Drivers of Relationship Development in the Internationalization Process of SMEs, and the Importance of Long-term and Direct International Relationships on Export Performance in Emerging Markets

Susanne Sandberg
PhD Candidate in International Business
University of Kalmar / University of Växjö
From 2010 – the Linnaeus University

Baltic Business Research Center
Baltic Business School
University of Kalmar
391 82 KALMAR, Sweden
Phone: +46 480 49 71 82
Mobile: +46 70 26 14 292
E-mail: **susanne.sandberg@hik.se**

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Abstract

As a result of the third wave of internationalization, Western SMEs establish themselves on a big scale in the emerging markets of the world. This current research topic is examined through two main research questions concerning (1) factors driving the building of international relationships in emerging markets and (2) the effect of long-term and direct relationships on the export performance of SMEs in emerging markets. In this work-in-progress paper a theoretical framework applying a network approach to both internationalization process theory and the resource based view will be presented, as well as a number of research propositions. The propositions will in further work on this paper be tested on a sample of 203 SMEs in Southern Sweden with experience of entering the emerging markets of the Baltic States, Poland, Russia and China.

Keywords: Internationalization processes, Industrial network approach, International business relationships, Resource based view, Emerging markets, SMEs

---------------------------------*Work-in-progress paper*---------------------------------------

1. Introduction

Through the globalization of the world, the internationalization of firms is spurred and the traditionally discussed internationalization pattern of firms of going firstly to close-by markets, thereafter moving into more distant markets (Johanson & Vahlne, 1977) is challenged (e.g. Forsgren, 2002). Former waves of internationalization of firms mainly involved mature market economies: the first wave was European firms internationalizing to other parts of Europe and US, as well as US firms to Europe. In the second wave, European and US firms went to East and Southeast Asia and vice versa. The last years, however, a third wave of internationalization of firms has entered the global market, where companies originating from mature Western markets establish themselves on a big scale in emerging markets such as Central and Eastern Europe (CEE), Russia and China (Jansson 2007a,b). These markets have experienced a rapid economic and structural development the last part of the 20th century, and are predicted to continuously be the main growth areas of the world for the coming decades (Cavusgil, Ghauri and Agarwal, 2002). The rapid growth and integration of these markets into the world economy is rearranging the competitive forces for firms, not only affecting highly internationalized multinationals, but also smaller firms. E.g. the EU-enlargement in 2004 was seen to stimulate Baltic Sea trade among small and medium sized enterprises (SMEs) in Southern Sweden (Hilmersson & Sandberg, 2007). Still, however, research on SMEs entering the CEE is scarce (Meyer & Skak, 2002), and there are calls also for studies of SME entry into other emerging markets (Meyer & Gelbuda, 2006).

Studies of, and theory development on, internationalization processes of firms have generally been focused on multinational corporations (MNCs) rather than the smaller firms (e.g. Coviello & Munro, 1997; Coviello & McAuley, 1999; Fillis, 2001; Hohenthal, 2001). Small size is considered a disadvantage in internationalization, since SMEs (in this paper, less than 250 employees following the EU definition) often lack the resources necessary to enter foreign markets (Meyer & Skak, 2002; Jansson, 2007b). Thereby, internationalizing/-ed SMEs tend to use primarily the low-cost, low commitment and less risky export mode (Leonidou & Katsikeas, 1996), which hinders their further internationalization due to less experience and fewer relationships gained. On the other hand, export activity is also seen to increase the overall performance of firms (Lages, Silva, Styles & Pereira, 2009). In comparison to larger enterprises, SMEs are seen as less competitive; for instance, they may not be able to capture business opportunities due to inferior products, shortages of finance and limited administrative capacity (Meyer & Skak, 2002), and limited experiential knowledge (Eriksson et al. 1997). However, at the same time SMEs are regarded as the engines of the global economic growth (Acs, Morck, Shaver & Yeung, 1997) and are highly important for their nations in terms of e.g. economic activity, employment, innovation and wealth creation (Stoian, Rialp & Rialp, 2008). The increasing internationalization of SMEs has resulted in a stronger research focus on this area (Agndal, 2004) and further insights are called for (e.g. Coviello & McAuley, 1999; Gankema, Snuif & Zwart, 2000; Heiskanen, 2006; Jansson, 2007a,b).

