

Building Relationships in New Business Contexts Why bother?

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Abstract

The business world is becoming more complex and competition is stiffer than ever before. Building relationships in new contexts have therefore become a necessity to stay in business. However, industries are changing rapidly and managers need to understand these new contexts. The aim with this paper is therefore to discuss how relationships can be developed in new business contexts. We argue that relationships are a strategic management issue and that management of relationships is a central managerial task. An important reason for entering into a relationship is to establish a close and stable contact with a customer, another is to gain access to and make use of resources among other parties. In order to attract and retain customers in any market, firms must put emphasize to seek and build long-term and profitable relationships in relation to their customers. Relationship building will therefore be a key issue when a firm is trying to establish a business within a new context. Previous research shows that the development of a relationship can be described by different stages, or as an evolution process. During this process a firm invests their time and effort and assumes the financial, physical and social risks associated with such activities will be positive in the end. Taking a qualitative approach this paper highlights the importance of factors leading to relationship building in an international context. The purpose with the paper is to explore how relationships are built up in an international context, especially in relation to new business activities. The success of many international ventures depends on managerial learning and effectiveness. The paper will examine the dimensions that a relationship perspective can add to the study of the development of a firm in an international market. The main emphasis will be on a review of international managerial decisions. Critical international decisions will be analysed using a relationship perspective. In this paper we will argue that a relationship approach can add significantly to our understanding of how business enters and develops in international markets. Using a relationship approach would add a strong element of relationship assessment at all stages of the internationalisation process.

Keywords: Market Selection, Packaging, Relationships

Introduction

The business world is becoming more complex and competition is stiffer than ever before. Building relationships in new contexts have therefore become a necessity to stay in business. However, industries are changing rapidly and managers need to understand these new contexts. The aim with this paper is therefore to discuss how relationships can be developed in new business contexts. We argue that relationships are a strategic management issue and that management of relationships is a central managerial task. An important reason for entering into a relationship is to establish a close and stable contact with a customer, another is to gain access to and make use of resources among other parties. In order to attract and retain customers in any market, firms must put emphasis to seek and build long-term and profitable relationships in relation to their customers. Relationship building will therefore be a key issue when a firm is trying to establish a business within a new context. Previous research shows that the development of a relationship can be described by different stages, or as an evolution process (Ford, 1980; Altinay and Brookes, 2012). During this process a firm invests their time and effort and assumes the financial, physical and social risks associated with such activities will be positive in the end. Taking a qualitative approach this paper highlights the importance of factors leading to relationship building in an international context. *The purpose with the paper is to explore how relationships are built up in an international context, especially in relation to new business activities.* The success of many international ventures depends on managerial learning and effectiveness (Johansson and Vahlne, 2003). The paper will examine the dimensions that a relationship perspective can add to the study of the development of a firm in an international market. The main emphasis will be on a review of international managerial decisions. Critical international decisions will be analysed using a relationship perspective. In this paper we will argue that a relationship approach can add significantly to our understanding of how business enters and develops in international markets. Using a relationship approach would add a strong element of relationship assessment at all stages of the internationalisation process. This paper builds on a previous research project about ‘finding new markets for a mature product’ by the same author. The context of this paper is the packaging industry, specifically products based on paperboard material. Currently the packaging industry is facing different stages of development despite paper business long history. Some development is taking place within production technology (e.g. more environmentally friendly production; order-based production), but also a more rapid product development among suppliers of base material due to customer demand from brand owners and other actors in the supply chain. A need for more tailor made packaging solutions is another trend driving the development.

A Theoretical Framework

Foreign markets are highly diverse and the attractiveness and risks give opportunities for different strategic decisions in international market development, as well as possibilities for potential profits. Within this context management can strategically or opportunistically select and enter different foreign markets. An important step in formulating an international marketing strategy is obviously export market selection. Several main research streams have also been identified by Papadopoulos and Martin (2011). One early is the (i) international opportunity analysis (ii) another the country risk analysis for measuring country risks; (iii) a third is environmental scanning which tend to incorporate both opportunity and risk factors; and the fourth (iv) FDI location where target market potential seems to be an important criterion for such investments. This criterion is also seen as a contingency variable that influence ‘international strategic decisions’ (Ekeledo and Sivakumar, 1998; Whitelook,

2002). Dunning's eclectic theory (1980; 1988) is following the FDI research stream and offers a framework that specifies a set of three conditions that must be met if a firm should be engaged in international operations; firm-specific advantages, internationalisation advantages and country specific advantages.

