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**The Internationalisation Process:
A Relationship Approach**
**-A study of close customer relations' impact on an industrial
firm's pace of internationalisation**

**by
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PREFACE

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Bergen, May 2000

Siv Marina Karlsen

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List of Interviewees

Mr. Idar Fulgseth	Financial Manager	26 th of June 1997
Mr. Idar Ulstein	Managing Director of the Ulstein Group	30 th of June 1997
Mr. Steinar Kulen	Executive Vice President, Ulstein Ship Tech.	7 th of July 1997
Mr. Morten Ulstein	Executive Vice President, Propeller Division	2 nd of July 1998
Mr. Jørn Heltne	Marketing Manager, Ulstein Propeller	2 nd of July 1998
Mr. Nils Mørkeseth	Regional director, US market	25 th of March 1999

1 Introduction

In this chapter I introduce the research problem, then the contributions to the existing theories and practices I hope to come up with are presented before a brief outline of the content of the following chapters is given.

1.1 The Research Problem

1.1.1 Introduction

“We are slowly moving away from one-night stands and adversarial relationships” D. Hiser, Texas Instruments (Lewis, 1995).

It has frequently been noted that industrial firms establish buyer-seller relationships, which are often close, complex and frequently long-term. This thesis sets out to find how or if relationing with a few key customers may accommodate the internationalisation process of a firm. The internationalisation process of any firm will display some element of “incrementalism” (Pedersen & Petersen, 1998). However, the *pace* by which firms commit resources may differ substantially. Thus, my focus is; *how may close customer relations influence the pace at which a firm internationalise?* Hopefully this study will show that close customer relations have some positive influence i.e. increase the pace.

The number of co-operative arrangements vastly exceeds the number of fully owned subsidiaries as modes of international business organisation (Contractor & Lorange, 1988). An underlying assumption is that, overall, the benefits of co-operative ventures, will have to exceed the direct and indirect costs of establishing such a relation. This study aims to amplify how key customer relations contribute with regard to the internationalisation process’ progress. It takes a closer look at how firms «go international» or «expand their business internationally». Are there any benefits to be made by pairing up for the process as compared to going it alone? The term *internationalisation* are used roughly to describe the outward movement in an individual firm’s or larger grouping’s international operations (Johanson & Wiedersheim-Paul, 1975; Turnbull, 1987). A more complete definition will be presented later (see chapter 2).

Co-operation may be justified in itself, as it is a means of overcoming the limitations restricting what individuals can do. Relationships to others may represent new possibilities and opportunities to achieve desired goals, but may also for a company, represent constraints on its operations. Customer relations are considered the weaker point of many Norwegian firms (Selnes & Reve, 1994). Reve, Haugland & Grønhaug (1995) found in their study that Norwegian companies attained good results when co-operating with foreign customers.

Much has been written about collaboration in general (f.i. the supply-chain literature), but not so much on relationing towards customers in particular. Maybe because companies traditionally are very concentrated on cutting costs, and since purchasing costs in most industrial companies make up 60% or more of total costs, it is natural to turn in that direction when considering where to co-operate. There are benefits to be reaped when relationing towards customers as well, both in terms of lower costs (marketing, search costs etc) and more efficient product development (due to first-hand knowledge of the customers' needs). But, these benefits may take some time to materialise as compared to lower purchasing expenses, which can be accounted for almost immediately. Lewis (1995) states that poor relations with customers are one of the most critical barriers to improved competitiveness. Consequently I have decided to take a closer look at the use of close customer relations as a way of aiding companies in expanding internationally.

1.1.2 Co-operation

Several authors state the importance of good and close relationships with one's customers. Lewis (1995) is already mentioned, Freid & Freid (1995) are other authors who share this view; “..the quality of the relationship with the customer is the proper measure of success” (p.40).

There are several benefits stated in relevant literature of having close relations to one's key customers; to achieve more loyal customers, minimise transaction costs, better control on price and profitability, strengthened market orientation in the firm and more “adequate” product development (i.e. more customised). Co-operating with one's key customers is also beneficial for achieving synergies and to avoid demand fluctuations.

From this, we can draw the conclusion that one part of a firm's competitiveness is its ability to create good relations to its customers, i.e. attain loyal customers.

1.1.3 Key Customer Relations

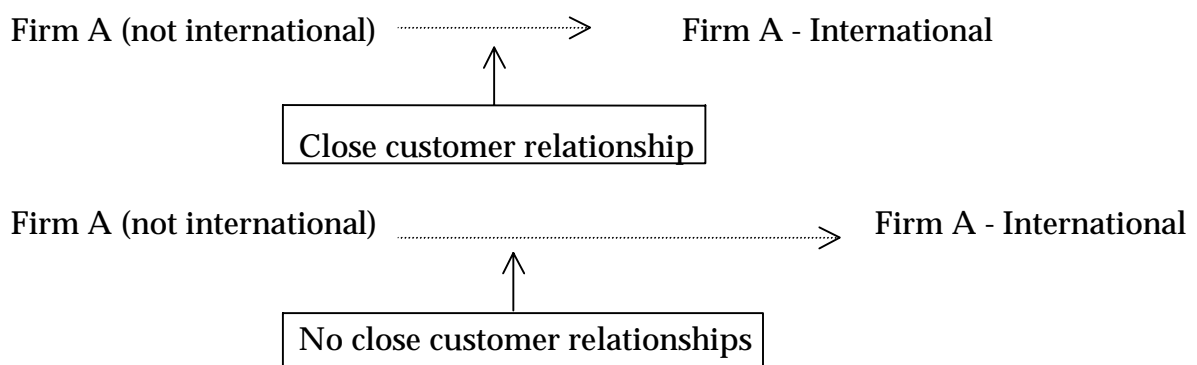
When relationing to one's key customers, that is, customers of greater value/importance to a firm, it is easier to come adept at anticipating what customers want and need, and consequently one becomes more able to deliver a product that fits the customers' requirements. We can assume that to establish the wants and needs of the customers in a foreign environment, is harder than in a domestic market, which makes "inside information" even more important. The reason why one should establish good collaborative relations to a *few* key customers can be justified for the following reason; most industrial companies have only a few customers that account for a major part of their total sales. That is, the different measures of performance (sales volumes, growth potential, profitability), often depend on only a *limited number* of relationships (Håkansson & Snehota, 1995). In addition, there is a resource problem; it is both time-consuming and requires large resources to accommodate one's key customers, which justify the need for a certain selectivity. It is not viable to develop close customer relations to an unlimited number of customers. According to Reve, Haugland & Grønhaug (1995) firms that have succeeded in building good customer relations and at the same time are conscious of their competitors, have a good foundation for international success.

Håkansson & Snehota (1995) states that the network of business relationships may be seen as both a prison and a tool. For instance, relationships with one's key customers *constrain* in that they may limit a firm's contact with alternative customers outside the relation, and also *secure* because of the accessibility of customers for their products. The case of serial purchase differs in several vital respects from the once-only case. With serial purchase there is a better basis for assumptions regarding the order in which the user will study different purchasing alternatives. It can be assumed that the costs connected with a change of supplier will be great if, for instance, the user company is dependent on detailed knowledge of its supplier's products, conditions or operations. The more complicated the operation with regards to technology,

organisation or demand, the more likely it is that the user will stick to and establish a lasting relationship with the supplier.

1.1.4 Internationalisation

The term *international* usually refers to either an attitude of the firm towards foreign activities or the actual carrying out of activities abroad (Kindleberger, 1962 in Johanson, 1994). The attitudes are the basis for decisions to undertake international ventures, and the experiences from international activities influence these attitudes. Tayeb (1992), argues that companies engage in international business when the possibility of achieving the company's objectives are either diminishing at home and/or there are great opportunities abroad. Evidence points to *performance* as the dominant rationale behind internationalisation (Beamish, 1994). An analysis of data based on the 100 largest US MNOs and the 100 largest European MNOs, a correlation between improved performance and degree of internationalisation was found. To sum up, the aim of this study is to try and find evidence of there being a connection between the pace of a firm's internationalisation process and what kind of relations the firm has to its customers. The assumption I make is that the closer relations a firm has to an important customer, the faster the pace at which the firm proceeds in its internationalisation process. This implies that lack of such close relations will inhibit the internationalisation process of the firm i.e. the pace will be slower. This is illustrated graphically below.



(Length of arrow indicates "pace": long arrow = slow pace; short arrow = fast pace)

Figure 1: A graphic illustration of the research question

1.2 Contributions

My contribution is to investigate how close customer relations might influence the internationalisation process of an industrial firm. This includes to identify under which circumstances it is worthwhile to establish such relations, and under which circumstances such relations will have little or no influence on the process. I also want to show that the international process perspective is not outdated as a perspective to help describing the internationalisation process of firms, although it does have its limitations.

1.3 Outline of the Thesis

In the next chapter, a short review of previous literature on the topic (internationalisation) is presented, and a choice is made of which theories are to be used as a basis for this study. A more thorough run-through of the three approaches my propositions will be based on is made in chapter three. In chapter four the three theories are compared in terms of their strength and weaknesses, and their ability to predict entry mode and market chosen when firms are expanding internationally. Some illustrating cases are presented in chapter five. In chapter six, I present the model and some propositions. Then the research design for a future PhD thesis is outlined in chapter seven, before I finally make some concluding remarks in chapter eight.

2 Literature Review

This chapter gives an overview of some recent writings on internationalisation, it also states which theories I have chosen to focus on. The main points are summed up at the end.

2.1 An Overview of the Recent Writings on the Topic of Internationalisation

2.1.1 Introduction

International business research has made enormous strides in the last three decades. According to Hadjikhani (1997), the research arena for international business, an arena which includes a variety of theories and models, has been divided by perspectives ranging from economics to organisational behaviour.

Internationalisation can be perceived as a part of the ongoing strategic process of most business firms (Melin, 1992). There are basically two dimensions which represent the key strategic decisions in connection with a firm's internationalisation, (1) international market selection and (2) choice of entry mode (Bradley, 1995). Based on these dimensions and the definitions suggested by Welch & Luostarinen (1988:36) and Calof & Beamish (1995:116), the following definition for internationalisation will be used here; *internationalisation is the process of adapting exchange transaction modality to international markets*. This definition includes both entry mode strategy and international market selection. Entry mode has been defined as an institutional arrangement for organising and conducting international business transactions - e.g. contractual transfers, joint ventures and wholly owned operations (Root, 1987). The definition of internationalisation focuses on characteristics like entry mode and international market selection that are observable. The use of observable characteristics is likely to increase the robustness when the concept is used for predictive purposes (Andersen & Rynning, 1994). The internationalisation describes a time-dependent process and thus should be generalised as laws of succession (Hunt, 1991). However, most research on the internationalisation process (as well as on the entry mode), has been static in nature. The literature has yielded numerous insights into the factors associated with a specific *degree* of internationalisation or entry mode chosen at a specific time. This research is useful in explaining why firms differ in their internationalisation *profile* (e.g. entry mode

chosen, number of foreign markets served) at a specific time. Some recent studies indicate however, that factors associated with a firm's internationalisation profile may also influence entry mode *changes* (Calof & Beamish, 1995).

Next below, I will present some of the most frequently applied theoretical perspectives on the topic of internationalisation.

2.1.2 Transaction Cost Approach (TCA)

The TCA seems to be especially effective in explaining vertical integration decisions, and has been used to predict entry mode for manufacturing firms as well as for service firms. The transaction cost theory focuses on inter-organisational governance of a seller-buyer relationship. Specific assets, the frequency of economic exchange and uncertainty surrounding the exchange of resources between buyer and seller, represent the core dimensions of the transaction. The composition of these dimensions is decisive for the way cost efficient governance modes are assigned to the transaction (Williamson, 1971; 1981). The decision maker is supposed to be boundedly rational and sometimes display opportunistic behaviour.

The "theory of internalisation", which the TCA is sometimes called, assumes that a multinational enterprise has somehow developed a firm-specific advantage in its home market (Johanson & Mattson, 1988). Usually this is in the form of internally developed, intangible assets that give the firm some superior production, product, marketing and/or management knowledge. If this asset cannot be exploited and safeguarded effectively through market or contractual transactions, an "internal market" has to be created. Expansions outside the firm's domestic market then, take place through horizontal and/or vertical integration. The firm establishes or buys manufacturing plants outside its home market. "Internalising" has costs in the form of internal administrative systems and risk-taking. These costs of internalisation will be lower the less different the foreign market is from the home market. Thus, the internalisation model predicts that international expansion starts in "nearby" markets. The internalisation model is not intended to explain processes, but attempts to explain a specific economic institution - the multinational enterprise.

Most of the studies on foreign market entry modes, have also made some modification of the TCA. The modified TCA predicts a positive relationship between asset specificity and propensity for high-control entry modes. Although the extensions of the TCA could enrich our knowledge of a firm's entry mode, such modifications imply that the assumption of transaction cost minimisation is abandoned. Use of other decision criteria than transaction cost minimisation could lead to other conclusions concerning choice of entry mode, than would be suggested by the original TCA. Madhok (1997) demonstrates that when using the benefits or values instead of the transactions cost minimisation as a decision criteria, other conclusions are reached concerning which entry mode a firm should select.

The TCA does not place much emphasis on the *actor*, neither does it take the processual aspect into account. As the actor makes out my unit of analysis, and the fact that I view the internationalisation of a company as a process – have made me decide not to use transaction cost theory in my study.

2.1.3 The Eclectic Framework

The eclectic paradigm is by far the most popular general theory on internationalisation (Benito, 1995). Benito believes Dunning's paradigm is more of a multi-level framework than a theory. He states that the eclectic paradigm is a synthesis of the perspectives of market power (industrial organisation), internalisation (transaction cost) and location theory. Dunning (1980; 1988) suggests that the following factors will influence a firm's choice of entry mode; ownership advantages (firm specific assets and skills), locational advantages (reflect attractiveness of specific country e.g. market potential & investment risk), and internalisation advantages (costs of choosing a hierarchical mode of operation over an external mode, e.g. transaction costs).

The strengths of the theory can be characterised by its richness (several explanans) and its creativity (generation of new determinants and combinations of these with existing ones). The strengths may however, also be the potential weaknesses of the theory. When increasing the number of explanans, the problems of establishing demarcation lines between the different concepts may arise. Itaki (1991) believes that the concept

«ownership advantage» is redundant. For predictive purposes, many economists would prefer to use relatively few explanans in order to ensure simpleness. When one tries to include too many explanatory factors as in a detailed eclectic framework, it is in danger of becoming tautological. One will never be able to include all factors influencing a real life situation, one will have to try and choose the most influential factors out of many and try and control for others to make a simplified picture of the real world. Secondly, the use of several explanans is likely to create problems with regards to analysing and interpreting the effects of interrelationships among the determinant factors. Thirdly, the concept «locational advantage» is likely to have a direct influence on the international market selection (IMS). Most entry mode literature assumes that the entering firm has the option to choose any entry mode in a given country. The assumption that the choice of entry mode and IMS can be regarded as independent decision processes may not be true; f.i. do firms select a country where the locational advantages are perceived as being great (e.g high market potential, low production costs), but where the government restrictions narrow the feasible set of entry modes? Further research on the interrelationship between entry mode choices and IMS is needed, irrespective of the eclectic paradigm.

The main reason why I have not decided to use this paradigm for investigating my problem, in addition to the drawbacks mentioned above, is the fact that it does not emphasise the processual aspect of internationalisation.

2.1.4 Internationalisation Process Theory (IPT)

Researchers began to systematically examine the internationalisation process of firms at the end of the 1960s. These studies focused on *attitudes* and *behaviour* of firms in the process of going international (Li & Cavusgil, 1995). Empirical studies in this area concentrated on testing whether internationalisation was an incremental and gradual process. The results are non-conclusive. Karafakioglu (1986) found that the majority of the firms he studied experienced a sequential and gradual process starting as uncommitted exporters and increasing their commitment as firms' size and export volume grew. On the other hand, Diamantopolous' (1988) and Millington & Bayliss' (1990) failed to support the incremental view of the process of internationalisation.

However, all researchers agreed that there were different stages in the internationalisation process. These conflicting findings may suggest two different processes at work - sequential and random. In the former, firms go through different stages in sequential order. In the latter, firms leapfrog certain stages. Johanson & Vahlne's internationalisation model rests, according to Andersen (1998), on the resource-based theory. The basic assumption of Johanson & Vahlne's model (1977/90) is that performing activities creates internal assets such as skills and (experiential) knowledge. "The establishment chain", as Andersen (1998) call Johanson & Vahlne's approach, has some points of resemblance with the organisational capabilities perspective and the eclectic framework, concerning the emphasis on firms' knowledge. The main difference between the perspectives, are that the establishment chain describes the entry mode decision as a time-dependent process, i.e. the explanation of a particular state (i.e. entry mode) is based on some prior state or a sequence of some prior states. The other frameworks attempt to predict a firm's entry mode based on current values of a set of independent and moderating factors.

It should be noted that Johanson & Vahlne (1977; 1990) have not included co-operative modes of entry in their establishment chain. In view of the frequent use of such entry modes, this is obviously a weakness. Additionally, the stage model has been criticised as being *deterministic* (e.g. the firm will start at stage A, then it will go to stage B etc.) The firm's ability to make strategic choices regarding appropriate modes of entry in overseas markets, is then denied (Reid, 1983; Root, 1987)

As mentioned, empirical support has been found in some studies, but was not supported in other studies. It is imperative to identify under which circumstances the framework should be relevant in order to develop appropriate testing methods; f.i. Johanson & Vahlne (1990) and Sharma & Johanson (1987) did not find that it was valid for service industries. Finally, the use of only one (main) explanatory variable (experiential knowledge) is not likely to provide a sufficient explanation for a firm's choice of entry mode. It would therefore be advantageous to supplement this with other perspectives, which also consider processual aspects.

2.1.5 Interaction Approach

Li & Cavusgil (1995:254) describe this approach as “a stream of literature examining relationships of networks, co-operative ventures, and alliances among international companies”. Since the early 1980s researchers, first in Europe then in North America, began to study complex relationships among companies from distant parts of the world. Up until the 1970s, multinational firms typically operated in an independent manner relying on a network of wholly owned subsidiaries in other countries. However, over the past decade, companies doing business globally seems to have stepped up their interactions, forming linkages such as co-operative ventures, collaborative agreements, and strategic partnerships.

The approach to marketing research in Europe, realised many years ago the limitations of the marketing mix view as a way of describing and understanding market activity. Instead of the view of an active seller and a relatively passive buyer implicit in the marketing mix approach, much European research has examined the interaction between two active parties, a buyer and a seller. This research is, of course, built in the context of industrial markets, and it involves understanding of the nature of the relationship that develops between the parties through their interaction (Ford & Leonidou in Paliwoda, 1991). This approach of examining interaction and relationships also marks a move away from concentrating on the analysis of single purchases, of which the classic “industrial buyer behaviour model” is the best example. Instead, the research in Europe tends to see each purchase as an “episode” in the close, or perhaps, distant relationship between the parties. Thus, the purchase can only be understood in the context of the previous and current relationship and the wider “network” of relationships in which it is enmeshed (Cunningham, 1980).

According to Håkansson (1982) there is considerable research in Europe which starts from a non-normative perspective, and which has used international marketing as a suitable research situation in order to examine the relationships between buying and selling organisations in different circumstances. The interaction approach was first initiated by a team of European marketing researchers known as the International Marketing and Purchasing (IMP) Group. Originally the interaction approach focused

on the process of managing interactions between buyers and suppliers. Later it extended its attention to the study of all co-operative relationships among firms in the international market. Several terms have been proposed to describe such relationships; networks, corporate linkages, international collaborative agreements and strategic alliances. Contributions in this area can be classified into three different groups; (1) *define the domain* of the study and look for firms' reasons for interaction with each other, (2) *empirical studies* that observe the actual interactive behaviour among firms, and finally (3) managerially oriented writings that provide *guiding for managing* such interactions. My contribution will be somewhere between the first and the second group.