Internationalization of firms is generally seen as taking place in an incremental manner (Johanson & Vahlne, 1977; Cavusgil, 1980). However, new patterns of internationalization of smaller firms have emerged beside the traditional stage models (Wolff & Pett, 2000). Here, Ojala (2009) points at network models of internationalization to be more useful in explaining internationalization patterns of SMEs. In this stream of research, network relationships are considered useful or even crucial in initiating as well as facilitating firm internationalization (Bell, 1995; Coviello and McAuley, 1999; Coviello and Munro, 1997). Similar argument underpins the industrial network approach, which discusses internationalization of the firm in terms of establishing and developing network positions in foreign markets (Forsgren, Holm & Johanson, 2005). Further, networks are regarded to be an important facilitator for smaller firms when entering emerging markets (Meyer & Skak, 2002), since such markets posts a number of challenges (Meyer, 2001), e.g. lack of information, unclear regulations and corruption.

Network theory has increasingly been combined with internationalization process theory in order to understand and explain internationalization of firms (Coviello & McAuley, 1999; Meyer & Skak, 2002; Johanson & Vahlne, 1990, 2003; Bell, McNaughton, Young & Crick, 2003). Such integration is in line with calls for new models of internationalization (Fillis, 2001; Meyer & Gelbuda, 2006) due to the rapid changes in today's business world. In relation to the export performance of firms, there is also a call for applying a network approach to this measure (Lages et al., 2009). Overall, the importance of relationships for export performance has not gained much interest or support (Styles & Ambler, 1994), with the exception of e.g. Johansson & Vahlne (1977) emphasizing a relational approach. Further, Styles & Ambler (1994) point at (especially long-term) relationships as key resources to the firm. By this they connect well to the resource based view (Barney, 1991), through which relationships can be seen as valuable and hard to imitate, i.e. being competitive advantages of internationalized firms in export markets (Lages et al. 2009). It is supported by Day (2000), viewing the *ability of firms to create and maintain relationships* with (most important) customers as a *durable basis for competitive advantage* (p. 24).

This paper will address two main research questions: (1) Which factors (from a selection of factors) in the internationalization process of SMEs drives the building of international relationships in emerging markets? (2) What effect does the development of long-term and direct relationships have on the export performance of SMEs in emerging markets? *However*, still being a work-in-progress paper, in its current version the paper will primary present a theoretical framework applying a network approach to both internationalization process theory and the resource based view, as well as a number of research propositions aiming to address the research questions stated. Thereafter the proposed research model is illustrated and an account of measurement variables will be given. As the base for future testing and analysis of propositions stated, the empirical study undertaken will also be described. This work-in-progress paper is then finalized with a short suggestion on the progress and possible contributions of the (forthcoming) paper.

2. Theoretical framework and propositions

2.1. Relationships as key enabler for firm internationalization

An integration of the industrial network theory and internationalization process theory is seen in the Five/Five stages model presented in Jansson & Sandberg (2008). It was developed as a framework for studying Swedish SMEs entering the emerging markets in the eastern Baltic Sea Region. The model is suggested as useful in discussing international experience of SMEs due to their relative lack of resources and competence in relation to large firms. The model is driven by relationship building since the building of experiential knowledge takes place in networks. This is also what gives the incremental character of the model. The model advocates a network approach, since entries into local market networks are believed to take place through establishing relationships. Thereby relationships are at the core of the internationalization process of firms (e.g. Axelsson & Johanson, 1992; Håkansson, ed., 1982; Håkansson & Snehota, 1995; Jansson, 2007a,b; Johanson & Vahlne, 2003; Majkgård & Sharma, 1998). The Five/Five stages model is based on the relationship building model by Ford (e.g. 2002), suggesting (individual) business relationships to grow incrementally through five stages. In connection to internationalization of the firm, the relationship model is integrated with the internationalization process model for exporting SMEs by Cavusgil (1980). This integrated model suggests relationships to be the driver of internationalization of firms.

