

# Relationship development and international market growth

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*Work-in-progress. All comments are warmly welcome.*

## **Abstract**

This paper is an empirical investigation into an international market development initiative. The international market growth is seen from a relationship development perspective. Important learning issues for getting international market growth through relationship formation is identified and analyzed through a case study. The case study is a longitudinal research project following a small chemical firm's attempts at growing in the Canadian market for analytical reference chemicals over a three year period. Through this approach the firm's relationship building activities are captured, and the effects of these are reported. The paper concludes that a relationship development perspective on international market development can prove good explanatory power in industrial markets.

*Keywords: International market development, relationship development, international learning, firm growth.*

## **Introduction**

*Consider a small technology firm with a high export ratio selling its specialised chemical product spread all over the world. During the first years of operations the firm experienced healthy growth and increasing international sales, reaching a very high export sales ratio. Somehow the firm seems to have reached a barrier with few new customers and the last years the international sales growth has stagnated against the management's intentions.*

This is a situation that can look familiar for many firms entering international markets. After a period of international growth comes a stagnating period. By looking at this phenomenon from a relationship development perspective we wish to add to the current debate concerning new ventures' international market growth.

Increased globalisation and specialized customer needs have “pulled” many small business ventures into international markets. At the same time, small-to-medium sized firms suffer from limited finance, management time and experience in international business. Due to their resource scarcity compared to larger firms, they are vulnerable to environmental changes.

Somehow it seems like many small firms reach a rapid international coverage, often through the use of a variety of hybrid export modes. This is done by overcoming the traditionally described barriers for international growth or export barriers. All of these barriers prove important obstacles for internationalising firms. Accessing firm external resources through various interorganizational relationships is in many situations the preferred way of organising international business activities for SMEs.

In the behavioural models of internationalization (Johanson & Vahlne, 1977; Cavusgil, 1980), uncertainty and learning are key factors explaining firm behaviour. A common interpretation of internationalisation of the firm is that it represents a way of growth by extending the market base for the firm’s existing products. Learning is defined as important and necessary in order to operate and succeed in international markets (Hadley and Wilson, 2003). The traditional Uppsala internationalization model (Johansson and Vahlne, 1977) looks at how firms become increasingly international by “learning by doing” i.e. gaining experiential first-hand knowledge about the foreign market. In these models, the key effect of learning is the need for time to gain experience, learn and reduce uncertainty. This uncertainty and learning is modeled as the key explanatory factor distinguishing business in international markets compared to in national markets.

Having the widespread use of hybrid modes and the importance of uncertainty and learning in international market development in mind, the establishment and development of business relationships, as well as learning from these are crucial tasks for SMEs that want to grow in international markets.

This article addresses a relationship development perspective on international growth and international growth barriers. The research questions are: *How can a relationship development perspective help explain international growth and failure to reach international growth?*

By using examples from a case study of a chemical firm’s attempts at expanding into the Canadian marketplace, we will highlight the possibilities and constraints firms meet in the international growth, developing relationships or trying to keep counterparts at arms-length.

Following a review and synthesis on literature on relationship development, international learning and international growth, the article uses the relationship development perspective to explore the international growth phenomena and to pinpoint important learning issues. A case study approach is used to highlight the discussion. Finally, implications for researchers and public policy in support of firm internationalisation are presented.

## ***Review and theoretical synthesis***

Growth by developing new geographical markets for existing products is a common interpretation of internationalization. Not all firms aim at growing, and even less firms have an international growth orientation (Nummela et al., 2005). For those firms having growth aspirations, market development, i.e. selling existing products in new markets, is one of the strategies to get the growth.

A move in industrial markets from adversative single-exchange relationships to collaborative exchange relationships have been documented and described in studies since the 1980s (Ford, 1980; Håkansson, 1982; Dwyer et al. 1987, Heide, 1994). These long-term exchange relationships can be seen as the norm in many industries, calling it “sticky markets” (Hedaa, 1996) or mature industries (Narayandas and Rangan, 2004), and therefore firms looking for new customers are looking at a challenge of initiating new relationships.