The Network Perspective

According to Benito (1995) the network perspective on international servicing is very much related to the internationalisation process perspective. The main critique of the former perspective concerns its insufficiency in explaining the investment patterns of well-experienced MNE's. These very international companies might not encounter the costs of a «foreign environment» assumed by the internationalisation process perspective. I see the network approach as complementary to the internationalisation process perspective, as the latter most adequately explain the choice of entry mode at an early stage in the internationalisation process of a firm, while the first explains the international expansion of a more internationally experienced company. Both network and process approaches stress the cumulative nature of the firm's activities. Whereas the process approach focus on the *internal development* of a firm's knowledge and other resources, the network approach offers a model of the market and the firm's *relations* to the market, i.e. a more external view.

Relationship Marketing Approach

Relationship marketing is seen as part of the developing network paradigm which recognises that global competition occurs increasingly between network of firms (Andersen, 1996). According to the IMP-group (in Solberg, 1994) "relationing" can be described as a process. "Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational

exchanges”, (Morgan & Hunt, 1994:22). Through exchange episodes, the parties develop relations where *adaptations* within and between the organisations gradually lead to increased understanding of each other’s problems and by that increased trust, which again is the foundation for increased co-operation. The parties (buyer/seller) are not wanting for a completely integrated system with common ownership, as this is not necessarily the optimal solution when considering flexibility, independence and governing. I.e a middle position between the two extremes of full integration and purely contractual relationships is often optimal for many companies (Contractor & Lorange, 1988).

In general, the trend is moving towards building closer relationships with customers. This is even more important in an international context, where the uncertainty is greater and consequently there is more to gain from such close relationships in terms of reducing uncertainty through sharing of knowledge and competence. Johanson & Mattson (1986) believe that important issues in international marketing can be fruitfully analysed as interdependent with internationalisation processes in the firm and the firm’s environment.

2.2 My Choice of Theories

My focus will be on the Internationalisation Process Studies and the Interaction Approach, including network approach (NW) and relationship marketing (RM). The research on the two (RM & NW) are so far seen as growing, but not much overlapping and not much interacting. This is demonstrated by rather low levels of mutual referencing, mutual awareness and mutual “real use” of conceptual and empirical research results from each other (Mattson, 1996). The same puts forward two extreme views of the relations between the two approaches; first, there is so little which the two approaches have in common that the current lack of overlapping is quite reasonable. I choose the second view, which states that both are part of the same, general paradigmatic orientation and there should, thus, be a great potential for increased research interaction.

Internationalisation Process Studies had its debut in the early 1970s and have continued to attract interest among a group of scholars with 4.6% of the publications addressing the

topic. Interaction approaches were introduced in the 1980s and accounted for 4.25% of the total studies. Some believe that the *internationalisation process theory* has long lost its descriptive power of today's very international companies, frequently called multinationals, but not all companies in all industries which are involved in international business, can be classified as "multinationals". And for these, I believe the IP-perspective might still have some descriptive power. It might also function as a useful tool to analyse the history of a company's internationalisation.

International expansion involves mode changes. Calof & Beamish (1995) found that the modified stages model best explained mode change, which proves that the stages model is by no means outdated for explaining internationalisation processes - the interaction approaches have merely entered the arena with some additional aspects that might give an even more complete picture of the process. While Calof & Beamish (1995) found general support for past theories of internationalisation, no existing theory appears to fully capture the diversity of explanations for mode change. Primarily, it appears that *attitudes* are the major determinant of the internationalisation path. These findings are supportive of a stages based model. It is a paradox that while internationalisation represents a dynamic process (of adapting exchange transaction modality to international markets), the main stream of entry mode research (TCA, Eclectic framework) has been static in nature.

The critique of the TCA and the IPP is quite similar in that they both focus on the firms' internal development and do not take into consideration the importance of external assets, e.g. important relationships. They are both seen as losing their explanatory power as the firm and the environment gets more internationalised. In sum, both the transaction cost approach and the internationalisation process model leave out characteristics of the firm and the market, which seem especially important in the case of "global competition" and co-operation in industrial systems. But, the internationalisation process has a few more strengths to weigh against the weaknesses in that it does consider the "cumulative nature of activities" and it is found to describe well the internationalisation process of firms at least in the early stages.

In conclusion, we choose to use the Process Approach because it describes the early internationalisation of a firm well, and also because of its intuitive appeal - it feels right to view internationalisation, at least at early stages, as a gradual process of increased commitment. Furthermore, the interaction approach including the network and the relationship marketing theories, will be used, as it complements the process approach in bringing in external influence, which is not covered in the former approach. Relationship marketing in particular, focuses on relationing from a focal actor's point of view. The transaction cost and the eclectic approaches do not view the internationalisation as a process, and that is my main point of objection for not using those approaches.

2.3 Summary

Several marketing scholars are questioning the sufficiency of the exchange paradigm in explaining the emerging relationship marketing practices, and argue that the concern for quality, customer service and customer retention is lacking. I also see it as important to fill in the gap where the stages approach has its shortcomings, e.g. co-operative modes of entry, although in frequent use, is not included in the establishment chain. However, the main reason for choosing these theories instead of any of the others presented here is that both the process approach and the interaction approach as theories reflect the fact that internationalisation is a dynamic process. While research exists which identifies characteristics of firms at different *stages* of international evolution, little empirical research has examined the *dynamics* of internationalisation. I want to amend for this and the above mentioned theories seems the most suitable for that purpose.

3 Theoretical Perspective

In this chapter the theories for this study, are discussed in more detail. The international process perspective is the main theory on which I base my study, but as it has certain shortcomings, the network approach and the relational marketing perspective are brought in to amend for this. Some concluding comments are made at the end.

3.1 International Process Perspective

3.1.1 Introduction

Business corporations with international activities or multinational operations are continually changing, therefore the natural mode of internationalisation behaviour is *development* (Strandskov, 1986). The internationalisation process has been conceived as a gradual process, taking place in incremental stages and over a relatively long period of time. There has been a debate as to how far one should seek to interpret the development process as a product of environmental forces or as a product of managerial behaviour on the part of those within the corporation who decide on strategies. There is no theoretical consensus or empirical evidence as to which forces generate the process of internationalisation or hold it back.

I seek to identify factors that might affect the internationalisation process of an industrial firm. The reason why this theory is used, is that it seems suitable for explaining a company's road to internationalisation at least at an initial stage, but its power of explanation for a company at a more advanced stage of internationalisation is more questionable. This will be elaborated later in the chapter.

3.1.2 The Original Theory

Several writers describe export development as a stimulus-response process, in which *experiential learning* has in particular been considered an important determinant. Theories of export behaviour identify several stages along the process, and although each scholar uses a different classification scheme, the theories all portray one common view - that the decision to go international is a gradual process that can be subdivided. Johanson & Vahlne (1977), Olson (1975) and Johanson & Wiedersheim-Paul (1975) in an

early attempt of classification, use the market entry form as a criterion (based on extensive experience with Swedish firms). Four popular models explain the export development process; Johanson & Wiedersheim-Paul, 1975; Bilkey & Tesar, 1977; Cavusgil, 1980 and Czinkota, 1982 - they all adopt a «stages approach» (but are built on different criteria). The common grounds for these models, is the incremental character of the internationalisation process;

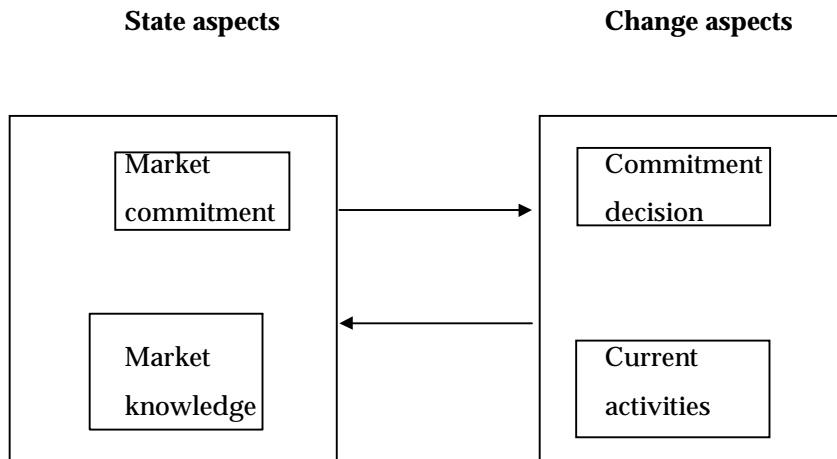
- concept of psychological distance
- the commitment of resources
- the ongoing export motivations
- the ongoing obstacles to exporting

The stage of development models within the theories of export behaviour of firms and MNCs represent an attempt to point out some common features and regularities in the development of firms (Strandskov, 1986). Several studies of international business have indicated that internationalisation of the firms is a process in which the firms *gradually* increase their international involvement. Johanson & Vahlne (1977) distinguish between two dimensions of internationalisation:

- (1) Increasing involvement of the firm in the individual foreign country, and
- (2) Successive establishment of operations in new countries.

They believe that all the decisions that constitute the internationalisation process (decisions to start exporting to a country, to establish export channels, to start a selling subsidiary, and so forth) have some common characteristics, which are very important to the subsequent internationalisation. Their model focuses on these common traits. From their studies they reveal that Swedish firms often develop their international operations in small steps, rather than by making large foreign production investments at single points in time. Typically firms start exporting to a country via an agent, then later establish a sales subsidiary, and eventually, in some cases, begin production in the host country. Increasing knowledge of neighbouring markets, i.e. decreasing the psychological distance, is believed to provoke a firm to proceed with its internationalisation process. Cultural or psychological distance may be defined as factors such as differences in language, culture, political systems and level of education, which prevent or disturb the flow of information between the firm and the market

(Hadjikhani, 1997). The theory postulates that the constant drive for expansion is pushed by the desire to increase long-term profits at a moderate level of risk. The risk level is kept low by adjusting the degree of commitment to a) the level of market specific experience and b) the cultural distance to the host environment.



Source: Johanson & Vahlne (1977:26)

Figure 2: The basic mechanism of internationalisation – state and change aspects

Market commitment is defined as the *amount* and *degree* of resource commitment. Knowledge can be divided into general and market specific categories; market specific knowledge can be gained through experience in the market, whereas general knowledge can be transferred from one country to another (Hadjikhani, 1997). The basic assumption is that market knowledge and market commitment affect both commitment decisions and the way current activities are performed - and these, in turn, change market knowledge and commitment (Andersen, 1993). Johanson & Vahlne (1977) state that current business activities are the prime source of experience. The commitment decisions are concerned with decisions to commit current resources to foreign operations. Assuming that these decisions are made in response to perceived problems and/or opportunities in the market, the commitment decisions will depend on experience and will be related to the operations currently performed in the market.

The accumulation of firm specific experience is seen as the main explanatory variable for this pattern of internationalisation. The theory focuses on the incremental characteristics of internationalisation and is thus a dynamic theory. The stage of one

period is an important factor determining the appropriate stage in the next period (Benito, 1995). The basic assumption of the model is that lack about such knowledge (about foreign markets and operations) is an important obstacle to the development of international operations, and that the necessary knowledge can be acquired mainly through operations abroad (Johanson & Vahlne, 1977).

When an exporter's foreign market involvement increases, so also does his perceived risk (Pedersen & Petersen, 1998). Foreign market risk perceived by the exporter is diminished through a time-consuming experiential learning process making the exporter more confident about the foreign market. All else being equal, through his acquisition of knowledge about the foreign market, the exporter will reduce the market uncertainty and in turn the perceived risk of making direct investments in the foreign country.

The internationalisation process perspective does not emphasise the importance of strategic motives (Benito, 1995). According to this perspective, foreign direct investment (FDI) is a result of an inevitable decision process quite independent from one of formal strategic decision making, somewhat parallel to the decision making processes described by institutionalists in organisational theory (e.g Burrell & Morgan, 1979). The firm's behaviour, goals and expectations are driven by processes within the firm.

The model implies that additional market commitment will be made in small steps with three exceptions; when firms have large resources the consequences of commitments are small. Hence, big firms or firms with surplus resources can be expected to make larger internationalisation steps. Second, when market conditions are stable and homogenous, relevant market knowledge can be gained in ways other than through experience. Third, when the firm has considerable experience from markets with similar conditions it may be possible to generalise this experience to the specific market (Johanson & Vahlne, 1990).

To sum up, the main conclusion of the model is that various aspects of the internationalisation of firms take place along a path of *gradual development* (Benito, 1995).

3.1.3 Some Critical Comments

This «stage» model has recently come under some criticism. The step-by-step approach to «going international» may for instance not necessarily be the same for Norwegian companies (as for Swedish companies). Reve, Haugland and Grønhaug (1995 as cited in Haugland, 1996) found that very few Norwegian companies follow the described pattern of internationalisation. They found that firms are just as likely to start their international business in Asia, as in Denmark or Sweden. I.e. the assumption of firms starting by exporting to countries with the shorter psychological distance, does not hold (it is important to note that there are countries of short psychological distance that are not geographically close as f.i. UK and Australia, but that is the exception other than the rule. For the Nordic countries, the psychological and the geographical distance are most often proportional). The other dimension mentioned by Johanson & Vahlne (1990), that firms *gradually* increase their international involvement, i.e. sales subsidiaries are usually preceded by selling via an agent and local production is generally preceded by sales subsidiaries, is also contradicted by Haugland (1996). He states that firms' internationalisation proceeds in many different ways, where own resources and different co-operative solutions are used in different combinations. Reve, Haugland & Grønhaug's (1995) study also showed that co-operation is an important part of many Norwegian firms' internationalisation strategy. This can be explained by Norway's business sector being made up of many small and medium sized companies which, due to their limited resources, makes it difficult for them to commit themselves to complete internationalisation on their own. The co-operative alternative is, as mentioned, not included in the internationalisation process perspective.

Reid (1983) argues that the model is too deterministic and general. According to him, the firm's choice of entry and expansion modes are more selective and context-specific, and can be explained by heterogenous resource patterns and market opportunities. Firms will therefore use multiple modes of international transfers. Reid suggests that a

transaction cost approach is superior to the experiential learning model, but the theory of internalisation has other limitations, as earlier mentioned, it does not consider the processual aspect. Hedlund and Kverneland (1984) also criticise the model. They concluded in their study that the experiences of Swedish firms in Japan suggest that establishment and growth strategies on foreign markets are changing towards more direct and rapid entry modes than those implied by theories of gradual and slow internationalisation processes. Johanson and Mattson (1988) believe the internationalisation model is less valid in situations in which both the market and the firm are highly internationalised. Turnbull (1987) empirically questions the validity and the premises of the internationalisation thesis using data gathered from the IMP-project. He further believes the popularity of the concept is inconsistent with empirical and theoretical evidence that contradicts its propositions.

An examination of international companies, particularly large and multiproduct ones, reveals extremely complex and dynamic organisational forms, with product divisions, regional divisions or other administrative groupings. Depending on which discrete organisational unit is observed within a complex company, one can find different degrees and types of internationalisation (Turnbull, 1987). Another problem is the lack of clear distinctions between internationalisation stages and confusion in their measurement.

Internationalisation can be indicated by export value or number of markets served (Cavusgil, 1977), or international organisational form (Johanson & Wiedersheim-Paul, 1975). The two measures are often combined in the sense that it is assumed that each export organisational form is automatically a consequence of the stage of internationalisation achieved (Turnbull, 1987). Thus, in Johanson & Wiedersheim-Paul's research, exporting through agents is considered a primary stage of internationalisation. Turnbull does not accept this neat association, and claims that the previous IMP work (Turnbull & Valla, 1986) has shown that companies with substantial international experience and commitment can still use this type of export marketing organisation.

3.1.4 Summary

The process theory assumes that the firm will gradually increase its commitment from sporadic export to direct investment. On the question of *which* market to select, the process theory suggests that, firms would enter new markets according to their psychological distance. A learning experience in one culturally distant country produces a knowledge base for further expansion within the same cultural sphere. This line of reasoning is similar to the one of the resource-based strategic management. Thus, firms start internationalisation by going to those markets they can most easily understand. There they will see opportunities, and there the perceived market uncertainty is low. It is important to be aware that the stages model is a descriptive model which describes what firms often do - not a definitive pattern of their strategy (Beamish, 1994).

Overall the research has revealed a reasonable degree of consistency. At least up until the mid-70s, the pattern of internationalisation for most firms has been marked by a sequential, stepwise process of development (Welch & Luostarinen, 1988). More recently, limited evidence has been emerging of a departure from the gradualist path as some firms seek to by-pass the steps to deeper commitment, resulting in a speeding up of the whole process. Just how widespread the change is, can only be determined from further research, but pattern variation should be expected in response to the many environmental changes, both nationally and globally which have occurred in the 70s and 80s.

3.2 Network Approach

No man is an island and no organisation can be one either

(Håkansson & Snehota, 1989)

3.2.1 Introduction

“The sequential stage model is too deterministic and stresses only early stages of internationalisation. This model should be supplemented with research on new patterns of internationalisation of the 1980s and 1990s, covering also the process

whereby internationally mature firms further increase their degree of internationalisation” (Melin, 1992:111).

Pedersen & Petersen’s (1998) study of 165 Danish companies’ involvement in one specific foreign market, confirms that the companies’ internal accumulation of foreign market knowledge is a determinant of pace of commitment. Their empirical analyses also suggest that the inclusion of other internal and external factors provide a more complete explanation of the pace by which a firm commits resources to foreign markets.

The network perspective goes beyond the models of incremental internationalisation, by suggesting that a firm’s strategy emerges as a pattern of behaviour influenced by a variety of network relationships (Coviello & Munro, 1997). The same believe that external contact systems or relationships may drive, facilitate, or inhibit a firm’s choice of foreign market and entry mode; «..while alliances are no panacea, they can improve the potential for foreign market penetration by providing access to a network of additional relationships» (p. 366).

In Blankenburg-Holm, Eriksson, & Johanson’s (1997:2) study of co-operation in international business relationships, it is stated that co-operative relationships can be better understood if they are examined in the context of a network; «...suggested that dyadic relationships in business markets do not occur in isolation, but are connected to one another and can fruitfully be considered within a context of connected network relationships».

3.2.2 The Approach

“The Markets as Networks” perspective, which emerged in Sweden during the 1980s is a theoretical perspective concerned with business exchange in industrial markets. One of the most salient features of the perspective, is that it views the arena in which the exchange takes place as a network of close and long-lasting relationships, rather than as an anonymous market made up of exchange transactions between the economic actors. In Markets as Networks parlance, one of the ideas is that the network relationship allows actors representing different knowledge bases to interact and communicate in ways that would otherwise be impossible. The second idea is that, because of this

interaction, important market knowledge can be exchanged between the actors - knowledge which would otherwise be lost if the exchange were to be managed at arm's-length distance. A company is believed not to be able to operate without a critical mass of relationships, e.g. customer and supplier relationships (Møller & Wilson, 1996). Relationship development demands investment of resources, and the resulting relationships are assets that the firm uses to compete in the network.

According to the network approach, internationalisation of the firm means that the firm establishes and develops *network positions* in foreign markets (Johanson & Mattson, 1988). This view implies that the firm's progress and route towards internationalisation to an important extent depend on its current network situation (Axelsson & Johanson, 1992). In contrast to the traditional international market selection literature where the firms are selecting a country-market, the network approach focuses on customers and network as level of analysis. In order to get established in a new market, the firm has to build relationships that are new to it and to its counterparts. Relationships evolve through five general phases identified as (1) awareness, (2) exploration, (3) expansion, (4) commitment, and (5) dissolution (Dwyer et al., 1987). *Awareness* refers to the recognition that another party could be a feasible exchange partner. *Exploration* refers to the search and trial phase in relational exchange, involving minimal investment and interdependence. If positive experiences from the exploration phase, the next phase could represent an *expansion* in the sense of an increase in the interactions between the parties and thus increasing interdependence. According to Dwyer et al (1987), *commitment* refers to an implicit or explicit pledge of relational continuity between exchange partners. Commitment has been suggested to be the crux in the literature of relationships; parties identify commitment among exchange partners as the key to achieving valuable outcomes for themselves, and they endeavour to develop and maintain the precious attribute in their relationships (Morgan & Hunt, 1994). The core interaction is composed of resource exchange, social exchange, adaptations, and control processes. Adaptations are of special interest, since by demanding investments the adaptation ties the interaction partners together (Møller & Wilson, 1996). The more relationship specific the adaptations, the more interdependent the actors become. This matching of resources generally increases the effectiveness of the relationship.

