



**GÖTEBORGS UNIVERSITET
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**The Industrial Exporter-Distributor Trade
Relationship – A Portrayal of the Development
Path Derived From Diverging Agendas**

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**LICENTIATUPPSATS I FÖRETAGSEKONOMI
DECEMBER 2011**

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Abstract:

Marketing activities through the use of distributors is a common means for exporters to reach markets. However, research is limited concerning; 1) development of the exporter-distributor relationship, 2) implications of multiple partners on the actors within the dyadic relationship, 3) a distributor perspective of the relationship and 4) the deterioration of the relationship. This study portrays the development between exporters and distributors and accounts for developments in terms of offering to market among the dual partners and how these can negatively affect existing relationships. The purpose of the study results in questioning; How do strategic actions that affect market offerings contribute to the deterioration of industrial exporter-distributor trade relationships?

A review of exporter-distributor literature, transaction cost theory, strategic alliance literature and business network theory has been performed. The latter three theoretical perspectives have been chosen as they portray diverging perspectives on inter-organizational interaction and partly add to an increased understanding of deterioration, although the theoretical perspectives on an overall basis do not emphasize inter-organizational deterioration. A multiple case study was conducted including an exporting firm and four of its distributors in the Middle East. Comparisons are made regarding the exporter's and the distributors' strategic trajectories in terms of the relational developments between the exporters and distributors and their offerings to market. Thereafter an alternate analysis approach is portrayed, emphasizing different features of the relationship together with the related theory, leading to the concluding remarks where the findings in the analysis are amalgamated to enhance understanding of exporter-distributor relationship deterioration.

The main contribution of the study is that it increases the understanding for why the exporter-distributor relationship can deteriorate as a consequence of changes to market offering that acts as a distortion to the context when the partners engaged in a relationship. The study also portrays a dyadic view on the relationship, enhancing understanding to the limited insights of exporter-distributor relationships portrayed from a distributor perspective.

Keywords: Exporter, Distributor, Relationship, Deterioration

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Language: English

Pages: 198

Licentiate Thesis 2011

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Acknowledgements

During this process, I have received valuable insights from opponents during the planning seminar and internal seminar. Hence, I would like to thank Professor Jan-Erik Vahlne, Associate Professor Patrik Ström and PhD student Caroline Teh. I am also thankful for the input from staff attending CIBS (Centre for International Business Studies) seminars. Moreover, I would like to acknowledge my PhD colleagues for their support and advice, particularly PhD students Marissa Ekdahl, Oxana Smochin, Per Thilander and PhD Rebecka Arman.

I am most grateful and humble for the immense support I have received from my supervisors Associate Professor Katarina Hamberg Lagerström, Assistant Professor Roger Schweizer and Professor Bent Petersen. Your continuous questioning, patience and guidelines have been invaluable.

I would like to acknowledge and thank the editors, significantly Linda and Leslie¹, who gave me priceless comments and helped me clarify and strengthen the reasoning in this study.

I also want to express my gratitude to the exporting firm and the employees who participated in the study for providing me the possibility to pursue a study on a subject of sensitive nature. I would sincerely want to thank the regional managing director in UAE. Furthermore, I would also like to thank the employees at the distributing firms and significantly the distributor managers who patiently participated in the study.

I would like to recognize and thank the Torsten and Ragnar Söderberg foundation for providing means to be able to travel and fund parts of the research.

I am grateful for all the encouragement and love I have received from my family and relatives. I also want to express thanks to Roy Högberg and John Hallberg for their support when experiencing some dark moments.

Aida Naderi, without our efforts, this study would have never taken place. Thank you.

¹ Linda, the WriteWatchman and Leslie, the WritingWorks, Elite Editors at EditAvenue.com

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List of Abbreviations

ABC	Additional industrial exporter using the same distributor in UAE as GE	M&A	Merger and Acquisition
CEO	Chief Executive Officer	ME	Middle East
COO	Chief Operating Officer	MNC	Multinational Corporation
EMEA	Euro-Asia, Middle East and Africa	NOP	Competitor to GE
FOM	Foreign Operation Mode	P&L	Profit and Loss
GE	Golden Egg	R&D	Research and Development
HQ	Headquarter	RMD	Regional Managing Director
HR	Human Resources	RO	Regional Office
JV	Joint Venture	ROI	Return on Investments
KLM	Competitor to GE	TCA	Transaction Cost Approach
KPI	Key Performance Indicators	UAE	United Arab Emirates
		XYZ	Governmental Department

1. Introduction

The introductory chapter reveals the background and history for why research on the relational deterioration between exporters and distributors is an important topic to study. It briefly describes how I approached this phenomenon and presents the purpose and the research question to offer a clear understanding of the inter-organizational relationship.

1.1 Background

The exporter-distributor relationship is argued to be an important unit to study due to the amount of effort that exporters invest in constructing a long-term relationship (Gençtürk & Aulakh, 2007). A vast amount of the literature dealing with this intense exporter-distributor relationship emphasizes and presents the variables that enable the exporter to control, maintain, and develop the relationship, especially when terms like trust and commitment are frequently applied (Deligonul & Cavusgil, 2006; Gençtürk & Aulakh, 2007; Gripsrud, Solberg, & Ulvnes, 2006; Gadde, 2004), and where the duration of the distributor agreement is seen as being dependent on the perceived value that the two partners have to each other (Balzer, 2004). Balzer (2004) further argues that that an exporter-distributor agreement has an individual “path of life” and cannot remain sustainable over time.

Rather than focusing on the initiation of an exporter-distributor relationship as an entry mode, the development and possibly the dissolution of that relationship, presents another side of the coin. Liesch, Welch, Welch, MCGaughey, Petersen, and Lamb (2002) argue that only a handful of articles have examined the process of foreign operation mode (FOM) alterations and the reasons for these changes. With regard to the alteration of the exporter-distributor relationship, Rosson (1987) revealed at the end of his seven-year study, which examined 21 industrial exporter-distributor relations, that only one of the studied relations was considered to be prosperous at the end of the study. Of the rest, 9 were considered merely static or inert, whereas 11 had been terminated.

Rosson (1987) argues that if the data were indeed representative, very few exporter-distributor relationships would be likely to remain successful over time. This lack in market performance from an exporter perspective is argued to be the reason for such a decline. Yet, when considering the obstacles to success, Rosson (1987) puts forward-- 1) hard economic climate and 2) exchange

rate fluctuation. Firms need to adjust to their relative environment, including the appearance of contingencies, the strategic actions within a firm, and whether an exporter or a distributor, ought to have consequences for its position regarding that firm's corresponding partners.

It is argued that future research on exporters and distributors should study how the critical events of organizational development can affect export activities (Andersen, 1993). This reasoning is linked to the limited research recognition of the "...*dynamic nature of foreign market servicing decisions.*" (Benito, Pedersen, & Petersen, 2005, p. 170). Moreover, since an exporter often deals with a multiplicity of distributors, there is also a need for an increased understanding of the dynamics involved in handling a portfolio of relationships (Wu, Sinkovics, Cavusgil, & Roath, 2007). Much research concerning the exporter-distributor relationship has its foundation in the exporter perspective (Zhang, Cavusgil, & Roath, 2003; Racela, Chaikittisilpa, & Thuomrunroje, 2006; Gençtürk & Aulakh, 2007; Beaujanot, Lockshin, & Quester, 2006; Gripsrud, Solberg, & Ulvnes, 2006; Deligonul & Cavusgil, 2006; Wu, Sinkovics, Cavusgil, & Roath, 2007). However, as dependence is mutual in the relationship, described in the study by an interviewee stating that, "*When you rely on someone else's resources what you do basically is that you are not able to direct those resources, and when I say resources, I mean human resources*" (Shahid 2009). Therefore, if exporter-distributor relationships deteriorate, researchers should react and look at both partners to increase understanding for why and how deterioration might occur. Therefore, increased understanding of the dyadic nature of the relationship, as constituted by both the exporter and the distributor, is necessary to increase the insight (Racela, Chaikittisilpa, & Thuomrunroje, 2006; Wu, Sinkovics, Cavusgil, & Roath, 2007).

Rather than looking at external factors as the determinants of a possible dissolution of the dyadic exporter-distributor relationship, this study takes its direction and acknowledge the internal developments within the two corresponding actors and portray how the strategic activities within and between exporters and distributors evolves and how these changes can affect the existing relationships between the actors.

To increase understanding of the context of the study and the existing literature that relates to the exporter-distributor relationship, this study offers a literature review of the characteristics surrounding exporter-distributor relationships. Further, as a means to increase understanding surrounding inter-organizational relationships and aspects of how and why exporter-distributor

relationship deteriorate, three theoretical perspectives connected to the research topic are presented. A business network approach is presented as it can better argue for the effects of a multiplicity of influential relations and their effect on an organization and can help portray the characteristics of inter-organizational relationships. Further, a transaction cost approach (TCA), also presented herein, complies with the interests of the single firm as a means to grow, where specifically there are governance mechanisms when the firm is reacting with a partnering firm. The third perspective stems from the strategic alliance literature and introduces new insights of dyadic relational evolution, alliance deterioration as well as an understanding of the portfolio perspective of relations managed by a single organization and how these portfolios can influence an inter-organizational relationship. Overall, these three theoretical perspectives do not focus on deterioration as such, but when combined, do offer valuable insights for why deterioration occurs and how it happens.

1.2 Purpose of the Study

The purpose of this study is to examine how the development of actors, as a consequence of strategic actions of the exporter and/or the distributors, do affect the trade relationship between the parties in order to understand why and how the relationship deteriorates. The notion of trade is used to highlight when a relationship actually begins or ends. Havila and Wilkinsson (2002, p. 191) argue that, “...relationship ending is problematic in that, even when trading stops, there still seems to exist a kind of “relationship energy” which continues on, especially in the social bonds that have been created.” Therefore, in order to describe the relational characteristics around a relationship and how strategic actions can affect these relationships, the term “relationship” and the path of the exporter-distributor relationship becomes bound to the sequence in time when both parties actually acknowledged that trade transactions took place between them. With regard to strategic actions, these are based on the decisions taken by the two focal actors in the study, for as Quinn, Mintzberg and James (1988, p. 3) argue, “Strategic decisions are those that determine the overall direction of an enterprise and its ultimate viability in light of the predictable, the unpredictable, and the unknowable changes that may occur in its most important surrounding environments. They ultimately shape the true goals of the enterprise.” The strategic actions in this study refer to changes in the offering to market which can be accomplished through mergers and acquisitions or an extension of a product portfolio.

In sum, this thesis focuses on the impact of strategic actions that affect the market offering by an industrial² exporter as well as a distributor, thus by changing the initial setting in which the agreement was originally settled between the two corresponding actors. More specifically, this study addresses:

- How do strategic actions that affect market offerings contribute to the deterioration of industrial exporter-distributor trade relationships?

1.3 Approaching the Research Question

In order to depict exporter-distributor relations precisely and present a dual perspective of that relationship, a multiple case study is conducted where one exporter and four of its distributors are studied. These relationships are established in different sequences in time with the youngest established recently and the oldest relationship existing for almost four decades. All five organizations portray diverging trajectories in terms of their offerings to the market. Thus, the intention of the empirical findings offered in this research is to allow for comparisons and an increased understanding of the phenomenon as the exporter is part of all relationships where similar transactions take place in all of them.

The main contribution of the study is an increased understanding of how and why exporter-distributor relationships do/can deteriorate. Theoretically, this research will add insights into how an increase in inter-organizational relationships can affect a single relationship as well as present an increased understanding of the implications of changes in market offering and the complications such actions can bring to the inter-organizational relationship. The study also incorporates a distributor perspective into the relationship to add insights to the present understanding found in the existing exporter-distributor literature.

1.4 Disposition of the Thesis

This study is initiated with a conceptual framework to depict a theoretical generalization of industrial exporter-distributor relationships and bring forward aspects that solely affect and highlight the characteristics of the exporter-distributor setting and thus the context in which the

²The reason for the term “industrial” is bound to the notion that an industrial context requires increased investment, and thus commitment as relatively high knowledge transfers must be made for the distributor to be able to handle logistics, sales, and after-sales activities (Welch, Benito, & Petersen, 2007). Moreover, the study took place in an industrial setting and cannot account for any traditional retail context.

parties deal with each other. Thereafter, the theoretical chapter offers the theoretical lenses used in the study portrayed through; business network theory, a transaction cost approach (TCA), and alliance effects on interorganizational-relationships found in the strategic alliance literature to gain insight into firm behaviour and its effect on inter-organizational relationships. The analysis begins by revealing insights gained from the empirical data and compares the empirical findings to the exporter-distributor literature. The findings are thereafter seen through the theoretical lenses to offer differentiated views since the theoretical perspectives do emphasize different characteristics of the actors and the relationships. The final chapter brings forward a combination of factors that have their foundation in all theoretical perspectives to explain and provide increased understanding on why and how exporter-distributor relationships deteriorate.