Internationalization of firms is generally seen as taking place in an incremental manner as suggested through the Uppsala model by Johanson & Vahlne (1977) and further by the US researchers Bilkey (1978), Cavusgil (1980), Reid (1981) and Czinkota (1982). The Uppsala model of internationalization sees firm internationalization as a process driven by interplay between learning about international business operations and commitment to international markets (Johanson and Vahlne, 2003). Firms are regarded to move to close by markets to start with, to which the perceived psychic distance is low. Thereafter, with a gradually growing stock of internationalization knowledge and experience, uncertainty of the firm will decrease and they will move to more distant markets (Johanson, Blomstermo & Pahlberg, 2002). Psychic distance is generally seen as the factors preventing or disturbing the flows of information between firm and market (Johanson and Wiedersheim-Paul, 1975), but Hallén and Wiedersheim-Paul (1984:17), views the construct as the *difference in perceptions between buyer and seller regarding either needs or offers*. Thus it regards how distance is perceived by one actor in its foreign relationships with other actors. A broader theoretical concept on distance is the institutional distance, which concerns major differences between how societies are organized in terms of normative, regulatory and cognitive aspects (Kostova, 1997). Institutional distance, in Jansson, Hilmersson & Sandberg (2009) discussed as perceived institutional distance, is a broader concept than psychic distance (Johanson & Wiedersheim-Paul, 1975), cultural distance (Majkgård, 1998) or geographical distance.

The US based process models go in line with the Uppsala model but view the internationalization as an innovation of the firm (Andersen, 1993). They are all behavioral models, thus being more dynamic than the static economic models covering foreign market entry and FDI of firms, e.g. the OLI paradigm by Dunning (1993). The dynamic approach of the models however also makes the models more difficult to test. The Uppsala model, developed from research on four Swedish firms has been continuously tested during the years, mainly for Western MNCs but to some extent also for SMEs (e.g. Hohental, 2001), and has been shown to be valid by most empirical studies (Vahlne and Nordström, 1993, in Fillis, 2001). Still, due to its descriptive nature, it is difficult to test the model quantitatively (Andersen, 1993; Gankema, Snuif & Zwart, 2000). As alternative, the Cavusgil (1980) model developed from research on US SMEs (less than 500 employees) presents five stages of internationalization due to export share. It has been tested and shown valid for smaller firms (Gankema, et al. 2000). The model by Cavusgil (1980) has been operationalized as export value in relation to total sales. The internationalization of SMEs is categorized into five stages. During the first stage, firms have a domestic market focus and thus zero export. Next follows the pre-export stage, when the firm evaluates the possibilities to start exporting. The third stage is experimental involvement, when exporting is a marginal activity from zero to nine percent export. The fourth stage is active involvement, when international business is a normal activity and reaches from ten to 39 percent export. A suitable organization structure needs to be in place for this activity. The fifth and last stage involves committed involvement in exporting, having an export share exceeding 40 percent. The firm can now be called international, since it is heavily dependent on foreign markets.

However, new patterns of internationalization of smaller firms have emerged beside the stage models (Wolff & Pett, 2000), thus the traditional models are challenged by research on born global firms (Bell, 1995; Blomstermo, Eriksson and Sharma, 2004; Knight and Cavusgil, 1996; Oviatt and McDougall, 2005). However, the existence of born globals in terms of Swedish firms is still low (Andersson & Wictor, 2003). Thereby, the born global theories are not included in this theoretical framework. Instead, the network models of internationalization are seen to be more useful in explaining internationalization patterns of SMEs (Ojala, 2009). Here relations are seen as significant for firm internationalization since the business network consists of relationships spurring international business activities (e.g. Forsgren, Holm and Johanson, 2005; Johanson and Vahlne, 2003; 2006). This approach is considered to be especially important for smaller firms, through developing long-term network relationships they can enlarge their resource base and conquer size-related barriers that restrain their growth (Coviello & McAuley, 1999; Coviello & Munro, 1997).

