.*

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*MANUFACTURER / SUPPLIER (SAM):...we were match made with a team in Sydney...That was a marriage made in heaven. We love them and we're still working with them...*

*SUPPORT (SAM):...The JAG still exists but it's going through a process of examining it's continuance, and I'm still an executive member of it...we're staying with it because many of our friends and colleagues are still in there from other companies...*

*SUPPORT (JIM):...one of the people [from the JAG] came to us and said, 'will you make us a video?' It was very much in the small jobs, not worth it [but we did it]...*

*EPO (SAM):...Now working with NZTE on the \_\_\_\_\_. We've got friends at court; that matters...*

*CUSTOMER / END-USER (SAM):...in reality it should have cost them three million, but...everybody was contributing...*

*CUSTOMER / END-USER (SAM):...we had nothing to show for that but a few desultory payments...That happened a lot. We would do big concept work [for little reward]...*

*CUSTOMER / END-USER (SAM):...We owe our business I think to the successful relationships that we have with our clients, even when it's been a prickly process...*

*CUSTOMER / END-USER (SAM):...it's up to me to ensure that the relationship is established well in the beginning and that people who have a fear of their patch being invaded can be persuaded that in fact they will look great if they work with us. They'll come out smiling and everyone will love them...we completely understand the importance of the work they...we never want to undermine anybody's work...we will fit in with them, and will be like employees standing along side them...*

*CUSTOMER / END-USER (SAM):...you think, 'we did that job and that was really a bummer'...Maybe it's a loss leader that will be helpful some way down the track and sometimes it is.*

### **Trust**

*INTERNAL (SAM):...We've known each other for a long time. Creatively if we're thrashing out a concept, it can get quite fraught. We can call each other all the names under the sun. We've had some screaming matches but that's very important. We would never back away from that. It can't be personal. If it's personal this business will fall apart...*

*INTERNAL (JIM):...We all knew each other from the industry. Darren and Sam worked together for a long time...back in the 1970's...I had gotten to know Steve from that...so we had known each other on two sides of the triangle but we hadn't all worked together.*

*MANUFACTURER / SUPPLIER (SAM):...they are the ones in New Zealand who have the most expertise in VP fit out...*

*MANUFACTURER / SUPPLIER (SAM):...so lets put together a team. Let's get the best in the country who are our friends...really an oddball collection of businesses, but they were quite happy for us to be the lead contractor...*

*MANUFACTURER / SUPPLIER (SAM):...These days too, the market is everybody's market here in New Zealand, it's so competitive, it's a small economy. You can't do things secretly anymore...*

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*MANUFACTURER / SUPPLIER (SAM):...[US suppliers]. They'll want lawyers at ten paces for everything that you do. And shit we just don't do that...*

*MANUFACTURER / SUPPLIER (JIM):...we'd ring up whoever we could find in the yellow pages. In fact that's a ridiculous thing to say. We work with robotics companies already [so we would call on them]...*

*SUPPORT (SAM):...many of our friends and colleagues are still in there from other companies...*

*CUSTOMER / END-USER (SAM):...you have to make sure that they don't think you are siphoning money out of the trough. So all very transparent, no surprises...We all approached it with goodwill and a real kind of archive of notes of how to work like this which has grown out of our relationship with [the client]...*

*CUSTOMER / END-USER (SAM):...the trust built up...over that first project. They really liked the way we worked with them...we had a great working relationship. I don't think I've had a better one...*

*CUSTOMER / END-USER (SAM):...there is a new CEO who we have met and we have a good relationship with straight away [as]...there is a residual goodwill...*

*CUSTOMER / END-USER (SAM):...We are doing some work with \_\_\_\_\_ ...It's amazing that they would come to a Wellington company...and yet our relationship with them is instantly great...*

*CUSTOMER / END-USER (JIM):...it's probably a shameful premises. We have meetings in here. People quite like it because it's informal. At least it proves to them that we're not spending the money on the dolly bird secretary and the Persian rug...*

### **Norms**

*INTERNAL (SAM):...I'm the lips for the organisation...*

*INTERNAL (SAM):...We're all in unison on this...Definitely, definitely...*

*INTERNAL (SAM):...The three of us develop projects of our own, the VP that nobody has actually asked for yet...*

*INTERNAL (SAM):...Generally me [bringing in the work], but Jim is working himself up to a key producorial role now...Darren's a great Design Services Manager...and he's great at massaging those relationships because he's the builder boy...*

*INTERNAL (SAM):...Creatively if we're thrashing out a concept, it can get quite fraught. We can call each other all the names under the sun...but that's very important. We would never back down from that...*

*INTERNAL (JIM):...dividing up how much work...is obviously something that we need to do...*

*INTERNAL (JIM):...We tend to muck in a bit in terms of speciality within the business...*

*MANUFACTURER / SUPPLIER (SAM):...we preferred to work with friends. And that alliance is great...*

*MANUFACTURER / SUPPLIER (SAM):...he works out of our office on a full time basis...*

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*MANUFACTURER / SUPPLIER (SAM):...they were quite happy for us to be the lead contractor...*