Looking at the market as consisting of a network of relationships the international market development of firms can be described as a process of establishing and maintaining international relationships (Bradley et al. (2005); Andersen and Buvik, 2003; Johansson and Vahlne, 2003; Ellis, 2000; Crick and Jones, 2000). For exporting firms these relationships will mainly be customer relationships.

## **Business relationships and growth**

Having a business relationship development perspective on international growth it is important to define what we mean by a business relationship. A business relationship is something that is shaped by episodes between parties, at the same time influencing the episodes (Ford, 1980; Narayandas and Rangan, 2004). An episode can be a delivery of a product, technical specifications of a product, price negotiations and all other interaction activities needed in conducting business between industrial actors. Buyer-supplier relationships can be seen as the norms, procedures and the atmosphere of cooperation or conflict influencing the episodes between the two different actors (Ford, 1980).

Having a relationship development perspective on international market expansion implies the level of analysis is the business relationship (Andersen and Buvik, 2003; Johanson and Vahlne, 2003; Blankenburg et al., 1999) in contrast to traditional international market selection literature focusing on geographical markets. Having the business relationship as focus, it becomes obvious that it is equally important to be selected as to self to identify and select potential relationship partner. The importance of being selected as a supplier is supported by different researchers' agreement that most existing business relationships are initiated by the buyer (Ellis, 2000; Tuten and Urban, 2001; Doherty and Alexander, 2004; Varis et al., 2005).

Research into relationship development has brought forward several models to describe different stages and states of business relationships (Ford, 1980; Dwyer et al.; 1987; Larson, 1992; Kanter, 1994; Heide, 1994; Wilson, 1995 and Batonda and Parry, 2003). There has been a debate whether business relationships evolve through predefined stages or if a relationship can be in different states at different periods of time even being dormant (Batonda and Parry, 2003) for some time. There is evidence that both types of conceptualisations holding validity (Ford and Rosson, 1982; Batonda and Parry, 2003), lending support to the notion that

*..The network relationship development processes is not an orderly progression of phases over time, but is essentially an evolution of unpredictable states (Batonda and Parry, pp 1477, 2003).*

Batonda and Parry (2003) review the different models available and find 6 general states to describe the situation of business relationships; 1) Searching processes, 2) starting processes, 3) development processes, 4) maintenance processes, 5) termination processes and 6) dormant state.

When looking on business relationship development from a firm growth perspective there is at a very general level two ways of connecting this. A firm can either grow within existing buyer-supplier relationships or can grow by extending into new relationships. When looking at international market development as going into or extending in new geographical markets one typically refers to finding and connecting to new customers and distributors, i.e. the processes 1-3 from searching for potential exchange partners to develop a relationship to adapt each others businesses to reap the full value potential.

### **International learning and business relationships**

The international expansion of firms is a difficult task. The differences in markets, that the firms have to adapt to, are not very easy-to-understand. For the last decades researchers have put great emphasis in the need for specialized market knowledge for doing international business (Johanson and Vahlne, 1977, 1990, 2003; Eriksson et. al., 1997; Forsgren, 1997; Hadley and Wilson, 2003). Central issues have been how organizations learn to operate foreign markets, and how this affects the commitments to these markets. Especially small- and medium sized firms meet knowledge challenges in the international marketplace, due to their often limited resources and experience for international business activities (Mc Dougall, Shane and Oviatt, 1994; Bell, 1995). These kinds of firms lack the resources to make expensive international investments, and therefore tend to rely on more hybrid structures of distribution and marketing. This is forcing these firms to be more dependent on different partners in the international markets they are moving into.