When relating a selection of factors (experience, uncertainty, and distance in terms of geographical and institutional distance) in the internationalization process of firms to the notion of long-term business relationships as the goal in developing international business relationships, the following propositions are made:

P1a. There is a positive relationship between firm experience and the share of long-term business relationships in the emerging market

P1b. There is a negative relationship between perceived uncertainty and share of long-term business relationships in the emerging market,

P1c. There is a positive relationship between geographical proximity and share of long-term business relationships in the emerging market

P1d. There is a negative relationship between perceived institutional distance and share of long-term business relationships in the emerging market

2.2. Entry nodes and processes

From a network perspective, the entry mode of the firm becomes entry nodes, i.e. how the firm plugs into the local market network (Jansson, 2007b). There are various routes into the networks in the foreign markets, or nodes through which to enter. Entries through trade either take place directly with customers/suppliers or indirectly through intermediaries. Direct relationships, or dyads, are established between buyer and seller in the respective countries. Indirect relationships, or triads, involve some outside party or other type of entry node, usually an intermediary e.g. an agent, dealer or distributor (Jansson & Sandberg, 2008).

When entering an emerging market, the company needs to consider the market entry process of how the firm should build the relationships in the local market (Jansson, 2007b). There are either dyads or triads as presented above. In relation to entry mode, three groups of entry modes are generally discussed (here according to Cavusgil et al., 2002): (1) export entry modes, (2) contractual entry modes and (3) investment entry modes. Due to the uncertainty when entering international business, indirect channels seem to be preferable to reduce perceived risks. Initially, indirect export in the form of triads is seen as a step in the incremental internationalization process of the company. The responsibility then lies on the intermediary and it demands less of the exporter. However, there is a risk involved; it isolates the seller from the foreign market (thereby preventing the company to gain any international knowledge). The intermediary holds the control of e.g. final pricing effecting profits, customer relations effecting reputation and foreign sales. Direct export through dyads hold the advantages of control, concentrated marketing, high access to information and more protected regarding property rights. Though, there are higher start-up costs and risks. Contractual entry modes are e.g. licensing, franchising and countertrade, while the investment modes are e.g. marketing strategies, joint ventures and FDI. Lu & Beamish (2001) have found that SME choice of entry mode is affected by the firm resources; larger firms tend to have larger economic and managerial resources for the investments demanded for own representation in the market of entry than smaller firms.

Irrespective of entry node, the development of international buyer/seller relationships tends to follow a five stage pattern (Jansson, 2007b, being a modification of Ford, 2002). Each stage of the entry process can be described by a number of relationship factors, such as how the experience, commitment and adaptations of the parties increase across the stages and how the distance and uncertainty between them are reduced across the stages. In the first, pre-relationship, stage there are no real relationships established however some evaluation of potential contacts could occur. The following early stage includes negotiations and trial delivery in order to get to know each other. The third stage, the development stage, gives that the relationships become deeper since contracts are signed and trust is built up. Thereafter follows a long term stage in which the experience of business grows and adaptations are made as signs of trust and commitment. The final stage is reached when the relationship is institutionalized, thus bringing the risk of being phased out due to competition.