Finding new markets

Another research direction is explaining the market selection by a screening procedure of the firm. In this research stream firms are selecting markets according to a market screening procedure (Russow and Okoroafo, 1996; Andersen and Strandskov, 1998; Brewer, 2001; Andersen and Buvik, 2002; Sakarya et al., 2007). According to Hollensen (2014) this screening procedure can be divided in to two stages where the first one is a *preliminary screening*. In this stage a firm is screening markets in relation to external criteria (macro-oriented factors) leaving a number of markets as potential markets. An important issue at this stage is to assess e.g. the political risks of entering a country. In the next stage a *fine-grained screening* is done comparing markets with a firm's competitive capability and special competences. At this stage a firm has to assess dimensions of country and market attractiveness and its competitive strength. Useful variables are market size and market growth, but also variables explaining the buying power of customers, market seasons and fluctuations as well as competitive conditions and margins within the industry. The following stage should explain market segments in each qualified country. On the other hand a high market potential is not the same as high sales potential for a firm's products. Examination of contextual factors can provide a richer and deeper understanding of which markets to enter and segments to target and has been investigated by Douglas and Craig (2011). In their research they have found that even if screening is suitable in an initial stage, contextual factors "can provide important insights in assessing international market opportunities" (p.150).

Market development

A key strategic decision for any firm is to find out which market to enter. Market opportunities in foreign markets might exist but can be difficult to locate. Identifying suitable markets involve screening markets against a number of factors and assess its attractiveness in relation to a firm's competitive strengths and resources. Some factors will be more relevant than others for any firm, but key areas include market size, economic development, business environment, infrastructure, political considerations and competition (Hollensen, 2014). Some of these market indicators expressed will define a final market of interest. After finding a suitable market for making an entry a firm needs to develop its activities in relation to the competitive situation and opportunities given on the market. The attractiveness of a market is an opportunity to develop product and service offerings by understanding what type of value e.g. a new technology or product solution can offer to different actors on the market. The possibility to develop a market is also influenced by the entry strategy chosen. The selection of an appropriate entry mode can have significant consequences on a firm's performance and possibilities for growth. The international market entry mode has also been studied from different perspectives depending on the impact of the internationalisation theory (Whitelock, 2002). One research direction refers to the business strategy approach, another to the industrial network approach where e.g. Salmi (2000) has studied market entry on the Estonian market.

A firm's market entry strategy is often the result of several contradictory motives which make the process complex with conflicting forces within any firm either it chooses exporting, contractual or an investment entry mode. Root (1994) discusses three different decision rules. The first is a naïve rule where management uses the same entry mode for all markets ignoring the heterogeneity of separate foreign markets. The second rule is pragmatic and the firm uses a workable entry mode for each foreign market without considering all potential alternatives leaving the best entry mode. The third is following a strategic rule which requires that all alternatives are actually analysed and compared before a choice is made. In this context we are considering the strategic alternative comparing internal and external factors, desired mode characteristics and transaction specific behaviour as influencing the choice of entry mode for a particular international market.

Customer development – a question of creating customer value

In this context customer development is discussed in relation to the product offerings that are made within the packaging industry, either this are in the form of a new packaging solution or by new packaging technology. Hakola (2013) argue that unsuccessful launches often originate from “an insufficient understanding of customer-driven value” (p. 649). Customer development in an international context is also dependent on the market entry chosen. In many situations suppliers are working with different actors depending on the actual market. The first stage involves finding and attracting customers and in a business to business sale this is often actors in a supply chain. The next stage is to be able to deliver value that customers are willing paying for. Customer value in business markets has obviously been one key concept that many scholars have found of utmost interest to study (Woodruff, 1997; Khalifa, 2004). In business-to-business markets the knowledge of value and the value creating process is a basis for business market management (Hakola, 2013). “Creating customer value is an interaction process in which firms and customer together create it through services, activities, and relationships” (Hakola 2013, p. 650). Grönroos (2000) argue that the focus of marketing is ‘value creation rather than value distribution’. This means that customers are interested in product benefits that help them to reach the goals of their customers. This is in line with the value hierarchy model by Woodruff (1997).

