EFFECTS OF RELATIONSHIP MARKETING UPON NZ MICRO-ENTERPRISE INTERNATIONALS WITHIN THE ASIAN MARKETPLACE

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Abstract

The main purpose of this research was to establish whether the exporting NZ micro-enterprise (MCE) is able to leverage relational marketing practices with international distributors in the Asian region. This is an important consideration when entering new markets given the resource constraints of these firms. A qualitative approach using semi-structured interviews was used to ascertain the precise nature of their international distributor relationships. Our research findings suggest that those firms capable of building trust-based relationships are able to successfully enter key Asian markets. Furthermore, they were found to achieve a range of international performance outcomes usually associated with much larger firms. The research and managerial implications of such counter-intuitive findings are discussed.

Keywords : micro-enterprise, internationalisation, distributor relationships

1. INTRODUCTION

A key challenge facing New Zealand (NZ) MCEs is the manner they should structure their distributor relationships with international partners. This is particularly relevant when making decisions to enter foreign markets because they are largely resource stricken as well as likely have limited international experience. MCEs are defined herein as those with five or less full-time- equivalent employees. Their ability to enter and remain in international markets is also central to the success and well-being of the New Zealand economy as they constitute more that 90 percent of businesses in NZ (NZ Department of Statistics, 2009). Prior research suggests that whilst small firms have difficulty in entering foreign markets (Coviello and Munro, 1995; De Chiara and Minguzzi, 2002; Larson, 1992) the networking (Chetty and Wilson, 2003; Ostgaard and Birley, 1994) and stages approach (Bilkey and Tesar 1977; Cavusgil 1980; Chetty and Hamilton 1996; Dalli 1994; Gankema, Snuit and van Dijken 1997; Johanson and Vahlne 1977; Johanson and Wiedersheim-Paul 1975; Reid 1981) approach helps these firms internationalize more successfully due to a range of reasons. Whilst we acknowledge that this body of thinking helps us understand how firms can manage critical aspects of the internationalization process these studies are largely descriptive in nature. Such studies also do very little to explain how firms are able to enter key Asian markets. This is critical to understand because these markets are in close proximity to NZ however small firms need to overcome psychic distance (Brewer, 2009; Prime, Obadia and Vida, 2009). Furthermore, the need to become effective in the APEC region is tantamount (Helble, Shepherd and Wilson, 2009) because small firms are underrepresented within the international marketplace (Mughan, Lloyd-Reason and Ruskin, 2007).

Despite these shortcomings they do reveal that small firms have the dual problem of resource constraints and essential foreign market related knowledge. This needs to be addressed somehow because they can impede successful internationalization and ultimately performance in chosen foreign markets. However, we believe those small firms that employ relational marketing (RM) practices, particularly social exchanged based, towards their international distributors are able to increase their foreign market capabilities and success. We base this supposition upon the wide variety of RM studies, and in particular those pertaining to the social exchange (SE) perspective, showing how firms can leverage relational outcomes. Our view here is that the process of building SE marketing relationships with these distributors is also instrumental in helping to select partners with the appropriate fit to meet the needs of the small NZ firm. With this specifically in mind, the main aim of our paper is to provide some valuable insights into how they are able to enter and remain within key Asian markets despite severe resource and knowledge constraints. In doing so our research extends the current networking approach thereby offering a viable conceptual foundation in which to explain how small firms can successfully internationalize. We now discuss this international performance through linking it to salient relationship marketing literature.

2. INTERNATIONALIZATION THEORY

The networking approach of explaining how resource stricken MCEs can internationalize provides the backdrop for our study. We also believe this approach is intrinsically linked to the stages perspective because going international is incremental in nature. Each perspective offers a unique insight however there is convergence in conceptualizing internationalization, namely: "the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries" (Beamish 1990, p.77). We adopt this definition but feel that because entering new markets is strategic in terms of building relationships with the international distributer the relational marketing (RM) paradigm will play a large role. Morgan and Hunt (1994, p.22) define RM as "all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges". Through this effort we anticipate that MCEs can identify key distributor partners not only to help enter the foreign market but also to attain longer-term performance outcomes. We posit herein that both the stages and networking perspectives to internationalization offer the most viable explanation of how (and why) small firms can (and will) enter foreign markets given its knowledge and resource constraints. However our central proposition is that those firms that effectively employ RM are able to attain the dual objective of successful internationalization and performance outcomes. Each of these and the applicable theory is now discussed.

