

## **BORDER-BUSTING MICROENTERPRISES: HANDSHAKES AND EYE CONTACT, NOT HEADSHAKES AND BINDING CONTRACTS, THE KEYS TO STELLAR GROWTH**

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### **ABSTRACT**

Trust-based relationships impact foreign market success of NZ Micro-enterprises. Firms capable of building trust-based relationships as a springboard to foreign market entry and growth perform better than those reliant upon the protective mechanisms of a transactional cost approach. The implications of such findings are discussed.

**Keywords:** Micro-enterprise, Internationalisation, Governance form, Relational mode, Trust.

### **INTRODUCTION**

Until recently, Micro-enterprise (MCE) internationalisation (Pickering, 2009) went entirely unobserved in the literature. This is due to foreign market entry traditionally being the domain of larger firms possessing knowledge, resources, significant infrastructure, and experience in the 'proving ground' of the domestic market (Johanson & Vahlne, 1977; 1990). However, the advent of closer global markets through IT advances enabling the establishment and nurture of geographically distant networks has resulted in viable access to resources by the smaller firm (e.g., Johanson & Mattson, 1988). Born Globals (Madsen & Servais, 1997), International New Ventures (Oviatt & McDougall, 1994), and Instant Internationals (McAuley, 1999) were the first of these firms to attempt significant and often successful overseas efforts, although all had access to varying blends of time in market, proprietary technology, structural and knowledge resources, and financial backing. The MCE however usually does not possess any of these factors and so they face a momentous challenge and risk when embarking on their

initial forays. On this basis any financier or potential stakeholder would not give any credence to an MCE internationalisation proposition with both academic and practitioner wisdom being categorically negative. So the only potential resource remaining open to the MCE is that of their ability and tenacity to leverage appropriate stakeholder relationships across the value chain. Whilst the task at first seems relatively straightforward, fundamental challenges to be addressed by the MCE owner include; identification of potential and needed stakeholder types; strategizing the approach to them; soliciting their interest and conditions of contribution; assessing their relational longevity and reliability; and finally choosing the right relational partners.

MCEs are defined as those with five or less full-time- equivalent employees and as they comprise 90% of all business types in New Zealand (NZ Department of Statistics, 2009) their importance in contributing overseas earnings to national GDP cannot be overstated. As with most industrialised economies though, these diminutive firms 'fall through the gaps' when it comes to the allocation of government export assistance and subsidies. This is because of the high rate of start-up failure and the constant need for public scrutiny in the granting of funding to anything less than 'sure things'. Prior research reinforces this risk avoidance, demonstrating small firms do indeed struggle with entering foreign markets but is possible through networking (Chetty & Wilson, 2003; Ostgaard & Birley, 1994) and/or in stages (Bilkey & Tesar 1977; Cavusgil 1980; Johanson & Vahlne 1977). Such descriptive studies don't explain how firms should enter physically close, but psychically distant Asian markets, a research oversight that requires addressing due to the importance of Asia to NZ's economic prosperity (Brewer, 2009; Prime, Obadia & Vida, 2009). This observation is further enhanced with the growing importance of APEC

(Helble, Shepherd & Wilson, 2009), the recent US-NZ agreement on the desirability of free trade, and with small firms being clearly underrepresented internationally (Mughan, Lloyd-Reason & Ruskin, 2007).

Surprisingly, Pilot observations revealed the smallest of enterprises employing trust-based relationships with the likes of international distributors achieving market entry and developing essential capabilities. Trust was not just afforded to any potential distributor but to those who had some personal, social, or professional affinity with the business and/or the product in question. Despite the swathe of previous Relationship Marketing studies (e.g., Dwyer, Schurr, & Oh, 1987; Håkansson, 1982; Morgan & Hunt, 1994), there has been no scholarly observation of MCEs achieving such leverage. Furthermore, much has been written about how larger firms internationalise through the gradual acquisition of infrastructure and foreign direct investment (e.g., Dunning, 1988) but as such acquisitions are not possible for MCE's, their overseas market exploits remain unexplained. Therefore, this research proposed the building of a select portfolio of relationships to be critical in facilitating both market entry and subsequent performance outcomes. This paper adds to knowledge in several ways. First, internationalisation is of considerable significance to the MCE in that it expands product and market opportunities, improves operational competencies, and provides an outlet for the achievement of both financial and relational goals. Second, key relationships developed during this process include internal, manufacturer/supplier, distributor, support, EPO, and end-user *types*. Third, MCE's gravitate towards adopting either a *social exchange* (characterised by trust, commitment and social norms) or *transaction cost analysis* (characterised by contractual mechanisms) approach to developing these relationship types. Critical to this finding