Relationship development in an international context

In business-to-business marketing creating customer value is of utmost importance in order to build and develop relationships with customers particularly in foreign markets. Because of its prominence in business markets value creation is a critical issue for any firm (Ulaga, 2001, Eggert and Ulaga, 2002). Early research in the relationship building process conducted by Dwyer et al., (1987) discussed the process within buyer-seller relationships. The relationship building process has also been of interest for many researchers, especially within the business management field (Flint et al., 2001; Walter et al., 2001). Ford (1980) discusses relationships with a development model and the stages in this process follow five stages (pre-relationship stage; the early stage; the development stage; the long-term stage and the final stage). Altinay and Brookes (2012) have in their research summarized ‘key similarities’ from different studies and found the following five stages; awareness; exploration; expansion; commitment and dissolution. Despite the number of stages and research contexts explored relationships starts with a search for a potential partner to co-operate with (Altinay and Brookes, 2012). However, while a relationship develops into a further stage they can also leapfrog to another

stage, or regress to an earlier stage. The problem for any manager in a business relationship is the complexity of a relationship and the effects of choices made in them. Some decisions will have short term effects, whereas others will become evident over a longer period of time and the outcome dependent on the reaction from the other part in a relationship. The costs and benefits of choices made in a relationship can also be difficult to measure in real time since the consequences can have long-term effects e.g for an investment in a paper machine. Relationship building in an international context will add further factors to be considered (Jia and Lamming, 2013). One important issue is the influence of cultural factors on a relationship building process, since such factors can have an effect on each stage. Difficulties to assess such factors have also limited the research in an international context. The concept of culture is broad and complex. The complexity of culture is reflected in its magnitude of definitions (Craig and Douglas, 2006). However, it is commonly agreed that culture have three characteristics; it is learned; it is interrelated and it is shared where cultural values are passed on by other members of the cultural group (Christopher, 2012). Lin (2004) proposes three levels of cultural adaptation: understand; adjust and adept. First, foreign firms need to understand a foreign culture on its own terms. Second, cross-cultural adaptation may only require a level of adjustment instead of a total change of cultural assumptions. Third, a party makes efforts to learn from the other party and integrate elements of another culture on its own.

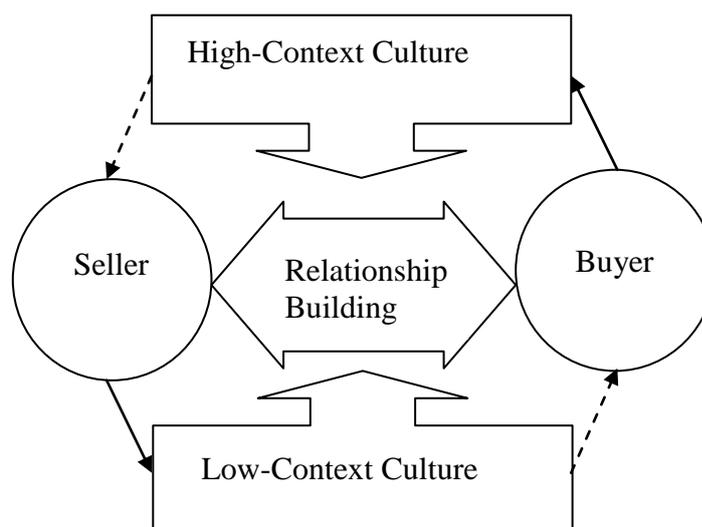


Figure 1: The Relationship Process

A negotiation situation between a seller in one country and a buyer in another is influenced by cultural aspects on different levels, which also often are interrelated in a complex way. Hollensen (2014) describe these levels as; national culture; business/industry culture; company culture and individual behaviour where the individual behaviour is influenced by the other cultural levels. Another concept that has been developed to understand different cultural orientation is to discuss differences in relation to low- and high-context cultures. Low-context cultures rely on spoken and written language, whereas high-context cultures use and interpret more of the elements surrounding the message. Low-context/individualistic countries can be exemplified by Western Europe and US, whereas high-context/collectivistic countries are e.g Japan, China and Saudi Arabia. The role and influence of contextual factors has been studied by Douglas and Craig (2011). They argue that “the wide range of contextual factors existing

at different levels impact consumer values, attitudes and consumption behaviour (p. 151). They can range from macro-environmental factors (economic factors) relating to a given country, to within country differences (climate; culture) and micro-level factors such as market infrastructure. Situation-specific factors relating to differences in behaviour on specific occasions are other key elements in a context. "Examination of contextual factors provides richer and deeper understanding as to which international markets to enter and which segments to target" (Douglas and Craig 2011, p. 159). The elements of culture will obviously have an important influence on the interaction of the buyer-seller relationship building. Johansson and Vahlne (2003) argue that "relationships develop gradually when the firms learn from interactions with each other and commit themselves stronger to the relationship....During this process the relationship partners gradually learn about each other's needs, resources, strategies, and business contexts. This is a time and resource demanding process, which requires that both partners become committed to the relationship" (p. 93). Understanding cultural influences becomes a necessity in order to build international relationships.