Through the activities in the network, the firm develops relationships that secure its access to important resources and the sale of its products and services. The firm's degree of internationalisation informs about the extent to which the firm occupies certain positions in different national nets, and how important and integrated those positions are. The firm's positions before the internationalisation process begins are of great interest, since they indicate market assets that might influence the process.

To understand internationalisation from the network perspective the following two dimensions have been selected;

- (1) How international the market of the product/service is
- (2) The firm's degree of internationalisation

		Market's Internationalisation	
		Low	High
Firm's Internationalisation	Low	Early Starter	Late Starter
	High	Lonely International	International Among Others

Source: Johanson & Mattson (1988:298)

Figure 3: Internationalisation and the Network model

The Early Starter - the firm has few and rather unimportant relationships with firms abroad and size and resourcefulness of the firm can be assumed to play an important role. It is found that internationalisation often begins in nearby markets using agents rather than subsidiaries. The firm can utilise the market investments that the agent in the foreign market has made earlier, thereby reducing the need for its own investment and risk taking. As the volume sold in the foreign market increases, the increase in the market assets may justify investment in production facilities in the foreign market. The importance of agents and other middle-men is reinforced by the presumptive buyers' lack of experience of international operations. Initiatives in the early internationalisation of the firm are often taken by counterparts - that is, distributors or users in the foreign market. If conditions in markets, which are new to the firm are

similar to the conditions in the home market (and/or in the foreign markets in which the firm began its internationalisation), then there is a greater likely-hood that these markets will be the next. As the firm becomes more internationalised, it changes from an Early Starter to a Lonely International.

The Lonely International - in this situation the firm has experience of relationships with and in foreign countries. It has acquired knowledge and means to handle environments which differ with respect to culture, institutions, and so on, and failures are therefore less likely. Further extension is not so dependent on similarities between markets as it is for the Early Starter. It has better possibilities for taking over firms with positions in the structured net or establishing relationships with such firms. Initiatives for further internationalisation do not come from other parties in the production nets, since the firm's suppliers, competitors and customers are not internationalised. On the contrary, the Lonely International himself has the qualifications to promote internationalisation of its production net.

The Late Starter - if the suppliers, customers and competitors of the firm are international, even the purely domestic firm has a number of indirect relations with foreign networks. Relationships in the domestic market may be a driving force to enter foreign markets. The firm can be "pulled out" by customers or suppliers, and in particular by complementary suppliers in e.g. "big projects". Hence, market investments in the domestic market are assets, which can be utilised when going abroad. In that case it is not necessary to go from the nearby market to more distant markets, and the step abroad can already be rather large in the beginning. In addition, nearby markets may be tightly structured and already "occupied" by competitors. Thus, the extension pattern will be partly explained by the international character of indirect relations and the existence of entry opportunities. The need for co-ordination is greater in a highly internationalised production net, which implies that establishment of sales subsidiaries should be made earlier if the firm is a Late Starter than if it is an Early Starter.

The International Among Others - in this case both the firm and its environment are highly internationalised. Further internationalisation of the firm only means marginal changes in extension and penetration. Establishment of sales subsidiaries is probably speeded up by high internationalisation, as the international knowledge level is higher and there is stronger need to co-ordinate activities in different markets. The many positions which the International Among Others occupies in internationally linked networks give it access to, and some influence over, external resources. This means that the possibility for “externalisation” increases. The international manufacturing firm may thus, increasingly tend to purchase components, sub-assemblies etc. rather than do the manufacturing itself. Sub-contracting is sometimes required by host governments, but may also be a way to make the multinational enterprise more effective. Since important customers or joint-venture partners in one country are also by definition international, the International Among Others is faced with opportunities for further extension or penetration in «Third countries». A driving force for further internationalisation by the International Among Others is to increase its ability to adjust to (or perhaps influence) the geographical reallocation of activities in the production net. Major position changes in this situation (highly internationalised firm and environment) will increasingly take place through joint ventures, acquisitions and mergers. If we compare with the Early Starter situation, internationalisation for the International Among Others will be much less explicable by reference to the need for knowledge development and the similarities between the foreign markets and the home market. Instead, the driving forces and the restrictions are related to the strategic use of network positions.

3.2.3 Some Critical Comments

To date the network perspective is mostly based on empirical observations of European MNCs, and then mostly Swedish cases. In Benito’s (1995) opinion, the network theory of internationalisation is richer in empirical observations than in theoretical sophistication. As a consequence the theory is somewhat limited as a general theory of FDI, as it is tailor-made for well-established MNCs in industrial markets. The theory is also limited by its tendency to focus on *how* FDI should be undertaken, rather than *whether* such an investment is preferred to other alternatives (licensing, exporting etc.).

3.2.4 Summary

On the one hand, the «stages» view suggests an evolution to internationalisation based on cognitive learning and competency development which increases, through experience, over time. It is an internally driven approach to internationalisation in which firms expand their market scope and entry methods as managers gain confidence and learn from personal experience. On the other hand, the network perspective shows that international market development activities emerge from and are shaped by, an external web of formal and informal relationships. From this network-driven behaviour, cognitive development also occurs, with learning focused on: (1) markets entered, (2) the modes of entry used, and (3) the relationships developed during the process of internationalisation. Therefore, both perspectives encompass cognitive processes. Integration of these perspectives brings the internally and externally driven views together, allowing a richer understanding of both the drivers of internationalisation, and the emergent patterns of international market development activities.

It is often easier for the producer to see the benefits of a relation, but it is most often the customer that chooses whether to establish a relation or not. This makes it important for the producer to try and quantify the relational benefits and costs, seen from a customer's point of view. Transaction cost theory focuses on cost minimisation in connection with the exchange, whilst network theory is concerned with relational investments and -benefits. Relations that are structured around a win-win attitude, mutual trust and complementarity in resources are seen as having great possibilities for considerable relational benefits (Støle, 1997). Several studies have shown that unsolicited orders from foreign buyers play the most significant role in initiating international activity (Bilkey, 1978; Cavusgil and Godiwalla, 1982). An unsolicited order requires a response to a *customer*, not to a country. This leads me to the next approach, which focuses more specifically on customer relations.

3.3 Relationship Marketing Approach

3.3.1 Introduction

Developing continuous relationships with others, seem to be a way to cope with the complexities and ambiguities which any company is facing in the market. In other words, companies establish relations to reduce uncertainty. Zerillo & Raina (1996) believe that to prosper in today's dynamic business environment, it is a virtual necessity for firms to seek some form of co-operative relations with other firms. An increased number of firms are entering into a variety of interorganisational relationships to attain their business goals (Ring & Van de Ven, 1994). But the explanation for *why* firms are entering into such relationships seems to vary, one reason may be to get easier access to new/foreign markets, i.e. as part of an internationalisation strategy.

In this new approach, marketing is viewed as a dynamic process of establishing and maintaining relationships. Leading companies are now beginning to measure sales people's success not only by units sold, but also by contribution to relationship quality through customer satisfaction (Biong & Selnes, 1995). According to Palmer (1995) many exporters in overseas markets fail because they have not understood the basis of buyer-seller governance and the prerequisites for turning transactional exchange into relational exchange. The expression most widely used to describe this new form of marketing is *relationship marketing*.

3.3.2 The Emerging Theory

The traditional definitions of marketing (f.i. marketing is the management process of identifying, anticipating and satisfying customer requirements in a profitable way) contain no explicit recognition of the long-term value of a customer, but theoreticians have begun to develop alternative definitions. Grønroos (1990:118) states: «Marketing is to establish, maintain, and enhance relationships with customers, and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfilment of promises». This definition attempts to incorporate both the transactional and the relational qualities of marketing.

The impetus for the development of RM has been a growing awareness of the long-term financial benefits it can convey. It is a *means to an end*, and it is based on two economic arguments; (1) it is more expensive to win a new customer than it is to retain an existing customer, which has an even stronger relevance in an international context, and (2) the longer the association between company and customer, the more profitable the relationship for the firm. Reichheld and Sasser (1990) f.i. observed a cross-industrial trend; sales and profits per account rise the longer a relationship lasts. Historically the focus has been on creating customers; less attention has been paid to their retention. Recruiting new customers is a costly business. Not only the direct cost of successful conversion of a prospect into a customer (selling costs, commission, product samples, administrative costs, database costs), but also the costs of unsuccessful prospecting - which also have to be recovered. Due to this, there is now a growing awareness of the life-time value of a customer. A transaction-oriented view of the customer considers the sales value and margin earned from a single sale. A relationship-oriented view of the customer considers the revenues and contributions earned from a long-term relationship with customers. It is important to be aware that close customer relations represent both opportunities and threats for own activity. When entering a relation one gives away some of one's own identity and right of governing to the relational partner. On the other hand, there is the potential for achieving relational effects, which would otherwise be impossible to achieve on one's own. Co-ordination of activities between two firms creates an interdependence. Hence, the process transforms an ordinary market relation into a dyadic business relationship, in which the interdependent firms co-ordinate their exchange activities to create additional value from the relation by raising their joint productivity (Zajac & Olsen, 1993). Also, the customer sees the supplier and the relationship with it as helping them to be more aware of their current and future needs (Løwenstein, 1997). But, most important, enduring relationships with customers cannot be duplicated by competitors, and therefore provide for a unique and sustained competitive advantage (Buttle, 1996).

One of the reasons for the existence of long-term relationships is that suppliers and customers need extensive knowledge about one another if they are to carry on important business with each other. Contacts on several levels in the organisational

hierarchies may be required. Significant business transactions require that the parties have confidence in each others' ability and willingness to fulfil their commitments. It takes time and effort to build such levels of confidence.

Traditional vs. Relational Customer Relationship

Traditional relationship or so called «arms-length»-relationship with customers, are based on *incentives*. Long-term relationships with customers are characterised by *trust*. Previously, dependence was seen as something negative, today trust make out the key variable, then dependence becomes positive, voluntarily. Morgan & Hunt (1994) describe commitment as an enduring desire to maintain a relationship, and *trust* as the confidence that one partner has in the other's reliability and integrity. What then, is the *result* of trust? Trust leads to *commitment* with regard to the relation, something that increases the probability of compliance and willingness to co-operate, and at the same time lessens the probability of abandoning the relation (Morgan & Hunt, 1994). Trust is seen as a precondition for the contact between buyer and seller to develop a lasting, co-operative relationship (Dwyer et al 1987 as cited in Solberg, 1994). According to the IMP-Group (in Solberg, 1994) «relationing» can be described as a process. Through exchange episodes, the parties develop relations where *adaptations* within and between the organisations gradually lead to increased understanding of each other's problems and by that increased trust, which again lay the foundation for increased co-operation.

The main point in the relationship approach to international market selection (IMS), is that suppliers, customers and even other actors can play a more active role than it has been presupposed in the traditional IMS process. In the traditional approach the seller has been assumed to be independent of other actors participating in the exchange transaction. The choice of international market or market segment is, according to the traditional systematic approach, based on a process in which the alternatives are evaluated and selected to meet the firm's goal(s). The customers are treated rather indirectly, and are in a way assumed to be out there, ready to be exposed for the firm's marketing efforts. The traditional view is believed to have some shortcomings mainly because the identification and selection of foreign exchange partners for many firms is believed to be more important than the selection of country per se (Andersen, 1996).

Reve, Haugland & Grønhaug (1995) did not compare what is most important; choice of country or choice of partner, but they also put forward choice of partner, and choice of customer to partner with in particular, as an important factor to succeed internationally.

The basic assumption for a beneficial relationship is *mutual trust* between the parties. This is usually developed as you go along co-operating and it must be seen as the corner stone of the structure. The parties should manage knowledge, assets and such which is *complementary* to each other (Støle, 1997). This makes out a second cornerstone in the relational build-up. If for instance, the knowledge of a customer and a producer is more or less identical, the potential for relational profit is limited. Each of the parties must believe that the other has knowledge or other things to contribute which in sum may lead to relational profit for both parties. The relation must be formed on a win-win basis, where both parties find the relation beneficiary. This may be achieved as the parties evaluate individual relational benefits and costs differently. A minor relational cost for one party may represent a considerable relational benefit for the other party. Before the relation is established, the potential relational parties should ask themselves the following questions (Biemans, 1992):

- 1) What is the goal for the establishment of the relation?
- 2) What are the expectations for the co-operation?
- 3) How will the relational results be evaluated?

3.3.3 Strategies for *International Relationship Marketing*

Solberg (1994) has a somewhat different starting point from myself, where he aims to develop a model for RM in international markets, whereas I seek to develop a model showing how to *use* RM as an accommodating device in the internationalisation process of a company, i.e. increase the pace of internationalisation. Still, I do believe his model might be of some use to me as a guide to what sort of relation with the customer the supplier should seek to achieve, and also what the relational potential is. The model is shown below.

	High		
Uncertainty avoidance		Culturally governed relations	Complete relations
		Limited relations	Needs governed relations
	Low	Small	Large
		Potential for customer relations	

Source: Solberg (1994:106)

Figure 4. Four strategies for international RM

In international marketing, culture is an additional factor to be considered. An important cultural dimension in this context is uncertainty avoidance (Solberg, 1994). Relations will in this case not only be important, but necessary to help customers from countries scoring high on this dimension, to find a safe setting for the transaction. Sensible use of the model above for international relationship marketing, might give at least good indications on how the use of resources should be prioritised, if not true answers to the question of use of resources.

To be successfully implemented, RM should reflect the value system of the population to which it is targeted. RM strategies are not appropriate to all buyer-seller relationships. The extent to which marketing strategy is relationship focused is dependent upon the characteristics of its customers, of an organisation's products, and the characterisation of the organisation itself. Customers differ in their receptiveness to relationship development. For instance where products are complex and involve a high degree of buyer uncertainty, the likelihood of customers seeking a relationship is increased. It has been suggested that both suppliers and customers seek the security of relationships where the market environment is turbulent. Relationships may fail to

develop where the differing cultural backgrounds of organisations prevent the development of agreed social norms. Formulations of relationship marketing based on contemporary western interpretations may fail if transplanted to overseas countries where the cultural and economical environments differ significantly from the country for which a relationship marketing policy was originally formulated (Palmer, 1995).

Sharma (1994) has developed a buyer-seller relationship-based marketing scheme. This classification scheme is particularly aimed at professional services, but I find that it might be of some use when analysing the buying situation of industrial goods as well. Sharma believes that “..an appropriate classification is a prerequisite for the formulation of a successful international marketing strategy” (p17). The presented classification scheme has two characteristics; it is empirically based and it is based on the characteristics of the relationship which surrounds the buyer and the seller. Two dimensions of a buying situation is identified; piecemeal as opposed to project buying, and price as opposed to quality buying.

	Price	Quality
Piecemeal	Type 1 The bargainer	Type 2 The loyal
Project	Type 3 The confused	Type 4 The competent

Source: Sharma (1994:21)

Figure 5: Different Buyer Types

A combination of the two dimensions produces four different types of buyers:

Type 1: The Bargainer

The buyer is experienced and has carried out similar assignments in the past - s/he bases the buying decision on price and opt for piecemeal buying. Each buying situation is discrete and independent of the rest. The buyer's network of relationships with the

suppliers is weak. It resembles the classical buying situation and the relationship is market sustained. The seller must seek entry to the project in an active and pre-planned manner. The purpose of the marketing activities from the seller side is to offer the least-cost product/service to the buyer. The salesperson need to be able to discuss issues in complicated and sophisticated technical terminology. The interaction between the seller and the buyer is occasional and the contact area narrow.

Type 2: The Loyal

Separate pieces are bought from different sources based on quality. An established network of relationships exists between buyer and seller. This is based on their past business transactions and the buyer's satisfaction with the seller firm (Sharma, 1988). It is not essential that the seller plays the active role in marketing. The buyer may as well take the initiative and contact the seller when an assignment is available. The buyer is qualified and skilled. The strategic marketing task for the seller firm is to enhance the existing relationship with the buyer. The contact area between the seller firm and the buyer is wide and the contact frequency high. The future ability to sell products/services to the established customers is not contingent only on the past success of the business relationship with the buyer, but also on the ability of the seller (salesperson) to act as a "consultant", namely, the ability of the seller to put forward suggestions and to resolve the buyers' problems.

Type 3: The Confused

Buyers in this category is new and inexperienced and their established industrial network of relationships is either non-existent or weak. The buyer's willingness to compensate the seller for extra efforts is minimal. The marketing strategy of the seller is to evolve an early relationship with the buyer, to be proactive and to be a counsellor, advisor and "educator". Salespeople play an important part in the marketing effort. Since the buyer is ill-equipped to discuss technical details the primary aspect in relationship development is commonality between the buyer and the salesperson.

Type 4: The Competent

The buyers are aware of the significance of quality in purchasing decisions. The marketing strategy is identical to that used with buyer Type 2, namely, to develop and strengthen ties and relationships with the buyer. The same holds for the salesperson, who must possess the technical expertise to strengthen esteem and credibility with the buyer. In international markets, the organisational arrangement to evolve and maintain relationships with the customer is identical to that of Type 2.

The development of relationships is associated with the reduction of distance between the buyer and the seller firm. Four stages in the development process is identified;

- (1) *Pre-purchase stage* - the buyer and seller are at a distance from each other which is social (due to absence of knowledge of each other), cultural (due to differences in business norms and ways of working), technological (due to differences in technology) and physical (geographical distance) in nature.
- (2) *Test stage* - the credibility and legitimacy of the selling firms is still not established - to establish this, the selling firm will have to reduce the effects of the four types of distance. Individuals, as well as the organisational structure of the selling firm (such as location of subsidiary abroad) play an important part in this process.
- (3) *Evaluation stage* - if the buyer is satisfied with the purchase s/he may "provide" an opportunity for the seller firm to further develop the relationship and offer additional assignments to the seller. The relationship is not established and may rupture at any time.
- (4) *Maturity stage* - at this stage the distance between buyer and seller is negligible, trust, legitimacy and credibility are established. Buyer is of the loyal type - may also be of the competent type. The two firms are familiar with each other and a number of people meet regularly. In the international arena the seller firm may establish either a local subsidiary or office to meet the demands of the local buyer. The four distances are likely to be more pronounced in the international business arena.

An ideal mix would be to have a number of buyers of type 2 and 4. However, type 2 and 4 are more resource demanding and expect continuous relationship management, which reduces the number with which a supplying firm can cope.

3.3.4 Some critical comments

Relationship marketing has often been put forward as *the* new marketing strategy to use, but it is not given that one can *choose* to use such a relational strategy. Because, even if one finds that the “relational way” is the way to go, one has to be aware that the customer has to agree - many customers still live after the philosophy of competitive bidding. Also, in many situations it might be more advantageous to use the traditional way, as the costs and efforts of building relations might outweigh the advantages of it. E.g. using the traditional marketing mix might do fine for cheap, standard piecemeal products, marketed in relatively stable and predictable markets.

It is also a criticism against RM that it does not consider the other party's point of view - it is still the seller's view that dominates.

3.3.5 Summary

Relationship marketing is seen as a further development of the network theory, and there is an underlying assumption in relationship marketing of the market being a network of relationships which are more or less connected.