When looking at international marketing and learning two main streams of contributions can be identified. One stream is the one looking into the experiential knowledge issues specifically, following the Uppsala internationalization model. The main logic behind the use of experiential knowledge in explaining the internationalization process is the more a firm knows about the market, the lower the perceived market risk, and the higher the level of foreign investments in that market (Forsgren, 2002).

The other stream looks more into information sources and information acquisition. The information acquisition stream is very much occupied with questions of which information sources are most effective under certain circumstances (Wood and Robertson, 2000).

These two streams of research mirror the agreement among researchers that there exist two types of market specific knowledge that a firm needs to learn when doing international business. The objective market knowledge, easily communicated and available, and the experiential knowledge, the knowledge only attainable by actually doing business in a foreign market. The experiential knowledge is looked upon as the most important part of the foreign market specific knowledge, being decisive for differing performance between international ventures (Morgan et al, 2003; Johansson and Vahlne, 1977).

Experiential knowledge is mainly gained through interaction with other actors in the business network (Axelsson and Johansson, 1992) and therefore the international degree of the business partners will strongly affect the internationalization pattern of a specific firm (Johanson and Mattson, 1988).

### Learning issues when starting international business relationships

Looking deeper into where firms meet uncertainties and thereby perceived barriers for international market development, one can say that firms meet uncertainties (and thereby need for knowledge) in three different dimensions (Eriksson et al., 1997; Hadley and Wilson, 2003).; 1) On how to behave towards specific counterparts (relationship specific uncertainty), 2) Considering the specific foreign country (country specific uncertainty) and 3) General uncertainty considering the industry of the firm in general.

With a relationship development perspective the dominant uncertainty is the relationship specific uncertainty, the two other categories being network effects i.e. 2) accumulated uncertainty from all relationships in that specific country and 3) accumulated uncertainty from all relationships in the industry.

So acknowledging that doing business internationally is connected to higher levels of uncertainty than in domestic situations, learning to operate in foreign markets is an important issue. Connecting this with knowledge of how business relationships are initiated we end up with this model for analyzing different aspects of learning when developing business relationships.

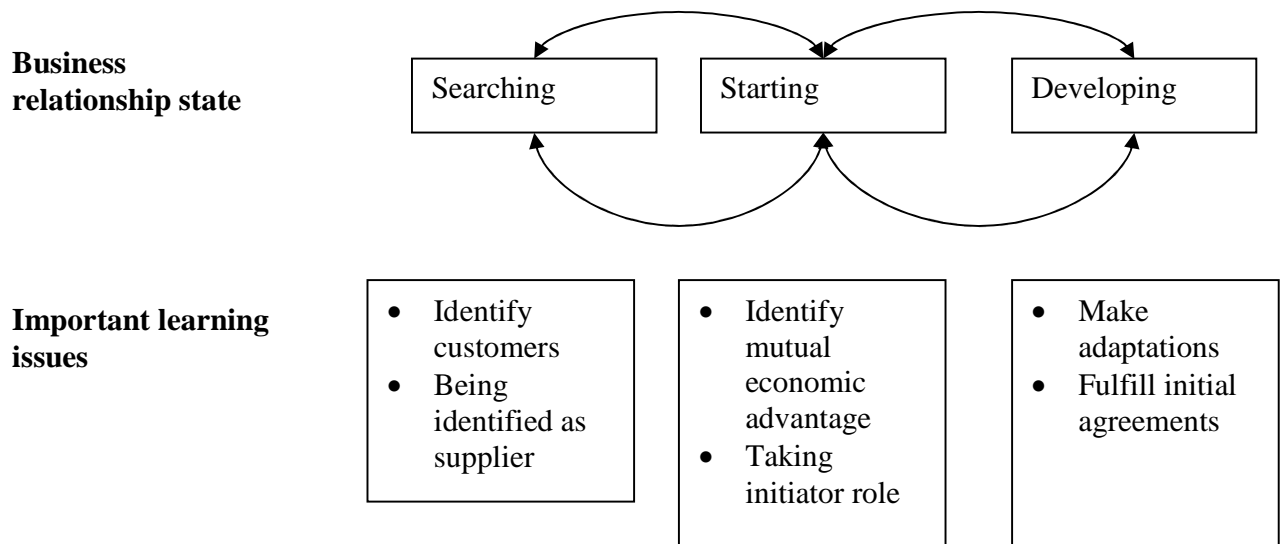


Figure 1. Model for analyzing learning challenges in international business relationships development.