2. Conceptual Framework

The conceptual framework initially portrays the exporter-distributor context and the characteristic implying in the trade relationship. Thereafter, three theoretical perspectives in terms of the business network perspective, transaction cost approach and aspects related to exporter-distributor relationships not highlighted by the prior two theoretical perspectives are presented through the strategic alliance subchapter.

2.1 The Exporter and the Distributor

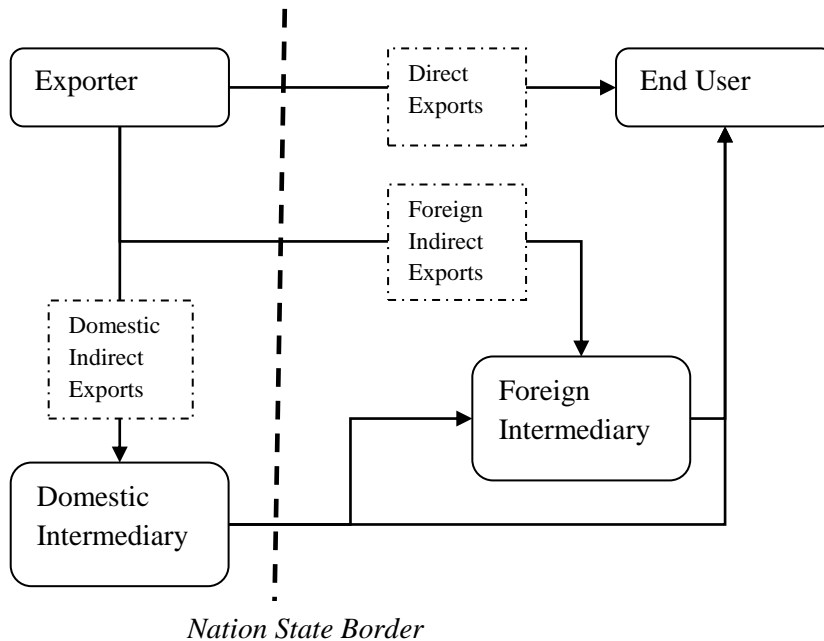
Most studies concerning exporter-distributor relationships has its foundations in research from the exporter's perspective (Zhang, Cavusgil, & Roath, 2003; Racela, Chaikittisilpa, & Thuomrunroje, 2006; Gençtürk & Aulakh, 2007; Beaujanot, Lockshin, & Quester, 2006). In this subchapter, the main characteristics from both actors' perspectives are portrayed in order to highlight the prevailing business conditions inherent to exporter-distributor relationships.

2.1.1 Export Operations

Exports are commonly considered an early entry mode when considering firms' internationalization and expansion process (Welch, Benito, & Petersen, 2007; Root, 1994; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 2009). Root (1994) argues that exporting can be divided into two subcategories: indirect and direct exporting. Indirect exporting refers to the use of domestic intermediaries to transfer goods to end users. In contrast, direct exporting refers to exports that reach end users immediately or exports that reach end users through the use of foreign intermediaries. The reasoning behind the terminology "direct exporting" is based on the notion of an own active foreign entry strategy, in which it is argued that the exporting firm has several advantages in terms of partial or full control of foreign marketing; increased concentration of marketing efforts devoted to the exporter's products; a faster and increased flow of information from the foreign market; and better protection of intangible property rights (Root, 1994). Root (1994, p. 57) also argues, however, that with regard to the advantages of direct exports, "*...these advantages can be realized only when the exporting firm assumes responsibility for the international marketing effort in carrying out its entry strategy*" Root (1994) furthermore states that an exporting firm increases its possibilities to control marketing efforts in foreign markets when using a foreign intermediary compared to a domestic.

Welch, Benito and Petersen (2007) posit a different approach (see Figure 1) where direct exports are considered sales from the exporting firm directly to foreign end users and where indirect exports can either be considered domestic or foreign. Domestic indirect exports refer to the use of a domestic intermediary, for instance a trading company, whereas foreign indirect exports are seen as exports through the use of a foreign intermediary in the market of interest. Note that a domestic intermediary can use a foreign intermediary to reach end users in the foreign market. It can be argued that any use of an intermediary implies an indirect path to an end user, which thus increases the complexity of controlling the marketing strategy. This study employs a perspective regarding foreign indirect exports through foreign intermediaries as described by Welch, Benito, and Petersen (2007).

Figure 1: Export Operations



Source: Welch, Benito, & Petersen (2007, p. 248)

According to Wheelen and Hunger (2000), an exporter can be defined as a firm that ships goods that are produced in the firm’s home country to foreign nation states for marketing. For example, a multinational corporation (MNC) and its transfer of goods between intra-organizational parties across national borders are referred to as exports based on this definition. Moreover, Wheelen and Hunger’s (2000) terminology does not allow for an exporter to have production facilities or output in countries other than its “home country”. As a distributor is an external partner to an

exporting firm, exports will hereafter be referred to the transfer of products from one nation state to an external partner in a different nation state.

2.1.2 Distributors

The term “intermediary” has been considered an umbrella term for actors indirectly linking the manufacturing firm with its end users. If considering foreign indirect exports, intermediaries are often divided into distributors (traders) and agents (brokers). The major difference between the two is that agents receive commission on products sold, whereas a distributor purchases goods from the exporter and thereafter re-sells the products to the end user to make a profit. Therefore, a distributor owns and has legal responsibility of the product during a period of time (Bello & Lohtia, 1995; Brown & Herring, 1995; Welch, Benito, & Petersen, 2007; Benito, Pedersen, & Petersen, 2005; Schröder, Trabold, & Trübswetter, 2003; Root, 1994; Peng & York, 2001). Consequently, a foreign distributor inherits a certain level of market governance as opposed to agents and is equipped with a larger number of tools and options with regard to the local distribution of the exporter’s products. It is thus more difficult to control a foreign distributor than it is to control an agent (Bello & Lohtia, 1995).

The overarching function of a distributor is argued to be a “one-stop shop” where it facilitates a portfolio of represented exporter products to customers. Moreover, a distributor generally has two main functions toward the exporter: as a demand generator and as a supply fulfiller (Dent, 2008). Firms use distributors when they have limited knowledge of the targeted foreign market and how that market may grow. The decision to use a distributor, therefore, is characterized by uncertainty from an exporter’s perspective (Eriksson, Hohenthal, & Lindbergh, 2006; Buckley & Casson, 1998; Bello & Lohtia, 1995; Rosson & Ford, 1982). Other reasons firms use distributors include the relatively low fixed costs involved in initiating a distributor agreement (Bello & Lohtia, 1995); the distributor’s familiarity with local legislation and politics (Zaheer, 1995); the potential to create synergies with other products within the distributor’s product portfolio; the decreased risk of fluctuating exchange rates from an exporter’s perspective; the distributor’s ability to handle after sales services through an own setup (as opposed to an agent); and the distributor’s understanding of the local culture. It is also argued that the risk of not obtaining payment, especially in times of recession, is transferred to the distributors, because they purchase the products from the exporter. In general, distributor’s orders from the exporter are large and later

split to serve customers, giving the exporter the advantages of economies of scale (Brown & Herring, 1995).

Besides functioning as a sale apparatus, the distributor may conduct market research, train sales people, invest in promotions, and provide technical services. These are just a few examples of the benefits the exporter can gain by acting through foreign distributors. Moreover, customers tend to gain from a distributor set-up as opposed to direct exporting because they can turn to a distributor within the specific industrial sector for direct support. Hence, this allows long-term relationships to be established with distributors, which are argued to function as an extension of the exporter (Brown & Herring, 1995).

Researchers and practitioners have noted that the main benefit of using a foreign distributor is the fast return on a limited investment from the exporter's perspective. The distributor have an established infrastructure (Welch, Benito, & Petersen, 2007; Ward, 1984; Rosson & Ford, 1982) and a well-established customer base; where in contrast an exporter must set up an own operation in a foreign market (Rosson & Ford, 1982). Importantly, the level of physical investment a distributor makes in contrast to an agent is still considered relatively limited, because it serves as a service toward customers (Bello & Lohtia, 1995). It could be argued, therefore, to only affect the latter stages of an exporter's primary activities if taking a value chain perspective. Bello and Lohtia (1995, p. 90) depicted the notion of product differentiation and complexity requiring physical assets as follows, *"...when export transactions are characterized by higher levels of equipment and other capital expenditures, distributors rather than agents tend to be used. It appears that the motives to protect specific physical investments are offset by the unique skills and marketing-distribution infrastructure offered by foreign distributors"*. This phenomenon may be more evident in a complex industrial setting that requires more initial investments from both parties than in a "off-the-shelf" setting (Welch, Benito, & Petersen, 2007).

2.1.3 Distributor Selection

Ellis (2000) states that using social ties and personal links (rather than market research) usually work as a tool to acquire knowledge of foreign market opportunities. Moreover, it is acknowledged that it is not always the potential exporter who initiates a foreign opportunity, but frequently it is the potential buyer or importer in the foreign market who establishes the relationship. In accordance with the previously mentioned argument, Ellis (2000, p. 447) states,

“The evidence from this study, combined with anecdotal evidence reported in the literature, supports the view that decision-makers tend to follow the line of least resistance abroad by capitalizing on their existing connections with others”.

With regard to selecting distributors, an important decision for future success is who will be representing an exporter’s brand in a foreign market. Given limited time and internal resources, however, the need for a quick response to an inquiry or an approach by a foreign distributor often cause exporters in early foreign market engagement to make hasty selection decisions. On the other hand, exporters with distributor experience take more care in the selection process compared to previously decisions they have made. Exporters thus accumulate an understanding of the most suitable distributor characteristics they seek (Welch, Benito, & Petersen, 2007).

Beaujanot, Lockshin, and Quester (2006) and Cavusgil, Yeoh, and Michel (1995) argue that when the distributor’s business characteristics are similar to the exporter’s, this helps the exporter determine its marketing concept and market orientation in the foreign market, in which the distributor is used as a facilitator. Moreover, if the two parties have similar customer segments, and if a high degree of inter-functional coordination exists between the two parties, this positively influences business performance in the foreign market. Beaujanot, Lockshin, and Quester (2006) and Gadde (2004) emphasize that a distributor’s features alone do not influence business performance directly; instead, performance is influence through cooperation between the exporter and the distributor. Bello and Gilliland (1997) also highlighted this notion, arguing that selecting good partners ensures that rather informal modes of governance can be used through collaborative measures.

2.1.4 Contracts

Contracts are important for an inter-organizational relationship’s foundation and are believed to support a level of control and commitment. Cullen, Johnson, and Sakano (2000) illustrate the important aspects of commitment and trust in relations, arguing that when companies interact with each other, they need contractual agreements because many crucial determinants need to be regulated. In contrast, the authors further stress that, *“no contract, no matter how complete or detailed, can account for every issue or every contingency that might arise”* (Cullen, Johnson, & Sakano, 2000, p. 226).

One of the most important characteristics of an exporter-distributor contract addresses exclusivity. While the exporter aims to avoid becoming too dependent on a single distributor and seeks to spread the risk of possible market failure in a certain market, they will preferably seek “non-exclusive agreements” with local distributors, providing the option to either employ additional distributors or own the right to handle sales operations internally. Simultaneously, the distributors often desire to engage in “exclusive agreements”, which empowers only them to operate sales in a specific foreign market. As a mean to balance these two extremes, it is often observed that the two parties engage in an exclusive agreement, which is narrowed to a certain region of the market (Brown & Herring, 1995; Welch, Benito, & Petersen, 2007).

Because a contract cannot account for all contingencies, however, relationship management is the “only” long-term strategy that could allow a higher degree of control and secure increased optimal exporting performance (Welch, Benito, & Petersen, 2007). Furthermore, taking into consideration the notion of contingencies, Balzer (2004) emphasizes that a contract cannot be used as a tool to ensure longevity. Instead, contracts ought to be limited in terms of time, and demand renewal procedures between the contract intervals.