*MANUFACTURER / SUPPLIER (SAM):...It simply doesn't matter [if the suppliers are geographically close]. We have big bills from sending huge design files from Sydney to Wellington...but if you factor that into your costs from day one, it's not a problem...*

*MANUFACTURER / SUPPLIER (SAM):...that price comes back and we look at all the prices together. And we go, 'holy Toledo. OK guys, let's all of us back off equally', and that works...*

*MANUFACTURER / SUPPLIER (SAM):...Yeah, they don't know how to cope with it. They will come at us with some amazingly hierarchical, which looks to us like total bullshit way of approaching an issue and we say, 'oh well yeah, I suppose – whatever'...*

*MANUFACTURER / SUPPLIER (SAM):...Yeah, we're having that [overlap of skill] with architecture because there is a great fold over between architecture and design. You just bring goodwill to that, you can't demarcate creativity...Everybody has to go, 'the outcome matters more than the personality, and if he didn't like my idea, it doesn't mean he doesn't like me...it means that it isn't working for the outcome of the project'...*

*SUPPORT (JIM):...there are other cluster industries in Wellington, and one of them is the Earthquake Engineering cluster...We know some people who are associated with that cluster and when...one of the people on that team came to us and said, 'will you make us a video?'...[we decided we would even though] it was very much a small job, not worth it...*

*SUPPORT (JIM):...You never know which one you say, 'no thanks' to. It's a hard call. He's come back and [given us more substantial work]...So yeah, we'll have a look at it.*

*CUSTOMER / END-USER (SAM):...all very transparent, no surprises...*

*CUSTOMER / END-USER (SAM):...We've been trying to teach our clients, we've learnt over time not to give away concept but give them broadly what they'll get if they engage with us, and how much it will cost to engage with us. We want them to know from day one that they are paying for a professional service which will pay off...now we're starting to get clients who know.*

*CUSTOMER / END-USER (SAM):...we will be like employees standing along side them...and we work on a milestones basis so that our client is able to say to us, 'look guys, we're not happy with the way this thing is developing'...*

*CUSTOMER / END-USER (SAM):...we're happy to [work on the basis of progress payments] because we're good at project management...because delivery is everything. You're only as good as your last job in this business...*

*CUSTOMER / END-USER (SAM):...[You should do business] with a lot of shaking hands. I think a lot of New Zealanders...are, 'lets get a product, brand it with a kiwi brand and put it in containers and send it overseas. The mugs will never know until they pay!'...that kind of thrusting business attitude only makes it so far down the track!...It's not about that...*

*EPOS (SAM):...on a relationship basis [they are saying], 'We're the good guys. We're the good guys'. And that so matters – huge man!...*

**Transaction Cost Relational Mode**

*CUSTOMER / END-USER (SAM):... We have designed our own form of contract which we offer to our clients whenever we're talking about a job and they may or may not accept that and give us one back. We look at our contracts very carefully and whether we're protecting our IP and what our indemnity is to the finished project and all of those kinds of things... Our guarantees of payment...*

## **Kids Korner**

### ***Bilateral Governance***

#### ***Internal***

*...Mike was a little bit reluctant to release control of his idea...that her input might rock the boat...and I pointed out that half of five million dollars is better than all of nothing...*

*...what she did was she gave us belief in ourselves. She gave us confidence to go on and she bought a deal to the table that has been priceless...and she gives me somebody to talk to. It's not always about money...[She invested at a time] when I had no retail outlets. All I had was products...*

*...I felt that she knew the children's' market, and I believed that she would bring a different perspective to the table, and she has...it is quite a good combination...she said, 'let's get a whole range of products. Let's put out a catalogue'...*

*...we've just had a strategy meeting. We've all agreed on our strategies...*

*...I said to Jelena, 'that's one option. The other option is that we leave our money in the business...and I start travelling and going to Trade Shows and trying to drum up more business'...And her and I have talked about it and we've agreed that's not us...*

#### ***Manufacturer / Supplier***

*...We did a paint test with [the paint manufacturer] so what we did [together] was a list catalogue...*

*...Mike has been to China twice...[On this occasion] it was to meet with the factory... to talk with them about how to improve the packaging...Mike went up there to work with them on the best possible result...*

#### ***Distributor***

*...that will be next year's project...to assist [the distributor] with growing the Australian side of things...*

#### ***Support***

*...Friends, family. When we first started everybody was really interested [and helpful]...*

*...We got a person to come in and actually do independent research. So, we hired a space and had parents and their kids come and we put the parents and the kids in the room with the WKT's, and just watched what everybody did...We had worked out the questions that we wanted answered. Where would they find it? How much would they pay? Would they buy them unpainted? And so on...*

*...it was excellent, it was very valuable. I mean she fortunately didn't give us any nasty shocks. I mean the key thing was that it confirmed my belief, so that when I went out and said...I know this is going to sell. I know how much people are going to pay for it...*

*...so he knew somebody in business and we went and talked to this guy and he said, 'you've got two choices...'*

#### ***EPOs***

*...what we did was after we got this quiet wink, nudge, 'go overseas [to manufacture]. You may as well. At least you'll create some export earnings', which is absolutely what has happened, so they were damn well right...*

*...I think [Enterprise Waitakere] put me on to them...And I said, 'that sounds like a mighty fine idea', so we [did it]...*