As virtually all companies depend to some extent on repeat business, the antecedents of customers' willingness to buy repeatedly from the same supplier should be of concern to markets. A customer's decision to continue a business relationship might be the result of interpersonal relationships, relationship benefits, reputation of the supplier, lack of alternatives, etc. But, there is strong consensus in the literature that co-operating and working with others, enable organisations to go beyond their weaknesses and limitations. Cultural diversity might be a major obstacle when it comes to entering a new foreign market. A close co-operative relationship might help overcome this obstacle in terms of getting “inside information” on the market's particular wants and needs. Some might believe that using a relational approach is favourable in most cases, the trend in general seems to move toward closer relations to one's trading partners characterised by mutual trust and interdependence. But with regards to international relations, there are situations that are more favourable than others; when the market environment is turbulent and when the product in question is complex and/or very expensive. If the customer organisation is geared to accommodate such relations with

suppliers, it is obviously an advantage for the selling firm, and also when the customer tend to focus more on quality (as opposed to price). In addition to all the advantages a supplying firm may achieve when establishing close relations in general (getting more intimate knowledge of customers needs and wants, reputational effect if influential customer, stable demand etc.), regardless if national or international, I also assume there are certain advantages exclusive for the international arena. For instance, contributing to diminishing the cultural distance between customer and supplier, opening doors to a certain market, making it viable to increase its commitment at a faster rate due to the stable demand such a relation gives, and its “inside information” on the host country’s different rules and regulations. As the market becomes more and more international some important customer relations might even give the supplying firm access to third countries.

Relationship marketing has, according to Buttle (1996), taken a normative turn - not only does it describe how relationship marketing is, but it also specifies how it should be, drawing heavily on the analogy of interpersonal relationships. It is clear that many organisations are retreating from the transactional view of marketing, which has shown to be relatively costly and ineffective compared to relationship marketing. Companies are taking on some relationship marketing practices, but have yet to commit themselves to the full philosophy and strategic repertoire of it. It remains to be seen whether there will be a reinvention of marketing practice across all sectors and industries. Gummesson (in Buttle, 1996) believes that relationship marketing is currently seeking its identity and gradually, a more general approach to marketing management based on relationships, is gaining ground. But, it may be that relationship marketing will not be firmly entrenched as standard business practice until the millenium (Buttle, 1996).

3.4 Concluding Remarks

The three perspectives may be seen as building upon each other, the next one “in line” being developed as a consequence of the limitations discovered in the one preceding the “next one”. I will try to draw this up to make it clearer.

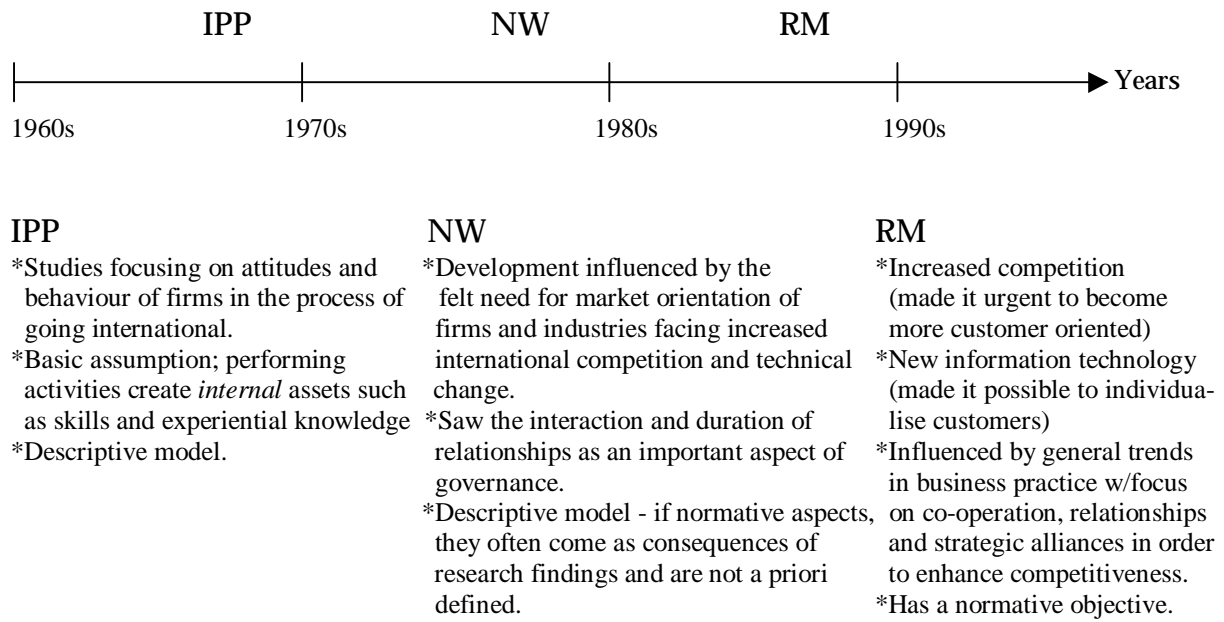


Figure 6: Summary of the three theories

4 A comparison of the different theories

In this chapter I investigate the strengths and weaknesses of the three theories. The predictive power of each theory is then compared with regards to entry mode and choice of foreign market. These points of comparison are illustrated in a matrix at the end.

4.1 Introduction

From the previous chapters we can conclude that a new framework for studying internationalisation processes of firms is needed. This should incorporate both the change from viewing a company as a lone ranger on the fiercely competitive market place, to a member of a more or less closely connected network of firms. Moreover, it should incorporate the change from seeing the marketing mix as sufficient tool for planning marketing strategies to considering more relational approaches. Below is a model showing how a company gradually becomes more international, but I also try to explain how the process may become faster and not so gradual due the influence of close relationships to important customers.

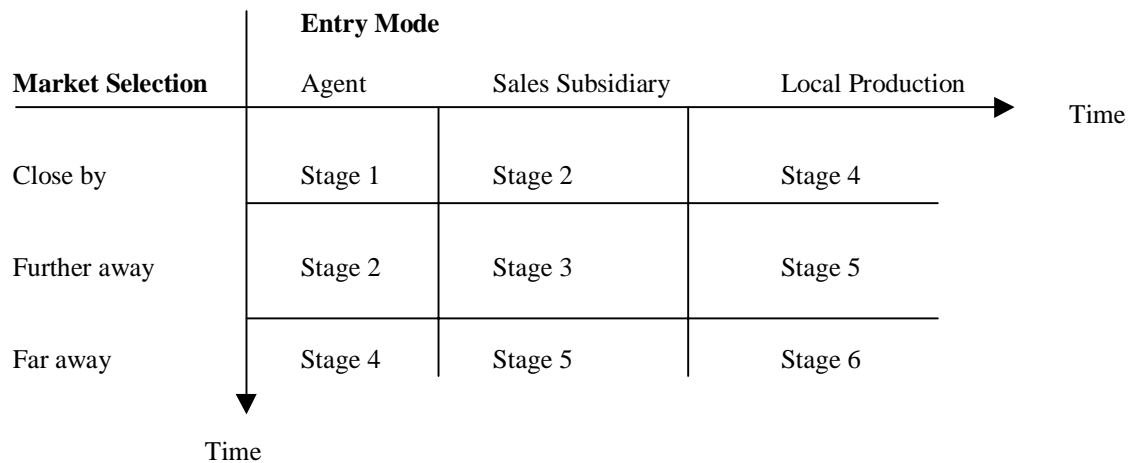


Figure 7: Model of gradual internationalisation

The foreign market risk perceived by the exporter is diminished through a time-consuming experiential learning process making the exporter more confident about the foreign market. Thus, experiential learning about specific foreign market conditions (market volume, competitive intensity etc.) is posited as being the pivotal driver of resource commitment. In stage 1 the company has no international experience and are likely to enter the foreign market by using agent, the market such an inexperienced company is most likely to enter, is a market not far away from home market in terms of psychological distance. When a company enters stage 2 it is likely to move along both dimensions simultaneously. That is, it might establish agents in several countries and these may now be more distant to home market at the same time as it might increase its resource commitment in the countr(y)(ies) it first entered by establishing sales and/or service subsidiaries. Companies in stages 1-3 follows well the procedure described for Early Starters in network theory while companies in stages 4-6 proceed in a way we can assume a lonely international and an international among others would. A late starter does not fit in here, since the market are already very international when it decides to enter a foreign market, it is likely to have acquired knowledge of international markets through its domestic relations and may thus jump the earliest stages. That is, it may go directly to a market quite far away from home market and may also use sales subsidiary as entry mode.

In network theory it is assumed that a late starter may proceed faster with its internationalisation due the knowledge it receives from its close customer relations. I assume that an “early starter” may also be enabled to speed up its internationalisation process, but since the market the “early starter” is operating in is by definition national, the customer relations of importance for expanding to international markets will be foreign ones approaching the “early starter”. With the “late starter” since the market is defined as international even the most domestic firm has a number of indirect relations with foreign networks.

4.2 The Comparison

4.2.1 The Different Theories’ Strengths

A major strength of the stages approach to internationalisation is its intuitive appeal; it makes sense to managers to be cautious when inexperienced, and only gradually increase involvement in foreign markets. Also, it has been proven by numerous empirical studies that the theory describes well the internationalisation process of firms, at least during the early stages.

The network theory takes into account the external aspect. It says much about who drives the company abroad, according to what stage it has reached in the internationalisation process. In other words, it changes the focus from the internally focused process theory where own learning and experience is emphasised, to viewing the whole marketplace as being made up of more or less closely connected networks of firms where a firm’s external relations to customers, suppliers, distributors etc. are seen as being of utmost importance for its strategic decisions, including decisions concerning international expansion. It describes quite well the large MNCs’ internationalisation process – i.e. the internationalisation of companies that are no longer as dependent on the similarities among markets.

The main strength of the relationship marketing perspective is its recognition of the importance of the customer. As E.C Miller (1965) puts it, “The customer is the business!” Another strength is the fact that any aspect of your tangible product or service can either be copied by your competitors or compensated for with another

feature or price, not so with a customer relationship. Also a close customer relation in the potential market might substitute own international experience and make the firm able to expand faster than if it had to do all the “experiencing” itself.

4.2.2 The theories' limitations

The major limitation of the stages theory is its lack of consideration of external influences on the internationalisation process. An additional factor is the inadequacy for describing the process of internationalisation of very large and complex companies. The model is thus, not as valid in situations where both the market and the company are highly internationalised.

The network theory is based on the description of the internationalisation process of highly international MNCs, which makes it less suitable for describing the process of smaller not so international firms. It is also too focused on how to best undertake FDI instead of whether such an investment is preferred, compared with other alternatives such as exporting, licensing etc. It also lacks theoretical sophistication, as the perspective is mostly based on empirical observations of European MNCs. A practical difficulty is the opacity of industrial networks - an outsider can have only a very superficial comprehension of a network (Axelsson & Johanson, 1994). A necessary condition for orientating in a network is to enter it, but even close actors may have different perceptions of the network.

When considering to make use of relationship marketing, one has to be aware that it is not ideal for all supplier-customer relations, f.i. in a situation where a product is highly standardised and is to be marketed in a stable and well-known market, the traditional marketing mix strategy might be just as efficient as a more relational one. Also it is not necessarily the supplying firm's *choice* to make use of such a strategy. The whole relationship marketing idea rests on the assumption of an active customer in the market place, not one on which one can readily impose marketing efforts. The supplier is quite dependent on the customer with whom it wishes to establish closer relations, to share the same (relational) philosophy. In international markets this difference in “philosophy” might be enlarged by different cultural backgrounds.

4.2.3 Where they differ and where they complement each other

The network theory complements the internationalisation process theory with regards to describing firms' internationalisation. Where the stages approach falls short, i.e. in situations where both market and the company are highly international, the network theory's descriptive power is strong. And we have concluded earlier that the process theory describes well the internationalisation process at early stages, where the network theory is not as suitable. Relationship marketing brings the network theory's focus on relations' importance as drivers of a company's internationalisation a step further, to an even more explicit focus on the importance of close relations to important actors in the market. It also brings in a normative aspect, RM is not, as the network perspective, merely focusing on relationship characteristics and how they can be classified and explained, but it poses the question of how they should be from one party's (most often the seller's) point of view.

While most research on foreign market entry has focused on entry mode selection, Blankenburg-Holm et al's (1997) findings indicate that the development of co-operative relationships with customers, suppliers or other business partners may be critical. Moreover, their results show that this may be a matter of managing relationship development processes rather than of choosing an appropriate entry mode or organisational form. Entry mode selection is thus, primarily seen as an element in a process of relationship development. In other words, foreign market entry may be viewed as a process in which the entrant firm develops relationships with partners in the foreign market and co-ordinates its connected business network relationships with exchange in the focal relationship (Blankenburg, 1995).

According to Johanson & Vahlne's (1977, 1990) hypothesis that the international market selection is influenced by the psychological distance to various countries, potential partners in the neighbouring countries are the most likely to be acquainted at initial stages. Based on a network approach, however, the focal firm's *network horizon* will influence on which potential partners that it will become aware of. If for instance the present network horizon is limited to the domestic market, an expansion path based on the psychological criteria could take place. I.e. according to the gradual path theory

experiential knowledge of the company and psychological (geographic) distance are the major explanatory variables for which market to enter, the network perspective see it more as the focal firm's current position in a network and the relation/access to different actors this gives. The prediction of how an early starter (in network theory) expands internationally, are more or less in accordance with how the stages approach predicts the process, i.e. going to close markets first and start involvement with agents. The only difference is that network theory even at such an early stage brings in foreign customers and/or distributors as likely drivers, whereas the stages approach only looks at company knowledge and experience as likely drivers. I.e. the "result" (gradual development starting in nearby markets) is the same, but the drivers are different, e.g. external versus internal drivers. Since the relationship approach sees the internationalisation process merely as part a relationship development process, the international expansion strategies will not differ much from domestic strategies. Because of the cultural (and geographic) aspect, we can assume that the initial distance between supplier and customer will be somewhat larger than in a domestic relationship, but this additional distance is believed to decrease and become insignificant as the relationship evolves.

We can conclude that the network approach represents a rather recent research tradition in its current form. The pursuit of genuine understanding of complex interorganisational structures and relationships through description can be regarded as its primary intellectual goal. An important feature of the approach is its emphasis on contextuality and time; singular events or relationships cannot be understood without knowledge of their context (Møller & Wilson, 1996). It may be difficult to clearly distinguish between the two interaction perspectives, network (NW) and relationship marketing (RM). RM is concerned with dyads and organisation sets, but is undetermined with regards to the macro level. NW also focuses on dyads and organisation sets, but also includes nets (that is, a set of interconnected relationships without a specific focal actor, e.g. a cluster of actors) and specifies at a macro level the network character of the "market". The main difference as I see it, is that NW has a more "macro focus" than RM. NW explicitly treats the interdependence between relationships and between more than two actors, i.e. a very important aspect of NW is

the embeddedness of actors and relationships in a network context. In RM there is a clear focus on the management of relationship life cycles from a selling firm's point of view. When the term network is used in relation to RM, it has to do with the focal actor's network, i.e. the "organisational set".

In an internationalisation process for industrial companies, we see the producer as dependent upon relations with key customers. These key customers can contribute positively to finding of information and bringing in resources in addition to contributing to market access for the product. The network approach says quite a lot about «who» drives the company abroad according to where they are positioned in the internationalisation process (early starter, international among other etc.). Both the interaction approaches differ from the internationalisation process theory in that they take into account the market profile. The network approach and the stages approach have a descriptive and explanatory purpose. Relationship marketing on the other hand, according to Mattson (1996), has already from the beginning a normative objective.

4.2.4 The relational internationalisation approach

Coviello & Munro (1997) found that network relationships can drive market expansion and development activities, including choice of market and entry mode. My theory is that close customer relations, either foreign or domestic, may work as a substitute for own experience and may make it viable for the firm in question to take shortcuts in its internationalisation process. That is, to go to markets further away, maybe more profitable markets, and enable the firm to make larger investments in any particular market than otherwise possible without the customer relation acting as an inside advisor of local market aspects.

I assume there has to be a certain degree of relational potential for the relational approach to be more effective than the traditional way of entering a new market. Relational potential is increased by the products being expensive and/or complex, and/or the market being unstable or uncertain. Extended relationships will occur only when the market is less than perfectly competitive (which it is in most cases). However, the degree and nature of market imperfections vary greatly, and the forms of extended

relationships can take many shapes, depending on the nature of the market structure (Wayland & Cole, 1997). As mentioned before, relationship marketing is not a panacea; one has to weigh for and against - entering into an extended relationship with one party or only a few parties, is not costless or riskless. Choosing a partner usually means limiting access to many others, and often has resulted in the unintended creation of a new rival (Wayland & Cole, 1997). Somewhat simplified, we can say that buyers and sellers engage in extended relationships because they expect that the gains from greater interdependency or collaboration outweigh the benefits of relying on market mechanisms.

Generally the potential for establishment of relations varies with different types of supplies and different customer demands. The higher the demand for continuous adjustment, the greater potential for long-term relations and vice-versa.

Erramilli's (1991) results are in accordance with the internationalisation process perspective. Firms choose culturally similar foreign markets at low levels of experience, but favour increasingly unfamiliar territories at higher levels of experience. Furthermore, the same author found that the geographic scope of the firm's experience appears to be more influential than its length of experience. The fact that scope not length, proved to be the determining influence suggests that diversity of experience, not intensity, is more effective in preparing firms for entry into culturally distant markets. Findings hence, indicate that the experience factor plays an important role in the foreign market entry behaviour. Less experienced firms prefer entering foreign markets that are similar to their home country. However, as their experience increases and becomes more diversified, these firms will increasingly seek out markets that are geographically and culturally distant. The results strongly support models that depict a gradual outward spread of a firm's international operations. With regard to the entry mode choice, we can assume a positive relationship between experience and desire for control. I.e. firms demand high control modes in the late stages of their international evolution (for service firms it was found to be U-shaped, but it is considered less risky for them to have high control modes at the early phase).

The probability of firms employing full-control modes declines with increasing cultural distance of the host country (Davidson, 1982; Kogut & Singh, 1988). So distance as well as experience has a direct influence on choice of entry mode. One has to view the relationship between experience and entry mode choice as a dynamic, evolutionary process that is intimately meshed with market selection practices.

The firm's degree of international experience influences which country is chosen - close if little or no experience, or further away from the home market if more experienced; and which entry mode is preferred - co-operative mode if little experience and wholly owned if more experienced. The probability of establishing close customer relations is consequently larger when the focal firm has little international experience. I propose that such a close customer relation has a direct effect on the pace of internationalisation - it can substitute own experience, and the focal firm can by that drop the gradual development and take larger steps, and by that increase its pace of internationalisation. This can be measured by looking at companies, how they proceed to countries further away from the home country than would normally be natural at that stage, and by choosing more high control (risk) modes in the host country (i.e deeper commitment) at a faster rate.

4.3 Summary

As opportunities in proximate markets fade, firms will venture into economically more attractive but culturally less familiar territories. The relative lack of experience may become a constricting factor. Lacking the confidence and the organisational wherewithal to independently manage operations in less familiar countries, these firms will increasingly seek out partners and intermediaries. According to the more relational approach, relationships become «bridges» to foreign markets, providing firms with the opportunity and motivation to internationalise (Coviello & Munro, 1997). The relationships are connected so that exchange in one relationship is conditioned by exchange in others (Laage & Hellman, 1989 in Johanson & Vahlne, 1992). With regards to foreign market entry, Johanson & Vahlne's (1992) findings demonstrate that the establishment and development of business relationships is a central issue in the entry process. Success seems to depend to a large extent on finding partners in the

environment, entering into relationships with them and «managing» those relationships. My assumption is that when the supplying company is «making use of» closer relations to some key customers, it is able to speed up the internationalisation process of the company. That is, it does not have to follow the gradual and sequential stages as described in the internationalisation process theory; it can «jump stages».

Below is an overview of the three theories showing some key points of comparison.