2.1.5 The Relationship

Besides the initial choice mode of using a distributor, managing the relationship is seen as vital determinant for the success or failure of the distributorship and export performance (Welch, Benito, & Petersen, 2007). Here, the buildup of commitment and trust plays an important role (Kuhlmeier, 2005). This is also highlighted by Cavusgil, Deligonul, and Zhang (2004, p. 7) who state that, “...*trust makes the relationship function*”. Relationship management is argued to be founded in activities such as, “...*adequate margins and credit terms; delivery reliability; exporter visits and responsive communication; support provided by the exporter in the form of appropriate product information and promotion assistance; training and technical and service back-up*” (Welch, Benito, & Petersen, 2007, p. 261).

Brown and Herring (1995, p. 293) even argue that an if an exporter develops a strong relationship with its distributor, being founded on equal trust, “...*no actual disadvantages would be found*” and if, “...*manufacturers would think of, and treat distributors, as the equivalent of their own sales and marketing department...manufacturers can have as much control as if they were selling*

directly” (Brown & Herring, 1995, p. 293). Moreover, establishing such a relationship is foremost believed to be the task of the exporting firm (Kuhlmeier, 2005).

According to Welch, Benito, and Petersen (2007), investing in establishing strong relationships is resource demanding, specifically on human capital. Indeed, studies have shown that an important way to build relational stability is through an exporter’s personal visits to the distributors. The importance of this action is highlighted because it is argued that sales performance is positively affected by exporter visits (Welch, Benito, & Petersen, 2007). When visits are conducted infrequently, sales patterns are believed to follow an inconsistent trend. Although technological developments facilitate interactions across borders, personal and social activities are seen as being the most important tools for managing successful relationships with foreign distributors (Welch, Benito, & Petersen, 2007).

Although distributors are concerned about the stability of the exporter’s business, the underlying logic of how they conduct business and their role in the relationship has been described as a “circus performer” active in a balancing act, where they run the risk of being replaced if they over- or under-perform toward their corresponding exporter (Welch, Benito, & Petersen, 2007). The balancing act is also highlighted by Brown and Herring (1995), who describe the role of the distributor as a “tight rope walker”. If the distributor does not live up to the established agreements between the two parties, the exporter’s discontent might lead to the agreement being terminated. Likewise, if the distributor constantly optimizes the exporter’s business, it might signal as a strong incentive to take over the business and handle operations internally. Welch, Benito, and Petersen (2007, p. 263) state, *“For the intermediary, this tends to be the reality that frames the relationship with the exporter, even if good relationships evolve”*.

Although the illustration of the distributor could be argued to be arduous, it is thought that due to globalization and trade liberalization, the evident advantages of foreign distributors are fading away, and increasingly, exporters are engaging directly in foreign markets (Brown & Herring, 1995). Nevertheless, Rosson (1987) note that the exporter-distributor relationship depends not only on the nature of the distributor, but often becomes troubled due to reasons such as: separate ownership creating split loyalties; a buyer-seller atmosphere; and ambiguous intentions stemming from both parties. This might indicate that information about the market has significant influential power on the relationship. Moreover, it is argued that the exporter is in many senses

seen as the “junior partner” in the exporter-distributor relationship. This statement indicates that the power base of the distributor in terms of local information, knowledge, and networks, gives them the opportunity to act rather dominantly (Welch, Benito, & Petersen, 2007).

In line with the above, Welch, Benito, and Petersen (2007) and Samiee and Walters (1991) introduces the notion that although local distributors are used extensively, they do not offer the presented advantages in isolation. Instead, they are also commonly the source of major problems for exporters, exemplified by drawbacks of identification, selection and negotiation processes between the two parties, as well as successfully maintaining the complex relationship over time. Moreover, Deligonul and Cavusgil (2006) argue that besides exporters’ difficulties in foreign markets due to geographical and cultural distance, heterogeneous legal systems and different norms and rules create boundaries in terms of switching costs. Local distributors are also often concentrated to a limited number of strong actors. Thus, the distributors become very strong in relation to the exporters.

2.1.6 Accumulating Foreign Market Knowledge when Using a Foreign Distributor

Liesch, Welch, Welch, MCGaughey, Petersen, and Lamb (2002, p. 22) observe that, “...*the circumstances surrounding the process of transferring knowledge and network connections from the outside agent (a sales agent, distributor, licensee, or franchisee) to the entrant firm are far from clear*”. Accumulating market knowledge is emphasized as a decisive factor for increased expansion and market commitment (Johanson & Vahlne, 1977). Gripsrud, Solberg, and Ulvnes (2006), however, argue that when a distributor is used, exporters mostly gather market information about the focal foreign market through its distributor. Therefore, the distributor acts as a form of gatekeeper. Bergen, Dutta, and Walker (1992) emphasize the gate-keeping function of the distributor such that even if the exporter may request a market analysis, the provided information tends to be biased. This is because the distributor has an interest in underestimating the market, creating a situation of severe information asymmetry.

Accumulating market information has different implications for the perceived performance of the distributor and the relationship from the exporter’s perspective. The implications depend on when the information is gathered during the relationship and the source of the information. In young exporter-distributor relationships, information stemming from the distributor generally has a positive effect on the distributor’s performance, whereas in long-lasting relationships information

stemming from the distributor has no effect on the exporter's perception of performance (Gripsrud, Solberg, & Ulvnes, 2006). Information from third-party sources, however, has a positive effect on the exporter's perception of distributor performance in long-lasting relationships (Gripsrud, Solberg, & Ulvnes, 2006). On the contrary, Gripsrud, Solberg, and Ulvnes (2006) show that trust in exporter-distributor relationships correlates negatively with information collection behavior from third-party resources. Interestingly, these results study stemmed from data collected from phone interviews with representatives of exporting firms; therefore indicating a one-sided perspective on the development of the relationship (Gripsrud, Solberg, & Ulvnes, 2006).

Welch, Benito, and Petersen (2007) argue that initially, market information is an important asset for the distributor, functioning as a tool for certain dominance. With time, as the exporter tries to gain insight into the market through the distributor, the distributor's momentum will be weakened. The increased availability of market knowledge may give the exporter an incentive to rethink foreign operation modes (FOM). As a means to access market information, Welch, Benito, & Petersen (2007) show that an exporter can implement strategic take-over of the distributor's key staff in order to acquire know-how and develop networks. Notably, while market information regarding actual sales might be easy to access, information concerning the potential sales opportunities is made less available (Welch, Benito, & Petersen, 2007).

The study of Benito, Pedersen, and Petersen (2005) indicates that although increased market knowledge is a driver behind increased market commitment, the desire to reclaim control over business activities is identified as the decisive factor underlying a change in an exporter's FOM from a distributor-agreement to one with a higher degree of market commitment.

2.1.7 The Distributor Business Model

From an exporter's perspective, several negative aspects emerge from the strategy of using a distributor. In addition to lack of sales control and lack of skills, negative aspects include the image the distributor portrays toward end users and the possible unwillingness to sell new products successfully. Distributors, as optimizing independent business entities, are often described as being very driven and depending heavily on sales output. Consequently, numerous authors have argue that distributor's marketing efforts will be directed toward activities that provide a direct link to sales (Welch, Benito, & Petersen, 2007; Peng & York, 2001; Dent, 2008).

Therefore, distributors might spend more time and effort selling products within its product portfolio from certain exporters to the detriment of other exporters (Welch, Benito, & Petersen, 2007; Brown & Herring, 1995).

With regard to the business model, distributors' working capital (inventory + accounts receivable – accounts payable) and their sheer size compared to net profits constitutes the most difficult entry for distributors to handle. Dent (2008, p. 37) notes, *“This balancing of the profitability and working capital profile of the product range is at the heart of the distributor’s business model”*. A combination of factors, therefore, can lead to the success and sustainability of a distributor's business. Success factors include the possibility to increase margins, reduce working capital, and offer stock and the best product options for customers. The business model can be increasingly more complex as growth leads to increased working capital, which can create cash flow problems if the net profit margin is scarce. Dent (Dent, 2008, p. 37) states that the distributor's business model, *“...requires exceptional day-to-day management control as well as a clear business strategy and well defined market positioning”*.

Except for growth through the sales of products from a specific exporter, alternatives for growth for a distributor that does not have patents to protect know-how and most often cannot re-export products due to exclusivity, is through product diversification (Pellegrini, 1994; Welch, Benito, & Petersen, 2007). With regard to risk, Deligonul and Cavusgil (2006) find that distributors can spread risk over a portfolio of various products and therefore have a stronghold toward the exporter. Using a distributor as a foreign operation mode, therefore, is a low control mode from the exporter's perspective (Bello, Urban, & Verhage, 1991; Roath & Sinkovics, 2006; Root, 1994; Hill, 2009).

Dent (2008, pp. 101-102) presents the business perspective of the exporter-distributor relationship where the distributor's perspective of the exporter (supplier) is depicted as, *“...the supplier and its products are not remotely interesting in or of themselves. The distributor sees them simply as means to its strategic and commercial ends, which we know are earning and turning products to create value.”* Likewise, to exporters, he gives the following advice, *“Remember you are selling a commercial relationship; you are selling your channel value proposition, you are not selling your products”* (Dent, 2008, p. 102). Interestingly, Dent (2008) also portrays the relationship as one that ultimately is based on the will of the distributor. He

argues that although distributors strive for long-lasting relationships with exporters (suppliers), the distributors, “...will only fire a supplier if things have really broken down, both commercially and in terms of relationship management” (Dent, 2008, p. 107). Furthermore, Dent (2008) finds that the distributor must find products that its customers demand and simultaneously ensure that exporters cover most of the marketing and sales expenses for those products. Exporters, on the other hand, must gain insight into the distributors’ strategic agenda and promote products that are beneficial commercially for the distributor. This notion implies that a distributor actually has an own strategic agenda, which might not always comply with the exporter’s agenda.

2.1.8 Strategic Agendas

The exporter’s expectations on generated business, relative to the distributor’s efforts are often overestimated (Peng & York, 2001; Rosson & Ford, 1982). Bello and Gilliland (1997, p. 25) argue that from a manufacturer’s (exporter’s) perspective, “...a lack of resources, the complexity of a manufacturer’s product, and perceived psychic distance create problems in relationship maintenance”, and moreover it is argued that, “...human investments and market volatility create relationship maintenance problems that affect the attention and involvement of both sides of the export transaction.” Related to the distributor’s performance, control has been put forward as an overarching method to deal with all types of complexities that the exporter may face, where the need for control stems from, “...a lack of trust in the environment” (Brown & Herring, 1995, p. 293).

The relationship also evolves over time. Rosson (1987) posit that high performance is associated with relationships in which the individual companies’ roles and routines have been adapted to each other, a dual commitment to developing business in the market exists, and where shared decision making and a low degree of tension and disagreement are evident. The author also acknowledges that it is the interaction between the two parties over time that is the crucial factor for success and performance rather than the initial contract. Notably, however, Rosson (1987) also finds that communicative interaction decreased over time in the 21 studied exporter-distributor relationships. These results also to some extent follow the findings of Kuhlmeier (2005) who argues that trust does not significantly influence distributor performance.

When the notion of time is brought into the discussion, it is worth noting that partners in a dyadic relationship do not stay static once a distributor contract is initiated. Recognizing that a

distributor is not an internalized entity to the exporter, and that the distributor has its own strategic agenda (Peng & York, 2001; Rosson & Ford, 1982), this notion ought to lead to a process in which the market orientation of both parties differs from one point in time to another. Differentiation, therefore, ought to occur from the moment a relationship has been established. Coughlan (1987, p. 85), for instance, recognizes that, “*We also see some manufacturers using independent distributors to sell their products when the firm’s product line is narrow, but switching to a wholly owned distribution channel when the product line grows more broad over time*”. This recognition is based on a market of complementary goods, where customers are believed to value one-stop shopping. The created combination of possibilities that have been created through an exporter’s product line growth, therefore, cannot be pursued fully if independent distributors are used for each product. Furthermore, prices tend to increase when more coordination concerning distribution is needed. Thus, both end customers and manufacturers benefit from an increase in channel coordination (Coughlan, 1987).

2.1.9 Alteration to the Relationship

Although the significance of the exporter-distributor relationship is put forward throughout literature, it is argued that distributors commonly fail to correspond to the expected and switches to alternative distributor or other FOMs are considered by exporters (Deligonul & Cavusgil, 2006; Welch, Benito, & Petersen, 2007). Problems with distributors often motivate exporters to internalize foreign sales activities. This is not done, however, before sales levels have increased to a level where it can support a local subsidiary and enough knowledge has been acquired about the foreign market (Welch, Benito, & Petersen, 2007).