When relating a selection of factors in the internationalization process of firms to the notion of direct business relationships as advantageous in the development of the firm export activities, the following propositions are made:

P2a. There is a positive relationship between firm experience and the share of direct business relationships in the emerging market

P2b. There is a negative relationship between perceived uncertainty and share of direct business relationships in the emerging market

P2c. There is a positive relationship between geographical proximity and share of direct business relationships in the emerging market

P2d. There is a negative relationship between perceived institutional distance and share of direct business relationships in the emerging market

2.3. The importance of long-term and direct relationships for export performance

In order to secure competitive advantages to exploit in order to enhance (export) performance, firm needs one or more resources that are valuable, hard to imitate and rare (i.e. that existing and potential competitors do not have and cannot get) (Barney, 1991). Using this resource-based view with a network approach, having long-term and direct relationships (as advocated by Ford's (2002) relationship building model) can be seen as a way for internationalized firms to gain competitive advantages. Still, however, the importance of relationships for export performance has not gained much interest or support (Styles & Ambler, 1994). According to Lages et al. (2009), a firm's network should be regarded as a *vital, inimitable and non-substitutable resource* (p. 352), thus being a strategic resource and competitive advantage of the firms in export markets. It is supported by Styles & Ambler (1994) who view especially long-term relationships as key resources to the firm. In addition, Day (2000) point out that committed relationships are a sustainable competitive advantage of firms. The ability of the firms to create and maintain relationships with their most valuable customers is stressed as a way to gain competitive advantages in relation to competitors in the market.

When applying a network approach to the resource based view, networks and relationships are seen as valuable resources and competitive advantages that can be exploited in order to enhance the export performance of the internationalized firm, thus the following propositions are made:

P3a. There is a positive relationship between the share of long-term relationships and the perceived performance in the emerging market

P3b. There is a positive relationship between the share of direct business relationships and the perceived performance in the emerging market

3. Proposed research model and measurement of variables

3.1. Proposed research model

Figure 1 below illustrates the proposed research model by summarizing the propositions made above.

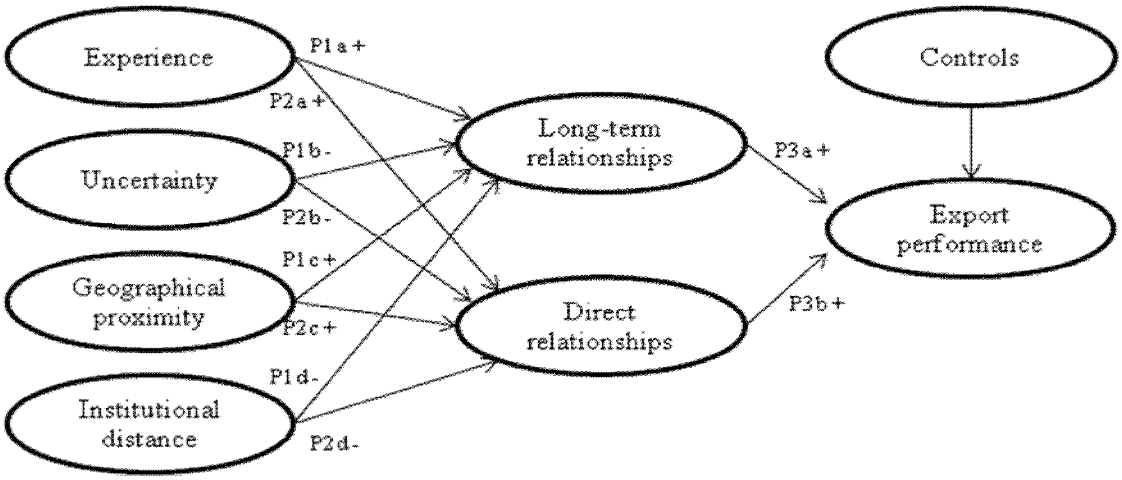

Figure 1. The proposed research model

3.2. Measurements of variables

Internationalization measures

The firm *experience in the emerging market* concerns the number of years the firm has been selling to the particular emerging market, i.e. from the year of entry until the year of answering the questionnaire.

Uncertainty concerning the emerging market is measured as the *perceived uncertainty* on a 1-7 Likert scale (from ‘strongly disagree’ to ‘totally agree’).

