

Project Business as a Distinct Market Entry Mode:
A Conceptual Discussion

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Sören Kock
Swedish School of Economics and Business Administration
Department of Management and Organization
P.O.Box 287, FIN-65101 Vasa, Finland
Phone: +358 6 35 33 722, fax: +358 6 35 33 702, e-mail: soren.kock@hanken.fi

Richard A. Owusu^{*}
Swedish School of Economics and Business Administration
CERS-Department of Marketing and Corporate Geography
P. O. Box 479, 00101, Helsinki, Finland
Phone: +358 9 431 33 293, fax: +358 9 431 33 287, e-mail: richard.owusu@hanken.fi

Maqsood Sandhu
Swedish School of Economics and Business Administration
Department of Management and Organization
P.O.Box 287, FIN-65101 Vasa, Finland
Phone: +358 6 353 37 67, fax: +358 6 353 37 03, e-mail: maqsood.sandhu@hanken.fi

^{*} Corresponding author

Abstract

This paper proposes and elaborates that project business should be seen as a distinct market entry method, or mode of international business. The paper discusses the contributions of various strands of received international market entry theory – on one hand the Uppsala Internationalisation Model, and the contributions made to it by the Transactions Costs Perspective as well as Dunning's Eclectic Paradigm; and on the other hand the Network Approach to International Market Entry – regarding the modes of international market entry. Our research and analyses show that the characteristics and demands of international project business are so distinct that only its clear demarcation as a distinct international market entry method enables us to adequately expose its nature, demands, and importance. We agree that a single project sale is a temporary form of direct involvement in a foreign economy. However, it provides opportunities for network interactions in a way that makes it an important jump pad for continuous project or other business in the foreign economy. Our conceptual analyses based on a literature review and the evidence of many case studies confirm the distinctiveness of project business and lead to the proposition that it should be considered as a separate market entry mode. By so doing research, teaching, and management implications will develop the correct analytical and normative approach necessary to correctly deal with it.

Keywords:

International Project Business; Internationalisation; International Market Entry Modes, Network, Relationships.

1.1 Introduction

Among the most important decisions in international business is the mode of market entry. It determines how the firm deals with its foreign customers and partners; its ability to control the nature and the process of its international business; to what extent it commits resources to the foreign market; and consequently how its foreign partners judge its commitment to their market. The importance of this subject both for research and management behaviour has led to a large number of studies and an ongoing debate about the process of international market entry and internationalisation (c.f Buckley, 2002; Johanson and Mattsson, 1995). One of the underlying aspects of the discussion is the classification of the entry modes, or the methods by which firms do business abroad. Despite some differences in agreement regarding the speed of entry, or different foci of research between various schools, there is a basic agreement in received theory about the classification of the methods. The Uppsala Internationalisation Model (Johanson and Vahlne, 1977), is, perhaps, the most widely-known school in received theory which proposes that market entry or internationalisation is a gradual process in which the actors gradually increase their market commitment as they acquire market knowledge and experience. The main bases for this behaviour is the avoidance of risks, and the need to gradually acquire knowledge and experience of international marketing. The modes of market entry are classified as: no regular export; independent representative (agent), i.e export through a local or foreign-based agent; sales subsidiary; local production. Two other schools of thought can be discerned as contributing heavily to the debate within received theory. One derives from the transaction costs perspective (originally, Williamson, 1981), the other from Dunning's Eclectic Paradigm (Dunning, 2001).

A new addition to the debate is the perspective provided by the Network Approach to international market entry (Johanson and Mattsson, 1995; Blankenburg, 1995). The network approach suggests a different logic to the process and mode of market entry as compared to

received theory. It proposes that the most important task in international business is interorganisational resource interdependence with international actors. Through these, problems of investment, risks, knowledge and learning are mitigated.