The common failure of the exporter-distributor relationship (Rosson, 1987; Deligonul & Cavusgil, 2006; Welch, Benito, & Petersen, 2007) might initiate a desire to enter a new FOM. These considerations generally occur for two main reasons, namely; as a consequence of managerial misjudgments or, more influential, as a reaction to evolving circumstances (Welch, Benito, & Petersen, 2007). The triggering factors of the decision to shift FOMs are commonly related to market developments, the distributor, and/or the exporting firm. Discontent with the existing distributor is seen as one factor that can trigger a replacement (Welch, Benito, & Petersen, 2007). An interesting factor in this regard is that changes in an exporter’s management team may also affect possible mode shifts, because they are believed to be less bound to “business-as-usual” (Benito & Welch, 1997).

Growth of the local market is seen as one of the most influential factor of a possible mode shift. Simultaneously forces of enhanced local government policies, for instance related to foreign ownership structures and other types of market liberalizations function as an incentive for the exporters to move toward higher degrees of market commitment (Welch, Benito, & Petersen, 2007). With regard to growth, it has also been argued that growth of the exporting firm itself could function as an important shift factor toward establishing own set-ups, which result from the exporting firm's ability to collect capital and managerial resources over time (Welch & Luostarinen, 1988; Coughlan, 1987). Moreover, an argued discontent regarding distributors is their growth aversion when compared to the exporter, which is often a consequence of increasing local business opportunities and a distributor's limited management resources. The logical reaction of the distributor should be, in this case, to engage a larger management team and delegate responsibility to meet increasing demands. In many cases, however, it is argued that the distributor may have a founder who resists delegating because he or she seeks to retain control over all activities. This phenomenon is commonly seen in family run distributor firms (Shipley, Egan, & Edgett, 1991; Welch, Benito, & Petersen, 2007).

From the distributor's view of the relationship, Joseph, Gardner, Thach, and Vernon (1995, p. 34) argue that, "*Whereas long-term relationships should be terminated only after careful analysis, preserving such relationships are counterproductive if the distributor's goals and expectations are no longer compatible with those of the supplier*". The critical issue is to what extent the goals and expectations change from within the distributor or whether the changes are imposed by the exporter.

Although the exporter-distributor relationship has a troubled atmosphere, some factors hinder an exporter from leaving a distributor. The main drawback will be the opportunity costs that might appear because a distributor might have well-established networks with important stakeholders that affect the exporting firm. Terminating a distributor-agreement commonly implies the risk of severance payments or other contractual restrictions. Further losses include the cost of legal expenses and direct loss of sales. In addition, the signals that such action would send in one market are believed to affect revenues in other markets, creating a sense of uncertainty among the exporting firm's other distributors. Moreover, increased set-up costs appear if a new FOM is established, ranging from hiring appropriate staff and training to learning costs as the exporting firm undertakes all of the local processes. Yet, if the distributor needs continuous training as a

consequence of high employee turnover, incentives are given to establish in-house operations (Welch, Benito, & Petersen, 2007; Benito, Pedersen, & Petersen, 2005).

Benito, Pedersen, and Petersen (2005) note that changes in organizational and environmental conditions act as “switching motivators” and determine the “switching costs” for an exporter engaged in a distributor relationship. Moreover, changes in the organizational and environmental conditions create the foundation for which predictions of FOM shifts occur. This problem emphasizes a shift or termination of FOMs due to external and internal contingencies. According to Welch, Benito, and Petersen (2007), the main consideration regarding foreign operation modes is to find an appropriate degree of control in the relationship where internal and external contingencies are considered. External factors can be ad hoc and difficult to account for over time, whereas quite the opposite is true for internal development of the exporting firm, which has a certain influence on the distributor. An interesting aspect of the factors affecting mode strategies relates to whether the factors are examined continuously in relation to a specific distributor or if the factors are taken into consideration during a certain period of time when the need to make a decision that affects the relationship arises. Moreover, continuous decisions made apart from the relationship by surrounding and connected actors to the dyadic parties will likely have an accumulated affect on the relationship based on the discussion above.

2.2 A Business Network Perspective

A network perspective sees the market as a web of dyadic business relationships where it is possible to discuss sets of networks, as the contexts in which different firms act disposes them to different interdependencies. To enhance understanding concerning the effects of strategic actions on the exporter and the distributor that may affect settled relationships, a network approach is presented.

Thorelli (1986, p. 38) argues that, “...*the entire economy may be viewed as a network of organizations with a vast hierarchy of subordinate, criss-crossing networks...Generically, a network may be viewed as consisting of ‘nodes’ or positions (occupied by firms, households, strategic business units inside a diversified concern, trade associations and other types of organizations) and links manifested by interaction between the positions*”.

Moreover, an interesting thought brought forward is that, “*For the understanding of the configuration of any particular network, the flows of power and information may actually be more important than those of money and utilities...*” (Thorelli, 1986, p. 39). The connections or links (as mentioned in the paragraph above) are conferred as interpositional relationships, where Thorelli (1986, p. 41) argues that these found a, “...*reflection and recognition of interdependence, as opposed to the autonomy postulated by the classic theory of the firm*”. Williamson’s (1975) work, reasoned as the most elaborate modern theory of the firm, does not consider networks as part of a market or hierarchy, but something in between (Thorelli, 1986).

Håkansson and Snehota (1989) argue that networks are webs of relationships in which an organization is engaged with a number of identifiable counterparts. Therefore, an organization has access to a certain amount of resources that are controlled by other actors in the network. They note that when the environmental condition of an organization is, “...*gravitating towards a set of other active organizations, then analogous environmental conditions can be assumed for the whole set of organizations with which the focal organization is interacting*” (Håkansson & Snehota, 1989, p. 191). Regarding the concept of environment, Håkansson and Snehota (1989) note that it cannot give an organization its identity compared to a network perception, because the latter focuses on a set of related entities. The dependence or interdependence of organizations within a network makes it arduous to single out a particular organization because, “...*without its interactive environment [it] loses its identity*” (Håkansson & Snehota, 1989, p. 192). This

argument by Håkansson and Snehota (1989) lead them to a discussion concerning organizational boundaries where, “*An organization’s boundaries should thus be set as coterminous with the limits to its activity control*” (Håkansson & Snehota, 1989, p. 1992), and where the need for distinguishing an organization’s boundaries stems from the possibility of determining the effectiveness of the organization. This, in turn, is subject to organizational variables that can be influenced. Therefore, it is argued that it is important to be able to distinguish among the variables that can be controlled as opposed to those that cannot.

Johanson and Mattsson (1987) study industrial networks, and find that firms are interconnected through production, distribution, and the use of products and services. Networks actors choose freely with whom to work and how to coordinate activities. Interconnections among these actors are based on relationships. When they try to establish themselves in new markets, they have to build a relationship with new counterparts. In comparison to transaction cost theory, Johanson and Mattsson (1987) argued that trust, rather than opportunism, is seen as a fundamental characteristic among the actors. Rather than having and obtaining resources and information, the network approach focuses on using and managing resources. Control, to some extent, is shared among the actors in the exchange, as is adapting, which is viewed as an investment by the different parties (Johanson & Mattsson, 1987).

If survival is the organization’s prevailing goal, Håkansson and Snehota (1989) argue that the preceding view of a business organization’s effectiveness is based on its bargaining position. This is because the core function of survival is based on monetary accumulation through transactions. In other words it is a business organization’s, “*...capacity to acquire resources through exchange with other parties in its context*” (Håkansson & Snehota, 1989, p. 194).

The possibility of influencing other positions or nodes is referred to as “power” and is regarded as the central concept within network theory, where it can be portrayed in both a relational and subjective context. However, Håkansson and Snehota (1989) argue that power is not unilateral, as the dependence between actors can influence other actors within the network. Håkansson and Snehota (1989, p. 194) note that the path for an organization to reach a strong bargaining position can be related to organizational power and therefore its possibility to, “*...influence the behavior of related actors*” in the network. However, even if accumulating resources is important, the foundation for these accumulations is based on the possibility of perceiving and accessing the

counterparty's activities. Therefore, accumulation and access are subjective. In terms of a network, Håkansson and Snehota (1989, p. 196) highlight the importance of network position rather than bargaining position, because the network position is a relative concept and that, *"...the performance of an organization in a relationship is perceived and evaluated by another party on the basis of previous experience and present expectations"*.

Change in the market system is primarily endogenous with regard to a network, yet exogenous for the single actor (Håkansson & Snehota, 1995). Moreover, change is formed within or through relationships; thus, to be active within the networks, and thus relationships, is the only way to cope with change (Håkansson & Snehota, 1995). Furthermore it is suggested that firms need languages and schemes to interpret changes within the network and that a firm, *"...needs to create a certain flexibility first through a redundancy of relationships and second through an active involvement in how other actors within the network interpret the change processes in terms of change vectors and the network logic"* (Håkansson & Snehota, 1995, p. 329).

Related to changes in the network, Andersson and Mattsson (2006) look at the impact of strategic actions over time among network actors in the same industry, including suppliers, wholesalers (in which distributors can be included), and customers. In this vein, three distinct interdependencies emerge within each sequence or path of strategic actions of a firm. First, some sequences are identified as the consequence of a settled strategy of, for instance, a deliberate will to enter certain foreign markets. Second, some sequences are identified in which a prior action is a crucial precondition for a later action to occur. For example, a firm's acquisition functions as a precondition for a future acquisition by the same firm. The third and final interdependency within a sequence of strategic actions are the negative effects to which a firm is subjected as it performs strategic actions. Andersson and Mattsson (2006, p. 307) argue that, *"We believe that negative effects are more common than what we, given the nature our empirical observations (mostly secondary information and interviews with the focal firm JHE) have been able to document"*. The term "negative," could be argued to be bound to the perspectives of one or several connected actors in the network and could also be rooted in a subjective desire for sustainability in an ever-changing environment.

2.2.1 Business Relationships

As the perception of performance is subjective, recognizing it depends on the outcomes of relationships within the network. Relationships are created when some kind of action is taken by a party and where the “...action, or reaction, of the other party can only be triggered by the perceived exchange potential of the focal actor” (Håkansson & Snehota, 1989, p. 196). Therefore, an organization’s effectiveness should not be perceived as to whether it will possibly adapt to the environment, but rather the possibility it will relate to the context. The relating activities are argued to include, “the quasi-integration of activities; the connection of resources in order to branch out into several actor levels, both to gain influence over others and to become dependent on others; and the influencing of one’s own and other parties’ perception of important dimensions in the context” (Håkansson & Snehota, 1989, p. 196).

Gassenheimer, Houston, and Davis (1998, p. 325) give an alternative view on how relationships begin, noting that these are initiated as, “...patterns of purposeful behavior directed toward satisfying needs through the exchange of economic and social value.” However, the value of the relationship, being situated in sociopolitical and economic framework, is argued to be, “...motivated by satisfaction and a comparison of alternatives” (Gassenheimer, Houston, & Davis, 1998, p. 325).

Moreover, Levinthal and Fichman (1988, p. 366) acknowledge the need to involve capital of some form because relationships are initiated. They state, “All relationships start with some initial capital of favorable prior beliefs, trust, goodwill, financial resources or psychological commitment. The fact that a relationship has been initiated usually indicates that the participants must have some optimism about its viability. These initial assets shield the relationship from initial unfavorable outcomes, whether those outcomes take the form of poor performance evaluation ratings in the context of employment relations or unsatisfactory service in an interorganizational relationship”.

Thorelli (1986, p. 41) notes that relationships differ from individual transactions as they, “...comprise streams of transaction or exchanges, which may or may not be directly tied with any specific delivery of goods” and are exemplified through standing contracts. Furthermore, Ford (1990, p. 2) argues that, “The relationship is built out of the history of companies’ dealing with each other and can be described in terms of adaptations, commitments, trust and conflict. The

relationship affects any and every episode within it – a purchase, a delivery, even a phone call. At the same time each episode affects the continuing relationship, changing it over time.” The IMP Project Group (1982) delineate that inter-firm (buyer-seller) relationships include exchange episodes where four different elements (products or services; information; financial; and social) can be distinguished. Furthermore, the interaction among the parties will depend on the characteristics of parties involved. These characteristics can be distinguished in terms of technology; organizational size, structure and strategy; organizational experience; and individuals. According to the IMP Project Group (1982, p. 20) it is important to consider a relationship as “...one of a number of similar relationships existing either nationally or internationally within the same market.” Furthermore, it is argued that the dynamic forces within the relationship and on the market affects a dyadic relationship in terms of the degree of involvement the two parties want to engage in the relationship, where considerations have to be taken to opportunity costs. Seabright, Levinthal and Fichman (1992, p. 122) give an alternative definition to business relationships, saying that an exchange relationship can be defined as, “...a formal or informal set of arrangements between organizations involving the transfer of resources or services.”