General Description	Internationalisation Process Perspective	Network Perspective	Relationship Marketing
Strengths	Describes well the internationalisation process at early stages Makes sense intuitively	Describes well the internationalisation process of MNEs Brings in external influence	Recognises importance of customer Not easily copied
Unit of analysis	Firm	Network	Relationship (dyad)
Dependent variables	Mode of internationalisation, choice of country, strategy & structure	Extent of local subsidiary network Method of investing; greenfield versus acquisition	Good relations with foreign customer Increased pace of internationalisation
Independent variables	Size of organisation Firm specific international experience Cultural distance Resource commitment based on managerial goals and expectations	Network creating capacity Degree of firm-specific international experience	Relational potential Close customer relations
Perspective on time	Dynamic	Dynamic	Dynamic
Assumptions	Organisational behaviour emerging and evolving International servicing is risky Uneven distribution of firm- and country level factors, particularly experience and cultural distance	Firms and networks are heterogenous The importance of long-term relationships Resource transfers between firms requires relationship specific investments	Enduring relationships cannot be copied Marketing is a dynamic ongoing process of establishing and maintaining relationships Active customers Complementary assets and knowledge
Limitations	Emphasises risk without considering return Applies an almost deterministic view on stage of internationalisation Disregard for external factors	Only relates to well-established MNEs Not a stand-alone theory Focuses on the intransferability of resources Opacity of networks	Difficult to <i>choose</i> to use Is not ideal for all type of exchange
Objective of research	Descriptive	Descriptive	Normative

Figure 8: Key points of comparison and evaluation:

I can conclude that the process theory provides a useful description of previous or maybe “immature” companies’ internationalisation process, or firms’ internationalisation at an initial stage. The main weakness, as I see it, is the lack of consideration for the relational aspect in such a process (internationalisation).

Based on the arguments by the authors (of the «stages approach»), the gradual pattern of the firm’s internationalisation process can mainly be attributed to two reasons; (1) the lack of knowledge by the firm, especially «experiential knowledge», and (2) uncertainty associated with the decision to internationalise. I.e. as the firm becomes more international we can assume that the uncertainty associated with the decision to go international decreases. The firm will have acquired general knowledge of entering foreign markets as it becomes more international, but experiential knowledge of a particular potential market will still have to be acquired either first hand, or from a partner that is active and has experiential knowledge from this particular market, and is willing to share. We can from this infer that when a company is more international and/or receive knowledge from a close customer relation in a potential market, it might deviate from the gradual pattern of internationalisation, as described in the «stages» approach, and might «speed up» the process.

5 Case Illustrations

In this chapter I present my cases and analyse them according to the selected theories. This to explore whether or not there is hold in the assumption of close customer relations having an influence on a firm's internationalisation process. Some new research questions are suggested at the end.

5.1 Introduction

Large variations in firms' way of going «international» are observed. Many firms seem to become internationally oriented only after sporadic, very likely random export activities, which gradually become more systematic - perhaps followed by investments reflecting purposive commitment. I will now use some examples from my assigned case, Ulstein, to illustrate some of the points made in the previous chapters with regards to firms' internationalisation process.

First the internationalisation history of the company as a whole is presented (see appendix no.1). I will try to show that the internationalisation of an industrial company is a gradual process following certain stages, at least in the initial phases. According to the "gradualist approach", the dominant drivers of further internationalisation are the firm's current knowledge and experience. But, I also assume, even at such an early stage that close customer relations might be driving the process and if Ulstein made use of such relations it might at least partly explain the relatively quick pace of internationalisation after the rather cautious progress in the very beginning. Secondly, I have chosen to focus on one company in one of the business areas in particular, Ulstein Propeller (UP) and its relationship with one important foreign customer (see appendix no.2). Here, I will discuss the influence of this customer relation on UP's internationalisation process.

Studies of strategically critical phases in the internationalisation process were chosen to enable me to uncover what happened and which actors were involved in particular critical events in the internationalisation process. The study was conducted in the summer of 1998, and took the form of semi-structured interviews. Some additional

interviews were carried out in the winter of 1999. The interview objects were strategic actors in the process and functioned as key informants in my study.

I started by attempting to reconstruct Ulstein's history of internationalisation, to make a complete picture of the Group's internationalisation from the 60's and up until today. The sources of this reconstruction were first of all the founder's son and managing director of the last 30 years, Mr. I. Ulstein, but also a few other senior co-workers who have been employed at Ulstein for a very long time. There was not any systematic account of the history, so the managing director's memory was vital. I tried to verify his information by going through old newsletters, and also got his information confirmed by asking the earlier mentioned «old-timers» in the company.

The propeller case is based on interviews with the managing director of the propulsion division, Mr. M. Ulstein, the marketing manager, Mr. Heltne who has worked in the company for about 20 years - 5 of these in Vancouver, and the regional director of North America Mr. Mørkeseth who has been stationed 13 years in the US. Additionally, numerous company documents have been used to confirm and add to this information including strategy plans, annual reports, company brochures and the internal newsletter; the "Ulstein Post" (dating back to the 60s), etc.

I will only present the summary of events in this chapter – the full story is placed in appendices at the back.

5.2 Summary of the Case

5.2.1 Strategically critical events

I will go through the case and use strategically critical events as the starting point. But first a remark that illustrates the important role customers have played on the early development of the propeller division: *“the relationship to the shipowners are of utmost importance for our development both in terms of new product development and for our internationalisation strategies - where they (the ship-owners) decide to build their ships we (the producers of equipment) have to follow”* M.Ulstein (1998).

Important events in Ulstein's internationalisation history with particular focus on the propeller division:

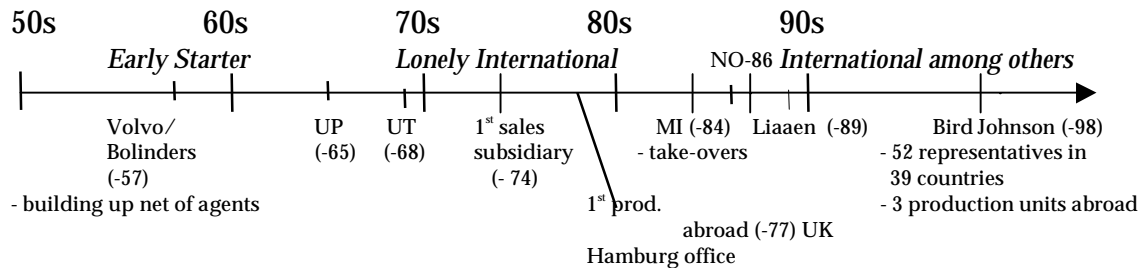


Figure 9: Different milestones in Ulstein's internationalisation history

1957 Volvo & Bolinders - Ulstein

After Ulstein's successful development of two types of propeller system of which Penta and Bolinder was well informed, they started co-operating in 1957 with the two engine companies on the one side and Ulstein machine shop on the other. We can here see the important role of close co-operation with an important customer, where it in this case actually lead to the propeller area being divided from the rest of the company in a separate business area.

1965 The founding of Ulstein Propeller Ltd

In the late 50s it was decided to increase the engagement in propellers, as they found that it was rather inconvenient to produce this product in the same machine shop as where the rest of the mending work and such was carried out. They found that it would be advantageous to make the propeller production independent from the rest. Thus, Ulstein Propeller was established in 1965. «...all of this laid the foundation for Ulstein becoming more international» (I. Ulstein, son of the founder, presently the Chairman of Ulstein Holding and former managing director for the last 20 years).

1968 Ulstein Trading Ltd

The founding of this central unit was a continuation of the founding of UP three years earlier. The purpose of this company was to optimise the organisation of sales- and marketing activities. It was a centralised body with responsibility for all sales- and marketing activities of the entire Ulstein Group.

1971 Acquisition of Hatløy Mechanical Shop

Ulstein took over the nearby Hatløy Mechanical Shop, doubling the shipbuilding capacity and paving the way for activities related to the growing oil industry.

1971 Mr. I Ulstein became Managing Director

In this year the founder's youngest son, Mr. I Ulstein, became Managing Director. He showed himself to be a capable leader and has been the main architect behind the development of the Ulstein companies into a major international group.

1977 First Production Facility Abroad

The first production facility abroad was set up in Dunfermline, Fife, north of Edinburgh, two years after a sales- and service office was set up in the same city. This production facility was seen as a branch of Ulstein Propeller where they manufactured products particularly targeting the offshore business.

1977 Hamburg Office

In 1977 the first Ulstein office in Germany, was set up in Hamburg. This was first of all to offer ship equipment, mainly Ulstein Propeller products (Grytten, 1992) and at the same time offer service to ships and equipment which Ulstein was responsible for.

1984 Acquisition of Maritime Industries

After being approached by the owner in 1981/2, Ulstein took over Maritime Industries in 1984. The new name was Ulstein Maritime Ltd, and they now had two manufacturing plants abroad - one in Vancouver (Canada) and one in Edinburgh (UK).

1985 Acquisition of Bergen Mekaniske

Ulstein took over Bergen Mekaniske including Bergen Diesel and Norwinch (not so relevant for UP's internationalisation, but shows the acquisition pattern and was important for the internationalisation of the Group as a whole).

1986 New Orleans office

Ulstein established a sales- and service office in order to accommodate the Chouests and to be close to the offshore activity in the Gulf.

1989 Acquisition of Liaaen Propeller

In 1989 Ulstein Propeller in Ulsteinvik acquired Liaaen Propeller in Ålesund and by that Ulstein also took over Liaaen Meerestechnik in Bremen, Germany.

1998 Acquisition of Bird Johnson

In March 1998 Ulstein Holding ASA through their daughter-company, Ulstein Maritime Industry Inc., acquired all the shares in the American company Bird-Johnson Co. from Axel Johnson Inc. This acquisition is believed to make Ulstein one of the world's largest and leading suppliers of equipment for propeller and manoeuvring of ships.

1999 Vickers plc take over the Ulstein Group (excluding Shipbuilding)

In 1998, Vickers plc, with Sir Colin Chandler as Chairman and Baron Paul Buysse as Chief Executive began the explorative talks with the Ulstein Board. In the spring (1999) the integration of Vicker's marine companies and the Ulstein group of companies are completed (excluding Shipbuilding which has not become part of Vickers Ulstein Marine Systems)

1999 Rolls-Royce plc take over Vickers plc

Rolls Royce plc the civil aerospace, defence, marine and energy group, completes the purchase of Vickers plc on the 18th of November. It is stated that “..for the marine market the combination of Rolls-Royce and Vickers' products will meet the changing needs of the sector and will enhance future business opportunities”.

Summary of critical events

- 1957 Co-operation Volvo & Bolinders (Swedish) with Ulstein
- 1965 The establishment of Ulstein Propeller (within the Ulstein Group)
- 1966 Start exporting
- 1968 Establishment of Ulstein Trading Ltd (in 1988 became Ulstein

International Ltd) take care of sales- and marketing affairs of the entire Group

- 1971 Acquisition of Hatløy Mechanical Shop
- 1971 Mr. I Ulstein became Managing Director
- 1975 Development of UT704 supply boat design
- 1977 Production UK (Fife) can be seen as a branch from UP with products particularly aimed at the offshore fleet.
- 1977 Office opened in Germany (Hamburg), should mainly sell UP products and also offer service to Ulstein ships and equipment
- 1984 Acquisition of Maritime Industry Ltd (Canada)
- 1985 Acquisition of Bergen Mekaniske
- 1986 New Orleans office
- 1989 Acquisition of Liaaen
- 1998 Acquisition of Bird Johnson (US)
- 1999 Vickers plc take over the Ulstein Group (excluding Shipbuilding)
- 1999 Rolls-Royce plc take over Vickers plc

Below is a summary of Ulstein's internationalisation history. It provides an overview of what year Ulstein entered a new market, which market that was, entry mode used (it was difficult to get exact information of when contact with agent was established in the different markets, so it is mostly sales and service subsidiaries and establishment of local production that is showed here), stated motive for that expansion, and finally what that company is called today.

When (Year/date)	Where (Country/city)	How (Agent,sale/serv.prod.)	Why (Motives)	Firm
1974	UK (Edbrg)	Sale/service	Offshore/North Sea Fleet	Ulstein UK Ltd
1976	Singapore	Sale then service	Expansion in Asia - India	Ulstein SEA PteL
1977	Germany (Hamburg)	Sale then service	German mrkt demand pres.	Ulstein Schiffst.
1977	UK (Edbrg)	Production	Offshore market	Ulstein UK Ltd
1978	India	Agent	Large order	Ulstein India PVT Ltd
1982	Hong Kong	Sales office	Serve China	Ulstein Asia Ltd
1984	Canada (Vancouver)	Production	Ocean fish-fleet	Ulstein Mariti.Ltd
1988	Spain (Reus)	Sale/service	Take-over (Bergen Mek)	Ulstein Brgn. Ltd
1988	USA (New Orleans)	Sale/service	Offshore fleet in the Gulf	Ulstein USA Inc.
1989	Canada (Halifax)	Sale/service	Fish & Offshore	Ulstein Mariti.Ltd
1989	Germany (Bremen)	Sale/service	Buy-up Liaaen	Ulstein Meerestec
1991	Denmark		Take-over (Bergen Mek)	Ulstein Danmark
1991	India	Sales/service	Ulstein ships needed repair	Ulstein India PVT Ltd
1992	USA (Seattle)	Sales office	Vanc. not close to fishfleet	Ulstein USA Inc
1993	USA (New Orleans)	Sales/service	US navy?	Ulstein USA Inc.
1993	Holland (Ulstein Rekab BV
1994	USA (Newport News)			Ulstein USA Inc.
1994	UK (Aberdeen)	Service	Closer to offshore	Ulstein UK Ltd.
1997	China (Shanghai)	Sales/service	Closer to huge mrkt	Ulstein S.E.A. PTE Ltd
1997	Italy			Ulstein Italia Srl
1997	Brazil (Rio de J)	Sales/service		Ulstein SA Ltd

Figure 10: Summary; Ulstein's Internationalisation History

5.2.2 Discussion of Ulstein's initial internationalisation process

First, Ulstein was very early in establishing a separate sales function with focus on foreign markets. This in a time where it was not so usual with a separate sales function at all. As Mr. I. Ulstein puts it; "contracts were rolling in - there was no need to go out and look for them", i.e. there were no lack of demand for these kind of products and services in the 50s and hence no need for an active sales function. But in the mid-60s this started to change. We see that in the early internationalisation of both the Ulstein Group and the Propeller Division (see appendices 1 & 2), a pattern more or less in

accordance with the prediction of the internationalisation process perspective were followed. I.e they started by exporting to countries nearby such as Sweden, Denmark and Iceland and then built up a network of agents around the world from the mid-60s and onwards. At a fairly early stage they entered the Australian and Canadian markets as well. Although the two latter countries cannot be defined as geographically close to Norway, it is not as far away in terms of psychological distance. However, Ulstein did not wait long until they entered India (1979) and Singapore (1976) either. These can not be defined as close to the home market neither with regards to geographical, nor psychological or cultural distance.

Then in the mid 70s they started to establish local sales and service offices, first in the UK (1974) which is fairly close to the home-market, and then finally started local production also in the UK (1977) then in Canada (1984) and then the last so far in the US (1998). This is fairly close to the procedure the process perspective describes, where they proceed to go to markets further and further away as the company gets more knowledge and experience in trading in an international market. Even though it might not follow the pattern submissively, we can definitely see a gradual development - although it might be a bit faster than predicted, particularly within the market selection dimension. This might be due to the particular environment in this industry, it has always been very outgoing and there is close co-operation with the ship-owners, which are by definition very internationally focused. Besides it is not like any other product like f.i. cars, for which there is a demand in any market, so Ulstein has to seek out other (large) shipping nations, which not necessarily are to be found in convenient proximity to the home market.

Ulstein's process also supports the gradualist school in initialising internationalisation by using agents first to test out the market, before getting more involved in terms of own local offices. It also supports the network theory's description of an "early starter", where the importance of agents at this stage in particular, is emphasised, when both the market and company has a low degree of internationalisation. Both the first sales and service office (1974) and the first production unit abroad (1977) were put up in UK. This also supports the Process model "...at the start no regular export activities are

performed in the market, then export takes place via independent representatives, later through a sales subsidiaries and eventually manufacturing may follow.....this sequence of stages indicates an increasing commitment of resources to the market” (Johansen & Vahlne, 1993:46). Acquiring experiential market knowledge is assumed to be the primary way of reducing market uncertainty. Thus, in a specific country, the firm can be expected to make incremental resource commitments as it gains experience from current activities in the market. This might at least in part, explain the rather gradual development of Ulstein’s operations. In other words, at least in Ulstein’s initial stages, I see the process model as quite adequate in explaining/describing both of the patterns in the internationalisation of a firm; that firms gradually increase the engagement in a specific country (from agent to production), and secondly that firms enter new markets with successively greater psychological distance. Although Ulstein started by going to markets close to the home market in the very beginning, it seems that the pace at which Ulstein has entered more distant markets has been quite a bit faster than predicted by the gradualist school. With regards to the entry mode dimension, the descriptive power of the gradualist model appears somewhat stronger in this case.

When Ulstein became more internationally experienced (turn into an “international among others”) in the 80s and 90s, the internationalisation process is better described by the network theory, and the process theory loses its descriptive power accordingly. Ulstein makes more use of acquisitions on its way of becoming more international (ref. Maritime Industry -84, Bergen Mekaniske -85, Liaaen -89 and Bird Johnson -98) and the motive for further internationalisation set forward by network theorists “..to increase its ability to adjust to (or perhaps influence) the geographical reallocation activities in the production net” (Johanson & Mattson, 1988:306) does not seem too farfetched.

The reason why Ulstein moved so quickly, even at an early stage in their internationalisation process might be due to their close co-operation/contact with f.i. Volvo Penta and Bolinders and also the ship owners, with Chouest Incorporated coming forward as a particular important foreign customer for Ulstein Propeller. These relationships might have contributed to diminish the differences the company felt

existed between the home-market and foreign markets. It might have worked much in the same way as when the company gains more international experience, and it is then believed, according to network theory, that it becomes less dependent on similarities between markets when expanding in international markets. This might indicate that close customer relations influence more strongly on the internationalisation process' pace when a company is not so internationally experienced. This does not mean that customer relations are not important at later stages, but it has greater effect at earlier stages. When both the market and the firm in question are highly internationalised, there are assumed to be only marginal changes in the international extension and penetration.

Methodological concerns

There was no random selection of samples in my study, since the case was given from the start (as well as the topic), but this does not necessarily imply a weakness in the internal and external validity. Holmlund (1997) claims that the selection of a case does not have to be random and representative. Instead she recommends theoretical or purposeful sampling implying the selection of information-rich cases that are likely to either replicate or extend the emergent theory. I consider Ulstein to be information-rich and in other ways well suited to study my topic of internationalisation processes, as it is an internationally experienced company with a rather long international history. Another strength is that key-informants with valuable information from the earliest days of international activity are still present in the company for me to question. Another strength for my study, is my position in the company as a participant-observer, where I have every opportunity to really get into the "nitty gritty" of how they carry out day-to-day business and also follow the processes preceding strategic decisions. Meaningful case studies are impossible without the full understanding, support and co-operation of the informants (Eisenhardt, 1989), and following the criteria which Yin (1984) considers vital for selecting cases; convenience, access and geographical proximity, my case is quite strong.

Regarding which customer-supplier relationships to study, Håkansson (1992) suggest selecting relationships according to the criteria of their perceived importance by the

company. This was done intuitively by me in my preliminary cases and will also be done in the PhD-study. Availability of respondents who have close and personal experience of the relationship are of course, vital.

This selection requires an intimate knowledge of the company's organisation and strategy from a top management perspective, which was also done intuitively in my UP-case, where I started by conducting a semi-structural interview with the Director of that Business Area. We both then came to a stage where we realised that the marketing manager probably would be more suitable for the more detailed questions of a particular customer relation. Consequently, the Director summoned the marketing manager who fortunately, was available for a quick interview with me on the spot. This experience will be valuable for me in my following interviews, both with regards to the design of an interview guide and choice of interview subjects. Now I know that the first interview should be with a senior/top manager, then the research should continue with a number of interviews with respondents with direct personal experience of the relationship to be investigated. The particular relationship to be examined will be decided by the respondent and the interviewer together as one, which is of major importance, and which usually (and at least in my UP-case) means the largest in volume, and of which the respondent has personal knowledge. I found, during my interview with the marketing manager, that it would have been useful to interview the representative of the subsidiary abroad, to get first-hand knowledge on the relationship in question. It is also pointed out by Håkansson (1982), that it might be a problem to rely on the information of the headquarter respondent. When a company employs a sales subsidiary or agent in a particular market, s/he might have limited knowledge of the day-to-day relationship between the sales subsidiary and the customer. An interview with the regional director of the market in question, were therefore carried out accordingly.