This model requires some explanation. For a firm to claim growth from developing relationships it is of course important that the relationship reach a state where economic benefit is made for both actors participating. This is mainly happening in the developing- and subsequent states. To get to these states it is required that the firms have passed through the other states, once or several times. As changes in operations happen in either of the actors in the dyad it might move into another state or situation, this could be for example a change of purchasing manager in one firm wanting to evaluate existing suppliers in a new way.

In each state we have identified important learning issues from the literature on relationship development. In the searching phase this is basically what Dwyer et al. (1987) refer to as building awareness, i.e. the recognition of an actor as a feasible exchange partner. In the starting state one of the actors need to bring the process further, setting up meetings and in general have the "initiator role" (Larson, 1992). How this is done in the foreign market needs to be learned. During the initial interaction it is important to establish a belief in a mutual economic advantage by working together (Larson, 1992; Blankenburg et al., 1999).

In the developing state there is economical exchange between the partners, and the firm has to learn how to adapt to the new customers in the foreign country (Håkansson and Snehota, 1995). When developing new relationships it is important to fulfill or exceed expectations in the initial deliveries (Narayandas and Rangan, 2003). By making adaptations and living up to expectations, the firms signal commitment to the relationships (Narayandas and Rangan, 2003; Johanson and Vahlne, 2003).

## **Method**

This investigation was using an exploratory longitudinal case study approach for the purpose of understanding the processes of learning in developing foreign markets to sustain international firm growth. The unit of analysis was the firm's knowledge of and activities in a foreign market, Chiron Laboratories' efforts of developing their Canadian market.

The goal of this research is to extend existing theories on relationship development and learning in international markets. For improving and broadening existing theories case studies can be a powerful tool (Eisenhardt, 1989).

The study did not begin as a study of relationship development in foreign market growth but as an attempt at capturing the experiential knowledge of a firm by using a longitudinal method mapping all activities and subsequent knowledge in a foreign market. As the firm did not react to the knowledge and opportunities arising as we would have suspected, that is, treating the increased knowledge as something important and good and acting upon it, the thoughts of a different explanation came about.

The study object has been a single case company, Chiron AS. This company has a project directed towards its Canadian customers trying to increase sales, and this has been the focus of the case study. The company has been followed during a three year period. The goal of the study has been to map all Chiron's activities towards Canada, as an example of a foreign market development.

The study was carried through with a triangulation of methods involving participation in weekly marketing seminars, interviews, observations during one week of customer meetings in Toronto and Ottawa, debriefing after each customer meeting, interviews with the customers and document studies. The company has been followed for 36 months.

The study can be characterized as an interrupted time-series design (Cook and Campbell, 1977) with the aim at capturing change in knowledge and subsequent changes in activities. The time sets a frame for what changes are seen and how those changes are explained (Pettigrew, 1990). In this case the change of interest is new knowledge in a firm, and how this changes the way of doing international business. This can take years to unfold and the time it takes is one research interest by itself.

## ***Findings and analysis***

This section is organized as follows; first the firm background and initial situation of the study is presented to introduce the context of the foreign market development, second a presentation and analysis of the relationship development activities and knowledge thereof is presented.

### **Firm background**

Chiron is a firm that produces and sells analytical reference standard chemicals on a global market. The firm was founded in 1993 by Jon Eigill Johansen with the idea of making and selling analytical chemicals. Johansen has a PhD degree in analytic chemistry and has long experience within the industry from both working in a research institute and from founding and running another firm producing chemicals from 1983-91. Today Chiron has 10 persons employed in the firm. The firm started exporting its products right after inception and can be characterized as a “born global” type of firm (Mc Dougall and Oviatt, 1994).