*...So they rocked on up and sat here and I said, 'look, you know, you've given me this money. You've invested in my company. I vote Labour. What are we going to do?' Anyway they said, 'tell us all about what you've done so far', and I told them...[and they said], 'have you thought of manufacturing overseas?'...*

*...New Zealand Trade and Enterprise applied on our behalf...*

*...they gave us half the money to pay an independent person to come in and actually do independent research. So, we hired a space...we had two or three different groups...*

*...So \_\_\_\_\_ at NZTE thinks that this does make sense, that...we should be competing internationally, and she is quite keen on fostering this kind of cooperative approach...*

### **Unilateral or Market Governance**

#### **Manufacturer / Supplier**

*...when we sent the sample to the Chinese we said, 'we want to package this in a full colour box, with a carry handle', and they said, 'fine'... We did the photography and all the artwork and design work here, and we had the film made and we sent them the film ...and they take the film to the printers...we wanted it to be English...we wanted New Zealand children on it...*

*...So I fired off a sample [to the manufacturer] and got back these two really lovely WKT's. They're beautifully made [copies] and they were cheap as chips...they have honestly been wonderful, they are just wonderful.*

#### **Distributor**

*...all of a sudden he got this huge deal with this German Toy Shop chain, and it's changed the whole complexion of it...*

*...he is pretty vigorous. I mean he's shown me photos...*

*...Dave has done a hell of a lot of trade shows with our product in a very short time...*

*...I've got no idea of his strategy...*

#### **Support**

*...those ships go the longer way round. It must be something to do with who takes consolidated shipments...Not that it's my problem. I'm paying someone to sort that out...*

### **Social Exchange Relational Mode**

#### **Reciprocity**

*INTERNAL:...They were all very nice, but none of them wanted to buy anything...[and Mike is] still working full-time at this stage...So he lost heart and of course artists once their artistic heart is broken, are very hard to get back on track...[I wanted to help him] so I went off and sat at a Craft market for three days and that was horrible...and you know, it was enough to get Mike back on track...*

*INTERNAL: We matched each other dollar for dollar.*

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*MANUFACTURER / SUPPLIER: ...what we have found now is I've got a new product right. [So] I go to China and I'll say, 'will you make me 50 so I can test the market' [which is uneconomic for them], and they do it, and we grow the market and now we're [ordering from them and] selling thousands.*

*MANUFACTURER / SUPPLIER: This was free, and do you think that guy's regretted if for a minute? Not bloody likely when I actually sat down and worked how much money we've put through that company in the last two years...*

*MANUFACTURER / SUPPLIER: ...that was another bloody brilliant thing, because see [the paint manufacturer] love us now because we market their test pots, and I did the Good Morning Show...[and gave] a nice free plug for them. So they in return, when they did their [company newsletter] put the big thing about our WKT and they put this photo on their website...*

*MANUFACTURER / SUPPLIER: ...I talk to them on the phone. We email them. I pen pal the guy's nephew...*

*DISTRIBUTOR: ...he's finding it hard to understand why [a particular WKT] isn't working...But every time I offer him an out he says, 'no way. I want to do it'...so [with such an attitude] why would I [terminate his agreement]?...Anyway we've developed something new for next year [that should help him]...*

*DISTRIBUTOR: ... So I was perfectly happy and I was very impressed that he had gone to the trouble of getting a contract [even though I did not require it], and was prepared to sign it...*

*SUPPORT: ...Small Business Magazine took photos and [and because of this] we donated WKT's to the Starship Hospital...*

*EPO: ... \_\_\_\_\_ is a guy that I was asked to speak to by Industry New Zealand, because he was looking to export and he wanted some advice. See I gave the advice and now I have a New Zealand Pavilion at Nuremburg. Don't get anything unless you put it out, do you?...*

*EPO: ...they gave us half the money to pay an independent person to come in and actually do independent research. So, we hired a space...we had two or three different groups...*

*OTHER: And you know who's copied us? [a local business]...A well worded letter from me did the job...I rang them up and I let them have it...Mainly because what he'd done...because he'd taken this, and photocopied it and then printed it with the instructions and everything...*

*OTHER: ...So then I found out that he'd dumped the lot on some mug in Tauranga. Then I had to ring him and say, 'now listen here Sonny Jim...They'll make good firewood and that's it. I don't want to hear that they are ever in circulation again'...and slammed the phone down and wrote him a filthy letter...*

*OTHER: ...a couple [of retailers] have tried [not paying their bill]. I just ring them up and growl at them...and they usually crack...touch wood we've remarkably blessed with our 65 retailers...It's about expectations...*

**Commitment**

*INTERNAL: ...Mike's still working [full-time] now... We have a reliable income...*

*INTERNAL: ...Mark was working until 3 o'clock in the morning making WKT's and I was spending every weekend trying to sell them...*

*INTERNAL: ...We seriously went from as far north as Mangataroto and Kaitaia talking to kitchen manufacturers...to actually travelling ourselves to Ashburton to meet with [potential] manufacturers...*

*INTERNAL: ...[We did not ask Jelena to pay the \$25,000 for the catalogue]...we borrowed on the house [instead]...we funded it by borrowing...*