5.3 Concluding Remarks

My preliminary case shows that close customer relations may be considered relevant for studying the pace of internationalisation. But, I do not believe neither the market knowledge approach nor the relational approaches give a complete explanation of the pace at which Ulstein has increased their involvement in international markets, other

factors have to be considered. This will be elaborated in the next chapter. Now a few research questions suggesting further study of the topic:

- (1) How do close customer relations influence the internationalisation process of an internationally inexperienced firm?
- (2) How do close customer relations influence the internationalisation process of an internationally experienced firm?
- (3) Under what circumstances is it most advantageous to “make use of” such close customer relations?
- (4) When (at what stage) is it most advantageous?
- (5) What other factors maybe more or as much influential on a company’s pace of internationalisation?

6 Model and Propositions

The case findings are compared with the theories' predictions, and some conclusions are drawn from the relationships between the different variables. A few propositions are derived from this comparison. Finally some concluding comments are made.

6.1 Introduction

The purpose of the study was to investigate how an industrial producer's close customer relations might substitute own international experience, and by that increase the pace at which the company expands internationally. It could be argued that the role of network relationships parallels that of knowledge, as identified by the Uppsala studies. Like knowledge, relationships act to constrain and support the internationalisation over time. They are developed by current international activities, but at the same time require commitment decisions. The propositions are based on the theories chosen (see ch.3) and findings from the case study (see ch.5 and appendices 1 & 2). The case was used to observe how a company's internationalisation process, actually proceed.

6.2 The model

6.2.1 A conceptual model

For studying this topic further I should probably consider other factors' influence on the pace in addition to experiential knowledge, network position and close customer relations' influence. According to Petersen & Pedersen (1998) one might also explain gradually increasing resource commitment to a foreign market by a progressively growing resource base in the entrant company. In addition, from the case it follows that change of ownership (the last change being Vickers Ulstein Marine Systems being bought by Rolls Royce in November 1999) might have quite some influence on the focal firm's pace of internationalisation. Also, the inclusion of incidental factors should be considered as f.i. sudden acquisition opportunities were found in the case of Ulstein' internationalisation to be rather striking. A new conceptual model is suggested accordingly.

Internal factors

External factors

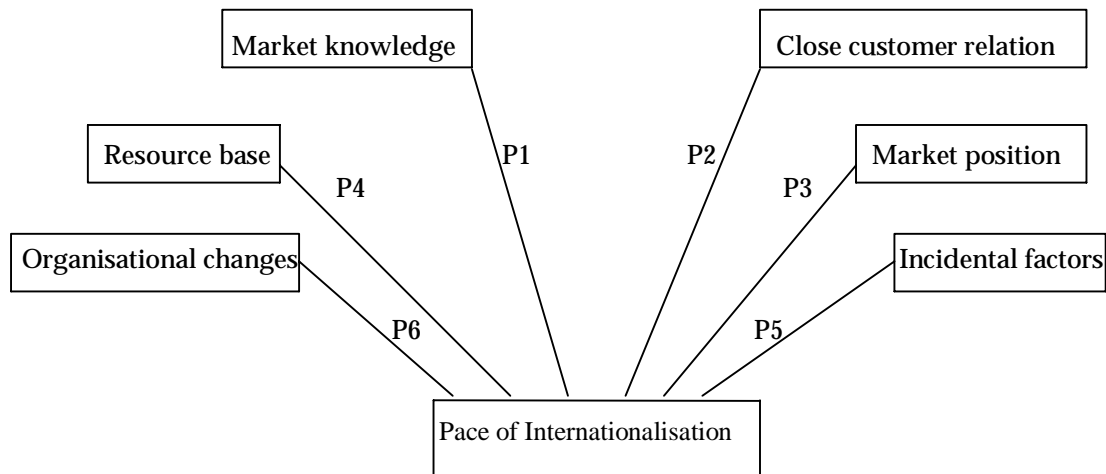


Figure 11: A conceptual model explaining the pace of internationalisation

6.2.2 Dependent variable

The dependent variable is the pace at which a company expands in foreign market(s). I will follow Petersen & Pedersen's (1998) approach that is, not using the dichotomy of incremental-versus-instantaneous resource commitment to a foreign market, but rather measuring the *degree* of incrementalism with the underlying assumption that the internationalisation process of any firm will display some element of incrementalism. A company's internationalisation process has slow or "normal" pace if it more or less follows all of the 6 stages outlined in figure 7 (chapter 4) . If the company "jumps stages" that is, it does not follow the 6 stages in an orderly manner, I consider the pace of internationalisation to be fast. And also, the pace is fast if one of two similar companies reaches a later stage sooner in time than does the other.

This may be illustrated in the following way:

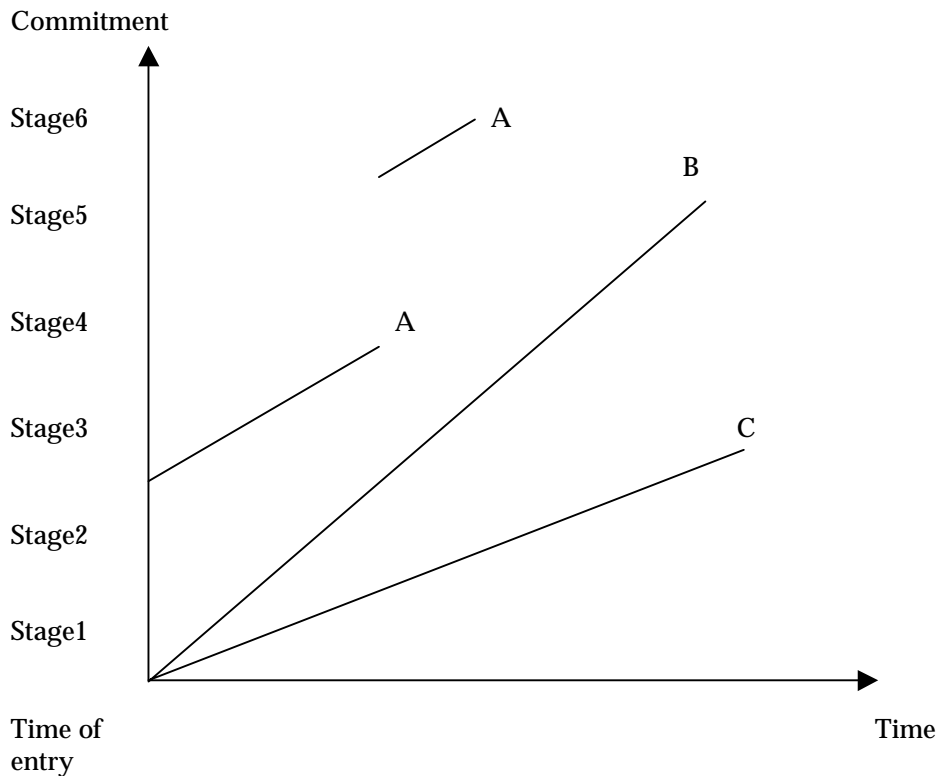


Figure 12: Fast versus slow pace of internationalisation

An example of why the slopes on the three curves may vary: company C relies mainly on own accumulation of knowledge while company B & C get knowledge transfer from close customer relations. The pace of resource commitment to a foreign market displayed by company B exceeds that of company C because during similar time periods B has made greater resource commitment than C. Company C's resource commitment curve has the minor slope, therefore this company displays a more gradual resource commitment than do company B. Company A not only has a steep curve, but also leapfrog or jump some of the stages i.e. it is not only going fast through the stages, but it also pass over some of the stages altogether. In Pedersen & Petersen's (1998) study special attention has been paid to the period of time that the company has spent

to build up its present resource commitment – other ways of measuring pace of resource commitment are conceivable. I will not only measure how fast a company goes through the stages, but also whether or not it goes through all of the stages outlined.

Pedersen & Petersen's (1998) study confirmed that the accumulation of knowledge about foreign markets is a significant determinant of gradually increasing resource commitment. This may imply that if a company is able to accumulate such knowledge at a faster rate, the company may also increase its commitment in a foreign market at a faster rate. One way of accumulating knowledge faster, may be through making use of a partner's learning/knowledge e.g. a close customer relation's knowledge.

Now a few propositions will be presented - later on (in the proposal), empirically testable hypotheses will be developed.

6.2.3 Propositions

6.2.3.1 Market knowledge

Experience or market knowledge should not be ruled out as an important factor explaining a firm's pace of internationalisation, at least it might be seen as a partial explanation. The process theory predicts that the internationalisation process is slow and gradual, at least in the early stages. E.g when entering a new market, the firms tend to start with an agent, then establish a sales and/or service office, and finally maybe a local production unit. With regards to the market selection dimension, the firms are assumed to go to markets close by initially, then as firms gain more experience, they go to markets with a larger psychological distance to the home market. When a company gets more international experience, it has acquired knowledge and means to handle environments which differ with respect to culture, institutions and so on. Further expansion is thus not so dependent on similarities between markets. Establishments of sales subsidiaries for instance, is probably speeded up by a high degree of internationalisation, as the international knowledge level is higher and there is a stronger need to co-ordinate activities in different markets. From this follows my first propositions:

P1a) When a firm has little international experience, the internationalisation process tend to be slow and gradual.

P1b) When exporting firms gain more international experience, the process' progress tend to speed up.

6.2.3.2 Close customer relation

I suggest that when making use of close customer relations to add to own experiential knowledge of foreign markets when going abroad, the company's international progress might be faster. But, it is important to note that developing close customer relations is not advantageous in all situations, the characteristics of the potential customer may be such that there is a low potential for building close relations. When the customer is focused on price (more than on the quality of the product) it is not advisable for the supplier to use time and energy to build close relations with such a customer. What kind of product is involved is also believed to have an impact on the relational potential. If the product is complex and/or expensive there is better relational potential than if the product is standard and/or cheap. The focal organisation itself must also be committed to the relational strategy. It is important to view such relations as long-term – many relationships die an early death because they are scrutinised for quick returns. The gradual pattern seems to be attributed to (1) lack of knowledge, and (2) uncertainty – having key customer relations in potential markets work to reduce these factors. There are different degrees of closeness as mentioned earlier, relationship building is about reducing distance (social, cultural, technological and geographical) between the buyer and the seller firm. Not all relationships reach what I call a “close” level. At this level there shall exist mutual trust between the parties and we shall expect to see adaptations being made on each side to accommodate the other and a number of people from both companies will be expected to meet regularly. I assume that such a relation formed on a win-win basis and where both parties have found the relation beneficiary for reaching the company goals makes a good starting point for exchange of knowledge and sharing of experience. This sharing of experience increases the pace at which the supplying firm accumulate knowledge of

a foreign market and thus, enable it to increase its involvement at a faster rate than otherwise possible. From this follows the second proposition:

P2 Close contact between a firm and its strategic important customers increases a firm's pace of internationalisation.

6.2.3.3 Market position

Axelsson & Johanson (1992) stated that a firm's progress and route towards internationalisation to an important extent depends on its current network position. The firm's positions in different national nets indicate markets assets that might influence the process. So how it is positioned in the network might have an influence on the pace of international expansion. From this follows my third proposition:

P3 A firm's position in an international network is likely to influence the pace of internationalisation.

6.2.3.4 Resource base

Competitive advantage is not just a function of how one plays the game; it is also a function of what "assets" one has with which to play the game. Pedersen & Petersen (1998) found that the expansion of a company's resource base is at least as important as market knowledge in determining the pace of a company's resource commitment to a foreign market. From this follows the fourth proposition:

P4 A firm will increase its involvement in international markets in pace with the extension of its resource base.

6.2.3.5 Incidental factors

The inclusion of incidental factors (such as sudden acquisition opportunities) should also be considered since it seems to play an important part of at least my case company's internationalisation.

P5 Incidental factors (such as sudden acquisition opportunities) are likely to affect the pace of internationalisation.

6.2.3.6 Organisational changes

Also, organisational changes in the entrant firm (new management, new ownership etc. as in the case of Ulstein) hold the potential of determining a great deal of the variation in pace. Accordingly this determinant should be considered included in future studies. From this follows the sixth proposition:

P6 Organisational changes such as f.i. change of ownership might influence the focal firm's pace of internationalisation.

6.3 Summary

The relationship approach predicts a faster and more erratic pattern of internationalisation than that of the stages approach. This means that the firm may go in with a higher degree of commitment as it enters a new market, f.i. it may start directly with local production and not go via agents and sales subsidiaries - I choose to call this erratic progress "jumping stages". When it goes faster, the firm goes through all of the stages (agent, sales subsidiary, production) at a faster rate than the internationalisation process theory would predict. With regards to the market selection dimension when "jumping stages", the firm goes directly to countries far away from the home country, not via closer countries. When the firm progresses fast on this dimension, it starts by entering markets with little psychological distance to the home market, and it moves quickly to markets with a larger distance.

It seems from this study that close customer relations may have an influence on the pace of internationalisation in addition to experiential knowledge. But, from the case observation it seems that at least two additional factors may play an important role in determining Ulstein's pace of internationalisation namely sudden acquisition opportunities and in the last year, change of ownership and with that management. Also from theory it is found that a firm's resource base are likely to have an influence on the pace at which a company commit resources to a foreign market. I believe it could be useful to study these factors' influence on the pace in a more thorough way as this was not done explicitly in the preliminary study.

7 Methodology

In this chapter I suggest a research design for a PhD-study. Different requirements to a research design will be discussed and I suggest a way to measure some of the variables.

7.1 Research Design

7.1.1 Introduction

A research design is the logic that links the data to be collected and the conclusions to be drawn to the initial questions of a study. It is an action plan for getting from here to there; what questions to study, what data are relevant, what data to collect and how to analyse the results. The main purpose of the design is to help avoid the situation in which the evidence does not address the initial research questions. My research interest is how the factors outlined in figure 11 influence the pace of the internationalisation process of industrial firms. Internationalisation is seen as a major dimension of the ongoing strategy process of most business firms (Melin, 1992). The same also states that structural theory on MNCs has advanced much further than *dynamic* theory on internationalisation as a strategy process. Furthermore, the strategic management field is still dominated by cross-sectional research that “proceeds from a distance, with a remote researcher gathering data from organisations he knows almost nothing about” (Miller & Friesen, 1982, p 1014). At the same time there seems to be increasing consensus among researchers that longitudinal research would enable a better understanding of organisations. According to Huff & Reger (1987) “... there is a danger in believing that statistically rigorous, narrowly focused studies are superior to the rich, complicated understanding that results from careful understanding of a few organisations”. Leonidou (1995, in McGaughey, Welch & Welch, 1998) found that three quarters of empirical studies of barriers to exporting used mail surveys as method of data collection. While such approaches have provided a broad picture of internationalisation factors, quantitative studies have limited ability to expose the nuances of these factors’ operation *through time* – that is, to capture the process perspective. In sum, there remains a considerable need for research that is responsive to the longitudinal character of internationalisation as a development process through time.

Various forms of case studies have so far been the most commonly used method, matching the goal of understanding through “deep” description. To do a case study is not a methodological choice, but a choice of object to be studied (Stake, 1994). We choose to study the case. We can study it in many ways with both quantitative and qualitative data. As a form of research, case study is defined by interest in individual cases, not by methods of inquiry used. The boundedness and the behaviour patterns of the system are seen as key factors in understanding the case (Stake, 1988). A case study is both the process of learning about the case and the product of our learning. Stake (1994) identifies three different types of case studies; (1) the *intrinsic* case study which is undertaken because one wants better understanding of this particular case. The purpose is not to come to understand some abstract construct or generic phenomenon neither is it for the purpose of theory-building - the study is undertaken for the sole purpose of intrinsic interest in that particular case. (2) The *instrumental* case study, where a particular case is examined to provide insight into an issue or refinement of theory. The case is of secondary interest; it plays a supportive role, facilitating our understanding of something else. The case may be seen as typical of other cases or not. The choice of case is made because it is expected to advance our understanding of that other interest. (3) With even less interest in one particular case, researchers may study a number of cases jointly in order to inquire into the phenomenon, population or general condition - this is called a *collective* case study. It is not the study of a collective, but instrumental study extended to several cases. They are chosen because it is believed that understanding them will lead to better understanding, perhaps better theorising, about a still larger collection of cases.

My study, I believe will be closest to the instrumental case whereas I am more interested in the particular case than in the collective case, and less than in the intrinsic and I also aim to improve theory.

7.1.2 My Choice of Design

The choice of design usually stands between a quantitative cross-sectional study and a qualitative case study. My research will mainly be a qualitative one, but I might also

make use of some quantitative data collection methods. Qualitative researchers attempt to understand behaviour and institutions by getting to know the persons involved and their values, rituals, symbols and beliefs. Field research is the most central strategy of data collection associated with qualitative methodology. The goal of field research is to develop a theory that is “grounded”, that is, closely and directly relevant to the particular setting under study. I will use an alternative approach to field research, the method of *analytic induction*. With the grounded theory approach, concepts and tentative hypotheses are developed from the data, whereas with analytic induction, the researcher begins with a tentative hypothesis explaining the phenomenon observed and then attempts to verify the hypothesis by observing a small number of cases. If the hypothesis does not fit these cases, it is either rejected or reformulated so that the cases account for it. At the heart of the analytic induction is the thesis that there are regularities to be found in the physical and social worlds (Miles & Huberman, 1994). The theories or constructs that we derive, express these regularities as precisely as possible. Seeing how a construct works in the field takes time, especially because its instances are often fleeting, masked by other features, or take shapes different from those found in the research literature or in the lab.

Case Studies

We were once taught to believe that case studies were appropriate for the explorative phase of an investigation, that surveys and histories were appropriate for descriptive phase, and that experiments were the only way of doing explanatory or causal inquiries. This is now considered incorrect (Yin, 1989). Case studies are far from being only an explorative strategy, some of the case studies have been both descriptive (Whyte, 1943) and explanatory (Allison, 1971). The more appropriate view is the pluralistic one - each strategy can be used for all three purposes: exploratory, descriptive and explanatory. What distinguish the strategies are according to Yin (1989) not this hierarchy, but three other conditions:

- type of research question posed
- the extent of control an investigator has over actual behavioural events, and
- the degree of focus on contemporary events as opposed to historical events

When asking *how* and *why* questions, which indicate the need for an explanatory study, it is likely that case studies, histories and experiments are seen as the preferred research strategies (How may close customer relations influence the pace at which a firm internationalise? Why is relational as opposed to traditional the preferred approach?). This is because such questions deal with operational links needing to be *traced over time*, rather than mere frequencies or incidence. Case studies are considered a powerful research method and particularly suited to the study of industrial relationships and networks. There is strong epistemological justification for using case studies when the aim is to gain understanding for real life contexts which are complex and dynamic. Because case studies can be used to explore details and specifics, and they simultaneously view the phenomenon as a complex system that is more than the sum of its parts, they are appropriate when the aim is to deepen the understanding of the «how and why-questions» (Yin, 1984).

Yin (1989) states that case studies are preferred in examining contemporary events, and when the relevant behaviours cannot be manipulated. A case study relies on many of the same techniques as a history, but it adds two sources of evidence not usually included in the historian's repertoire, direct observation and systematic interviewing. The definition of the unit of analysis (and therefore the case) is related to the way the initial research questions have been defined. The close relations between Ulstein and an important customer will make up one case in my research.