The stages approach - explains how firms are able to manage inherent risk of entering foreign markets. This is done through incremental growth via increasing market commitment and managerial learning towards and about the market (Bilkey and Tesar, 1977; Chetty and Hamilton, 1996; Dalli 1994; Gankema, Snuit and van Dijken, 1997; Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975; Reid, 1981). Given knowledge and resource constraints we suggest that this is a viable option for the MCE. Our view here though is that those firms capable of building relationships with overseas Asian distributors are able to have the added benefit of effectively "transferring" the risk directly onto the relationship. In short the MCE, with the right distributor partner, does not need to be concerned with foreign market risk as this will be absorbed by this distributor. This of course is contingent upon both parties benefiting from the relationship and the presence of trust. Despite the many perspective pertaining to trust this construct it is broadly defined in the various social science literatures as "one's willingness to be vulnerable to others on the basis of one's positive expectations of the other's intention and competence" (Behnia, 2008, p.1427). Interdependencies both in terms of outcomes and trust and commitment are the hallmark of buyer-seller marketing relationships. Dwyer, Schurr and Oh (1987) show how trust is formed as relationships progress over time and this has empirical support with marketing relationships (Doney and Cannon, 1997). It is argued herein that the success of the MCE's foreign market activity and ambitions within the Asian region centre upon their relational building competencies and distributor "firm-fit" rather than merely exogenous market factors. In short, if the MCE can build close relationships then inherent trust will serve to mitigate market risk and uncertainty, resulting in additional benefits. In this regard, we posit that if they are able to build marketing relationships with Asian distributors it will help them become psychically close to their new market because of the elevated levels of trust and commitment such relationships tend to yield (Morgan and Hunt, 1994; Kingshott and Pecotich, 2007).

From this "base" they not only increase their commitment within the chosen market(s) but they can also target more distant as well as an increased number of countries as their knowledge and experience increases. In short, this means that entering one Asian market can act as the gate-way to the broader region. Typifying the stages approach is the well documented Uppsala Model (UM) (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975) of internationalization. This model depicts firms to begin their foreign market activity by exporting via an agent. We suggest that the NZ MCE that has identified and works with distributors within the Asian region is able to take advantage of this and thus set-up a presence within the foreign market. From this starting point they then have the option of moving into the next stage (suggested by UM) namely establishing an overseas sales office. The final stage under the guise of UM would be to own a foreign production subsidiary. Through this the MCE could target other markets within the region as well as import products back into the home base country. Our view herein though is that those NZ MCEs that wished to remain small do not have to progress along each of the stages of the UM therefore the model can aptly explains how firms are able to increase their level of commitment towards foreign markets. By gradually increasing foreign market commitment in this manner the MCE has an effective mechanism of reducing its exposure to a variety of forms of risk at the same time as diminish the effects of marketplace uncertainty. We posit that this activity needs to centre the capacity of the MCE to establish and maintain close relationships with their international distributors. Clearly, the MCE places reliance upon distributors to ensure successful foreign market entry which we believe is also encapsulated within the domain of the networking perspective.