The distance of the emerging market is measured in two ways: firstly as being more or less *geographically proximate* to the home market of the firm, and secondly as a perceptual measure: the *perceived institutional distance* on a 1-7 Likert scale (from ‘strongly disagree’ to ‘totally agree’).

Relationship measures

The respondents have estimated the division of their relationships in the emerging market between being under development (early stage), or being an ongoing business (*long-term business relationship*). The longer in the relationship building the firms has come, following the Ford relationship building model for individual customers, the more long-term and ongoing the relationship will be.

In terms of entry node, the connection into foreign business network takes place through either *direct relationships (dyads)* or *indirect relationships (triads)*. This is measured through the entry mode used, i.e. the usage of dyads through direct export or FDI, or through triads through indirect export via intermediary in the market. Here, the current foreign operation mode in the emerging market will be looked upon, not the initial entry mode chosen.

Performance measure

The performance on the emerging market is measured through *perceived performance*. This is a subjective measure on how the respondent regards the performance in the specific emerging market to be, on a 1-7 Likert scale (from ‘strongly disagree’ to ‘totally agree’). A subjective performance measure is used since it is difficult to obtain objective measures on performance for individual markets (e.g. Frishammar & Andersson, 2009; Pehrsson, 2006). In order to counteract the risks involved in using subjective measures in self reporting studies (Podsakoff, Scott, Podsakoff & Lee, 2003), two respondents answered the part of the questionnaire regarding performance. This is also recommended by Lages et al. (2009). However, since no significant difference was seen from the reliability test between the two respondents, the answer from the most experienced respondent will be accounted for.

Control variables

Firm size in terms of number of employees. According to the EU-definition, SMEs can be divided into three categories: micro firms with 0-9 employees, small firms with 10-49 employees and then middle sized firms with 50-249 employees. Firms in this study are the ‘larger’ small firms and medium sized firms, having 20-249 employees.

Export country in terms of the market for which the respondent has answered the questionnaire, being either the Baltic States/Poland (then answering for the market he/she has the most experience of), Russia or China.

Degree of internationalization of the firm has been measured as international spread in terms of estimated number of international country markets the firm sells to.

Export intensity is a common measure covering the share (%) of total export in relation to total sales (e.g. Wolff & Pett, 2000).

4. The empirical study undertaken

4.1. Sample

In order to find a sample representative for the population aimed at – being manufacturing SMEs in mature EU-15 markets with experience of entries into emerging markets – a number of criteria were formulated. A geographical delimitation was made to firms in southern Sweden due to time and cost restraints. Nevertheless, this geographical setting is suitable for SME studies since it is well known for its high share of manufacturing SMEs. Concerning size we followed the EU definition of SMEs, having less than 250 employees, as well as added a lower limit of 20 employees to reach the more midsized experienced exporters. As we were interested in their experiences of entries in emerging countries we set a lower limit of an annual total export of at least 10 million SEK, of which at least one million SEK was to the emerging market of interest. The markets of interest of this study are the new EU countries around the Baltic Sea (Estonia, Latvia, Lithuania and Poland), as well as the larger more distant emerging markets Russia (grouped with Belarus and Ukraine) and China (grouped with North Korea and Vietnam).

Data was ordered in December 2005 from Statistics Sweden, covering all firms in southern Sweden matching the criterion presented above. We received data in January 2006 on 692 firms based on data from Swedish Customs and Intrastat of Statistics Sweden from 2004. In order to cover any gaps, parts of the list of firms was triangulated against an earlier compiled data base. Overall though, the list was discovered to still not be fully representative of the population. As a consequence the sample identification followed two distinct steps. In the first step we evaluated the secondary data provided of each firm towards the criteria posted. Hence, 199 firms were excluded due to failure to match our size or industry criterion. In the second step, the remaining 493 firms were contacted and evaluated over phone. This resulted in that further 216 firms were excluded since they were considered as not representative for the population in terms of the experience criterion. These firms had no relevant experience of market entry into the markets of interest, e.g. due to having no current export, being distributor to Swedish customers foreign facilities or to sister firms within the own corporation, or there were no person having the adequate experience. After these two steps, the sample in Southern Sweden fulfilling our selection criteria consisted of 277 firms.