1.2 Problem Area

The core of received theory proposes that international market entry is a gradual process determined basically by the fact that firms avoid risk by gradually moving from nearby to distant markets, and moving from low to higher involvement/investment through gradually acquiring knowledge, expertise, and resources. This process may be mitigated by the costs of internalising or externalising transactions in accordance with the transaction costs perspective; the resource possession of the firm, the characteristics of the destination market, or the desire to maintain know-how and expertise within the firm and produce on its own (the eclectic paradigm). The specific market entry modes suggested by Uppsala Internationalisation Model are, in most cases, summarised as: no regular export; independent representative (agent), i.e. export through a local or foreign-based agent; sales subsidiary; local production (Johanson and Vahlne, 1977). Some textbooks like Hollensen (2001) and Luostarinen and Welch (1990) provide a comprehensive classification that cover the contributions of all the above as well as the network approach, and include franchising, contract manufacturing, sub-contracting, and project export. In much of the literature, project business is either seen as a form of export; or as a later mode that develops as a result of the gradual process of knowledge acquisition and experience that enables firms to move from export via an agent to more involved modes (c.f. Luostarinen and Welch, 1990). We agree that Hollensen (2001) and Luostarinen and Welch (1990), as well as some other authors may classify project business separately from purely export modes. A recent and rare textbook on project marketing (Cova, Ghauri, and Salle, 2002) discusses the dynamics of international project marketing. However, to our mind there is no research within the mainstream literature that provides adequate research and

management implications for understanding project business as a distinct international market entry method. We believe that the issue is not just one of conceptual classification. Our research provides research and management implications that would awaken both researchers and practitioners to the uniqueness and complexity of project business as a distinct market entry method, as well its strength as a core international marketing strategy. We will stress the fact that project business is a strategic alternative which can be used as a long-term relationship-building strategy and not just as a temporary "hit-and-run" approach.

1.3 Aim

The aim of our paper is to propose and elaborate that project business should be seen as a distinct market entry method, or mode of international business. Therefore, we will show the uniqueness and distinctiveness of this mode as a strategic choice for companies in international market entry, and we will present a proactive strategy for international project business that will allow companies to maintain the mode as the core or the only market entry mode in a long-term perspective.

1.4 Method and Structure

Our pre-understanding is based on our research into international market entry and project business. The empirical bases of our discussion and propositions are many case studies done in several international companies. They were mainly semi-structured qualitative interviews with personnel at both strategic and operational management levels of the companies' international business and project marketing. Our data were analysed through qualitative content analysis. We have put together the trajectory of the companies' international business. Our methodology is based on abductive theory-building (Miles and Huberman, 1994; Alvesson and Sköldberg, 1994; Eisenhardt, 1989). In other words, our discovery of the characteristics of international project business through our empirical studies of international

business and marketing, enabled us to notice the gap in the literature and to define our research focus in this regard.

Our paper is wholly a conceptual discussion. In the first part we will discuss the received literature, as well as the network approach of international market entry. We will follow up with a discussion of the characteristics of international project business. We will compare project business with the other market entry modes and finally present a model for international project business as a strategic choice for international market entry. We do not separately present any specific case in this paper, but as noted earlier, our insights are based mainly on many case studies we have done over the years.

2. The Received Theory of International Market Entry and Internationalisation

2.1 The Uppsala Internationalisation Model

Firms engaging in international activities have been considered to follow certain steps depending on the amount of knowledge gained and the commitments made. A number of studies focusing on internationalisation have been based on the Uppsala Internationalisation Model, or the stage model (e.g. Johanson and Vahlne, 1977; 1992). Consequently, international business activities have been claimed to start with markets that are culturally and/or geographically close. Furthermore, a firm tends to start with entry modes that do not need substantial commitment and resources. The use of agents or direct selling is therefore, in general, used in the first phase of internationalisation. After the initial expansion with low risk, indirect exporting to similar markets, firms will improve their foreign market knowledge and gain more experience. This leads to a greater increase in foreign market commitment and to expansion into more distant markets over time.

Christensen and Lindmark (1993) claim that the present models of internationalisation take into account only problems more characteristic to large firms and that these models do not consider the importance of network context nor the aspect of social networks. Findings suggesting that the model of internationalisation is somewhat different for small firms than of larger corporations and, thus, results particularly interesting for this study are presented by Lindqvist (1988) and Bell (1995). They suggest that the pattern of internationalisation and the entry mode choice of small firms may be influenced by, among other factors, close relationships with customers (Lindqvist, 1988) and that interfirm relationships (with clients, suppliers, etc.) appear influential in both market selection and mode entry for small firms (Bell, 1995).