When doing analyses on chemical substances whether in oil production, pharmaceuticals or environmental monitoring, it is of high importance for laboratories to have a reference sample of the substances of interest in a known concentration and purity. When a new substance is found or new interest has risen for a specific substance, companies such as Chiron provide research and monitoring laboratories with pure samples of the new substance. Making a new pure substance takes a few months and is an expensive task, but after having made it once, it is in stock and can be offered to subsequent customers with substantial profits. This means that only substances fully paid by the pilot customer or substances with many potential customers are being made. The make or not make decision is a bit of a gamble with incoming orders or inquiries as important decision criteria.

Chiron sells its reference standard chemicals to laboratories performing analyses of oil production related substances, pharmaceutical production and environmental analyses. The products are a mix of standard compounds, chemicals developed in-house and customized chemicals made to order. Chiron offers a high number of different analytical chemicals, which is essential for being in this business. The buyers are mostly persons with a very high chemical competence, typically in charge of a laboratory. Today Chiron has approximately 3000 different customers world-wide. The firm has co-operation projects with governmental environment organizations in EU and North-America to position its products in the new standard analyzing methods developed in these

organizations. These organizations are also the biggest international customers of Chiron.

Most customers are typically globally oriented laboratories with very specialized needs. When they need a special kind of reference standard chemical that can not easily be provided by their bulk chemical supplier a broad search is made. This includes using other colleagues, internet searching and use of the internet based catalogues that most chemical companies have registered themselves in. With having the right products in some way accessible Chiron has managed to get many customers world-wide, without having to know who they are or what they are doing.

The most important foreign markets are USA and Canada, due to the amount of laboratories and the more cooperation based laboratory activities in these countries. Through governmental export promoting financing the chance to find out more about the Canadian customers and market was made possible. In collaboration with the Trade Council in Canada a program for having a seminar with the already existing customers in Canada and others interested in the latest advances in environmental monitoring were invited to seminars in Toronto and Ottawa. The project was initiated and financed by the Trade Council.

The goal for Chiron was to make themselves known in Canada and to meet their existing and new customers to potentially find new products to develop. They also wanted to get to know their customers better, since most of the communication before this effort had been through orders and inquiries. There was also an interest in searching for a possible distributor in Canada.

Chiron had a very limited knowledge about potential customers in Canada and also about their existing customers. There had been sales of importance to Canadian customers for several years, but there was no track of products sold or notions of any change in demand. In general Chiron had not been pursuing special relationships with customers, and most often it had been the customers contacting them concerning some of their products.

Through this new approach towards Canada Chiron was aiming at a deeper penetration of the market, and thereby sustaining an international growth. If successful, the Canadian experience could serve as example for how to work in other markets. The results have not been positive. Three years after the initiative, sales figures and development projects are more or less equal to before. On possible explanation can be made through the following relationship development analysis.

### **Searching processes**

The main issues when developing new business relationships in the searching processes are the identification of potential customers and being identified as a potential supplier (Dwyer et al, 1987).

Chiron already had three established buyer-supplier relationships in Canada before their intensified project towards Canada was launched. *Environment Canada* (The Canadian governmental environment organization) had been a customer for a long time, ordering through 4-5 different contact persons. This customer had earlier ordered some novel chemicals, given the idea for a new series of chemicals. *The Ministry of the Environment in Ontario* (The environment organization of the province of Ontario) had a scientific



collaboration with Chiron, to make new methods for analyzing environmental samples. *Natural Resources Canada* (Organization that supports the use of natural resources in Canada) had been buying some special analytical chemicals for several years, to be used in analyzing oil-related samples.