*INTERNAL: We matched each other dollar for dollar.*

*INTERNAL: ...Jelena's goals are really that it works for us...Three years ago I wasn't getting paid, now I get paid and I can work from home...She got involved. She thought the business wouldn't succeed without an injection of capital, and she was prepared to inject capital and support us in our bid to grow a company that worked. So that's her motivation.*

*MANUFACTURER / SUPPLIER: ...When Mike goes up [to China], they open the room and talk about our stuff and then they lock the room and it stays that way...*

*MANUFACTURER / SUPPLIER: ...I'm forever placing orders [with them]...it's been growing...[We will never outgrow them]...They say not, I hope not...*

*MANUFACTURER / SUPPLIER: ...I talk to them on the phone. We email them. I pen pal the guy's nephew...*

*DISTRIBUTOR: ...He'd bought this WKT for his nephew who really loved it...so he rang me and said, 'could I be the New Zealand agent for KK?' I said, 'oh well there's a queue a mile long. Come to the front. Sign here'...*

*DISTRIBUTOR: ...the current advice being given by an ex- Industry New Zealand employee...was that you should not sign an exclusive agreements, and I disagree. Because, why would anybody invest in you if you don't give them an exclusive?...I didn't see why he should or would want to invest if we weren't prepared to commit to him.*

*DISTRIBUTOR: ...I knew he couldn't possibly sell 10,000 WKT's this year [and so did he]...it provided an out...but why would I fire him?..*

*DISTRIBUTOR: ...he is pretty vigorous...he does all of Boston and New York. He's doing trade shows so he also has sales teams on the West Coast based in California...*

*DISTRIBUTOR: ...wanted to talk to [other potential distributors] about distributing for us...but that was before Dave had really ordered anything...then all of a sudden he got this huge deal with this German Toy Shop chain, and it's changed the whole complexion of it. So I've left it, let it go.*

*DISTRIBUTOR: ...what both the guys know is that...if I will have make a good business decision...they will have first option.*

*DISTRIBUTOR: ...Dave has done a hell of a lot of trade shows with our product in a very short time...*

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*DISTRIBUTOR:...the smart thing for me to do is to keep focussing on putting new product down my distribution network.*

*DISTRIBUTOR:...that will be next year's project, to get those to all the agents we currently have and to make sure they are all successful...*

*SUPPORT:...a venture capitalist contacted me and said, 'okay send me your business plan'... So I sat down and wrote a business plan...*

*SUPPORT:...I took them all [family and friends children who were involved in the focus groups] to McDonalds for lunch and they thought that was fantastic.*

*EPO:...they gave us half the money to pay an independent person to come in and actually do independent research. So, we hired a space...we had two or three different groups...*

*EPO: The people I mentor through BITC need to buy in that advice...What I'm trying to do in my spare time...is I'm trying to support New Zealand Business...*

*EPO:...I went to BITC and said, I could see some ways that they could improve their situation [and should share that with them even though]...I'm ending up going to an unpaid meeting tomorrow [with them]...to try and help and offer input...*

### **Trust**

*INTERNAL...she is the kind of person who truthfully, if you sat down and wrote a list of top ten people to buy into your business, she would be in your top two...*

*INTERNAL:...I felt that she knew the children's' market, and I believed that she would bring a different perspective to the table, and she has...*

*MANUFACTURER / SUPPLIER:...So I fired off a sample [to China] and got back these two really lovely WKT's. They're beautifully made and they were cheap as chips...they have honestly been wonderful, they are just wonderful...everybody knows that the Chinese are going to copy you...they're all wrong okay...*

*MANUFACTURER / SUPPLIER:...they have honestly been wonderful, they are just wonderful...it's just no different to dealing with New Zealanders, except they're not so frigging dishonest.*

*DISTRIBUTOR:...he is actually a New Zealander but he is based in Germany...he's intelligent and well educated...*

*DISTRIBUTOR:...I looked at his CV and thought, yeah that's it. The thing is he was in the same place at the same time as my brother, who's the same age...so I could relate to where he was at...*

*SUPPORT:...it [the market research] was excellent, it was very valuable. I mean she fortunately didn't give us any nasty shocks. I mean the key thing was that it confirmed my belief, so that when I went out and said...I know this is going to sell. I know how much people are going to pay for it...*

*SUPPORT: So we asked around and we spoke to some other industry people who were successful...*

*SUPPORT:...this was Mike's sister [and financially successful brother-in-law]. So basically we went to them, and we said, 'what do you think we should do?'...*

*EPO:... I told them and they said... 'have you thought of manufacturing overseas?'... I said, 'well that makes sense to me'...*

*EPO:...The common [EPO] wisdom at the time was that you should saturate the New Zealand market before you consider offshore...*

### **Norms**

*INTERNAL:...I haven't met them [the manufacturer] but Mike has [because he is responsible for production issues]...*

*INTERNAL: No, not last year. This year Jelena is pretty much is [a silent partner]...she gave us [the initial] belief in ourselves...the confidence to go on...somebody to talk too. It's not always about money...*

*INTERNAL:...[Even though she has the financial means to invest substantially more money]...I wouldn't ask her to. She owns half the company so everything is fifty-fifty...*