The networking perspective – views markets as a set of interconnected relationships (Anderson, Håkansson and Johanson, 1994; Granovetter, 1985). In fact, Achrol (1991) depicts these networks to comprise coordinated marketing relationships that comprise trust based partners that are committed to one another in the quest for joint relational outcomes. We anticipate then that features of these networks to include social exchange variables and thus characterized by power restraint, solidarity, flexibility and harmonization of conflict (Achrol, 1997). These dimensions epitomize partner commitment (Gundlach, Achrol and Mentzer, 1995), mutual trust (Granovetter, 1985) as well as exchange, integration and governance (Mattsson, 2000). Commitment and trust are key relational dimensions and this has been found to have a negative impact upon market uncertainty, and positively reinforces cooperation and functional conflict (Morgan and Hunt, 1994). Network relationships can be formal and/or informal and socially orientated. Whilst the use of social networks is very likely during start-up and early developmental activities of the small firm (Birley, 1985; Chetty and Wilson, 2003; Ostgaard and Birley, 1994; Ramachandran and Ramnarayan, 1993) this evidence clearly shows the importance of interconnections based upon building close relationships. We therefore expect that NZ MCEs wishing to enter the Asian marketplace can use these to great effect. These network distributor relationships are critical, given the ability of a firm to compete internationally may be disadvantaged through their lack of resources to invest in distribution channels and other marketing activities (McDougall, Shane and Oviatt, 1994). Our view is that the precise nature of these network relationships will impact foreign market entry. It is therefore proposed herein that the process of building relationships with distributor firms within the international marketplace is a vital component of MCE internationalization success given resource constraints. Whilst this and other constraints are accounted for through the formation of many network relationships (e.g. Chetty and Wilson, 2003; Bonnacorsi, 1992) our research specifically focuses upon the nature of the foreign distributor relationship.

Through this leveraging network exchanges points to reciprocity norms, personal relationships, reputation, and trust as important factors explaining the duration and stability of the exchange structures (Achrol, 1991; Larson 1992). These are hallmarks of social exchange relationships that are built around trust-based commitment. Whilst not all international agents are going to be trustworthy (Rosson, 1987) we posit that trust-based distributor relationships also help deal with the central challenge facing managers, namely the building and selecting of appropriate forms of governance at the same time as protecting valuable investments and commitments placed in the relationship (Brown, Dev and Lee, 2000; Cannon, Achrol, and Gundlach, 2000). Clearly this is a critical consideration within the international marketplace-particularly when firm do not have a direct presence in the foreign market. It stands to reason then that those MCEs that can build international distributor relationships (particularly trust-based) are able to successfully enter chosen foreign markets and deal with a diverse range of associated risks. Our view is that because many NZ MCEs are able to successfully enter foreign markets without apparent commitment of valuable financial resources they must be leveraging critical relationships with distributor firms. Because these relationships gradually develop through some form of socialization process (Axelrod 1986; Dwyer, Schurr and Oh, 1987; Ford, 1980) they help the MCE incrementally commit to the foreign market. From this vantage we believe that they can successfully internationalize because of the need to reduce risk and uncertainty due to lack of knowledge of the dynamics within the foreign marketplace. With this in mind, our fieldwork was designed to identify whether the NZ MCE developed close marketing relationships with Asian distributors and what impact they had upon their internationalization ambitions. Our methodology is now discussed.

3. RESEARCH METHODOLOGY

The unit of analysis was the NZ exporting MCE. These are those firms with 5 or fewer full-time effective employees and constitute 90 percent of NZ companies (NZ Department of Statistics, 2009). Our approach comprised a qualitative multiple-case study due to the newness of the area of investigation and the desire to collect both rich and boundary spanning data. Theoretical sampling (Patton, 2002) using a panel of experts initially identified a wide number of technology based exporting NZ MCEs. These firms were primarily manufacturing from knowledge based industries in NZ that exported their products and services into key Australasian markets of Australia, Singapore, Malaysia and Hong Kong. We do acknowledge that exporting has the lowest risk when entering new markets but due to the smallness and resources limitation of the firms we surveyed this still represents a high risk and high cost business option relative to its resources. Whilst these firms collectively exemplified successful exporters a series of filtering questions was used to reduce the sample to a manageable number. Seven (7) small firms were chosen for the final analysis. A brief profile using alliterative acronyms to disclose their identity of each company is seen in table 1.