Håkansson and Snehota (1995, p. 25) admit that it is difficult to define a relationship, but add, “Tentatively we can say that a relationship is mutually oriented interaction between two reciprocally committed parties”. Furthermore, they explain that, “A relationship arises between two parties because of the interdependence of outcomes, even if it can arise for other reasons” (Håkansson & Snehota, 1995, p. 25). These authors also brought forward two dimensions as possible frames of categorizing business relationships: (1) function, which regards who is affected by the relationships and (2) substance, which highlights what is affected by the relationship.

Relationships have three functions within business networks. The function prevails in terms of the dyadic relationship itself, as the two parties can engage jointly in activities and resources that could not be done in isolation. Furthermore, the two actors are affected independently by the dyadic relationship; indeed, it affects their individual performance levels as benefits and costs are associated with the relationships. The third function concerns the effects of the relationship on other network actors, which can react to changes occurring in a dyadic relationship. Håkansson and Snehota (1995) also highlight the managerial need for a certain care in the need for firms to

balance emphasis from an individual actor, a dyadic, and a network perspective. This, in turn, leads to, “...concern and control of who is benefitting from...” the relationships (Håkansson & Snehota, 1995, p. 41).

Håkansson and Snehota (1995) further argue that the substance of relationships is composed of three layers: activity links, resource ties, and actor bonds. A relationship would not exist without activities that tie the actors and affect the outcomes. Parties use resource ties for the business relationship. Moreover, as business relationships develop, actors become part of the relationship bond. The interplay among the different layers is argued to be the driving force in developing dyadic relationships within business networks (Håkansson & Snehota, 1995).

Activity Links

Håkansson and Snehota (1995, p. 52) define activity links as “...a sequence of acts directed towards a purpose.” The authors argue that core activities encompass not only internal activities concerning transformations, such as production and R&D, but also external activities, such as purchasing, financing, and sales. Both internal and external activities must be included and regarded as core activities within a “business enterprise”. Håkansson and Snehota (1995) draw influences from two streams of management literature regarding the development of business relationships. They observe that interaction is pursued to “...make use of activity interdependencies” (Håkansson & Snehota, 1995, p. 53) and synchronization and matching are directed toward other enterprises within the network through activity links to ensure a cost and effectiveness dimension. The cost dimension is based on micro-economic theory, where emphasis focuses on creating economies of scale and standardization. Costs, as argued by Håkansson and Snehota (1995), emphasize resource transformation within the firm. The authors further note that it, “...postulates that activity structures (such as of a firm and market) reflect primarily the available technology of resource transformation” (Håkansson & Snehota, 1995, p. 53). Furthermore, the effectiveness dimension is based on a behavioral stream of research where activity structures, “...emerge over time as one’s activities become modified, adapted and related to those of others. The emergent patterns is then somewhat rationalized; given a meaning that keeps the activity structure together” (Håkansson & Snehota, 1995, p. 53).

Håkansson and Snehota (1995, p. 54) emphasize that adaptations are made between two actors to ensure coordination and “mutual adjustments of activities”. Moreover, Håkansson and Snehota

(1995) refer to work by Nelson and Winter (1982) regarding routinization and institutionalization within and between firms where, *“The individuals involved develop routines that are ‘locally efficient’, beneficial for the single relationship”* (Håkansson & Snehota, 1995, p. 55). Although Nelson and Winter (1982, p. 99) focus on intra-organizational practices, they regard routine as an organizational memory where they propose that, *“...the routinization of activity within an organization constitutes the most important form of storage of the organization’s specific operational knowledge.”* The authors continue, however, by viewing the routinization of activities through a motivational perspective where routines can be viewed as a truce mechanism that motivate them not to ignore the, *“...divergence of interests among organization members, or to assume that implicitly that members are somehow fully committed to the smooth functioning of the organization”* (Nelson & Winter, 1982, p. 107). The authors also acknowledge the fragility of this truce and emphasize the need for caution when deploying new initiatives, as the reaction can be defensive as members, *“...seek to assure that their interests continue to be recognized and preserved”* (Nelson & Winter, 1982, p. 111). Moreover, the authors argue that, in general, routines are powerful forces that stay relatively inflexible. The fear of breaking the truce is thus providing a reason to view the routines as self-sustaining. Managers are thus seen as actors trying to handle routines that can potentially become disrupted or are threatened. Whereas the importance of trying to control the activities are mentioned, Nelson and Winter (1982, p. 117) acknowledge that, *“Time and environmental changes buffet the organization with potentially mutagenic events, against which its control systems struggle”*. Furthermore related to the possibility of adapting to changes but in an inter-organizational setting, Håkansson and Mattsson (1995, p. 58) point out that the activities, *“...constrain the flexibility of the activity to the structures of the companies belonging to the chain [activity chains], but they also facilitate the construction of the activity structure”*.

Firms are subject to a vast number of activity links, and as such, the possibility exists to find an optimal balance among standardized and differentiated activities. In general, a firm always seeks alternative methods to enhance productivity. Because a firm is connected in a unique set of dyadic relationships with other firms, its relative position becomes unique and therefore the focal firm itself becomes unique (Håkansson & Snehota, 1995) as the firm can utilize the resources from its linked inter-organizational relationships. The reasoning is linked to Penrose (1959), who is considered one of the founding authors of the resource-based view (Wernerfelt, 1984; Rugman

& Verbeke, 2002). Her work acknowledges that a firm’s tangible resources are bundled with its intangible assets and, most significantly, its services are interconnected with resources. This unique combination creates an inimitable competitive advantage (Penrose, 1959; Peng & York, 2001), broadened by Håkansson and Snehota (1995).

Resource Ties

The concept of resources is problematic, as a resource depends on the relative perspective of its use and potential and therefore its value. A resource is always provided by an actor, who establishes its features, whereas a relationship makes it possible to use the provided features. The value of the resources, therefore, is argued to depend on the relationship and the activities, as well as the conditions affecting the activities that occur between the actors. Moreover, Håkansson & Snehota (1995, p. 133) state that, “*Relationships activate and develop specific resource elements and different resource constellations. Therefore, resources are not entities given once and for all but variables*”. Therefore, resources only have meaning in relationships where a demand exists and thus use for the resource. Rather than only acknowledging that firms economize on using resources, the network approach bring in the concept that own resources, together with those of partner firms, are used to create resources for others. As to joint creation and development, Håkansson and Snehota (1995, p. 134) argue that, “*...it may well be that creating and developing resources rather than economizing on resources is their primary purpose*”.

Håkansson and Snehota (1995) define and distinguish between different typologies of resource ties between firms (see Figure 2) and within firms (defined as resource collection).

Figure 2: Resource Ties in the Resource Collection of a Company

		Resource User	
		Internal	External
Resource Provider	Internal	e.g., own input resource, own development equipment	e.g., sold products, customer relationships
	External	e.g., purchased equipment components, etc., supplier relationships	e.g., finished products purchased, combination of supplier-customer relationships

Source: Håkansson and Snehota (1995, p. 145)

Figure 2 illustrates that in an exporter-distributor setting the resource user is external to the firm, whereas the resource provider could be argued to be internal from an exporter perspective. From a distributor's perspective, it could be argued that the resource user is external to the firm; furthermore, the resource provider (the exporter) is external when a complete product is transferred to the distributor. Håkansson and Snehota (1995, p. 146) argue that the latter setting is, "...both more problematic and more simple for the focal company. The company will try to be seen as the representative of the provider in relation to the user and of the user in relation to the provider. This double-sided situation is problematic as the company itself has no obvious role to play but at the same time it gives the company a wide range of opportunities as it can combine the use and the production sides in a much more open way". Yet, in a situation where the provider is internal and the user is external, it can be difficult to ensure involvement and interest from the customer. This is seen as important because resource development can be influenced by the user. Moreover, because a variety of users exist, these actors can try to influence resource development in various directions (Håkansson & Snehota, 1995).

The economic performance of resources for a firm is bound to the costs of the used resources and depends on how the resources are developed as to the perspective and demand of external actors. Performance also depends on the firm's resource collection and ties to external resource providers. These ties set the limits for a firm because they tie up resources within the firm. Therefore, considerations have to be made regarding how to use the provided resources in the most efficient manner. Thus, actors connected to the firm play an important role as their demands, "...will direct and pull the company to develop its products or services" (Håkansson & Snehota, 1995, p. 133). Worth noting is research from Ciabuschi, Perna, and Snehota (2011), who posit that although forming the business is a collective rather than individual action, the forming and developing of resource combinations is onerous and non-linear.

Resources can be distinguished as being both tangible and intangible. Intangible assets include know-how, skills, and trust (Håkansson & Snehota, 1995). Because the combination of resources is individual for each firm, it is argued that a firm handles a unique array of activities. As resources are connected to the activities, resources also, "...tend to persist over time as activities are continued" (Håkansson & Snehota, 1995, p. 134). Within a production process, Håkansson and Snehota (1995) acknowledge that the concept of resources is relatively straightforward, yet

admit that the heterogeneity of resources and the combination of same, imparts perceived value and increases the complexity surrounding the concept of resources. Håkansson and Snehota (1995) draw inspiration from Alchian and Demsetz (1972, pp. 793-794) who argue that, *“Efficient production with heterogeneous resources is a result not of having better resources but in knowing more accurately the relative productive performances of those resources. Poorer resources can be paid less in accord with their inferiority; greater accuracy of knowledge of the potential and actual productive actions of inputs rather than having high productivity resources makes a firm (or an assignment of inputs) profitable”*.

Penrose (1959, p. 67) also acknowledges the heterogeneity of resources that are combined with services. She notes that, *“Not only can the personnel of a firm render a heterogeneous variety of unique services, but also the material resources of the firm can be used in different ways, which means that they can provide different kind of services”*. Håkansson and Snehota (1995, p. 135) believe that the heterogeneity of resources and their connection to resource ties in inter-organizational relationships are able to explain why the relationships are, *“...relatively broad and stable over time”*. Within dyadic relationships, ties develop between firms, interdependency increases, and therefore, *“The potency of the resource collection of a company depends on how it is tied into those of others. It is through relationships that different resources can be mobilized, made available and offered to others”* (Håkansson & Snehota, 1995, pp. 136-137). New resource ties are a consequence that develops as potential is realized for existing and created resources.

Relationships are also seen as resources because they are productive and therefore create value for the involved parties (Håkansson & Snehota, 1995). They are seen as valuable, yet it is acknowledged that there are difficulties in measuring their value. Håkansson and Snehota (1995, p. 137) argue, however, that *“...they are, the most significant resource in what makes a company capable of unique performance”*. The relationships are seen as a resource, are difficult to imitate by others, and are therefore a vital determinant for a firm’s performance.

On the other hand, the value depends on the counterparty’s perspective of the value and the way the resources are used and incorporated with a counterpart’s resource collection. Therefore, changes within a resource element or a change in how a resource is used affects parties connected to the resource. To perceive the value of resources, learning takes place. Håkansson and Snehota (1995) draw influences from Demsetz (1988) who argues that it is uneconomical and not always

needed for a partnering firm to acquire the same knowledge as the provider; more specifically, for a user of a product or a service. It is rather about, “...*developing or encapsulating this knowledge into products or services that can be transferred between firms cheaply because the instructions needed to use them do not require in-depth knowledge about how they are produced*” (Demsetz, 1988, p. 158). Håkansson and Snehota (1995) acknowledge and further propose that the concept of joint learning is depicted as a context where two partners in a dyadic relationship develop an understanding for how to use a corresponding partner’s resources and where mutual specialization occurs, leading to adaptations. Moreover, “*A company can learn more about the use of resources through continuous interaction with resource providers. In order to get the time for learning a certain stability in relation to resource providers is needed*” (Håkansson & Snehota, 1995, p. 140). It is also acknowledged that a network setting enables variety: “*Each single resource unit can be connected with a set of ‘new’ resource elements...However, and very importantly, a network constellation structure does not automatically lead to, create or include this variety; rather it offers the potential*” (Håkansson & Snehota, 1995, p. 142).