2.2 The Lessons of Transaction Costs

Transaction cost theory points out that the choice between full and particular internationalisation will depend upon the costs and the benefits of sharing the resources relative to those of a wholly owned subsidiary. Williamson (1981) presented the concept that the increased levels of uncertainty lead to optimise resources exchanges in the market, which result in conditions of market failure. Market failure occurs when "the outcomes of market-mediated interactions are sub optimal, given the utility functions of actors and the resources at their disposal; that is, agreements that would be beneficial to all parties are not made" (Keohane, 1984, p. 84). To overcome market failure, transaction-costs theory states that organizations arrange their production within firms, thereby substituting authority relations for market relations to reduce transaction costs and produce more efficiently. That is, as higher levels of uncertainty lead to conditions of market failure, non-market authority relationships (i.e., networking organization) are used to overcome market inefficiencies and to economise on transaction costs.

The basic premise of transaction costs -- that actors will sub-contract those business activities that others can perform for them at a cheaper cost – has strengthened the classification and knowledge of international market entry that is based on out-contracting. This school strengthens the theoretical bases of modes like sub-contracting, contract manufacturing, franchising and licensing.

2.3 The Lessons of Dunning's Eclectic Paradigm

Dunning's view of internationalisation considered it to be a pattern of investment in foreign markets explained by rational economic analyses of ownership, location, and internalisation, (OLI) advantages. The subject explained is the extent and pattern of internationalisation by foreign direct investment undertaken by MNCs (Dunning, 2001). But Dunning accepts that the eclectic paradigm is best regarded as a framework for analysing international production rather than an internationalisation theory of firms as Dunning (1995) himself agrees that no single theory of international trade can satisfactorily explain all forms of cross-border transactions in goods and services. The strength of Dunning's paradigm is in discussing the factors affecting the choice of entry mode and in predicting which entry modes will be used depending on the OLI factors, i.e ownership, location and internalisation advantages of the firm.

2.4 The Network Approach to International Market Entry

In contrast to received theory, the network approach starts by analysing international markets not in terms of obstacles placed by psychic distance, risk, and market knowledge, but as networks of relationships between firms in the global market (Johanson and Mattsson, 1995; Blankenburg, 1995). Internationalisation from a network perspective is, therefore, to focus on the embeddedness of the firm and the impact of its social relationships. Furthermore, the

approach generally suggests that firms establish relationships and enter networks in order to access resources (Kock, 1991; Easton and Araujo, 1996; Håkansson and Snehota, 1995). Therefore, we propose that in the network approach the firm is able to overcome the problems of risk, inadequate knowledge, market novelty, market complexity etc. by joining networks of firms or by using its relationships to enter international markets (c.f. Johanson and Mattsson, 1995; Blankenburg, 1995).

Through these network resources firms can gain a lot of useful new information at the right time. Information exchange is not only within the direct network. Also referrals through a third party can be useful. (Hinttu, Forsman and Kock, 2003). Firms operate in networks where the relationships function as bridges to unfamiliar markets; the opportunities and motivation for internationalization is obtained through these bridges (Sharma and Johanson, 1987).

Social relationships have been pointed out as extremely important in international business (e.g. Björkman and Kock 1995, Hinttu, Forsman and Kock, 2003). The social network in the business network is according to Holmlund and Kock (1998) as important as the chosen operation mode and resources.

3. Project Business as a Market Entry Mode

3.1 Projects and Project Business

The term project can be defined in two interrelated ways in our context: as a method for managing organisational or interorganisational business; and as investments designed to provide technical-economic resources or facilities for the stakeholders (c.f. Owusu, 2002; Ahmed, 1993). The business relationship in which the marketer sells, not just interrelated products or systems to the purchaser, but also services and know-how as well as the

completion and delivery of a functioning facility is consummated in the form of a project. ***Project business*** defines the relationship primarily between the marketer, the purchaser, and possibly other market actors regarding the marketing of one or several interorganizational projects. Each specific project is unique, and temporary. However, the actors in question might be marketing and purchasing several projects over a long time period. In principle, the relationship between the marketer and purchaser can continue indefinitely with repeat projects and continuous relationships for new projects; for spare parts and renovations; for retraining and technology transfer; for joint product development, marketing and other cooperative activities.