*INTERNAL: All these things come back to a lifestyle choice. I could travel to all these toy fairs...I could spend my life running my business, I choose, and we all choose not to.*

*INTERNAL:...[Design] is Mike's area of strength [not mine]...*

*INTERNAL:...[I would not hire waged employees because it would be difficult]...to find the right person...They would turn up late, and they wouldn't really be passionate about it and they wouldn't think that things matter...unless they had some ownership, or unless they could bring a skill that I really didn't have.*

*INTERNAL:...Jelena knew that her skills were design and identifying the needs in the children's marketplace and meeting them. She knew she wasn't a good systems and detail person...*

*MANUFACTURER / SUPPLIER:...We went to the factory in China. Everybody knows that factories in China require minimum order numbers in the thousands, everybody knows that...[But] they did a minimum order on one item of 50, no problem at all...*

*MANUFACTURER / SUPPLIER:...the difference between New Zealand manufacturing and Chinese...because it is a really key issue... I'm trying to get a sample of something made at the moment. The Chinese will do it for nothing...Here they want 180 bucks for one...*

*MANUFACTURER / SUPPLIER:...I talk to them on the phone. We email them. I pen pal the guy's nephew...*

*MANUFACTURER / SUPPLIER: They sorted it all out, fantastic, they do it all. They do it for nothing...*

*MANUFACTURER / SUPPLIER: [Sometimes I need to order small quantities]. All I do is I try to be respectful, so I think if I'm going to order Blue WKT's, I will at least order a full carton...*

*DISTRIBUTOR:...it's all about finding the person with the passion, and he was the person with the passion...*

*DISTRIBUTOR:...I also didn't believe that he would sell that many. So believe it or not [even though he had placed a much larger order], I didn't let him buy that many. I talked*

him down to 1500 WKT's...it had to be done...he wasn't going to sell that many, I knew it.

*DISTRIBUTOR*:...The other thing I liked about him was, we tried to get a distributor agreement in New Zealand and nobody had anything, so he went and got an English agreement, and he set up how much he would sell...

*SUPPORT*:...we've used everything [my brother] lent us, which by that time was about twenty thousand, and I don't want to ask for any more because I'm not entirely sure that we have a viable business...

*EPO*:...how can we possibly [all individually] be focussing on export? We all have to work together...[The EPOs know] we are too small to do anything else other than play to all our individual strengths...

*OTHER*:...I think a lot of people spend an awful lot of time trying to save a dollar...you know with endless Trusts and fake employees and all sorts of other silly nonsense...[But] I don't actually resent paying tax the way some people do. I think that's a reasonable thing to do.

### ***Transaction Cost Relational Mode***

*INTERNAL*:...Mike, as all Kiwi men are, was a little bit reluctant to release control of his idea and a little bit nervous that...her input might rock the boat, or that it might suddenly make five million dollars [that would then have to be shared fifty-fifty with her]...

*DISTRIBUTOR*:...we spoke to a guy in America and we communicated for a while, but we couldn't settle on what was going to be a realistic price, and we'd both read the same book that said that the person to say the number loses.

## Appendix Two: Case Selection - Filtering Questionnaire

### Preamble

Hello, I'm Paul Pickering from Massey University Department of Commerce. I'm currently undertaking a PhD on very small businesses that are involved in exporting. I wish to establish if your business fits into the research criteria I have set, and if so, whether you would be willing to be a research participant? Firstly, would you mind if I ask you a few questions? All responses given will be treated in the strictest of confidence.

- Q.1** Do you currently export any products or services from your business?  
 YES NO  
 FINISH
- Q.2** How long have you been exporting from your current business?  
 >1 yr <1yr  
 FINISH
- Q.3** How long from when you started your business, did it take to secure your first export order?  
 RECORD MONTHS
- Q.4** How many equivalent full time staff, including yourself and part-timers work in the business?  
 RECORD NUMBER.  
 IF > 5, THEN FINISH
- Q.5** What industry do you consider yourself to be in?  
 INDUSTRY
- Q.6** What year did you begin this business?  
 YEAR
- Q.7** Is it your aim to grow in size, that is, in terms of number of employees, or remain the same size?  
 GROW SAME

IF A DEFINITE CASE POSSIBLE, CONTINUE WITH THE FOLLOWING:

...Thanks for that. From what you have told me so far, the story of your 'business journey' would be of considerable value to this research. If selected, would you be willing to give me approximately two hours of your time to go into much greater detail?

ANSWER ANY CONCERNS RAISED. IF AGREEMENT TO PARTICIPATE IS OBTAINED, STATE THAT A TIME AND PLACE FOR INTERVIEW WILL BE ORGANISED SHOULD THEY BE SELECTED. ALSO PROMISE A FOLLOW-UP LETTER FROM MASSEY CONFIRMING SUCH DETAILS.

## **Appendix Three: Discussion Guide**

### **1. Introduction**

- a.** Full name of business
  
- b.** Brief description of product/s services
  
- c.** Begin with general purpose of study

This PhD research is based on how very small enterprises in countries such as New Zealand manage to get their products to overseas markets. I'm interested in the processes that took place, the challenges that were faced, and how these were, and are, overcome. I want to emphasise that there are no right answers. For example critical incidents of good luck within your business are just as interesting as those incidents that arose from good management (whatever that may be!).