though and previously unobserved in the literature, is that within the context of a social exchange or transaction cost analysis approach, governance (bilateral or unilateral/market) may be observed as a separate construct. Finally, the MCE adopting a social exchange approach overall achieves more robust international outcomes particularly in respect to increased cost efficiencies and new market opportunities.

### **LITERATURE REVIEW**

The networking approach of explaining how resource stricken MCEs can internationalise provides the backdrop for our study. Although such an approach has been documented in the international marketing literature (Fillis, 2000) this research is the first of its kind to meld this into relationship marketing (RM) literature from the perspective of SE theory. 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 conceptualising internationalisation, 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 distributor 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 internationalisation 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 internationalisation 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. Given small firms have limited financial and human resource competencies such an approach to entering foreign markets would merit further investigation. In short, small firms need to be cautious when exposing their operation to markets they are unfamiliar with therefore must choose the best mechanism available – given their resource constraints. This is done through incremental growth via increasing market commitment and managerial learning towards and about the market (Bilkey & Tesar, 1977; Chetty & Hamilton, 1996; Dalli 1994; Gankema, Snuit & van Dijken, 1997; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975; Reid, 1981). However, 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. Trust is one of the hallmarks of social exchanged based relationships and integral to have the small firm can interface with members of the value chain. 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 & Cannon, 1997). It is argued then that the success of the MCE's foreign market activity and ambitions 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 (Kingshott & Pecotich, 2007; Morgan & Hunt, 1994, Pickering, 2009).

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 market can act as the gate-way to the broader region. Typifying the stages approach is the well documented Uppsala Model (UM) (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975) of internationalisation. This model depicts firms foreign market process as direct exporting; exporting via a distributor; establishment of an overseas sales office; and finally, ownership of a foreign production subsidiary. However, MCEs wish to remain small so do not progress along each of the stages of the UM.

*The networking perspective* – views markets as a set of interconnected relationships (Anderson, Håkansson & Johanson, 1994; Granovetter, 1985). Achrol (1991) describes them as coordinated marketing relationships that comprise trust based partners committed to one another in the quest for joint relational outcomes. We anticipate features of these

networks to include SE variables, characterised by power restraint, solidarity, flexibility and harmonization of conflict (Achrol, 1997). Such dimensions epitomise partner commitment (Gundlach, Achrol & Mentzer, 1995), mutual trust (Granovetter, 1985) 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, positively reinforcing cooperation and functional conflict (Morgan & 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 & Wilson, 2003; Ostgaard & Birley, 1994; Ramachandran & Ramnarayan, 1993) it also shows the importance of individual relational interconnections. We therefore expect the MCE international to use these to great effect, especially as they aren't resourced to invest in distribution channels and other marketing activities (McDougall, Shane & Oviatt, 1994).

*Networks as relationships* – refers to the depth and breadth of the interactions as opposed to a mere description of the interconnections themselves. 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). Whilst not all international agents are going to be trustworthy (Rosson, 1987) we posit that trust-based value chain relationships help mitigate the central challenge facing MCE managers, namely the building and selecting of appropriate forms of governance at the same time as protecting valuable investments, commitments, and a diverse range of associated risks (Brown, Dev & Lee, 2000; Cannon, Achrol, & Gundlach, 2000). Our view is that because MCEs are entering foreign markets without apparent

financial commitment they must be leveraging key relationship types. In fact the aforementioned *stages* approach to market development is highly relevant, the difference being that MCE relationships, rather than resources, develop incrementally via a socialisation process (Axelrod 1986; Dwyer, Schurr & Oh, 1987; Ford, 1980). The focus of our fieldwork therefore, was to investigate the extent, nature of, and reliance placed upon value chain relationships the MCE internationalisation strategy. Our methodology is now discussed.