When the theoretical base is relatively weak or not used on the particular problem chosen for the study, it is difficult to define all relevant variables with regards to the problem in advance. Qualitative studies provide the opportunity to observe and understand relatively complex processes, and also to include variables which one had not considered in advance, but which in the aftermath are found to be central in relation to the phenomena being studied. In cases where the *time dimension* is central to explain a phenomena, the case study will also be the preferred research method.

In terms of method, the use of case study research provides a richness and depth of understanding to the internationalisation process, which is not possible with survey

data (Coviello & Munro, 1997). The longitudinal view is also emphasised by Benito & Welch (1994) who suggest to enhance the qualitative approach in future, that in-depth, longitudinal, «in-process» methods be applied. The typical way of conducting studies and analysing relationships is to employ actor-level analysis, the focus is on a firm's view of its relationship with another firm (Holmlund, 1997). This is also the way I will go - I intend to get both the supplier's (Ulstein's) and the important customers' view on the relationship.

It can be concluded that case studies are appropriate as a research design in a theory development context. The case study's unique strength is its ability to deal with a full variety of evidence. The main weakness of the case study is the practical problems of analysing the results.

7.1.3 Description of the Case

I will study one of the five business areas which comprises the Ulstein Group. It is the one which produces ship designs, Ulstein Ship Technology (UST). The focus will be on how close customer relations, the company's resource base, the company's position in a network and sudden unplanned for change of events influence the internationalisation process of this division. In the same way as we saw the propeller division's internationalisation being closely intertwined with the mother company's internationalisation, it is likely that this division will also be closely connected to the activities of the entire Group. However, I will try to unravel the potential unique features of this particular division's way of internationalising its activities. Operations of the company in one particular foreign market will make out one case.

7.2 Validity

7.2.1 Introduction

When the quality of a study is questioned, it most often refers to one or more validity considerations. The researcher should throughout the research process consider these, which are usually divided into external and internal validity considerations. External validity is concerned with whether the findings from one study and social context can

be generalised across time or to other social contexts or persons. Internal validity refers to whether the operationalised independent variable(s) does in fact cause the operationalised dependent variable. This will be elaborated below.

A basic dilemma is that to secure unambiguous evidence about causation, one frequently sacrifices generalisability. There is a problematic relation between internal and external validity; designs that are strong on internal validity tend to be weak on external validity, whereas designs that are weak on internal validity are, by definition, weak on external validity. Without internal validity, no generalisations can be made.

7.2.2 Internal validity

At the heart of all scientific explanations lies the need to prove *causality*, that is, to show that an explanatory (independent) variable explains change in another phenomena (the dependent variable). To prove causality, three operations should be in place, (1) show co-variation (to find if there is correlation between the variables), (2) exclude spurious relations (eliminate rival explanations for change in the dependent variable) and (3) to establish time-order (to establish whether cause comes before effect in time). To achieve this there are three methods we can make use of; *manipulation* - manipulate the independent variable (pre- and post-test), *comparison* - to find co-variation, and *control* - control for other (competing) variables, that is, to exclude alternative explanations for change in the dependent variable.

It has been questioned whether qualitative studies can establish causal relationships at all. Miles & Huberman (1994:434) claim that qualitative studies are especially suited to finding causal relationships; “..they look directly and longitudinally at the local processes underlying temporal series of events and states, showing how these led to specific outcomes, and ruling out rival hypotheses. In effect we get inside the black box; we can understand not only that a particular thing happened, but how and why it happened”.

Causes and effects must be seen as configured in networks - themselves deeply influenced by the local context. Assessing causality is of necessity a retrospective

matter, requiring us to note how some event has occurred in a particular case (House, 1991). Thus we need the historian's method of "followability" (Abbott, 1992), and will typically be making "a retrospective gathering of events into an account that makes the ending reasonable and believableconfiguring the events in such a way that their part in the whole story becomes clear" (Polkinghorne, 1988:171).

7.2.3 External validity

External validity also called generalisability for the results of a study. The aim is to generalise to larger populations and to more realistic settings. This design is believed to be quite strong with regard to external validity in terms of closeness to reality.

Case studies are generalisable to theoretical propositions and not to populations or universes. The case study (like the experiment) does not represent a "sample" and the investigator's goal is to expand and generalise theories (analytic generalisation) and not to enumerate frequencies (statistical generalisation). A conclusion from the discussion in the methodology literature is that it may not always be necessary or desirable to generalise results from a study (Holmlund, 1997). On the contrary, it is the non-generalisable results that are interesting from the viewpoint of understanding specific situations and their contexts (Noren, 1990; Patton, 1990). The assumption is that contexts differ from each other anyway, making knowledge context bound and non-transferable. The value of case studies may thus be that they are theoretically representative and explanatory.

7.2.4 Reliability

Reliability refers to the consistency of a measuring device, i.e. does the instrument always come up with the same score or number when the true value is the same? It is the relative magnitude of error to the true or real score; the smaller the error, the more reliable the measuring instrument. Reliability can be increased by the use of multiple measures. Multiple measures may be of particular importance if the variables are difficult to operationalise.

7.2.5 Summary

To sum, up the two main problems in science are to prove causality between variables (internal validity) and to be able to generalise to larger populations and to real-life situations (external validity). Brunsson (1982 in Holmlund, 1997) discusses generality of theories and concludes that the more general a model is, the less valuable it is in specific situations. General models therefore need to be built on models which are more specific.

There is a danger that multiple cases will be analysed at high levels of inference, aggregating out the local webs of causality and ending with a smoothed set of generalisations that may not apply to any single case (Silverstein, 1988). The tension here is that of reconciling the particular and the universal; reconciling an individual case's uniqueness with the need to understand generic processes at work across cases.

7.3 Data Collection/-Analysis

7.3.1 Introduction

I aim to find how the factors outlined in figure 11 may influence the pace of internationalisation. Qualitative studies have the advantage of giving me the possibility of catching the complete picture surrounding this phenomena. This is achieved by collecting data from actors that are in some way involved in the object or activity being studied over time (Melin, 1977 in Støle, 1997).

A research design should not only tell you what data are to be collected, it should also state what is to be done after the data have been collected. That is, one should seek to find the logic linking the data to the propositions and criteria for interpreting the findings. "...it is the intimate connection with empirical reality that permits the development of testable, relevant and valid theory" (Glaser & Strauss, 1967 in Eisenhardt, 1989:532). The case site was chosen for theoretical rather than statistical reasons, to replicate and extend the emergent theory under examination. Individual sample elements will be upper level managers in the company, primarily the Managing Director/Chief Executive and key informants identified by the Managing Director. Data analysis is designed to identify patterns relevant to international market growth

and the influence of the earlier mentioned factors on the case firm. To highlight this, I make use of critical events in Ulstein's internationalisation process.

7.3.2 Measurement

Operationalisation is about how to mirror concepts to give meaning in an empirical context. There is two central concepts; operationalisation and construct validity. Operationalisation is defined by Nachmias & Nachmias (1992), as the translation of theoretical concepts to empirical indicators or the assignment of numbers to objects, according to rules. Rules are the most important, as they lay the premises for how the assignment is to proceed. The aim is to come as close as possible to reality. Without good operationalisations, we cannot achieve construct validity.

Construct validity is whether we measure what we intend to measure. There are four types of validities tied to this:

- 1) Discriminant validity - whether the concept has a meaning of its own, not overlapped by other concepts, (Troye, 1994).
- 2) Face validity - whether the operationalisation of the concept is intuitively right/important.
- 3) Nomological validity - whether the operationalisation of the concept follows naturally from that in other theories.
- 4) Convergent theory validity - can be shown through high correlation between multiple measures or items of the same variable.

Operationalisations

My concepts will not be operationalised in detail at this stage, I will just outline some assumptions of the different variables, and this might be changed as I proceed with the study. I will suggest a tentative operationalisation of two of the independent variables and the dependent variable: (increased) pace of internationalisation, international experience and close customer relations.

Independent variables

I will suggest to measure the firm's pre-entry experience by the organisational form in the foreign market at different stages. This is probably, but not necessarily, closely connected to the measure that Erramilli (1991) used in his study of service firms' internationalisation; length (number of years the firm is engaged in international operations prior to current entry). Another measure it might be useful to consider is scope (geographic scope of experience), which covers the second dimension of Johanson & Vahlne's internationalisation process, international market selection. I choose to keep my options open and have many different measures for the firm's degree of internationalisation - this because no adequate measures on this concept has been developed.

Degree of closeness to important customers can be measured as frequency of contact/interaction between the two parties (e.g. daily, weekly, monthly), what kind of contact they engage in (e.g. written, mail, telephone, face-to-face), and between which levels in the two companies the contact is made (e.g. workers, management, directors). Important customers are defined as large customers in terms of sales volume, and/or they are chosen according to their influential power in the market.

Dependent variables

There is a danger of the operationalisation of "pace of internationalisation" becoming tautological. I will make a suggestion of how to measure this variable, but it is not final and will probably be adjusted as I carry out the study. (Increased) pace of internationalisation might be represented by how far away or how foreign the chosen new market is, in terms of psychological distance, and what type of entry mode is chosen, both according to how much international experience the company has at the time. It has to be measured over a period of time, and then analysed in the aftermath, since it is a processual concept. It is also a rather abstract variable, which makes it difficult to say whether the measure is right or wrong, I believe I will have to rely heavily on the face validity of the concept, that is, whether the operationalisation of the concept seems intuitively right.

Mode can be measured according to degree of control: (1) full-control entry mode; integrated exports, or wholly owned FDIs versus shared control mode; intermediary exports, contractual methods or joint ventures. The assumption is; the more experience the company has, the more accelerated the pace of internationalisation or alternatively the more active use of close customer relations when going/expanding internationally the faster the pace of internationalisation even when the company are relatively internationally inexperienced. I.e. a supplier's close relations with an international customer may work as substitute for own experience. To measure the pace, I need to establish the degree of international experience of the company before entering a particular market. That is; map type of entry mode chosen in each new market, and psychological distance to the different markets they have entered, and find how many years the company has been active on the international arena. I will then compare actual pattern/pace of internationalisation with what we should expect according to both the gradualist theory and the more modern relational theory (network/RM), which says that relationships may drive the internationalisation process (through reducing uncertainty which is seen as a major obstacle in market selection and entry mode choice).

To sum up, pace of internationalisation is measured as type of entry mode and how far away market is chosen, according to how much international experience the company has. If a Norwegian company has previously only had export experience with Scandinavian countries and then suddenly carries out a foreign direct investment in China, the pace of internationalisation of this particular company may safely be considered very fast. What this company is expected to do, according to the process theory, is to first set up a subsidiary and maybe establish production/manufacturing closer to the home market. This is done to acquire knowledge of and get more confident in a foreign market, then go slowly to countries further and further away - starting with agents, then subsidiaries, then maybe manufacturing eventually, in each new market.

7.3.3 Interview

Actors and strategic important events at different points in time in the process, affect the end result. Decisions taken are based on a large amount of input and a great variety of information and in-depth understanding is necessary to increase the understanding of such affairs. I therefore plan to carry out semi-structured interviews with some strategic actors in my case, i.e. strategic with regards to following up strategic important customers related to the focal firm's international expansion.

Semi-structured interviews leave more room for adjustments during the interview compared to a structured. I see structured interviews as too rigid, and not as ideal for the kind of deep descriptive information I am after. The reason for not using open-ended interviews, which is the other extreme, is that I prefer some structure for analytical purposes. I will start by first interviewing the managing director, who can then guide me to whomever it will be most advantageous to interview next.

7.3.4 Secondary Data

A monthly newsletter, annual reports and strategy plans will be used to supplement the information I receive from the interviewees. I have also been promised access to different databases where I can find references from different strategy meetings, and lists over their subsidiaries abroad.

7.3.5 Observations

I plan to follow one relevant project from initiation of contract to completed ship. My role in the company will be to act as participant-observer in different activities in the company, mainly activities related to internationalisation strategy meetings and other important activities in connection with one particular project.

The notion of access is emphasised in case studies and qualitative research, since it affects the possibility of attaining insights and data (Gummesson, 1988). There are different types of access which are relevant to business studies: access to company information, access to individuals, physical access, initial and continued access, and mental access. To increase access, i.e. to improve the opportunity of acquiring insights and data when studying business firms, Gummesson (1988) suggests people in firms

can both provide information and assist in locating other relevant people to interview. This way of improving access was also used in my pilot study described in chapter five.

7.3.6 Data Analysis

This is the most difficult and the least codified part of the process, e.g. “..one cannot ordinarily follow how a researcher got from 3600 pages of field notes to the final conclusions sprinkled with vivid quotes they may be” (Miles and Huberman, 1984 in Eisenhardt, 1989:539). Several key features of analysis can be identified: *within-case analysis*; detailed case study write-ups are done for each site, this is often simply pure descriptions, but it is central to the generation of insight. There is no standard format for such analysis. The overall idea is to become intimately familiar with each case as a stand-alone entity. Searching for *cross-case patterns*; one tactic is to select categories or dimensions and then look for within-group similarities coupled with inter-group differences. We can also use 2x2 or other cell designs to compare several categories at once. A second tactic is to select pairs of cases and then list the similarities and differences between each pair. A third tactic is to divide data by data source (observation, interviews, questionnaires), as this exploits the unique insights possible from different types of data collection. When a pattern from one data source is corroborated by the evidence from another, the findings are stronger and better grounded. Theory-building researchers typically combine multiple data collection methods like interviews, observations and archival resources – triangulation are made possible by multiple data collection methods providing stronger substantiation of constructs and hypotheses (Eisenhardt, 1989).

Overall the idea behind these cross-case search tactics is to force investigators to go beyond initial impressions, especially through the use of structured and diverse lenses of data. These tactics improve the likelihood of accurate and reliable theory, i.e. a theory with a close fit to the data.

To sum up; within-case analysis gains familiarity with the data and preliminary theory generation; cross-case pattern search using divergent techniques forces investigators to look beyond initial impressions and see evidence through multiple lenses.

7.4 Summary

A case study is an empirical enquiry that investigates a contemporary phenomenon within its real-life context, when the boundaries between phenomena and context are not clearly evident, and multiple sources of evidence are used. It is important to be aware that case study research is remarkable hard, even though case studies have traditionally been considered to be “soft” research. Paradoxically, the “softer” a research technique, the harder it is to do.

To safeguard oneself that the study are carried out in a satisfactory way one may carry out an “audit” of the entire study being conducted. Six levels of required attention are suggested:

- Are findings grounded in the data? (Is sampling appropriate? Are data weighted correctly?)
- Are inferences logical? (Are analytic strategies applied correctly? Are alternative explanations accounted for?)
- Is the category structure appropriate?
- Can inquiry decisions and methodological shifts be justified? (Were sampling decisions linked to working hypothesis?)
- What is the degree of researcher bias (premature closure, unexplored data in field notes, lack of search for negative cases, feelings of empathy)?
- What strategies were used for increasing credibility (second readers, feedback to informants, peer review, adequate time in the field)?

This seem to be a highly useful checklist while actually carrying out the study as it encourages systematic record keeping and reflexivity.

8 Conclusions

The emphasis in this study was to expand the scope on internationalisation into a perceived relationship internationalisation framework by taking current research as well as empirical data into account (it was a phase in which concept development was given priority). In my future PhD-study the conceptual model will be further refined with the help of a more focused and detailed analysis of an empirical case. Specific research questions will be formulated based on the conceptual model (figure 11) to direct the focus in the analysis.

Managerial implications

From a practical viewpoint, findings suggest that managers need a better understanding of the impact of network relationships on their internationalisation activities, and the potential for such relationships to provide entry to foreign markets. Further, managers should be aware of the speed at which internationalisation can occur through network relationships, and that network partners may govern both market selection and mode of entry. More attention should be paid to how and with whom relationships are established and what network management skills are required over time. The company's existing networks as well as their ability to establish new network relationships should be managed as a key competitive advantage.

Focusing on individual decisions is less fruitful than considering continuous processes. Competing approaches presuppose a rather static world where it is possible to find information to use as a basis for well-balanced decisions. There is assumed to be no or little interdependence between actors and consequently little need to worry about these from a managerial point of view. My perspective implies that knowledge is an ever-changing outcome of action. Furthermore, my approach does not view actors as autonomous, they are rather embedded in a network setting, providing them with both opportunities and constraints.

Researcher Implications

Whereas market share and sales volume are typical objectives in transactional marketing, the success of longer-term marketing strategies can be better measured in customer retention/defection rates, share of customer, economies of scope and customer loyalty (Buttle, 1996). These objectives would indicate that the concept of the life-time value of a customer is understood. I should try and find if there is any evidence of this being the case in Ulstein. I should also try and find if Ulstein have made changes to organisational structures and reward systems in an effort to bring about mutually beneficial long-term relationships. This, since relationship marketing theory indicates that common sales and marketing organisational structures (territory or product centred organisations) are potentially incompatible with relationship marketing goals. Equally, performance based systems which reward short-term sales performance and customer acquisition may not elicit the behaviours, which are best suited to achieving relationship marketing goals.

I need a framework that includes the following dimensions:

- interactions between firms and their disaggregated environment
- processes including timelength and timing of these processes
- total company resources and activities, and
- complementary inter-organisational relationships (linked to the importance of different types of entry and expansion modes and in general to the importance of interorganisational interdependencies)

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Appendix No. 1

Ulstein's Internationalisation: Some History

A description of the company

Ulstein Mechanical Shop was founded in 1917 by Mr. M. Ulstein (I. Ulstein's father). From being a small mechanical firm, it has become a large company by Norwegian standards, with an annual turnover of approximately 4.5 mrd NOK and over 4000 employees. The headquarter is located in Ulsteinvik on the north-west coast of Norway, and much of the activity is centred in this area, but lately a larger part of the company's business has been located to Hordaland.

In the 1980s, the Ulstein Group enjoyed great success with their system solutions for offshore and speciality vessels. The profitability rose markedly in this period, and with profitability followed the wish for growth. Growth was achieved through acquisitions starting in the mid-80s, and has continued until this day. In particular the consolidation of Bergen Mekaniske in 1988, was very important. Included in this group was amongst others, former Bergen Diesel, and also Norwinch. The acquisition of Hydraulik Brattvåg in 1992 marked the end of this growth phase.

The products and services of the Ulstein Group are mainly for the maritime market. The activities are organised in five business areas; shipbuilding, engines, propulsion, design and ship systems, deck machinery and steering gear. I will first look at the group as a whole, and then take a closer look at the Propeller Division.

Ulstein's Internationalisation

The internationalisation process of the company started in the mid-60s with Ulstein getting several contracts from the Nordic countries; tankers and fishing vessels to Danish and Icelandic ship-owners and passenger boats to the Swedes. In addition, Hatløy, which was merged with Ulstein in 1974, got contracts to the Faroe Islands. This indicates that Ulstein was active in an international market fairly early. In 1968 Ulstein Trading (later Ulstein International Ltd, 1988) was established to increase the sale in general and also internationally in order to be able to deal more professionally with the

sales function of the firm. According to Mr. I. Ulstein, there was no shortage of contracts in the 50s, and consequently no need for a separate sales function. It was quite unusual to have a separate sales function abroad in the 60s, so I believe Ulstein (which later became a group of companies) was quite early in taking a conscious stance towards the market side of business in general, and also towards international markets in particular. From this I infer that Ulstein might be classified as an “early starter”.

The action of separating the propeller area from the rest of the company to a separate company, is seen as part of the internationalisation strategy of the company as a whole. Ulstein made several deliveries of propellers to foreign customers at an early stage (in the early 60s), and this export business became more and more profitable for the company. Parts production was beginning to develop as a separate unit within the company, somewhat on the side of the traditional shipbuilding activity. However, as the production for Penta and the manufacturing of other ship equipment were scattered around the different departments in the machine shop, it demanded much extra organising and man labour, also due to the extensive range of products. Hence, it was natural that the idea of organising this production in one place and divide it from the rest of the shipbuilding activities came up. According to I. Ulstein (1997), the decision was also partly made to better be able to organise and follow up foreign customers. The international activities were previously (to the founding of Ulstein Propeller) far too much characterised by chance happenings - this “reorganisation” was intended to increase Ulstein managers’ ability to make deliberate strategic decisions with regards to following up foreign customers and their servicing needs.