The two primary sources that create a need to innovate and change within a firm arise from either R&D or the, “...*ideas, perceptions, imagination and vision of a firm’s personnel, loosely called entrepreneurial resources*” (Penrose, 2008, p. 1119). Furthermore, innovation and change is not only about the having an entrepreneurial vision, but also relates a willingness to take risk, which is also a form of entrepreneurial function, but also much related to the management of the firm (Penrose, 2008). Penrose (1959) also argues that firms are not defined based on their products, but rather on their resources and the services being rendered through the resources, where growth through diversification is seen as a natural part of firm expansion. Interrelated to this notion is the argument that resources render multiple services, and that it is the heterogeneity of services stemming from resources that creates uniqueness for a firm. Therefore, the “effective” use of resources occurs when combinations of resources are created (Penrose, 1959). In a network setting and as a consequence of resource ties, however, it is impossible that a firm has complete control over the resources it needs in order to pursue inter-organizational activities. Therefore, a firm possesses a, “...*certain degree of control over the resources needed*” (Håkansson & Snehota, 1995, p. 143).

Moreover, flexibility in terms of being able to change a firm's resource collection is constrained, depending on the ability to mobilize resources, but also due to the notion that resource ties demand time to develop as a consequence of learning. "*Resource ties account for what a company will be capable of doing; at the same time they reflect what a company has been accustomed to do*" (Håkansson & Snehota, 1995, p. 143). Although Penrose (1959) refers to limits to growth (but not size), rather than engaging in new partnerships within a network, she argues that the ability to plan and implement strategies for growth are limited to the existing management. Therefore, the existing management controls the level of new managerial resources that can be acquired for growth, therefore limiting it.

Actor Bonds

Håkansson and Snehota (1995) regard actor bonds as the organized interactions between individuals in separate firms. Individuals are considered the bonding elements that bring intentions and interpretations to the relationships. Håkansson and Snehota (1995) do recognize the bounded rationality of individuals and how they collectively transfer knowledge. Actor bonds are important because they determine how others perceive a firm within a network. Bonds are not created ad hoc, but are formed selectively; indeed, within a network it is the surrounding actors to firm that define it. Bonds are argued to arise in business relationships when, "*...two related actors mutually acquire meaning in their reciprocal acts and interpretations.*" (Håkansson & Snehota, 1995, p. 197). If a firm is not defined by others and is therefore not given an identity, a firm will not be able to supply resources others need nor be able to grasp others' resources. Therefore, a firm is "*...a product of their bonds and are never completely free*" (Håkansson & Snehota, 1995, p. 194).

The perception of a firm by other actors within the network is relative and can differ and evolve. Yet, it is also acknowledged that a firm can possess several identities in an empirical setting because significantly larger firms are created by units consisting of, "*...a subset of resources and performing a subset of activities*" (Håkansson & Snehota, 1995, p. 196). The units will be acknowledged as actors, therefore, with separate identities to other units within the firm as well as to actors within the network(s) connected to the units.

When individuals create a relationship, they are presumed to be representatives of their respective units and will create an image for the counterpart. Because the network context enforces a

business setting, the interaction between actors is task-oriented; therefore, the perceived image of the counterpart is based on capabilities and intentions. A relationship requires interdependence, which is defined as, “*a more or less vague expectation of certain outcomes from reciprocal interaction*” (Håkansson & Snehota, 1995, p. 197). Penrose (1959) argues that entrepreneurs search for profits and from a long-term perspective and profits are sought for the sake of the firm to reinvest for increased growth rather than to reimburse owners. Growth is therefore associated with actions, where the firm grasps opportunities for production and marketing, which it recognizes, “*in its own capabilities and in its environment*” (Penrose, 2008, p. 1119). Recognition can refer to the “image” of the environment that is present in the entrepreneur’s mind. It is furthermore recognized that, “*In the long run, the profitability, survival, and growth of a firm does not depend so much on the efficiency with which it is able to organize the production of even a widely diversified range of products as it does on the ability of the firm to establish one or more wide and relatively impregnable ‘bases’ from which it can adapt and extend its operations in an uncertain, changing, and competitive world*” (Penrose, 1959, p. 121).

As an actor acts and reacts within a network setting, it shapes its identity through the interaction with actors in dyadic relationships. Therefore, “*The identity of an actor thus forms and reflects the interpretation of the actor's own and other's behaviors*” (Håkansson & Snehota, 1995, p. 197). This process is based on historical actions, as well as situations in the present that combined portray what actors are capable and incapable of doing. When engaging in relationships, Håkansson and Snehota (1995, p. 197) argue that firms “*become mutually oriented*”, because parties initiate a relationship on a presumed identification of the counterpart and require shared interests regarding the activities and resources of the relationship and the actors involved.

Due to the incomplete and uncertain nature of relative identification, trust and commitment is necessary between the two actors where Håkansson and Snehota (1995, p. 198), “*Commitment is a tendency to persist with courses of action, often without an apparent causal motive, on bases of vague expectations; it always is to some extent an ‘act of faith’ by which the actors handle uncertainty and the complexities of situations*”. Commitment, therefore, is the prioritized element apart from trust because trust alone does not support the focal actor. Commitment has also been defined in terms of a dyadic business relationship as, “*An enduring desire to maintain a valued relationship*” (Moorman, Desphande, & Zaltman, 1992, p. 316). Rather, trust is seen as, “*...a necessary condition for commitment and commitment only makes sense if tomorrow matters*”

(Håkansson & Snehota, 1995, p. 198). Similarly, Thorelli (1986, p. 38) notes that trust is the cousin of power, a future-oriented concept, that might, “...perhaps be defined as an assumption or reliance...” on one of the parties in a dyadic relationship within the network. Trust has also been defined as, “...the reliance by one person, group, or firm upon a voluntarily accepted duty on the part of another person, group, or firm to recognize and protect the rights and interests of all others engaged in a joint endeavor or economic exchange” (Hosmer, 1995, p. 392)

Trust is also argued to take time to develop between two actors where, “*The need for development of mutual trust means that no business relationship can ever be established instantaneously. It grows over time as trust between actors develops, and there is a considerable amount of inertia in it*” (Håkansson & Snehota, 1995, p. 198).

Seabright, Levinthal, and Fichman (1992, p. 154) bring an individual notion to an inter-organizational setting, arguing that, “*Individual attachments in inter-organizational relationships would seem to be multidimensional, reflecting transactional efficiencies as well as the features of social networks in which boundary spanners are embedded*”. Thus, Seabright, Levinthal, and Fichman (1992) follow Granovetter’s (1985) reflections of embeddedness where lasting economic relationships are believed to be augmented by social content such as commitment and trust.

To be noted is that, because a focal actor’s perception of the counterpart enables the possibility to determine the possibilities of the counterpart in a relationship, commitment reflects the counterpart’s will to correspond to the focal actor. However, although commitment is seen as truly important, the bonds connected to the focal firm affect the counterpart’s behavior and sets the limitations and possibilities of the focal actor’s own behaviors (Håkansson & Snehota, 1995).

Dyadic actor bonds also affect the network. Actor bonds organize the network in the sense that they allow an increased understanding of the network as a counterpart’s bonds become visible to the focal actor. As firms engage in several relationships, Håkansson and Snehota (1995) argue that, in many cases, a certain set of a focal actor’s bonds are stronger than the rest. These require adaptations and are thus important in terms of the focal actor’s identity. The connections in between bonds are believed to not only determine the actor’s identity, but with continuous commitment, these determine the uniqueness of the firm’s identity and its position in a network. It is also acknowledged that the specific uniqueness enables selective commitment within the

network. The effects of network dynamics have both an inward and outward effect. The outward effect is connected to the individuals or the collected perspective within a firm toward its environment. The complexity of the environment limits the cognitive ability to grasp a complete understanding. Therefore, actor bonds provide the opportunity to gain knowledge, learn, and extend the network's horizon. As an inward effect, increased interaction and position with actors in the network enables them to gain knowledge about the focal firm. Therefore, "*...the outward organizing aspect is closely related to an active form of learning through which actors learn, that is, modify their set of intentions and interpretations and consequently their behavior*" (Håkansson & Snehota, 1995, p. 200). These behaviors constitute the dynamics in the network, which constrain an actor and enable opportunities.

As learning takes place within the focal firm, because it is connected to the network, the dyadic relationships are believed to affect bonds in two ways: "*one is that bonds develop against the background of shared meaning, another that they are a means to acquire meaning*" (Håkansson & Snehota, 1995, p. 202). Moreover, the actions an actor takes are not only directed by interpretations and intentions, but also the purpose of the actions. Therefore, the interpretations and intentions stem from actions and thus behavior. To affect or create an actor bond, it is also sometimes necessary to engage in other relationships to trigger the possibility to prioritize an actor bond or to affect an existing counterpart in a relationship to behave in a certain manner (Håkansson & Snehota, 1995).

2.2.2 A Behavioural Perspective

The network approach has its foundation in the behavioral theory. Thus, Cyert and March (1963) offer some insights into the activities taking place within the organizations that affects inter-organizational relationships.

Perceived Problems and Their Implications for Goals, Expectations and Choices

Cyert and March (1963) argue that there are two main features affecting goals: dimensions and aspiration level. With regard to dimensions, a differentiation is made between organizational goals versus operational goals. Organizational goals are created in organizational coalitions, being “...*the organizational division of labor in decision making*” where changes can occur as new participants enter the coalition or when old members leave the organization (Cyert & March, 1963, p. 162). Operational goals are based in the subunits that continuously govern the decisions made under organizational goals. Importantly, goals are created out of perceived problems. The aspiration level of goals is based in previous goals that have been settled, historical performance developments and “...*the past performance of other comparable organizations*” (Cyert & March, 1963, p. 162).

Furthermore, and linked to goal settlement, expectations created within organizations are built on the prevailing information available to the organization where problems stimulate search behavior and where locational aspects influence search behavior. The choices organizations make, which are evoked by perceived problems, are thus related to finding alternatives that are, “...*acceptable from the point of the evoked goals*” (Cyert & March, 1963, p. 163).

Thus, Cyert and March (1963) acknowledge and highlight organizational learning where organizational goals are adapted over time. The continuous settlement of goals depends on previous goals and the experience that has been accumulated since the previous goals. They are also a consequence of the comparable organizations from which experiences can be drawn. Moreover, as organizations learn, search behavior and what aspects to focus on change as organizations find solutions to problems.

Relational Considerations

Several relational aspects affect decision making within an organization. Organizational goals are settled by the coalition within a firm having diverging goals. Cyert and March (1963, p. 165) focus on the goals that are bound in the present as these are “*essential, continuous and*

operative". This recognition is made as non-essential, ordinarily sporadic, and non-operational goals can be enforced. Thus, because the goals are present, the means for how an organization deals with resolving problems comes down to local rationality, acceptable-level decision rules, and sequential attention to goals. As a coalition initiates goals, these lead to decision problems within the organization that are spread to the subunits who deal with a subset of the decision problem because these have a limited set of problems and goals. For example, a sales unit is responsible for sales goals and related strategies. Thus, this decentralization is argued to reduce "...a complex set of interrelated problems and conflicting goals" where the effectiveness of the invincible hand is put in force and is believed to result in proper decisions, even though local rationality is in place (Cyert & March, 1963, p. 165). Moreover, an organization resolves conflicts sequentially as managers attend to different goals at different sequences in time, where the time in between goal settlement allows an organization to "*solve one problem at a time*" (Cyert & March, 1963, p. 166).

All decisions are made within an uncertain atmosphere. Cyert and March (1963) argue, however, that organizations avoid uncertainty as decisions are made as a means to ensure short-term reactions to short-term feedback where problems are solved rather than creating long-term strategies as predictions concerning the future avoided. Moreover, and linked to a business network approach, Cyert and March (1963, p. 168) argue that as a means of not trying to view the environment as exogenous to the organization, organizations "*...seek ways of making it controllable*".

2.3 A Transaction Cost Approach

Håkansson and Snehota (1995) argue that very clear similarities exist with how the transactions cost approach and network theory try to understand relationships. They argue that both emphasize social mechanisms such as trust in governing relationships and that both approaches emphasize, “...an interplay between economic, social and technical factors in the development of relationships is important...” (Håkansson & Snehota, 1995, p. 379). Moreover, both approaches highlight the importance of actors as the developers of “achieving” relationships. The final similarity is the importance of resources, which are viewed as “asset specificity” in a transaction cost approach and “resource ties” in a network approach.