Retention of customers

Another important factor in relationships is not just winning customers, but also to be able to keep them for any longer period of time which is especially important in many business-to-business market situations. Previous research have also found that retention of customers can become more profitable than acquisitions of new ones (Harwood and Garry, 2006). This is especially important when products have a low added-value and the customers are few within a supply chain. A typical example is a supplier of pulp, where customers are few in each market area.

Research Design

Case studies are suitable for investigating and exploring business relationships and other subjects related to industrial marketing. A main contribution is the possibility to capture the dynamics of the studied phenomenon and provide a multidimensional view of the situation in a specific context (Eisenhardt, 1989; Järvensivu and Törnroos, 2009). The possibility to use multiple sources of evidence is also contributing to develop a holistic view of the situation in an industrial context. The case study is obviously a suitable method for studying and examining how relationships are developing in business contexts. In a recent review of the case study method used in industrial marketing Piekkari et al., (2010) have found that there are conflicting standards as to what is the 'best practice of good case research'. In their review of marketing journals for the period 1996-2006 they categorized how authors have used the case study method by (i) best practice; (ii) common practice and (iii) innovative practice. Some variables used as best practice included the selection of case phenomena based on purposive sampling, where cases included different types of data such as interviews, observation and archival records. The authors in the reviewed journals also apply triangulation techniques for validation purposes. The authors also often explain the process of data analysis by pattern matching and constant comparison between data and theory. In this paper we use 'the best practice' approach and employ purposive sampling in finding cases suitable for addressing the research aim. We have also decided to use a single case in order to get a deeper understanding of the research phenomena. Key informants about the project have been interviewed using an interview guide and official documents about the project have also been used to complement the case story. The findings are presented by using a comparison of

data within the case and comparing with theory. The discussion in this paper is therefore exemplified with a case.

Findings

The case study exemplifies the international market development in a mature industry and shows how the company has decided to increase their market activities in emerging markets in Asia. A main reason for that decision is customer behaviours in the local market, but also contextual factors in an emerging market area. At the same time management has decided to invest and produce locally instead of exporting the products from the Nordic countries.

Case A

The case company is a global actor within in the pulp and paper industry with manufacturing capacity outside the domestic market. The company is active within manufacturing of pulp, paper products and sawn timber. Asia and especially China has become the third largest country of operation in relation to the number of employees and the company started its activities here in 1985. Further investments will increase these operations. A main reason behind the investments in China (in relation to Europe) is the intention to get closer to expanding markets in China and Southeast Asia in order to meet a demand for ‘consumer packaging’ from new growing groups of consumers (a growing middle class). In addition to the company’s existing mills (two) and plants, the company has acquired a leading packaging company in 2011 which manufactures and distributes packaging material for brand owners. A further investment was made into a project in the province of Guangxi in order to build a consumer board and eucalyptus pulp mill in 2014. In 2012 the company also decided to sign an agreement to establish a joint venture in Pakistan. This joint venture will to a large extent supply local customers in the fast growing Pakistan market but also to provide other international customers. The expansion in Pakistan is made to support key customers in ‘their growth ambitions’ in Pakistan. The company intends to invest about 130 million USD with an initial shareholding of 35 % with a commitment to increase the shareholding to a conditional 50% at a later stage. The market for fiber-based consumer board is predicted to grow 9% annually in Pakistan. This can be compared to an average global growth rate of 2.4% for liquid packaging. The main reason for the investments in China and Pakistan is an attractive growing consumer market for renewable packaging materials, where Pakistan is the fourth biggest dairy market globally with a population of 182 million people. The joint venture will include a mill previously operated by the local partner with the purpose to produce for the local market. The investment in the joint venture “give possibilities to grow with international customers and brand owners” says the financial director for the project. A main competitive advantage with the joint venture is a stable local partner combined with the company’s broad experience of paper and board production; especially within the area of liquid packaging materials. A big challenge with production in this market is the support of energy where the joint venture is depending on external suppliers. However, the investment program will improve the situation since the mill will be reliant more on its own production of energy. Different market risks have been included in a ‘holistic analysis’ of the project. The joint venture will supply packaging products such as, liquid packaging board, folding boxboard and corrugating packaging to local companies and other international companies in Pakistan. “We are pleased that we know can now start to operate the new joint venture in Pakistan. The market has growing demand for packaging products and paperboard that offers an attractive growth opportunity for us” says the Executive Vice President for the packaging area.