Project business scholars have agreed on three main distinguishing characteristics of project business -- discontinuity, uniqueness, and complexity (D-U-C) -- (Mandjak and Veres, 1998). Discontinuity refers to the fact that each single project sale is limited to the completion of specified facilities; uniqueness refers to the fact that each project sale is different from another in either technical or organizational characteristics; and complexity refers to the technical and organizational complexity of putting together interrelated products or systems (Bonaccorsi et al, 1996; Lemaire, 1996), and the complexity of network management involved (Owusu, 2003; Cova, Mazet, and Salle, 1993).

3.2 International Project Business Strategy

The project purchaser is usually looking for a technical-economic solution to a resource problem. The purchaser, e.g the government, a parastatal or private company in a developing country may, more specifically, be looking for a solution to a lack of infrastructure, or a desire to expand and improve some facilities. Usually this starts with the drafting or completion of a Master Plan of action¹ which alerts potential project marketers of the evolving market. Proactive project marketers may start their marketing activities at this time, others may only

start when a formal call for tenders is published. After a period reserved for the expressions of interest from marketers, the purchaser shortlists prospective marketers and starts a period of negotiations with them. In some cases the customary bidding process may be shelved because a proactive marketer is involved very early in the project design and formulation process, or because of the offer of loan financing from the proactive marketer's network contacts. Due to the uniqueness and complexity of the project solution, long negotiations and interactions would usually be undertaken to formulate and design the technical, financial and organizational form of the project. The project marketer would be an expert in technical, financial or organizational aspects of the project, but would need to study and discuss the needs of the purchaser in-depth in order to mutually agree on the most suitable project. These mean that there is a fairly long period of activities and interactions before the project contours are completed (Cova, Ghauri, and Salle, 2002; Bansard, Cova, and Salle, 1993).

3.3 The Turnkey and Turnkey-plus Project

Project business is usually organized in two ways – the turnkey and the turnkey-plus (Luostarinen and Welch, 1990) In a turnkey project, the marketer is legally responsible to complete and handover a functioning set of installations or facilities specified in the project contract. At handover, the purchaser will, literally, be able to just turn the key and start to use the functioning facility. With a turnkey-plus project the marketer would also have been contracted to manage the facility for a period after completion in order to continue to transfer technology to the personnel of the purchaser.

Turnkey projects have become quite common in recent decades, and it has become a successful mode of business operation, particularly in developing countries. Foreign banks and donors often make recommendations to developing countries on turnkey deliveries to minimise risks involved. An advantage of the turnkey project is that a single party will co-

¹ This could be anything from a vague to a more concrete development plan.

ordinate all the interfaces with its sub-contractors and will have all liabilities and guarantees. For the purchaser in a developing country it also relieves them of the responsibility of managing and coordinating the various technical and managerial aspects in a situation where there is often inadequate technical and managerial capabilities.

3.4 The Project Network

The formation of a business network or a temporary project network is seen to be an inextricable characteristic of project business (Dubois and Gadde, 2000; Cova and Hoskins, 1997; Mattsson, 1973). The network encompasses the formalised or non-formalised relationships between several potential actors in an international project business. The actors include the marketer and purchaser; financiers; consultants; sub-contractors (suppliers or construction sub-contractors); and governments as purchasers or regulators. The relationships between the project network actors evolve through the initial marketing and negotiation stages to contract-based relationships after the project contract is signed and related contracts with e.g. suppliers, financiers, sub-contractors are also signed.

3.5 A Relationship Approach to Project Business

The discontinuity, uniqueness, and complexity of projects is agreed to be a basic characteristic (Mandjak and Veres, 1998), and the idea of relationship marketing of projects is considered difficult. We agree that each project sale or purchase is temporary. However, we suggest that the actors can pursue a long-term relationship strategy in project business (c.f. Skaates, Tikkanen, and Lindblom, 2002; Owusu, 2002). This means that the strategy of the project marketer, project purchaser or other actors would be to establish and maintain long-term, mutually-beneficial relationships of project business with other actors. For the project marketer this would imply that its strategy would be as follows: to ensure that the project purchaser is satisfied with its performance and considers the project business successful (see

Skaates, Tikkanen, and Lindblom, 2002; Cova and Holstius, 1993); to maintain successful contacts with the purchaser and others in the post-project phases (Cova and Salle, 2000; Hadjikhani, 1996); and to continue to follow developments in the project market of the purchaser and the network in order to be able to build on the old relationships for new projects. In that case the project marketer could resell projects to the same purchaser and, in the interim periods could sell spares, technology transfer and training. In our view, there is no logical reason why a project marketer and project purchaser cannot maintain some contacts in the post-project phase