Asia

In 1974 Mr. I. Ulstein participated in a trade delegation to East Asia. The delegation went to Hong Kong, Singapore, Japan, Korea, and Malaysia. Mr. I. Ulstein also took a private trip to see Ulstein’s agent in Bombay (this was established in the late 60s). In Singapore the delegation met with the local office of DNC, who had offices to let for Norwegian companies wanting to enter East Asia, which was starting to appear a promising market. Ulstein carried out a market analysis and decided to rent an office from DNC after six months. Mr. I. Ulstein believed it was favourable to be seated in an

environment already familiar with Asian ways. The agent, Mr. Holm, was to remain in Singapore. Ulstein was the first Norwegian company besides Norsk Hydro, to set up office in Singapore (1976). Ulstein found that there were good business opportunities and consequently bought an industrial area with room for an office and a workshop where minor repair work and service could be carried out. They also let storing room to Kopparnes, who was a major supplier of nuts, bolts and other accessories. Mr. Holm stayed in Singapore until 1989 when Mr. M. Ulstein took over (Mr. M. Ulstein is Mr. I. Ulstein's nephew and currently holds the position as Managing Director of the Propeller Division). The next development in Asia was the establishment of a sales office with their agent in Hong Kong (1982).

First foreign production facilities

In the late 60s - early 70s, Ulstein's agent in Australia, Mr. Biddle, started to give hints that he wanted to return to the UK, and he asked whether or not Ulstein would consider setting up an office there. Ulstein stipulated three terms for their first foreign office - the potential country had to have:

- (1) Fairly similar culture
- (2) English language
- (3) Market potential

The UK market fulfilled all of these, and Ulstein offered the job of running the UK office to Mr. Biddle who accepted. They then carried out an analysis where they assessed London, Glasgow, Edinburgh, and so on, as potential sites for the office. Mr. Biddle believed Edinburgh would be most suitable since it is quite central with regards to the activities in the North Sea. A sales office was set up accordingly in Edinburgh in 1974 - this was Ulstein's first foreign office. After six months Mr. Biddle asked if Ulstein would consider setting up service facilities and employ a service engineer. Ulstein did not jump at this proposal, but after another six months they decided to set up a service office as well, following Mr. Biddle's advice. In 1977 the first production facilities abroad was also established in Scotland.

North America

One of the first agents Ulstein had was in Vancouver. This was in 1967/8 and he was a relative who was also in the shipbuilding industry. Having an agent did not lead to an instant increase of sales for Ulstein, but it did lead to an increased interest in becoming more international on the management's part (ref. interview Mr. I. Ulstein). In 1981/82 the manager of Maritime Industries (MI - German propeller manufacturer) made contact with Ulstein and asked if they were interested in taking over the company. Ulstein realised that they needed to be present in North America and carried out a market analysis to identify where the office should be located (the analysis covered the US and Canada). They found that MI's plant in Vancouver was most suitable because of the advanced infrastructure (pulp industry was the primary industry, but secondary industry that supported this, also supported mechanical industry). Ulstein approached MI approximately two years after first contact - they were on quite close terms with the owner, and took over the company in 1984. They now had two production facilities abroad; one in the UK (1977) and one in Canada (1984). The justification for it being Vancouver and MI was, in addition to the good infrastructure and established mechanical industry, the fact that MI had a special design of a propeller type that Ulstein did not possess, but which they believed they had the precondition to improve. In addition Ulstein was already familiar with the Canadian market, since they had been in contact with this market for years through their agent.

Further developments

In 1986 a sales-/service office was set up in New Orleans (US), to cater for the needs of the offshore fleet in the Gulf and also to accommodate the needs of a large and important customer. This will be elaborated later in the chapter. In 1988 they established a sales-/service office in Reus (Spain) and in 1991 in Denmark. All of these establishments were a consequence of the take-over of Bergen Mekaniske in 1985. In 1979 the Oil and Natural Gas Corporation Ltd. (ONGC) of India, a government owned oil company, chose an Ulstein design for the production of 56 supply vessels to be used in India's offshore oil production. With the purchase of the design followed orders for several parts needed in construction, and the need for technical assistance. As the ships

produced in 1979 got older they needed repair, and this led to a possibility for Ulstein to open a sales- and service office in India in 1991.

Summary

The main international expansion started with a trade delegation to East Asia in 1974, when the interest for the Asian market was awakened. The first market analysis Ulstein carried out, was in East Asia. When it comes to the establishment in UK, it seems to be more chance in the form of an agent wanting to «go home», rather than a deliberate internationalisation strategy. But, the fact that Britain was well-suited for acquiring international experience because of its geographical and psychological closeness to the home-market, and of course the fact that there was a certain market potential for Ulstein's products, was also of importance for the final decision. Canada was a combination of Ulstein wanting to be present in this market and Maritime Industries «offering themselves to Ulstein» (ref. Mr. I. Ulstein).

Appendix No. 2

The Propeller Division

Introduction

Ulstein produced their first controllable pitch (CP) propeller as early as 1919, but was not established as a separate company until 1965, then called Ulstein Propeller. The propulsion division currently consists of several companies in addition to Ulstein Propeller Ltd.; there is Ulstein UK Ltd, Ulstein Maritime Ltd and Ulstein Automation Ltd. Ulstein Propeller was the first independent production unit for ship's equipment within the Ulstein Group. Since then, Ulstein Propeller has developed and manufactured a large range of propellers, thrusters, high-speed propulsion systems and remote control systems for Ulstein and other shipyards and ship-owners. The acquisition of Liaaen Propeller in 1989, strengthened the product range and the overall competence of the Ulstein Group, and the propulsion division in particular. The latest development in terms of expanding business, was the acquisition of Bird Johnson in the United States in June 1998. The business area is concentrated on the development, production and also servicing of the above mentioned vessel equipment. With production companies in Norway, Scotland, Canada and now also in the US, Ulstein is described as one of the market's three largest manufacturers of this type of equipment.

“Our products are among the market leaders, as a result of superior technical solutions based on experience from successful installations in ships all over the world during three quarters of a century” (Ulstein Propeller Magazine, 1996, p.2)

The total number of employees is approximately 610, in addition to the 300 employees of the newly acquired Bird Johnson in the United States. Of the 610, 175 are employed abroad. The proportion of export (of total sales) is about 75%. The first company in this division, Ulstein Propeller, started exporting already in 1966. The founding of the propeller company in itself can be seen as part of the internationalisation strategy of the mother company, the Ulstein Group. The share of group operating income is 26.1% and total operating income for 1997 was 1 011.2 mill. NOK.

The Propulsion Division's Internationalisation

The managing director of this division describes the industry as very international. The division is also seen as highly international as they have many and important relations with foreign companies, and the contact with many of these are on a daily basis. We can thus say that UP has reached the stage which network theorists label "international among others". When they first started doing business with foreign parties in 1966, the industry was more of a local/national nature, where most trade was made within each country's border. We can from this conclude that Ulstein Propeller was rather early in engaging in international affairs and thus can be classified as an «early starter». The way the propulsion division exports today is directly from Norway, through Norwegian joint ventures, through foreign agents, through foreign joint ventures, through its own sales subsidiaries abroad, and through sales from its own production company abroad.

The propulsion division started on the road to internationalisation in the late 60s using agents, and then proceeded to establish sales and service offices in the mid-70s, but they still make use of agents when entering new and relatively unknown markets. They started their international development by first entering markets close to home such as Sweden, Denmark and Iceland, but were also quite early in going in to the Australian market (1967/70). Australia is quite distant in geographical terms, but the psychological distance is not much larger than f.i. Great Britain. An additional factor why UP was so early in entering the Australian market (and the real reason according to the managing director, Mr. M. Ulstein) was the fact that the sales manager's wife was Australian. Although it is a separate division, it is closely connected with the internationalisation of the mother company and make up an important part of the Group's internationalisation history.

One customer relation that has been of great importance, is the relation with Volvo Penta. The co-operation between Volvo and Bolinder on the one side and Ulstein on the other, started as early as in 1957, and it is believed that this co-operation and the deliveries that followed, was an important factor leading to the establishment of Ulstein Propeller Ltd some eight years later. Also the ship owners are very important at all

times - if the ship owners are building abroad, the ship equipment producers have to follow. The single most important customer for UP today, is the American company, North American Shipbuilding, the shipyard of Edison Chouest Offshore Incorporated. This relationship will be elaborated on below.

A particular customer relation

I chose a customer relation Ulstein has cultivated for years, namely the relation to the above mentioned North American Shipbuilding (NAS). Mr. Mørkeseth, the regional director of North America, sees the relationship to North American Shipbuilding owned by the Chouest family, as very important. This ship owner, Edison Chouest, owns two yards, NAS and NAF. Both these yards build exclusively for Edison Chouest and the vessels are chartered to American oil-companies. Since they themselves are responsible for the vessels during the vessels' entire lifetime, they are very focused on quality in the building process - they build for a minimum requirement of maintenance in the future, i.e. they have a very long-term perspective.

The founder Edison Chouest started out as a shrimper, whose fleet consisted of two wooden-hull shrimping boats. In 1959 he bought a 65 foot steel-hull utility boat from a friend. At the time, the boat was committed to finishing three months of a contract with Humble Oil, carrying crew and supplies to the oil rigs then beginning to dot the Gulf of Mexico. When he decided to take on the charter in order to keep the vessel, Edison took the first step on the road that has kept his company growing and made it into a major player in the offshore support industry. A short time later, Chouest stopped shrimping and started building and chartering supply boats. The yard is dedicated to building only for Chouest, and the shipyard is seen as a non-profit cost centre for the company where they build the tools for their work. Thirteen tractor tugs supplied to the US Navy are all fitted with Ulstein azimuthing thrusters. Restrictions on place of manufacture for all vessel components apply to some US Navy projects, but not to these specialised vessels - fortunate for both client and supplier. «We have had a lot of success using Ulstein products», one Mr. White says; «our intent is to build the optimum tool, and if we recognise Ulstein's thrusters as the best available, we want to use them». This is quite some statement for Ulstein - choosing what it deems the best components for the task has put a lot of Ulstein equipment aboard Chouest's latest newbuild for offshore

support, an anchorhandling towing supply vessel. It carries a Brattvaag winch and Ulstein shafts, stern and forward azimuthing thrusters. The Chouests have designed a new generation of support vessels, and are now building more vessels than all other US shipbuilders combined in the offshore oil and gas service sector - almost all Ulstein equipped with thrusters, shaftlines, wheels (propellers) and winches. No wonder it is considered such an important customer for the Ulstein Group, and the propulsion division in particular. There is also a lot to learn from the way the Chouests view their customers - they ask what the customers really need to attain their objectives, and also ask: «how can we help you make money?» I.e. the customers' wants and needs are put first and have led them to what can be thought of as tailored vessel design - ships built to achieve an objective.

Sales in 1997 to this customer amounted to approximately 300 Mill. NOK for the entire Group, of that about 200 Mill. NOK was accounted to the Propulsion Division. Ulstein Propeller started selling to this customer in the mid-80. The contact followed from the acquisition of what is today called Ulstein Maritime (former Maritime Industries see p 61), in 1984, a purchase which was made to get a foothold in North-America. MI knew NAS, already and introduced Ulstein to them. NAS had previously accounted for up to 50% of MI's turnover. NAS also became interested in Ulstein and got indirect knowledge of them through buying three second-hand UT-ships from Farstad, which contained Ulstein equipment.

Initiative

When it comes to the initiative for developing a closer relation, Ulstein believes it was taken by the Chouest brothers (the three sons of Edison; Edison Jr, Gary and Laney). They came to Ulsteinvik/Ålesund in 1983 to look at the three second-hand ships, and became interested in how the yard was organised. The relationship today between the two is seen as "close", this is illustrated f.i. by Ulstein setting up a new building for their office in New Orleans. According to Mr. Heltne Houston is a far more appropriate location for their US office, but because of NAS they stay in New Orleans. Although this office service all Ulstein equipment (engines, deckmachinery etc) Ulstein has made a point of improving the competence on propellers in particular for their people at this

office, to enable them to offer better service to this important customer. An example of this is that the employees at the branch office are sent to Vancouver for training. An illustration of the mutual close relationship is that the Chouest-brothers come to Norway regularly (in their own aircraft) to check out the production facilities at Ulstein.

Intensity

The intensity of the relationship between Ulstein and the Chouests are described as steadily increasing. Gary and Laney Chouest (Managing Director and Deputy Managing Director) are very visionary. They decided early on that they wanted to be different from other actors in the market. They started to use CP-propellers in the early 80s – they went to Europe to look for suitable suppliers, visited several of Ulstein's competitors before finally arriving in Ulsteinvik. They obviously took an instant liking to the Ulstein sites and decided to put a stake on Ulstein. When they had made that choice, they had made a long-term choice and were eager to convince Ulstein of the same – to view the relationship as long-term. One of the reasons for choosing Ulstein was their establishment of a sales- and service office in New Orleans in 1986. The Chouests found it useful for them to co-operate with Ulstein, and decided to have the company as strategic partner in their future development. As long as Ulstein shows appreciation of the relation and do not “screw up”, the Chouest buy exclusively from them. I.e. any equipment the Chouests need which Ulstein is capable of supplying, is bought from Ulstein. They have a “Master-agreement” between them and all the principals of Ulstein. Only engines are excluded from this agreement, and according to Mr. Mørkeseth this is due to the tough competition on the American engine market. Chouest's supplier of engines, is Caterpillar, another strategic partner of NAS. When Mr. Mørkeseth moved to New Orleans in 1986, the Chouests saw it as Ulstein making a commitment for them. When Mr. Mørkeseth was transferred to Vancouver in 1988 due to some problems at the factory there, the Chouests were very disappointed although they were comforted that he did not go back to Norway. But during this period, Ulstein Maritime sold a lot to the NAS, which made Mr. Mørkeseth able to stay in touch and he made frequent trips to New Orleans. In 1995 Mr. Mørkeseth moved to Seattle and took over the responsibility of Ulstein US again – and from there he commuted frequently to New Orleans. In mid-97 he moved back to New Orleans. This was received as great

news at the Chouest headquarters – his arrival was announced at a plenary session and the Chouest's were also helpful in finding him an apartment. Mr. Mørkeseth emphasises the personal ties with people in this company – in particular with Gary and Laney Chouest and their families.

A piece of history

Farstad bought Wilhelmsen's offshore fleet (much of which were UT 705), since Wilhelmsen were close to bankruptcy the vessels were almost given away. Chouest needed that kind of vessels and bought the earlier mentioned three UT-ships from Farstad also at a very low price. One was heavily rebuilt and is now running for the US Marine – it is a “detection vessel” for Russian submarines. The two others were used as seismic vessels. This purchase had a domino effect; Western Geophysical, who saw that Chouest bought three vessels, bought two UT 705 and rebuilt them for seismic purposes. Before this there were a lot of laid-up ships along the coast of Norway, but in this period, during the early 80s, so many vessels were brought out of the North Sea that they achieved balance. In the end a demand for new tonnage in the North Sea arose. This was around the time when Ulstein developed their great success UT 745.

The three UT-ships Chouest bought from Farstad became the flagships of Chouest. Since all of these ships were equipped with Ulstein products, these purchases led to Ulstein getting both Chouest and Western as regular customers later. It is claimed that the establishment of the New Orleans office, was first of all motivated by a wish to be close to the offshore activities in the Gulf. When Mr. Mørkeseth first came to New Orleans in 1986, the market was dead. Ulstein was directing its marketing efforts towards the offshore market in the Gulf, but there was a “down period” at the time, and everyone were questioning why they wanted to be established there. Mr. Mørkeseth justified the establishment in the following way: “We have to be at the station even though the train is at a stand still, in order to be present when it starts moving again”, i.e. they were planning ahead. But the establishment was also made to accommodate NAS (Chouest) – or maybe it was more of a bi-effect. Chouest most certainly saw it as Ulstein making a commitment to them. It seems to me that it took a bit longer for

Ulstein to admit being strategic partners with the Chouests while, according to Mr. Mørkeseth, it was instant attraction from the Chouests' side.

Chouest were one of the first to build ship-docking-tugs with Z-drives. This was observed by all competitors, and to a certain degree Ulstein was given permission to show these boats to other customers. Chouest were also the first to introduce Z-drives on offshore vessels, and the result is that this is now almost a standard. The Chouests are great fans of low-pressure hydraulics (which Ulstein sells) and they are quite convinced that it is the best there is to get in the market. Mr. Mørkeseth also claims that Ulstein Brattvåg's winches are the best there is "over there". When Gary is chartering vessels to oil companies, Ulstein helps out with the right specifications. In return Chouest tells "everyone" that Ulstein-products are the best and as a consequence Ulstein has got several customers on the continent, but Mr. Mørkeseth will not give any names of these ship owners because he considers it sensitive information. He believes these other customers will not be pleased to hear that the Chouests are considered a more important customer than themselves.

Close contact

When Mr. Mørkeseth is present in New Orleans, he is in touch with this customer several times a day, and he visits the yard at least once a week. If he does not get in contact with them – they get in contact with him. Also if he gets bored one day in the office, he takes the car and drives down to the yard where he walks around to talk to the people there, has a look at the ships and then go and have a chat with Gary. The top management at Ulstein has not got regular contact with this customer, but they are on good terms with each other. The Chouests are in particular tied to Mr. I. Ulstein and his family. There is a bit of anxiety now, to what will happen after Ulstein was bought by Vickers (1999). Chouest were quite sceptical after the introduction to the stock exchange, and now after Vickers came in, they are even more weary. Chouest is a family run company as well, and they did not understand Mr. I. Ulstein's decision to enter the stock market and question what the future holds even more after the Vickers buy-up. In general, they are negative to having to relate to new people. As we saw above, they are very happy to have Mr. Mørkeseth there, as he works as a buffer

between the Ulstein principals and the Chouests. He will probably be even more valuable for Ulstein with all the uncertainty surrounding Ulstein's future today, it remains to be seen whether the new owners in Vickers know how to value the important role he plays in the US market. As Mr. Mørkeseth himself put it "I'm a hostage, the Chouests demand single-point contact to our principals, I will never be able to go home!"

The Chouests are very eager to please their contacts, the first time Mr. I. Ulstein came over to visit there were no limits to their hospitality. They lent him one of their three airplanes and flew him over the Gulf to sightsee. And when Mr. M. Ulstein, Mr. I. Ulstein and Mr. Mikkelsen, the current managing director, visited last year, they all went sight-seeing in the Chouests' plane again, and were afterwards treated to a great dinner. In other words, the Chouests make it explicit that they invest in the relationship to keep it strong. Ulstein also gives the Chouests treats if not in such a grand manner, f.i. the brothers have been invited to Geiranger. For the Chouests, the way Mr. Mørkeseth sees it, the sky is the limit for how to best accommodate the needs of what they view as their strategic partners. According to Mr. Mørkeseth, the Chouests do this to strengthen the relationship and hopes to achieve mutual loyalty in return.

Conflicts

If conflicts need to be sorted they call Mr. Mørkeseth – even on a Sunday; "Gary is never angry, but when he phones like that, I know it is serious. Gary never exaggerates! The yard managers may blow up and swear and curse, but that's just the language they speak there, I am used to that. Still, they don't dare to push me too far because they are aware of the good relationship between me and Gary!" There are often disputes between the principals and the yard on delivery times and quality. Mr. Mørkeseth then, as mentioned earlier, acts as a buffer between Chouest and the principals. Mr. Mørkeseth has contact with people at all levels, top management and people on the yard.

Increased involvement

When Ulstein expanded their office a couple of years ago, it was done because of the success in that market. Mr. Mørkeseth will not emphasise Chouests' role and say explicitly that it was because of the relationship with this particular customer, just that it was part of the reason (it seems to me that the customer take this relationship more seriously than Ulstein does). Mr. Heltne on the other hand, claimed that the new office should and would have been placed in another more suitable area had it not been for the close relations with this customer.