Two major differences between the theoretical perspectives according to Håkansson and Snehota (1995) relate to the influential possibility of relationships and the development of individual relationships. The TCA (Transaction Cost Approach) analyzes every relationship in isolation. Concerning TCA, Håkansson and Snehota (1995, p. 379) argue that, “*A relationship is developed in certain situations due to specific circumstances in order to govern transactions between two actors. But it is the transaction that remains the unit of analysis*”. This perception is argued to withstand, although TCA does take into consideration, for instance, mixed modes of governance. Therefore, when considering an increased level of relational asset specificity, TCA decreases the ability for a firm to use resources in several relationships. From a network perspective, Håkansson and Snehota (1995, p. 380) argue that, “...situations are assumed to exist where the asset specificity as defined in the TC approach might not be so high, but where the used assets create specific connections between certain relationships. An asset can in this way create a specific tie between some but not all relationships”. This line of thought creates substructures between relationships that are not taken into consideration within a TCA approach.

Concerning the development of relationships, it is argued that the TCA is focused on setting an optimal degree of governance within each transaction. The perception, according to Håkansson and Snehota (1995), shows incitements for sustaining stability. On the other hand, in the network approach it is argued that the extent and importance of idiosyncratic and relation-specific resources developed over time is limited regarding the resource heterogeneity assumption; therefore the network allows for higher levels of dynamicity than does the TCA (Håkansson & Snehota, 1995).

The transaction cost approach is a commonly applied theoretical approach in exporter-distributor relationships (Bello & Lohtia, 1995; Benito, Pedersen, & Petersen, 2005; Bergen, Dutta, & Walker, 1992; Gençtürk & Aulakh, 2007; Peng & York, 2001), yet its applicability to the exporter-distributor relationship has been questioned (Peng & York, 2001). The applicability of the theory is based on the transfer/transaction and monitoring resources in an exporter-distributor setting.

2.3.1 The Pillars of Transaction Cost Theory

The Nature of the Firm (Coase, 1937, p. 389) is seen as one of the founding studies for the transaction cost approach, in which the author attempts to, “...bridge what appears to be a gap in economic theory between the assumption (made for some purposes) that resources are allocated by means of the price mechanism and the assumption (made for other purposes) that this allocation is dependent on the entrepreneur-co-ordinator”. The study focuses on the growth of the firm, where an organization grows as long as the costs of the function of an entrepreneur, who has some authority related to the possibility to direct resources within a firm, are lower than the costs posed in the market. Thus, the market is exogenous to the firm, which consists of a system of relationships developed as a consequence of the entrepreneur’s direction of resources and therefore the entrepreneur’s interests.

Coase (1937) refers to Knight’s (1921) work in his article. The latter argues that, “*With uncertainty present doing things, the actual execution of activity, becomes in a real sense a secondary part of life; the primary problem or function is deciding what to do and how to do it*” (Knight, 1921, p. 268). Knight (1921) argues that goods are produced for the market on the basis of predicting consumer wants (although it is also argued that it is impersonal). On the other hand, Knight (1921) argues that the entrepreneur’s function is to forecast consumer wants and adjust technological directions and production toward these aims. Regardless, uncertainty prevails and the entrepreneur must make central decisions thus necessitating “...a process of cephalization” (Knight, 1921, p. 268) and therefore a knowledge base for the decision maker. Linked to the role of a distributor, Coase (1937) turns against Knight’s (1921) discussion on function because entrepreneurs can sell information or knowledge. Therefore, Coase (1937, p. 401) posits, “*Again, it is possible to get a reward from better knowledge or judgment not by actively taking part in production but by making contracts with people who are producing. A merchant buying for future delivery represents an example of this*”. As an argumentation, Coase (1937, p. 401) continues by

contending that many transactions are made according to contracts where the, “...*contractor is guaranteed a certain sum providing he performs certain acts. But this does not involve any direction*”. Coase (1937) perceives a homogeneous perspective of the market; therefore, one could question how he defined the role of the merchant because the merchant must perform activities in the market where the purchase cost is lower than the transaction cost towards the merchant’s customers. Furthermore, if the producer wants to ensure that the merchant engages in transactions, which is necessary for the enterprise to grow, it could be argued that direction activities need to be pursued.

Williamsson (1975; 1979; 1981) further refines transaction cost theory as a theoretical understanding that could be used when multiple markets exist. Transaction cost theory has three main dimensions: (1) the involvement of idiosyncratic investments; (2) the level of uncertainty to which transactions are subjected; and (3) the frequency of transactions (Williamson, 1979; Williamson, 1981; Williamson & Ouchi, 1982). These dimensions are found in heterogeneous “small numbers” markets, in which the transactions are subject to bounded rationality and opportunism because all information is not available. Bounded rationality refers to Simon’s (1955) work that described individual decision making as intentionally rational, but limited so. In contrast to small markets, the “large number” market is believed to restrict itself because competition is fierce. Williamson (1973, p. 318) argues, that the homogeneous nature of the “large number” market is an illusion because; “...*implicit homogeneity assumptions may not be satisfied*”.

Williamson’s explanatory discussion concerning transaction cost theory revolves primarily around intermediate product market transactions, where a buyer purchases products from a supplier in order to use the products for refinement purposes (Williamson, 1975; Williamson, 1979; Williamson, 1981). Williamson (1975; 1981), however, also acknowledges forward integration, where distributor/wholesaler transactions can be internalized. In a foreign distributor setting, it can be argued that increased frequency of transactions, increased idiosyncratic investments (exemplified through physical or human capital savings and other transaction-specific savings) and increased levels of uncertainty, raises incentives for internalization. This occurs for instance, through debasement of end-customer service and raises incentives to

internalize operations (Williamson, 1979; Williamson, 1981; Williamson & Ouchi, 1982; Williamson, 1975).

Williamson (1981) argues that retail integration (i.e., vertical integration) occurs when a high level of asset specificity is developed. Williamson draws an example from Chandler (1977) in which retail integration was reserved for new equipment that required explicit marketing services, including continuous after-sales service. Chandler (1977) mentions some interesting aspects that Williamson excludes. For example, Chandler (1977, p. 288) notes, “*Existing middlemen had neither the interest nor the facilities to maintain a continuing relationship...Those manufacturers who found existing marketers inadequate to meet these needs created multiunit marketing organizations of their own*”. Interestingly, the example exemplifies an inland context (US) and therefore excludes many of the difficulties mentioned in relation to exporter-distributor settings. The notion that the manufacturers wished to continue using the distributors for sales operations dismisses a Williamsonian line of thought, where a manufacturer prioritizes internal activities as new and more advanced products are to be sold through distributors requiring increased investments. The case Chandler (1977) presents shows that it was not the fact that idiosyncratic investments created a situation in which it was economically feasible to internalize activities, but rather it was the distributors’ unwillingness to invest, which forced the manufacturers to establish their own sales facilities to sell products.

Williamson and Ouchi (1982, p. 351) argue that organizational design ultimately comes down to the following: “*...organize transactions in such a way as to economize on bounded rationality while simultaneously safeguarding those transactions against the hazards of opportunism*”. Opportunism is defined as the deliberate action of communicating fake or empty promises or threats. The authors argue that rather than making behavioral assumptions, differentiation with regard to bounded rationality lies in its intermediate level in a transaction cost approach, compared to an overwhelming level in a behavioral approach (Williamson & Ouchi, 1982). Williamson (1979, p. 234) also argues that, “*Opportunism is a variety of self-interest seeking, but extends simple self-interest seeking to include self-interest seeking with guile. It is not necessary that all agents be regarded as opportunistic in identical degree. It suffices that those who are less opportunistic than others are difficult to ascertain ex ante and that, even among the less opportunistic, most have their price*”. Moreover, Williamson (1979, p. 243) states that, “*Harmonizing interests that would otherwise give way to antagonistic sub-goal pursuits appears*

to be an important governance function...” Williamson and Ouchi (1982, p. 352) argue that a situation in which no opportunistic behavior is evident from either party will eventually lead to “*...joint profit optimizing results*”.

The transaction cost theory is based on the costs of the price mechanism. Confusion concerning this approach in an exporter-distributor setting concerns the problematization of the demand function when considering a supply-demand situation. The distributor is a partner that the exporter uses to create transactions to a certain market. To create transactions in a foreign market, products must go to the distributor and are distributed thereafter to the market. Thus, transactions that the exporter can monitor and examine are those to the distributor, not the transactions to the end-customer. This is of great importance because it shows that the exporter allows an accepted and continuous level of uncertainty because without the distributor, few or very limited transactions will occur to the foreign market. An interesting notion that transaction cost theory advances and that is related to both the exporter’s perspective and the potential consequences of change is the notion that, “*...unrealized efficiency opportunities always offer an incentive to re-organize*” (Williamson & Ouchi, 1982, p. 355).

2.3.2 Governance

Due to the relatively high level of uncertainty and incentives for opportunism in an exporter-distributor setting (Cavusgil, Deligonul, & Zhang, 2004), governance is often researched as a way to constrain the two previously mentioned factors (Bello & Gilliland, 1997; Deligonul & Cavusgil, 2006; Gençtürk & Aulakh, 2007; Solberg, 2006; Zhang, Cavusgil, & Roath, 2003).

Williamson’s (1979, p. 234) study concerning “The Governance of Contractual Relations” is based on an interest in “*...why there are so many market- (and quasi-market) mediated transactions*”. Williamson (1979) outlines a framework from classic contract law, neoclassical contract law, and relational contracting to propose a deeper understanding of the nature of the contract. It is argued that classic contracting cannot account for all contingencies when considering long-term contracts and cannot therefore, account for the required adaptations that might occur. Furthermore, Williamson (1979, p. 237) states that, “*In a world where (at least some) parties are inclined to be opportunistic, whose representations are to be believed.*” Williamson (1979, p. 237) argues that a different contracting relation which, “*...preserves trading but provides for additional governance structure*” must be created. Therefore, a spin-off

from classical- and neoclassical- contract law is argued to lead to relational contracting. When considering the three attributes of transaction cost theory, Williamson (1979) argues that uncertainty is the “critical attribute”. Particularly in a bilateral governance situation where mixed transactions take place, the degree of asset specialization (idiosyncratic investments) in terms of specialized physical- and human capital is “less complete”. Taking into consideration the exporter-distributor context, Williamson (1979) argues from the buyer’s position. Thus, if referring to an exporter-distributor situation, the “buyer” would be a distributor. In the current situation, Williamson (1979, p. 251) argues for a problematization as *“On the one hand, both parties have an incentive to sustain the relationship rather than to permit it to unravel, the object being to avoid the sacrifice of valued transaction-specific economies. On the other hand, each party appropriates a separate profit stream and cannot be expected to accede readily to any proposal to adapt the contract”*.

It is argued, therefore, that there is a need to somehow declare, *“admissible dimensions for adjustment such that flexibility is provided under terms in which both parties have confidence. This can be accomplished partly by (1) recognizing that the hazards of opportunism vary with the type of adaptation proposed and (2) restricting adjustments to those where the hazards are least. But the spirit within which adaptations are effected is equally important”* (Williamson, 1979, p. 251).

The core of being able to govern the delicate exporter-distributor relationship, situated in a bilateral governance environment as described by Williamson (1979), has evolved into numerous governance theories, which generally apply unilateral or bilateral control mechanisms to strain opportunistic behavior (Eisenhardt, 1989; Ouchi, 1979). This notion is linked to agency theory in which, *“...agency theory is directed at the ubiquitous agency relationship, in which one party (the principal) delegates work to another (the agent) who performs that work”* (Eisenhardt, 1989, p. 58). Yet, Eisenhardt (1989, p. 64) also acknowledges that, *“The major difference between agency theory and the organizational control literature are the risk implications of principal and agent risk aversion and outcome uncertainty”*. With regard the divergence in goals, the principal faces problems identifying the actions of the agent and the cost of acquiring information about the agent can be very high. Risk relates to the notion that the two parties prefer different actions depending on the level of individual risk involved in the actions to be taken. The focus of analysis is the contract governing the relationship and the need for control tools from the

principles' perspective. These tools can be either behavior oriented (bilateral) or output based (unilateral) (Eisenhardt, 1989).

Unilateral control can be described as directives the exporter initiates to influence the distributor to act according to the exporter's directions. Unilateral control methods are often divided into process and output controls. Process control refers to efforts to influence marketing and sales activities, whereas output control refers to efforts to influence the distributor's end results (Bello & Gilliland, 1997). Bilateral or clan control describes behavior-oriented control methods between an exporter and a distributor. A setting between an exporter and a distributor dominated by clan control can be defined as, "...a relationship based on shared values and norms between the trading partners, whereby they can trust that the other partner always will act in the interest of both" (Solberg, 2006, p. 83). Bilateral control mechanisms are used when the institutional environment enhances the incentives of its utilization and focuses on trust and the spirit of the contract (Williamson & Ouchi, 1982). Moreover because of the nature of the contract, soft approaches (being connected to bilateral control mechanisms) are always needed because no contract can account for every contingency (Cullen, Johnson, & Sakano, 2000). All control methods discussed (output-, process- and clan-control) effect the power base that the exporter places on the distributor (Solberg, 2006).