Market/country Attractiveness	Competitive Strength
Market size	4 th biggest market for dairy products
Market growth	New mill can meet market growth rate from customers and brand owners
Buying power of customers	Product fit to market demand
Market seasons and fluctuations	Dairy products have a rather stable demand
Average industry margin	Contribution margin
Competitive conditions	Ability to meet competitive intensity by know-how within product/market segment. Experience and knowledge within product segment for liquid products.
Market prohibitive conditions	Technology position
Government regulations	Have local partner in JV
Infrastructure	Logistics satisfactory; energy supply challenging but will improve with investment
Economic and political stability	High market risk factor
Physic distance	Long physic distance; stable local partner Access to distribution channels

Table 1: Markets Indicators in the Case

Discussion

The case study shows that the company has chosen to make an entry into an emerging market area with a high-context/collectivistic culture by investing into a joint-venture (JV) with the possibility to develop a relationship with the partner further by even investing more. Even if the company had some experience with the partner previously a closer relationship requires that the company overcome different cultural factors from national to individual level (see figure 2). An important competence in the international relationship development is the ability to communicate. Griffith (2002) argue that managers who possess the necessary competencies “to develop new communication and cultural environments within their relationships are able to establish effective and efficient communication exchange conditions” (p.261). The ability to find and screen markets on a global basis depends to a great extent on the basis that potential markets can be assessed by comparing and evaluating different characteristics of each country (Russow and Okoroafo, 1996). The international business literature is to a great extent in favour of using market size and variables describing the level of economic development for the identification of potential markets (Russow and Okoroafo, 1996; Andersen and Strandkov, 1998; Brewer, 2001; Andersen and Buvik, 2002; Sakarya et al., 2007). This can often be combined in multiple stages of assessment in relation to specific market factors. The results from the case study shows that management seems to have followed a more pragmatic procedure (than a formal procedure) where some principal factors in the market has been the key ingredient behind the decision investing in a joint venture in emerging markets. Albaum and Duerr (2011) argue that market selection cannot be based only on marketing grounds since “considerations of the company’s skills, capabilities, and goals require that the market selection process has to be placed in the context of an overall strategy” (p.263). We would argue that such factors refer to the context in the market in this case as market attractiveness, but also an ability to build relationships with local actors.

Several of the market indicators in table 1 seem to be in favour for the investment, even though that indicators such as economic and political stability can indicate a risk with the investment. This is also in line with Douglas and Craig (2011) who argues that even if an initial screening of countries is appropriate with macro-economic data; contextual factors can “provide important insights in assessing international market opportunities” (p. 150). The investigation with help of contextual factors “helps to shed light on heterogeneity within countries not only in customer behavior, but also in the nature of the market structure” (ibid). In this case a joint-venture was established for local production of packaging materials aiming for the food industry.