As mentioned above, step two of the sample identification involved contacting all firms via telephone in order to establish (1) if the firm matched the population criteria, (2) that the potential respondent was interested in participating in our study and (3) if so, a meeting was booked at the responding firms facilities. Of the 277 firms in the sample, 203 firms were positive to participate in the study and to let us visit them on site. Accordingly they filled in our questionnaire. For each firm we had one respondent, either CEO, market/sales manager or area manager, answering for the market he or she had the most experience of. In order to avoid a market bias in the sample, the intention was to have half of the respondents to answer for the new EU-markets, i.e. the Baltic States or Poland, and half to answer for the more distant emerging markets of Russia or China (see the division in the table 1 below). Beside our 203 respondents, 74 firms did not fill in the questionnaire due to policies of not participating in surveys, no interest in this research, had no time of participating or were unreachable still after four attempts. In total, the response rate of our study is 73 percent which exceeds the general response rate accomplished in mail or e-mail surveys of internationalizing Swedish firms (e.g. Hohental, 2001). The profile of the responding firms is seen below.

	Baltic States/ Poland	Russia	China
n =	92	61	50
Firm size			
Employees (mean)	98	124	111
Turnover USD (000)	27367	34805	31217
International experience			
Exp/sales (mean)	65%	72%	78%
Number of foreign markets (mean)	25	39	40
Respondent position			
CEO	17%	20%	23%
Market/Sales Manager	64%	54%	47%
Area Manager	12%	20%	15%
Other	7%	5%	13%

Figure 2. Profile of responding firms.

The SMEs in the study have an overall mean of 94 employees and the mean international spread is 32 foreign markets. The mean share of export share of the firms is 70 percent (export/sales). In terms of respondents for each country, the division within the sample of 203 firms is: 92 firms exporting to the Baltic States or Poland, 61 firms exporting to Russia and 50 exporting to China. To start with, there were only one respondent from each firm, however after conducting one third of the questionnaires we asked for an additional respondent concerning the variable 'Performance'. It was a measure made in order to handle the method bias of having one single respondent for a potential dependent variable (Podsakoff et al., 2003).

4.2. The questionnaire and the on-site survey method

As base for the questionnaire, a thorough literature review was undertaken during the fall 2006 concerning theories on internationalization of firms. Especially the theoretical framework of Jansson (2007b) lie as ground for hypothesizes that were formulated early spring 2007. The final questionnaire is a standardized questionnaire covering two parts. One part concerns general information on e.g. turnover, number of employees and number of markets (six open questions) as well as the perceived general degree of internationalization of the firm (20 questions answered on a 7 point Likert scale from 'strongly disagree' to 'totally agree'). The second part concerns the specific country market, e.g. trade development from 2000-2006 in percent, and number and size of customers (5 open questions) as well as the perceived international experience, organizational learning, relationship linkages, institutional distance and performance (124 questions answered on a 7 point Likert scale from 'strongly disagree' to 'totally agree'). The usage of Likert scale is suitable when measuring attitude or perceptions of respondents according to Neuman (2000), recommending 4 to 8 point scales. The questionnaire was initially tested through a pilot study with six firms, undertaken late April/early May 2007 through visiting the firms and letting the person responsible for the adequate market answer the questionnaire. The firms were chosen from earlier contacts. From this pilot study, some changes were made in the questionnaire and in addition a survey guide was developed in order to standardize the interview situation.