3.6 Project Marketing as a Strategic Choice – Types of Project Marketers

The companies we have studied are among a myriad of companies for which project business is a strategic choice (c.f. Kosonen, 1990; Holstius, 1989). These companies e.g Wärtsilä Corporation of Finland, and Trans-Electric of Sweden, prefer to market their capabilities internationally through projects. Some of these companies do normal exports of products and systems in addition to project marketing. Other companies do only project marketing. Some project marketing companies are consultants whose main capabilities lie in a holistic understanding of the technology and the market, and who possess contacts and organizational capabilities to manage the turnkey deal; others like Asea Brown Boveri of Switzerland are industrial companies that manufacture some of the systems used in the projects and who have some proprietary technology of their own, as well as the relationships and organizational capabilities to manage the turnkey deal; yet others are Skanska of Sweden are construction companies whose main capabilities lie in construction, but who also know the technology and the market, and who possess contacts and organizational capabilities to manage the turnkey deal. On the basis of our research insights we propose that companies that do both export *and* project marketing can afford not to use a long-term relationship approach in their

project business. However companies whose only international business form is project business will be more inclined to use the relationship approach.

3.7 Comparing International Project Business with other Market Entry Modes

In Table 1, we compare the market entry modes on the bases of six factors. The factors are chosen to represent four major aspects of internationalisation. Two of the four aspects -- risk, and level of knowledge and learning have been considered major factors in the Uppsala Internationalisation Model. Levels of investment (costs) have also been suggested by the UIM, but, more strongly by the Transaction Costs Perspective, and also by Dunning's Eclectic Paradigm. On its part, the network approach has introduced the importance of network interactions and relationship management. The factors are compared on three levels of intensity – low, medium, and high. We define project marketing as a separate mode from exports, and our classification of modes is based on a review of a large number of sources within international marketing and international business (c.f Björkman, 1990; Luostarinen and Welch, 1990).

Table 1 shows the differences and similarities between project business and the other market entry methods. Project business requires a medium level of financial involvement in the international market compared to the low level required by exports, and the high level required by the wholly owned-subsidiary and the joint venture. This is because, in export, the exporter might be paid as soon as it delivers the good to the agent or even the shipping company and the exporter does not need to invest in the purchaser's country. In project business, the project marketer will have to maintain a moderate capability in the recipient country, but there are clear rules about how and when it should be paid for its work. Since each project is clearly limited in time and resources, the project marketer has much more flexibility than to withdraw from the market the foreign investor.

Table 1: A Comparison of Project Business with other Market Entry Modes

Mode*	Project Business	Export	Management Contract	Licensing	Franchising	Sub-contracting and Contract Manufacturing	Joint Venture	Wholly-owned Subsidiary
Factor**								
Level of financial involvement in the foreign market	medium	low	medium	Low	low	low	high	high
Flexibility	high	high	high	High	high	high	low	low
Protection from economic and political instability in destination country	high	high	high	Medium	high	high	medium	low
Level of knowledge required of, and learning from the foreign market	high	low	high	Medium	medium	medium	high	high
Intensity of interactions with foreign actors	high	low	high	Medium	medium	medium	high	high
Residual relationships after completion of a specific period, or transaction	high	low	high	Low	low	medium	medium	high

*The commonly defined modes in received theory do not include project marketing, which is often not treated at all or is subsumed under exports. The modes listed here are based on a literature review of a large number of sources (c.f Luostarinen and Welch, 1990), as well as our research results.

**Level of factor is measured on three levels – low, medium, and high

The project marketer is also better protected than the investor from the political, social and financial instabilities of the recipient market. The exporter has a very high level of protection as it does not have to maintain any capability in the recipient market itself. The project marketer is often protected by clauses in the contract detailing penalties to be paid by the recipient company or government in case of such instabilities, and as its financial investment is relatively limited, its level of flexibility is much higher than sub-contracting, joint venture or wholly-owned subsidiary. Whereas a company can succeed as an exporter without knowing very much about the foreign market, it must have a good level of such knowledge in the beginning and necessarily acquires a lot more in the process of project business. This is very similar to the management contract, joint venture, and wholly-owned subsidiary. Intense interactions and contacts with the purchaser and the local contexts are the essence of project business just as with the management contract and the wholly-owned subsidiary. In contrast, with exports, contacts may very well be limited to phone and mail communications and occasional visits. Finally, the extent to which the marketer has contacts after a certain period of business or a transaction is determined by the extent of interactions. The modes requiring some level of presence in the recipient country enable the marketer to acquire a good level of contacts and relationships that might be useful in the future. Clearly, the wholly-owned subsidiary and project business create more relationships that can be built on in the future

Table 1 confirms that project business is very different from its nearest cousin, export. Classifying project business as export, as is done in much of the received literature, does not do justice to the different characteristics of the former.