## METHODOLOGY

The unit of analysis was the NZ exporting MCE (five or less FTE staff) selling into a B2B context. 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) through use of a panel of experts initially identified a wide number of technology and manufacturing based MCEs exporting their products and services into key Asia/Pacific markets of Australia, Singapore, Malaysia, Hong Kong, and the USA. Preferring exemplar participants a series of filtering questions was used to reduce the case load to a manageable number. Ultimately, seven (7) MCEs were included in the analysis as it was at this point data redundancy was achieved (Eisenhardt, 1989). A brief profile of each (using alliterative acronyms to disguise their identities) is included in table 1.

**Insert Table 1 about here**



Data was collected from each owner/manager via in-depth face-to-face interviews using a semi-structured discussion guideline. Emphasis was placed upon their approach to the value chain in an attempt to tease out the types and nature of the relationships formed. Key relational constructs (as outlined in the literature review) and their account of international market outcomes were captured with the discussion guideline comprising questions pertaining to; their exporting “journey”; motivations; overcoming barriers; approach to relationship development; impact of these relationships upon firm performance; and 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 checked to ascertain data accuracy. 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 MCE foreign market endeavours are now presented.

## **RESEARCH FINDINGS**

All seven MCE's achieved foreign market entry within two years of inception. Performance was assessed on traditional and relational measures (Cavusgil & Zou, 1994; Katsikeas et al., 2000), with the former including international sales, export intensity, and number of markets, and the latter including type, nature, and longevity of value chain relationships. Overall, each reported substantial revenue increases as a consequence of the decision to internationalise and in some cases revenue generated overseas exceeded

their current domestic incomes. Export intensity was as high 99 percent of total sales with the number of countries entered up to 16.

Committed distributor relationships (in particular) were a common theme ensuring the achievement of such impressive financial and other marketing outcomes in short time. All 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. Of particular import was that these and many other outcomes (not mentioned here) were achieved rapidly and with minimal resources. Whilst this is consistent with the networking approach (e.g. Chetty & Wilson, 2003; Bonnacorsi, 1992) it became abundantly clear that performance was a function of individual relational depth rather than the network itself.

The key finding in this research confirming our initial suppositions was that the MCE's who embraced an SE approach to developing, nurturing, and growing their relationships were notably more successful than those pursuing the TCA based approach characterised by risk absorption measures such as patents, litigation, confidentiality agreements and performance target contracts. In fact Rifle Rangers (see Table 1), ostensibly the most successfully of all those studied, had not employed any managerial tools other than filtering (e.g., Wilson, 1995), handshakes, and eye contact to initiate and grow mutually beneficial relationships of on-going longevity.

An additional but unexpected finding was the number of relationships showing separation between governance *form* (e.g. Heide, 1994) and relationship *mode* (e.g., Morgan & Hunt, 1995). Traditionally, *mode* constructs such as trust, commitment, reciprocity, and

relational norms have been treated as *forms* of bilateral governance whereas the absence of such constructs (as evidenced by excessive relational monitoring to prevent opportunism) have been considered as *forms* of unilateral or market governance. In short what we found, was the presence of trust-based relationships with unilateral/market governance and vis-à-vis. The robustness of this finding was confirmed through multiple repetitions of transcript based qualitative analysis and continual peer review. The best way to demonstrate this result is graphically and can be seen in figure 1.

**Insert Figure 1 about here**

It became immediately apparent that the separation of *form* and *mode* was important as it further highlighted the success of the likes of Rifle Rangers from the relative struggle of Fancy Foods or Biting Buddies. But more than that, it demonstrated that SE Bilateral *form* was best combined with SE Relational *mode* in terms of relative international performance. Conversely, TCA Unilateral *form* combined with TCA relational *mode* was adopted by the worst performers with those in the middle of the pack employing various combinations of the two. In addition, these relational approach observations appeared largely consistent over the range of direct and indirect value chain relationship types developed including service providers and export promoters, friends and family, manufacturers, distributors, and even the eventual customers.