Today is all about your story, in terms of how your business came about, the origins of your product, and your motivations for getting into the business. I'd also like us to cover areas such as the strategies you employed for internationalisation and important relationships that influenced or impacted on these strategies. Relationships could refer to family, friends, colleagues and business. They could also include industry bodies, suppliers, distributors, customers, financiers – you name it.

At some point I would also like to discuss your 'management style' and how this impacted on your international processes or decisions.

## 2. Origins of Internationalisation

- a.** Please describe the 'journey' that your business has taken from founding to today.
  - i. motivations to start (uniqueness of offerings, serendipity, specialist knowledge, markets), goals
  - ii. origins of first export order
  - iii. major decisions along the way
  - iv. background, experience
  
- b.** Did you have domestic or international market focus when you first started out in business? What about now?
  
- c.** How would you describe the position of your main offering in relation to the rest of the industry in which you compete?
  - i. Then, now and in the future
  - ii. Competitive advantage
  - iii. Brand new product or innovative new process
  - iv. 4ps

## 3. Internationalisation Strategy

- a.** How did you go about establishing and growing your business internationally once you decided to sell overseas? What impacted your international progress?
  - i. challenges faced such as resource, smallness, newness
  - ii. relationships and networks developed
  - iii. how established the extent of international market
  - iv. why particular countries/markets were chosen
  
- b.** How do relationships/networks help with growing your exports now?
  - i. evolved over time?
  - ii. Short/long term/purpose or project driven/formal alliances
  - iii. Awareness of government/local assistance programmes.
  
- c.** What involvement do they require of you on an ongoing basis?
  
- d.** Tell me about your customers. What makes them want to do business with you? What do you offer them that others perhaps don't?
  
- e.** How do you go about developing new markets and/or customers today? (If different from before, probe as to why strategy has changed/evolved).

## 4. General

- a.** Tell me what business success is to you. Where do you feel that you are in terms of this?

## 5. Management Style

- a.** When confronted with decision making involving uncertainty, I...
  
- b.** What future plans do you have for the business?
  - i. Products
  - ii. Markets
  - iii. Countries
  - iv. HR / structural
  - v. Ownership

## 6. Demographics

- a.** Annual turnover (where given)
- b.** Proportion of revenue derived from exporting
- c.** Year of founding
- d.** Year of first export order
- e.** FTE staff at first export order and now
- f.** Number of countries exported to
- g.** Number of export markets (if different from above)
- h.** Owner managed?
- i.** Is present owner founder?

## Appendix Four: List of Codes

### (1) **Origins/Motivations/Goals/Activities**

Factors related to how the business got started, what continues to motivate them, and the nature of involvement in business development activities.

- (1 1) /Origins/Motivations/Goals/Activities/Passion
- (1 2) /Origins/Motivations/Goals/Activities/Entrepreneur
- (1 3) /Origins/Motivations/Goals/Activities/Catalytic
- (1 4) /Origins/Motivations/Goals/Activities/Innovation
- (1 5) /Origins/Motivations/Goals/Activities/Market Forces
- (1 6) /Origins/Motivations/Goals/Activities/Knowledge
- (1 7) /Origins/Motivations/Goals/Activities/Relationship
- (1 8) /Origins/Motivations/Goals/Activities/Success
- (1 9) /Origins/Motivations/Goals/Activities/Planning
- (1 10) /Origins/Motivations/Goals/Activities/My kind of people
- (1 11) /Origins/Motivations/Goals/Activities/Risk aversion

### (2) **Key Relationships**

Evidence of the difference types of relationships that VSE attributes importance to either directly or indirectly in the start-up, maintenance, and growth phases of the business

- (2 1) /Key Relationships/Internal High
- (2 2) /Key Relationships/Internal Low
- (2 3) /Key Relationships/Manufacturer High
- (2 4) /Key Relationships/Manufacturer Low
- (2 5) /Key Relationships/Distributor High
- (2 6) /Key Relationships/Distributor Low
- (2 7) /Key Relationships/Support High
- (2 8) /Key Relationships/Support Low
- (2 9) /Key Relationships/EPO High
- (2 10) /Key Relationships/EPO Low
- (2 11) /Key Relationships/End User High
- (2 12) /Key Relationships/End User Low
- (2 13) /Key Relationships/Key Other

**(3) Governance Form**

Evidence of Bilateral versus Unilateral and/or Market governance (Heide 1994) in key relationship initiation, maintenance, and termination processes.

- (3 1) /Governance Form/BG Internal
- (3 2) /Governance Form/BG Manufacturer
- (3 3) /Governance Form/BG Distributor
- (3 4) /Governance Form/BG Support
- (3 5) /Governance Form/BG Other
- (3 6) /Governance Form/UMG Internal
- (3 7) /Governance Form/UMG Manufacturer
- (3 8) /Governance Form/UMG Distributor
- (3 9) /Governance Form/UMG Support
- (3 10) /Governance Form/UMG Other

**(4) Relational Mode**

Evidence of Social Exchange and Transaction Cost Analysis constructs in key relationship initiation, maintenance and termination processes. SE constructs include positive and negative reciprocity, trust, commitment and the presence of relational norms. TCA are behavioural and attitudinal incidences indicating the absence of these. These might include opportunism, control, power, stipulation of contractual terms, and lack of trust and commitment.