Relationship Development

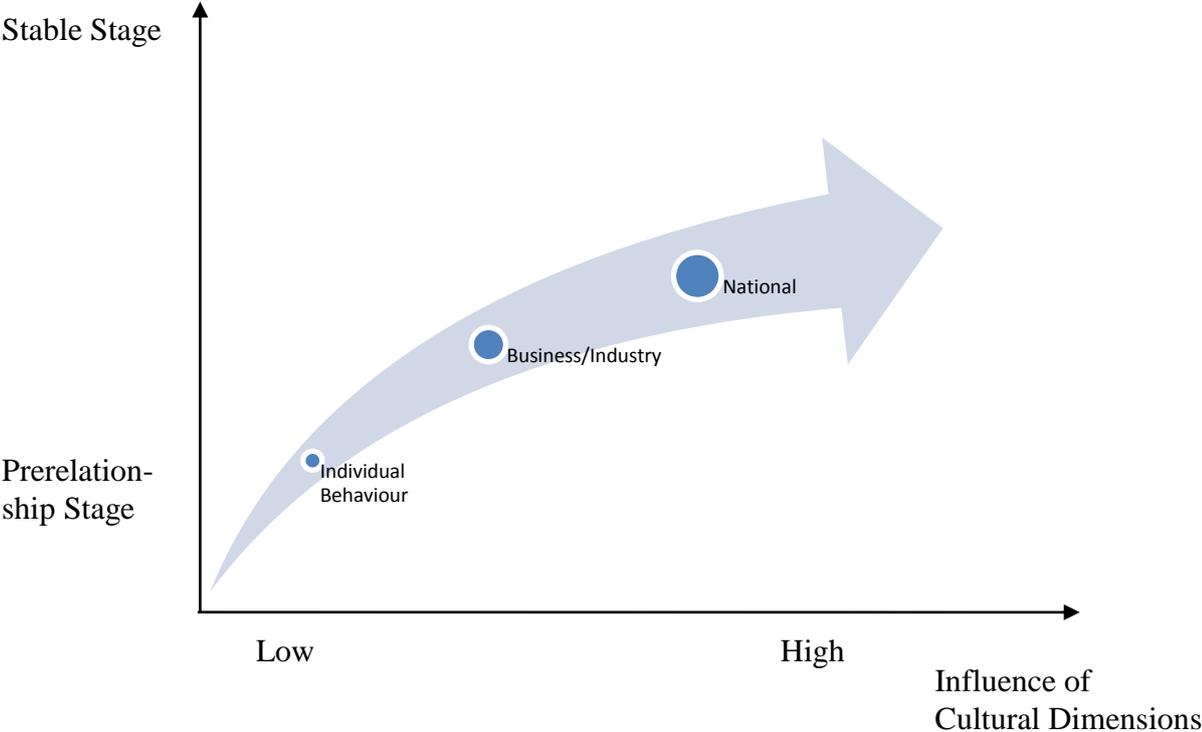


Figure 2: International Relationship Development

A main reason for the investment in a JV is a growing market for dairy products. Another important factor is the possibility to develop a stronger relationship with the partner, but also to build better relationships with sub-suppliers to the JV. These relationships need also to be developed with sub-suppliers especially in a high-context culture. The investment involves at the same time different kind of risks in relation to the local market. A fragile infrastructure e.g the capacity of electricity is also contributing to a certain market uncertainty. The firm specific advantages refer mainly to the inherent technological knowhow and international market experience about the supply chain. Whereas the main market specific advantage is a growing market for packaging materials in relation to other market regions. The market attractiveness must also be considered in relation to the risks on the market. A high market attractiveness in combination with a high risk on the market is often associated a market uncertainty, whereas a low risk and a high market attractiveness can be considered with a market opportunity for a company. A low market attractiveness in combination with a high

risk can also be considered as a high risk market for further investments. The case in this study can therefore be classified in the category with 'market uncertainty'. A main reason for this classification is based on a market with a high growth rate (9 percent in comparison with 2.4 percent globally), but also with a considerable market risk due to uncertainties in the infrastructure and the society in general. Different credit rating institutions (OECD, 2013) rate the market risks as high (Moody's Outlook=Negative; OECD gives Pakistan a rating of 7, whereas Nordic countries= 0). Such market risks have obviously been included in holistic view of the investment in the market.

Conclusion

A main reason for increasing market development in Asian countries is a growing middle class with new consumer behaviours asking for functional packaging solutions. This expanding market area has therefore become a necessity to assess before making new investments in a 'mature product area' in other parts of the world such as Europe or North America. The possibility to reach new market shares in relation to stagnating markets in other regions is obviously also superseding the market uncertainty due to economic and political risks in emerging markets. At the same time it is obviously important to understand the contextual factors due to limitations of assessing international marketing opportunities based on macro-economic or country level factors only. Contextual factors can relate to the general business environment, but also to the specific consumption situation or occasion in this study symbolized by market indicators. An in-depth examination of contextual factors helps managers to make better decisions by understanding the diversity of consumption patterns both within and among diverse countries. A better understanding of the contextual factors at different aggregation can also provide management with information for designing product packaging, pricing, promotional and distribution decisions adapted to contextual differences between and within markets. Another obvious distinction with establishing an investment in to new regions and emerging markets outside Western Europe is also management's interest for a new strategic intent which in the long run can affect export from Nordic countries. However, an investment can be the only way to overcome different obstacles for increasing business in emerging markets, but at the same time it also require that the company can build necessary relationships with local actors in a high-context culture. The individual decision-maker is obviously influenced by different layers of culture where the national culture influences the values of the business/industry culture which influence the individual company. In a high-context culture which is 'relationship oriented' it becomes a necessity to build relationships before 'making a deal'. A high-context/collectivistic culture is also influencing the communication between the actors and requires an indirect and implicit communication which can create misunderstandings in a message between the actors. The importance of managing the communication process in its international partnerships is obvious and can contribute to develop its relationships in the face of incongruence between national and business/industry cultures.

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