Table 1.
Demographic Profile of Cases

Firm	Sales ($M)	Active Markets	Export Intensity	Inception
Rifle Rangers	2.9	16	99%	1998
Ozone Officers	2.00	4	80%	1997
Mobile Manager	0.75	4	40%	1992
Fancy Foods	0.25	4	90%	2000
Biting Buddies	1.10	1	10%	1997
Theatre Thespians	1.75	4	50%	1999
Kids Corner	0.50	12	60%	1999

Source: Primary Survey

Data was collected from the CEO via in-depth face-to-face interviews. This continued to the point of data redundancy designed to tease-out their specific approach to entering the Asian marketplace as well as resultant firm outcomes. We placed emphasis upon their relational building approach with the international distributor in an attempt to tease out the nature of these relationships. Key relational constructs (as outlined in the literature review) and their account of international market outcomes were captured through the use of a semi-structured discussion guideline. This interview comprised questions pertaining to: (1) their exporting "journey", (2) motivations to export, (3) how they overcame barriers to exporting, (4) how they developed relationships with distributors, (5) how these relationships impacted upon their firm performance, and, (6) how relationship issues were overcome. Upwards of three hour interviews were held and upon subsequent coding of the same, the resultant transcripts became the basis for analysis. To this end interviews were recorded, transcribed and sent to interviewees to ascertain accuracy and correctness of the data. Best practice conventions were implemented including the use of multiple data sources for confirmatory purposes (Yin, 1989). QSR N6 software was used to assist in the analysis and interpretation of the large volume of interview data. As summary of key findings in relation to key Asian markets are now presented.

4. RESEARCH FINDINGS

For efficacy the results presented here are not "direct quotes" from informants but represent interpretations of what was conveyed by them during the interviews. Given the nature of our method we accordingly report the findings that follow in a descriptive manner. All the chosen seven (7) operations reported to have successfully entered their respective foreign markets during the last two years. In general terms they described success in terms of the impact that internationalization had upon their revenue stream and the role that the distributor partner towards their overall operation. In general terms each CEO reported substantial revenue increases as a consequence of the decision to internationalize and in some cases revenue generated overseas exceeded their current domestic incomes. Export revenue intensity ranged from 10 to 99 percent of totals sales. However, this was a function of the number of markets that each MCE had a presence in and this ranged up to 16 foreign markets.

Our view here was that it was their ability to build strong distributor relationships that helped attain these financial and other marketing outcomes in such a short time frame. In this regard, there is a limited range of studies that focus upon the impact of the relationship approach (e.g. Blankenburg-Holm et al., 1999; Rosson and Ford, 1999; Leonidou and Kaleka, 1998) to attaining international outcomes. Whilst performance has been conceptualized in a number of ways including measures of export intensity, firm size, sales, profitability, product and market characteristics in the literature (Thirkell and Dau, 1998) we believe that these MCE internationalization outcomes stem directly from its distributor relationships. Our justification here is that these MCEs were all faced with the common dilemma of being resource constrained and to this end compelled to leverage their way into the international market via these relationships. Through this we can report that all the firms surveyed are now represented in multiple markets, have international brand recognition, use product line customization, and, have invoked plans to expand the number of product lines into these markets. Initial impressions from the evidence we provide shows clear evidence that the NZ MCE is able to replicate the traditional export performance measures (e.g. Katiskeas et al., 2000) in the chosen Asian markets.

We do note that each MCE increased these particular outcomes very rapidly and in doing so were able to do so with minimal resources. Whilst this is consistent with the networking approach (e.g. Chetty and Wilson, 2003; Bonnacorsi, 1992) our view is that these "network relationships" are largely functional because of the manner the MCE is able to structure inherent distributor relationships. This is in-line with the earlier work of Achrol (1991) depicting that RM can be employed to such networks so that all parties can maximize outcomes in a much more coordinated manner. In this respect, our findings reveal that this approach to the relationships has been so successful within the international market that overseas distributors are approaching these firms to represent them overseas. Furthermore, the chosen distributors are able to propagate repeat purchases and high end-user satisfaction. Our view here is that this is a function of the manner these distributors have been "socialized" to the manner the MCE conducts its own business operations within the domestic NZ market. This reflects the finding that distributor firms have high levels of end-user network, supplier, industry and employer group interactions in the foreign marketplace. Overall, in terms of the NZ MCE-foreign distributor relationship we can reveal that these parties are able to generate quicker and greater acquisition of internalized knowledge, greater capacity to manage risk through reciprocity of self disclosure, more flexibility in appraising new Asian market opportunities, reduced relationship monitoring costs, high levels of trust and commitment between them. We attribute these specific relational outcomes directly to the aforementioned cited traditional export performance outcomes. Accordingly, we provide clear evidence of the relationship-performance link for NZ exporters into the Asian marketplace and this have a wide range of implications. A number of these are now discussed.