In the first round of interviews, the firms in the geographical surroundings were contacted. In the middle of June 2007, an introduction letter was sent out via mail to 100 firms. The letter was also signed by the local representatives of the Chamber of Commerce and Industry in Southern

Sweden, and the Export Council, thus showing their support to the study and enhancing the credibility of it. Thereafter, the firms were geographically divided among the researchers and contacted via phone. The course of action was similar when in the second round of interviews, however then there were no mail sent in advance. Instead the researcher either e-mailed the firm/respondent or contacted him/her directly via phone. The phone contact was made in order to investigate the firms' engagement in export to the relevant countries and thereby single out a representative sample. For the call, a specific conversation guide was established. It was crucial also that the right person was contacted directly in order to get the most reliable information but also in order to book a interview if admitted by the respondent. Once contacted, the firm was categorized as suitable for the study and thus a meeting was booked if possible, or if not possible as suitable but non-willing respondent. The alternative was that the firm was considered as not suitable, e.g. due to no export to the chosen countries, being only production unit having no sales or being sub-contractor to a Swedish customer only delivering the products to the foreign market. If so, the firm was considered to not be part of the population and was thereby excluded from the list of firms for the study.

Once the initial contact had assured the suitability of the firm and respondent, an on-site meeting was booked. Thereafter an e-mail was sent to confirm the booked meeting, along with an attached information letter concerning the study, and details on the meeting proceedings. The meeting then took place at the responding firm for approximately 1-1,5 hour. Such an on-site survey method was used to secure the reliability of the study; we meet the right person and he/she fills in the whole questionnaire (i.e. avoid missing values often occurring in mail surveys). In addition, the interview situation was standardized (Kvale, 1997): firstly a conversation was undertaken where the interviewer (1) presents the project and research team, (2) states the purpose of the study, (3) describes the sample of the study, and (4) presents the questionnaire. This conversation followed a semi-structured interview guide (Merriam, 1998). Also, the respondent was asked to present himself, the firm, its products and (international) business, as well as (international) markets and customers. Time consumption for the conversation was about 30-45 minutes. The background information concerning the respondent and the firm was then summarized into a template, often during the time the respondent filled in the questionnaire, which took him/her approximately 30-45 minutes. In order to make the respondent consider each part of the questionnaire equally important, the part have been presented and handled over separately as recommended by Podsakoff et al. (2003).

The on-site survey method used in our study is sometimes referred to as 'drop-in-questionnaire technique', and even though labor and cost intensive it offers the advantages of ensuring commitment of the respondent, standardization of the data collection process and accessibility of adequate support from the research team on site if needed (Holzmüller & Stöttinger, 1996). In total 203 SMEs in Southern Sweden have been visited and each researcher has undertaken ca. 50 interviews. A geographical division was made between the researchers. In order to assure efficiency in the data gathering process, each researcher has contacted and booked his/her own interviews and visits. With a somewhat proximate geographical area allotted, a range of one to four interviews could be booked each day for one to up to three days in a row. The data gathering was mainly undertaken during the fall 2007 and spring 2008, and thereafter all data was compiled into a database in SPSS in order to further analyze the material.

5. Suggested progress and contribution of the paper

The propositions presented in this paper will in further research be tested on the sample of 203 SMEs in southern Sweden with experience of entering the emerging markets of the Baltic States/Poland, Russia and China. In order to answer the main research questions, a two step analysis will be made. Firstly, to determine the importance of the four factors suggested (experience, uncertainty, geographical distance and institutional distance) as drivers in the building of international relationships in emerging markets, the propositions 1a-1d and 2a-2d will be tested. Secondly, in order to discuss which effect the development of long-term and direct relationship might have on the export performance of SMEs in emerging markets, propositions 3a and 3b will be tested. By answering these questions, theoretical advancements can be made concerning drivers of relationship building in emerging markets, as well as empirical contributions on the less researched internationalized SMEs with experience of entering emerging markets. Possibly, managerial implications can be discussed regarding the importance for SMEs from mature markets of developing long-term and direct relationships when exporting to emerging markets.

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