Social relational norms include solidarity, mutuality, flexibility, role integrity, and harmonisation of conflict. See Gundlach and Achrol (1993).

- (4 1) /Relational Mode/PR Internal
- (4 2) /Relational Mode/PR Manufacturer
- (4 3) /Relational Mode/PR Distributor
- (4 4) /Relational Mode/PR Support
- (4 5) /Relational Mode/NR Internal
- (4 6) /Relational Mode/NR Manufacturer
- (4 7) /Relational Mode/NR Distribution
- (4 8) /Relational Mode/NR Support
- (4 9) /Relational Mode/R Other
- (4 10) /Relational Mode/T Internal
- (4 11) /Relational Mode/T Manufacturer
- (4 12) /Relational Mode/T Distributor
- (4 13) /Relational Mode/T Support
- (4 14) /Relational Mode/DT Internal
- (4 15) /Relational Mode/DT Manufacturer
- (4 16) /Relational Mode/DT Distributor
- (4 17) /Relational Mode/DT Support
- (4 18) /Relational Mode/T/DT Other
- (4 19) /Relational Mode/RNYes Internal
- (4 20) /Relational Mode/RNYes Manufacturer
- (4 21) /Relational Mode/RNYes Distributor
- (4 22) /Relational Mode/RNYes Support
- (4 23) /Relational Mode/RNNNo Internal
- (4 24) /Relational Mode/RNNNo Manufacturer
- (4 25) /Relational Mode/RNNNo Distributor
- (4 26) /Relational Mode/RNNNo Support
- (4 27) /Relational Mode/Other RN
- (4 28) /Relational Mode/Commitment Internal

- (4 29) /Relational Mode/Commitment Manufacturer
- (4 30) /Relational Mode/Commitment Distributor
- (4 31) /Relational Mode/Commitment Support
- (4 32) /Relational Mode/Commitment Other

**(5) Internationalisation Outcomes**

Evidence of international market commitment and resultant significant outcomes.

- (5 1) /Internationalisation Outcomes/Market Commitment
- (5 2) /Internationalisation Outcomes/Market Breadth
- (5 3) /Internationalisation Outcomes/Product Breadth
- (5 4) /Internationalisation Outcomes/Demand
- (5 5) /Internationalisation Outcomes/Supply
- (5 6) /Internationalisation Outcomes/Export Performance
- (5 7) /Internationalisation Outcomes/Networks

**(7) Demographics**

- (7 1) /Demographics/Technology Based
- (7 2) /Demographics/Traditional
- (7 3) /Demographics/Auckland
- (7 4) /Demographics/Wellington-Manawatu
- (7 5) /Demographics/Canterbury

**(F) Free Nodes**

Interesting observations not specifically fitting within main themes

- (F 1) /Free Nodes/Family Involvement
- (F 2) /Free Nodes/Operational Issues
- (F 3) /Free Nodes/Relational Challenges
- (F 4) /Free Nodes/Competition factors
- (F 5) /Free Nodes/FDI
- (F 6) /Free Nodes/Business Awards

SR N6 Full version, revision 6.0.

Licensee: Paul Pickering.

PROJECT: PhD, User Paul Pickering, 1:22 pm, Feb 3, 2005.

### Appendix Five: Calculation of the MCE’s Overall Relationship Position

The following table is taken from the *RR* case (see section 4.3). It is included here to illustrate the calculation involved in plotting form of governance with relational mode to arrive at in this instance *RR*’s overall relationship position (5.6 = GOV, 7.2 = MODE) on a two dimensional graph (see figure 3).

#### Rifle Rangers Form of Governance and Relational Mode

Observed Governance				Relational Mode				
Relationship Type	Decision /Action	Bilateral	Unilateral / Market	Relationship	Reciprocity	Commit	Trust	Norms
<i>Internal</i>	Strategic	■ +4	□ 0	<i>Internal</i>	■ +2	■ +2	■ +2	■ +2
	Tactical	■ +4	■ -2					
<i>Suppliers</i>	Strategic	■ +4	□ 0	<i>Suppliers</i>	■ +2	■ +2	■ +2	■ +2
	Tactical	■ +4	□ 0					
<i>Distributors</i>	Strategic	■ +4	■ -2	<i>Distributors</i>	■ +2	■ +2	■ +2	■ +2
	Tactical	■ +4	□ 0					
<i>Support</i>	Strategic	■ +4	□ 0	<i>Support</i>	■ +2	■ +2	■ +2	■ +2
	Tactical	■ +4	■ -2					
<i>EPOs</i>	Strategic	NA	NA	<i>EPOs</i>	NA	NA	NA	NA
	Tactical	NA	NA					
<i>End-users</i>	Strategic	■ +4	■ -2	<i>End-users</i>	■ +2	■ +2	□ 0	□ 0
	Tactical	■ +2	■ -2					
<b>5 Applicable Relationship Types</b>		38	-10		10	10	8	8
		28/5 = <b>5.6</b>			36/5 = <b>7.2</b>			