Overall, MCE internationalising through leveraging trust-based relationships with their chosen value chain were able to generate quicker and greater acquisition of internalised knowledge, manage risk through SE/Bilateral constructs, gain flexibility and capacity in new markets appraisal, quickly change strategic direction when the need arose, reduced

relationship monitoring costs, and foster mutual dependency and longevity of association. A number of the implications from these findings are now discussed.

### **RESEARCH IMPLICATIONS AND FUTURE DIRECTION**

The main aim of this research has been to investigate the importance of a relational approach to MCE internationalisation and this was deemed important from a number of perspectives. First, policy makers need to comprehend how best to successfully internationalise because of the high incidence of these firms within the economy. Additionally, managers need to know how to structure relationships to maximise performance and attenuate risks and uncertainty. In this regard our findings reveal that relationships are indeed critical to successful entry and outcomes within the Asian region. The limited range of studies that focussing on this area (e.g. Blankenburg-Holm et al., 1999; Leonidou & Kaleka, 1998; Rosson & Ford, 1999), and these only measuring a traditional range of metric indicators (e.g., Thirkell & Dau, 1998), compels us to recommend a new hybridised research agenda to measure both these and relational internationalisation outcomes.

Both policy makers and managers should formulate strategies that help the MCE and larger enterprise forms to build and nurture relationships with a wide range of relevant stakeholders. Although at a formative stage, 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 (analytically generalizable) empirical evidence that the NZ MCE is employing the relational paradigm to achieve international success in place of infrastructure and knowledge, a finding that should hearten public and private funders. 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 the depth of their network relationships to gain international access (e.g., Chetty & Wilson 2003; Coviello & Munro 1997; Fillis & McAuley 2000; Oviatt & McDougall 1994), with the most potent combination being *Bilateral form / SE mode*.

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TABLES AND FIGURES

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

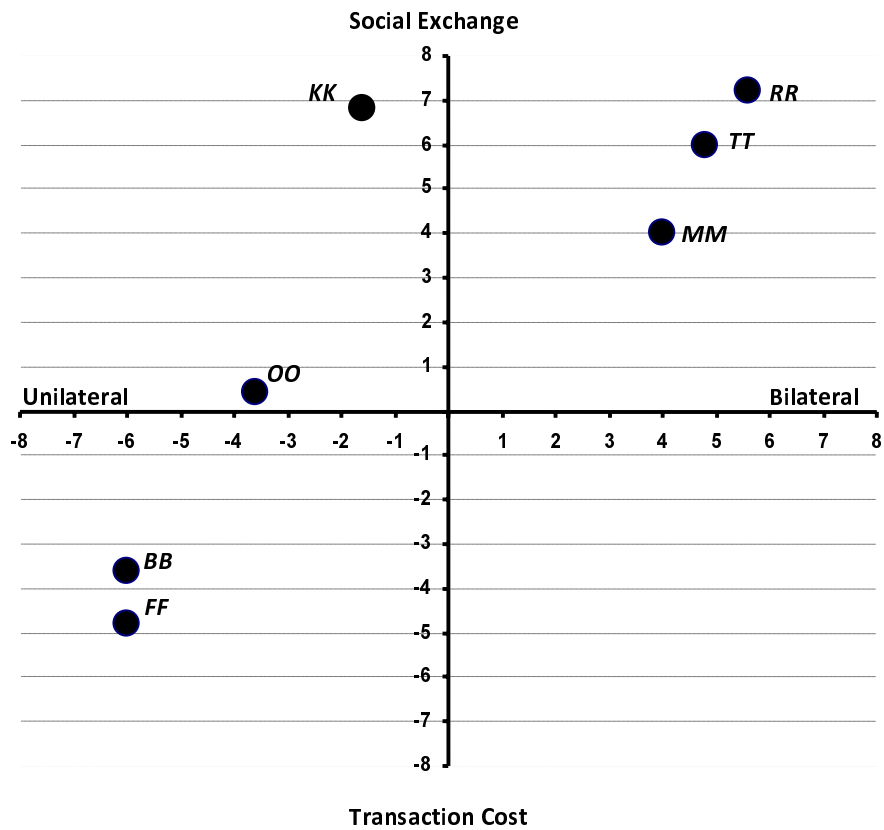


Fig. 1. Separation of governance form and relational model