3.8 Developing a Proactive International Project Marketing Model

Many project marketers engage in project marketing to a particular destination only after a call for tender is made or published. Such project marketers usually screen well-known communication channels to receive information of new calls for project tenders in time. In contrast to such a *reactive* strategy we suggest a *proactive* project marketing strategy. The proactive strategy has the following components: (1) Actively studying the market for suitable countries and projects. (2) Suggesting suitable projects to purchasers to meet the need for social and economic infrastructure. Developing countries have a massive deficit of social and economic infrastructure, and part of the reason for this is the lack of adequate expertise to actualise potentials into implementable projects. A foreign project marketer who suggests projects to provide needed infrastructure could be in the position to determine the project contours. (3) Build, Operate and Transfer (BOT). This is a system of encouraging the construction of infrastructural and business facilities in developing countries by foreign investors who transfer the projects to actors from the developing country after a period of operating it. The foreign company is expected to reap its investments some time before or after transferring the project and to transfer technology to local actors. BOT is similar to the turnkey-plus project. A successful BOT benefits from the project business strategy outlined above. For the foreign company to remain within the range of project marketing as defined here, the BOT contract should be well negotiated so that the developing country actor is obliged to accept the facility if it is completed according to agreed standards.

4. Summary Propositions --- Project Business as a Market Entry Method

4.1 Project Business in new, unique or unstable markets

As a mode of international business, project business enables profitable involvement in economies where a company would not want to invest more permanently yet. Project

business allows interested companies to establish relationships with actors in the developing country and, thus, to gain experience and references for future business. It enables a relatively easy exit in countries that turn out to be unstable. However, in all such cases, the company would be in a good position to use its relationships in the country to advantage and do business in those countries again, if and when it considers the situation good enough.

Proposition 1: Through project business a company can enter a foreign market which it would otherwise find very difficult, distant or unstable. The involvement of the marketer is limited to specific projects in the recipient country and it can leave after the project if it is unsatisfied with the conditions in the country.

4.2 Networking for multi-actor capability contributions

The demands of turnkey or other project business in new and different environments strengthens the tendency of project business to require a varied network of companies providing varied capabilities. The project marketer can cooperate with a varied range of recipient country and foreign actors in a business network that accesses the different resources and capabilities of the different actors to succeed.

Proposition 2: The difficulties and complexities of project business in new, unique or unstable markets is solved by entering a network with other actors who would provide their varying capabilities in order to overcome the hurdles that the company alone would find extremely difficult to overcome

4.3 The Long-Term Relationship Focus

A long-term relationship focus is necessary if the project marketer wants to continue to market further projects. This does not mean doing unprofitable projects over a long time. Rather it means making a sensible judgement of the choice between immediate high profits and a longer-term success. The policy of the marketer from the beginning would be to remain in that market and gain further projects.

Proposition 3: Through cooperation, adaptations, and a clear concern for the interests of the purchaser the marketer would establish a good reputation, which would enable it to do profitable business for a long time in the market.

In our scheme, project marketing would be a deliberate internationalisation strategy of companies. The project marketing company could be a trading company, consulting company, construction company or industrial company wanting to expand its local business abroad. Each of these project marketers would possess immense capabilities in its area of project business, but makes up for other capabilities through relationships with other business and institutional actors. The international project marketer would maintain long-term relationships with banks, suppliers, consultants, technology owners, purchasers, suppliers and sub-contractors for international project business in various international markets. The project marketer will practice relationship marketing of projects. When each particular project ends, the international project marketer will maintain contacts and relationship facilitation arrangements in order to be well positioned for continuing or future projects. Yet the project marketer will withdraw from markets that seem unprofitable either temporarily or in the long term

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