■ = Dominant  
 ■ = Partial  
 □ = Limited or None

■ = Strong  
 ■ = Moderate  
 □ = Weak or None

The firms overall positions in this regard were calculated by assigning metric values to each observation on the relational construct in the individual case tables (see sections 4.2-4.8). That is, governance observations (strategic and tactical) for each relationship type were assigned scores of -4, -2, 0, +2, or +4 depending on the strength of bilateralism and/or unilateralism observed in that instance. Similarly, observations of an SE relational mode (reciprocity, commitment, trust, social norms) received scores of -2, 0, or +2 depending on its strength in each relationship type. The MCE’s *form* scores were then totalled and divided by the number of important relationship types to obtain an overall score for governance. *Mode* was similarly treated. Then the seven vectors of *form* and *mode* were plotted (Figure 3), providing an accurate depiction of where each firm is positioned in relation to the others in respect to the relational strategy employed.

## Appendix Six: Participant Consent Form



**Massey University**

**Department of Commerce - Albany**

RESEARCH INTO INTERNATIONALISATION OF BUSINESS

**THIS CONSENT FORM WILL BE HELD FOR A PERIOD OF SIX YEARS**

**Researcher: Paul Pickering**

I have been given and have understood an explanation of this research project. I have had an opportunity to ask questions and have them answered.

I understand that the results of this study may be used for publication purposes.

I understand that individual's names will not be identified in the research report or in any other publication relating to this study.

I understand that my business or associated names will not be identified in the research report or in any other publication relating to this study.

I understand that I may withdraw myself, or any information traceable to me, at any time up to the analysis stage, without giving a reason.

I understand that all interview responses will be kept confidential.

I understand that my responses may be used in future studies.

- I agree to take part in this research
- I agree that the interview will be audio-taped

Signed:

Name:  
(please print clearly)

Date:

ANY QUERIES OR CONCERNS REGARDING THIS RESEARCH CAN BE DIRECTED TO DR RUSSEL KINGSHOTT,  
DEPARTMENT OF COMMERCE, PHONE 09 414 0800 EXTN 9474.

## Appendix Seven: Research Outcomes Related to This Thesis

### Published

Kingshott, R. P. J., and Pickering, P. A. (2005). The internationalisation strategy of the New Zealand VSE: A social exchange stakeholder relationship building perspective. *Journal of Asia Pacific Marketing*, 4, (1), 62-84.

### Currently Under Review

Kingshott, R. P. J., and Pickering, P. A. (2005). The VSE internationalisation strategy: A social exchange perspective, *Qualitative Marketing Research*, under review.

Pickering, P. A., and Kingshott, R. P. J. (2006). Internationalisation of the micro-enterprise: A relational paradox? 22nd Industrial Marketing and Purchasing (IMP) Group Conference, Milan, Italy, September 2006, under review.

### Conferences and Invitations

Pickering, P. A., and Kingshott, R. P. J. (2005). Internationalisation of the New Zealand micro-enterprise. Paper Presented to the Department of Commerce, University of Notre Dame, Fremantle, Western Australia.

Pickering, P. A., and Kingshott, R. P. J. (2005). VSE internationalisation from a relationship building perspective: Chicken or golden egg? Paper presented at ANZMAC, Fremantle, Western Australia.

Pickering, P. A.<sup>3</sup> (2004). The internationalisation strategy of the VSE: A stage-network perspective. Paper presented at *Doctoral Consortium, 20th Annual Conference of the Industrial Marketing and Purchasing (IMP) Group*, Copenhagen, Denmark.

Pickering, P. A., and Kingshott, R. P. J. (2004). Is the internationalisation of the exporting VSE possible without infra-structural growth, or is big better? Paper presented at *Academy of World Business, Marketing & Management Development Conference*, Gold Coast, Queensland, Australia.

### Book Chapter (published)

Pickering, P. A. (2005). Internationalisation of the home based business. In J. Sayers & N. Monin (eds), *The Global Garage: Home-based business in New Zealand* (pp. 169-181). Thomson Learning, Dunmore Press, Australia.

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<sup>3</sup> Received "Best Paper" Award.

### **Research Funding**

Kingshott, R. P. J., Pickering, P.A., Rexha, N., and Rose, L. (2004). The impact of socialisation upon the internationalisation of very small enterprises. *Albany Business Research Fund*, Massey University, Auckland, New Zealand. [Grant Awarded - \$18,000].

Pickering, P. A. (2002). Internationalisation of the New Zealand Micro-enterprise. *Massey University Doctoral Scholarship*, Massey University, Auckland, New Zealand. [Scholarship Awarded - \$20,000 per annum for three years].

### **Massey University Department of Commerce Working Paper Series**

Pickering, P. A., and Kingshott, R. P. J. (2004). The significance of owner-agent relationships upon export intensity growth in internationalisation. *Department of Commerce, Working Paper Series*, Massey University, Albany, Auckland, ISSN 1174-5320, (April), WP 04.05.

Pickering, P. A., and Kingshott, R. P. J. (2004). VSE internationalisation through social exchange relationship building. *Department of Commerce, Working Paper Series*, Massey University, Albany, Auckland, ISSN 1174-5320, (November), WP 04.31.