The searching process in all these relationships can be summarized as the customers contacting Chiron with specific problems concerning some chemicals that Chiron uniquely could provide. They had found Chiron through their participation in international scientific conferences and through their own professional technical network.

The active search process by Chiron was done through several means. The Norwegian Trade Council produced lists of all laboratories in the Ontario region. All these laboratories were invited to seminars in Toronto and Ottawa. In addition to this the company participated in an international environmental conference in Toronto, where several potential customers attended. Through these activities Chiron was the next year contacted by four potential new customers, with different inquiries.

In addition to these activities a distributor solution for Canada was sought after. This was mainly done by two means, through the existing contacts in Canada and through a list of potential distributors provided by the Trade Council.

### **Starting processes**

When establishing new buyer-supplier relationships there are certain factors that need to be present for a relationship to be formed. Both firms need a belief in a mutual economic advantage in working together (Larson, 1992; Blankenburg et al., 1999). This belief of an economic advantage can either be connected to the future or by solving a present problem. As the issues of timing and mutuality are of importance one cannot argue that each potential customer will lead into a relationship. The result is that one of the parties needs to take upon an initiator role (Larson, 1992) to drive the starting process further.

Activities taken to facilitate the starting processes can be said to be those providing counterparts information to figure out if there is reason to believe that there is an economic advantage working together. Also facilitating the information flow, setting up meetings, providing catalogues etc. is of importance.

Chiron did provide information and offers for the customers that came with specific inquiries. This was done in a standardized manner, without investigating the possible partner's business looking for potential to develop a relationship. The initiator role was to a large degree given to the customers, as Chiron itself kept a transaction focus.

One example of activities in this state; Contacts were made regarding a larger development of a series of new chemicals to Health Canada. This organization was at this time doing a large monitoring of all potential hazardous chemicals used in Canada, potentially opening up new markets for analytical chemicals. Chiron was contacted regarding a part of this project, and responded with an offer, with no further investigations or follow-up of this when response failed to appear. Later on the part of the project was said to be postponed due to some "budget problems".

It was after the initial travels to Canada decided to try to get a distributor to reach the smaller customers in Canada. A meeting with Caledon laboratories was set up by

Chiron, and the CEO of Chiron traveled to their premises to set up a meeting to organize an agreement for distribution rights.

### **Development processes**

To develop a business relationship the actors have to fulfill or exceed expectations in initial deliveries (Narayandas and Rangan, 2004). In many situations the firms also need to adapt to each other to be able to make business efficiently (Håkansson and Snehota, 1995).

With the three relationships that existed prior to the specific market development initiative, it was clear that initial deliveries had been of a high quality and in all aspects being fulfilling for the customers. Chiron had delivered some chemicals that the customers had not been able to find anywhere else, and they were generally pleased by the service received when posing technical questions and asking for follow-up deliveries. The common research project with the Ministry of Environment of Ontario had also led to good results, producing several scientific publications. Natural Resources Canada was discussing making logistics easier by filing a permanent standing order, but this was not followed-up by Chiron. A delivery was made to a new customer, Envirotech, after the seminars. No further contacts were made to this customer.

There was a deal made with the distributor Caledon labs. They seemed to be an appropriate distributor holding different products that the potential customers of Chiron could use. No contracts were signed, as this was not seemed as needed. Caledon labs were supposed to present Chiron's products at their customer visits and at trade fairs. There have not been any educational efforts towards this distributor and they have failed to produce any significant sales.

### **Discussion and conclusions**

Through analyzing the international market development as a relationship development process, important issues for learning are put forward. Learning and commitment to the different states of international business relationships can both be a barrier and a vehicle for international growth in industrial markets.

For public policymakers one important lesson can be learned from this study. It is not sufficient to pay attention to the searching and starting of business relationships to develop businesses internationally. Sufficient resources to follow up opportunities and to process the lessons learnt are needed to be able to develop business relationship in the international industrial markets.

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