5. RESEARCH IMPLICATIONS AND FUTURE DIRECTIONS

The main aim of this research has been to investigate the role the RM paradigm plays in helping the NZ MCE internationalise within the Asian region. This is critical to understand from a number of perspectives. First, policy makers need to comprehend how best to successfully internationalize because of the high incidence of these firms within the economy. On the other hand managers need to know how to structure relationships to maximise outcomes from the international marketplace at the same time as minimise risks and uncertainty. In this regard our findings reveal that relationships are indeed critical to successful entry and outcomes within the Asian region. Both policy makers and managers should formulate strategies that help the micro-enterprise build and nurture relationships not only with the distributor but also the wider range of stakeholders associated with trans-national business. Unfortunately there little is known about these forms of distributor relationships in this particular context. Hopefully our research provides the impetus for more studies in this critical area of international business. Accordingly, scholars need to identify salient variables in this process in order to model how these relationships can be used to maximum effect. Second, the distinct paucity of research studying how MCEs within small open-ended economies are able to become successfully in the international area is partially addressed herein. Although our research is qualitative in nature it shows clear empirical evidence (not generalisable though) that the NZ MCE is employing the RM paradigm to help them enter the Asian marketplace. Third, and perhaps most importantly, our research provides a conceptual basis for the growing body of literature in this particular context showing how firms can rely upon networking for international access (Chetty and Wilson 2003; Coviello and Munro 1997; Fillis and McAuley 2000; Oviatt and McDougall 1994). In this regard, as we have seen the NZ MCE has been employing a SE relational approach to their international distributor relationships. Scholars also need to examine whether these types of relationships are also prevalent and relevant in the context of relationships these firms need to have with the wider range of stakeholders within the network.

Overall, whilst these findings add to current thinking in terms of the above points within the networking area of thought the case methodology employed needs to be extended to include a much wider sample of firms to provide empirical generalizability. At this stage, the evidence we provide suggests the MCE can enter foreign markets through mitigation of risk at the same time as helping to overcome resource constraints. Future studies should ascertain the precise nature of this risk and whether this can be applied to the broader range of stakeholders within the Asian marketplace. Clearly, from a managerial point of view, the MCE can use these distributor relationships to reduce the constraints imposed upon them as a consequence of size through reliance upon the exchange partner. Our evidence suggests that internationalization success is then largely a function of their capability to develop strategies that nurture strong interdependent international distributor relationships. Given that nurturing such relationships is incremental in nature and such an approach builds trust, norms and commitment (Doney and Cannon 1997; Dwyer, Schurr and Oh 1987; Ford 1980) therefore such an approach makes this internationalization strategy more robust. Whilst there are many forms of relationships within a business setting (Morgan and Hunt, 1994) our study focused upon international distributors. We suggest future research should explore if SE relationships are equally valid across the variety of stakeholder relationships firms build when internationalizing. Furthermore our view here is that the MCE firms can internationalize without the fear of opportunism on the part of the distributor because these are largely trust based. The simple question is does this apply to other types of relationships. These and the other points we raise however need further examination before any empirical generalizations can be inferred. On a final note it is evident that different cultural contexts will engender different approaches to the precise manner that relationships can be developed and nurtured. With this in mind, scholars need to model these forms of relationships across national and cultural boundaries so that both policy and managerial decision makers are able to better understand the most effective manner their business operations within foreign markets are attainable.

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