Regarding the effects of unilateral control on distributor performance, scholars have contended that output control positively influences distributor performance, whereas process control does not (Bello & Gilliland, 1997). This argument stems from the limited understanding that the exporter has of the foreign market and the business practices the distributor uses (Bello & Gilliland, 1997; Root, 1994; Eisenhardt, 1989). This might be related to Solberg's (2006, p. 98) statement that "...the finding that process control relates negatively to relationship quality is an important observation and corroborates the general impression from other studies on international marketing that central control of local marketing activity is not specially appreciated by the local middlemen."

Problematic here is that as the complexity of products increase, exporters increasingly use both process and output controls to safeguard against distributor shirking. Moreover, greater psychic distance between the exporter and the distributor decreases the use of output control because it is difficult to control the distributor's presented performance (Bello & Gilliland, 1997). Even when

the solution is to increase resources, an exporter will use increased outcome controls rather than process or clan control. Solberg (Solberg, 2006, p. 93) argues that, *“This finding suggests that outcome controls are particularly resource-demanding and that control information about outcome measures in foreign markets is difficult to obtain”*.

Communication is one of the most important factors that increases trust between the exporter and distributor; therefore, it is an important characteristic of clan control. When examining the impacts of communicative actions, however, Solberg (2006, p. 93) found that, *“Neither social bonds, nor investments in, nor information exchange seem to have any impact on clan control in the presence of the other factors (cultural closeness, flexibility, power). This is surprising as these activities indeed are expected to foster an atmosphere of trust and shared values”*. Although studies have suggested that clan control must be constantly apparent in the relationship in order to reduce opportunistic behavior, the impact of the governance method has been questioned (Bello & Gilliland, 1997; Solberg, 2006). Moreover, although an exporter receives more information about the market and about the distributor over time, the use of clan controls does not appear to increase (Solberg, 2006).

Flexible adjustments by the partners in the relationship increase export performance (Bello & Gilliland, 1997). Flexibility is argued to be strongly linked to clan control; therefore, flexibility *“may well be an antecedent to trust and the wider construct of clan control rather than a control mode in its own right as suggested by Bello and Gilliland (1997), or a component thereof”* (Solberg, 2006, pp. 95-96). Bello, Chelariu, and Zhang (2003) suggest that the qualities of flexibility, communication, and solidarity lead to close collaboration between an exporter and its distributor. The authors used Noordewier, John, and Nevin (1990) to augment their argumentation, yet the main difference between the setting to which Bello, Chelariu and Zhang (2003) refer is a relationships in which a re-selling function takes place. Noordewier, John, and Nevin (1990), however, refer to a situation in which a purchaser buys products from an original equipment manufacturer (OEM) as an end-user so that they can use the products for production or manufacturing. Therefore, the basis for argumentation differs as the contextual framework is different between the two latter studies above.

Bello, Chelariu, and Zhang (2003) explore the role of relationism as a mode of governance, where the interaction between the parties is based on relational norms. Here, mutual interests and

thus stewardship are believed to increase the relationship's welfare. Relationism could therefore be argued to be part of bilateral control mechanisms. Bello, Chelariu, and Zhang (2003) find that an exporter's lack of resources results in a lower level of using relationism in the relationship; therefore, such exporters tend to have more fragile ties with its distributors. Depending heavily on a certain distributor increases the relational ties between the two parties. The authors also argue that product complexity, in which, for instance, the exporter and distributor join forces to help end-users, does not influence relationism. Yet the authors find that human interaction related to activities such as training distributor personnel by the exporter positively affected the use of relationism. Moreover, related to process and clan control, it is argued that, "...*manufacturers lacking resources not only are less able to cultivate strong working partnerships but also are less able to provide the ongoing marketing assistance that directly aids the distributor in winning and keeping foreign customers*" (Bello, Chelariu, & Zhang, 2003, p. 11). Finally, Bello, Chelariu, and Zhang (2003) argue that relationism is positively connected to distributor performance for the related exporter. Taking into consideration the findings presented above, however, the activities in between the actors for which relationism is used are limited.

Deligonul and Cavusgil (2006, p. 69) argue that, "*This study reveals that trust is not an alternative to formal control mechanisms as assumed by some. It can only serve to fill the gaps left by imperfect controls with a certain leap of faith*". Considering that Deligonul's and Cavusgil's (2006) study is based on single informants (the exporters), the authors conclude that the exporters' control mechanism that drives the choice and implementation of governance form towards distributors is based in unilateral methods. Deligonul and Cavusgil (2006, p. 70) highlight that the importance of establishing controls rather than trying to create an atmosphere of trust can be based on explanations drawn from TCA, where, "*In cross border relationships, the manufacturer has fewer risk-mitigating instruments...Given these conditions, unlike the domestic case, strategic disadvantages accrue for the manufacturer in its relationship with a foreign partner*". When the authors refer to Rosson's (1987) study concerning the negative trend of the 21 exporter-distributor relationships, it is argued that these findings could possible result from the notion that, "...*sole trust blurs the vision; dysfunctional control distorts it*" (Deligonul & Cavusgil, 2006, p. 74).

To understand control, a feature that creates a great deal of concern in an exporter-distributor setting, is the searching for and acquiring information. Lack of foreign market knowledge and

therefore not knowing which distributor actions create sales or increases market shares are common phenomena. When resources are inadequate, especially in terms of acquiring adequate market information, this notion greatly reduces the possibility a firm can specify the best distributor actions and what actions the distributor should make. Therefore, different types of control methods are used to try to circumvent this lack of information and subsequently influence the distributor (Solberg, 2006).

Acknowledging that an exporter does not control its foreign channels and therefore its distributor, Roath and Sinkovics (2006, p. 158) examine, “...*how the employment of relational governance mechanisms may help to offset opportunism while building satisfaction with the relationships as well as flexibility within the market*”. The researchers also try to incorporate organizational learning mechanisms into their study, influenced by the Uppsala Model (Johanson & Vahlne, 1977), as being leveraged by relational governance mechanisms. The study is based on exporters, where Roath and Sinkovics (2006) find, contrary to their expectations that a learning orientation will not result in higher levels of commitment. They further argue that, “*The manufacturer may create a relationship environment that encourages learning between the partners, but the distributor may not necessarily reciprocate by committing its resources. Rather, the distributor may opportunistically take advantage of the information the manufacturer offers*” (Roath & Sinkovics, 2006, p. 176). The authors find, however, that learning orientation calls for trust. Effective relationship governance, as evidenced by trust, though, did not contribute to the relationship’s flexibility, as opposed to relational governance, which is demonstrated by commitment. Most significantly, a learning orientation was negatively related to satisfaction, where Roath and Sinkovics (2006, pp. 176-177) argue that, “*Interestingly, the relationship between learning orientation and satisfaction with the relationship proved to be statistically significant, however, contrary to the hypothesized positive relationship, the relationship is negative. Encouraging a learning environment between the manufacturer and foreign distributor does not directly translate into satisfaction with the relationship. The relationship between the manufacturer and foreign distributor may require more tangible outcomes before the manufacturer is satisfied*”.

Peng and York (2001) explain that transaction theory, noting that it might explain why exporters choose to use distributors at all; indeed, is the FOM is chosen if it is believed to have the lowest transaction costs. Costs arise from uncertainty, lack of information flows, and the complexity of

the market, leading to a bounded rationality. An exporting mode is often chosen, therefore, when transacting beyond the home country. Taking into account the capabilities of a possible distributor, it has been argued that this approach has the potential to lower costs to a larger extent than direct exports as to the distributors established facilities and local ties facilitating exchange. Moreover, it is believed that governance aspects focuses on the costs occurring after an agreement has been made, where opportunistic behavior and governance costs associated with maintaining the chosen relationship are incurred. Transaction costs and governance are accused of being too deterministic as they due to the interests of one single firm take a solitary party's side within a relationship that consists of two parties. (Peng & York, 2001) Thus, a more nuanced perspective of the effects of being connected to several actors as well as the potential opportunities for a distributor is needed to be taken into consideration.

2.4 Strategic Alliances and Relationship Deterioration

Alliance research has focused on how dyadic relationships form (Eisenhardt & Schoonhoven, 1996; Gulati, Lavie, & Singh, 2009; Gulati, 1999; Gulati, 1995); how they are governed (Gulati, 1995; Kale, Singh, & Perlmutter, 2000); how they evolve (Osborn & Hagedoorn, 1997; Koza & Lewin, 1998; Das & Teng, 2000; Doz, 1996; Ring & van de Ven, 1994); and their performance (Kale, Dyer, & Singh, 2002; Stuart, 2000; Dyer & Singh, 1998) Gulati, 1998; Wassmer, 2010; Larson, 1992).

Alliance literature offers an explanatory perspective on how inter-organizational relationships develop, which often includes long-lasting exchange relationships (Gulati, 1995; 1998). Further, the logic of engaging in an alliance depends on social opportunities and perceived strategic needs (Eisenhardt & Schoonhoven, 1996), which are comparable to the characteristics of engaging in industrial exporter-distributor relationships. The focus areas within the strategic alliances literature have been touched upon, to a large extent, earlier in the present study, particularly concerning the industrial exporter-distributor relationship. Thus, the following subchapter concentrates on the deterioration of strategic alliances and the implications of alliance portfolios.

Lavie (2007) and Stuart (2000) follow Eisenhardt and Schoonhoven's (1996, p. 136) reasoning that, "*The underlying logic of alliance formation is, thus, strategic needs and social opportunities*". Stuart (2000, p. 808) further acknowledges that for a young or small firm that is able to join an alliance with well reputable partners, these alliances, "*...build public confidence in the value of an organization's products and services and facilitate the firm's efforts to attract risk averse customers*".

Doz (1996, p. 55) argues that successful alliances are highly evolutionary, where continuous learning through feedback and reassessment leads to readjustments. On the other hand failing alliances, "*...were highly inertial, with little learning, or divergent learning between cognitive understanding and behavioral adjustment, or frustrated expectations*". Doz (1996) emphasizes that it is crucial to look at how an alliance evolves in order to understand how the relationships develop as not only the initial conditions can be seen as the sole denominator for development. Specifically, when acting with a foreign partner, conflict between adaptive and inertial forces can occur, particularly when compared to more "arm's length" relationships. Doz (1996, p. 81) noted, "*This strong conflict between inertial and adaptive forces probably reinforced both the impact of*

small early events and that of the dynamics of role definition among alliance participants. The early cooperation process therefore had a disproportionate impact on the alliance evolution and on its subsequent content". Such tensions were also depicted by Das and Teng (2000), who argue that alliance instability is a force that should not be sought, because changes to any of the partners distorts the setting in which the alliance is settled. The authors also admit, however, that alliances, as an inter-organizational phenomenon, are an arena where conflicting forces develop (Das & Teng, 2000).

Linked to the above-mentioned view of the dynamics of inter-organizational relationships, Dyer and Singh (1998) argue that relational rents can be created through relation-specific assets, where the corresponding firm provides specific resources. These are joined with knowledge sharing routines, complementary potentials within the surrounding partner's specific resources, complementary resource endowments, and effective governance. The authors also bring forward mechanisms to assist in sustaining relational rents. These mechanisms consist of inter-organizational asset connectedness, resource indivisibility, and the institutional environment. The institutional environment refers to the need for both formal and informal rules, whereas inter-organizational asset connectedness creates a snowball effect where increased relation-specific investments are made. Resource indivisibility refers to the notion that combining the resources of both firms results in resources that are idiosyncratic and indivisible. Still, it is recognized that, "*A key strategic implication is that the partners' resources and capabilities may co-evolve and change over time, thereby restricting each firm's ability to control and redeploy the resources. Although value may be generated through the partnership, there is the potential for a loss of flexibility, which should be considered at the outset*" (Dyer & Singh, 1998, p. 673).

Gulati (1998) takes a social network perspective, arguing that although alliances relate to the dyadic exchange between two firms, the development and perspective of outcomes is based on the social network in which the alliance is based. Gulati (1998, p. 295) also argues that, "*The focus on the firm or alliance as the unit of analysis and the description of external context in competitive terms has typically assumed an atomistic notion of firms evaluating alternative courses of action and does not take into account the actions of other firms or the relationships in which they themselves are already embedded*". Gulati (1998) posits that two analytical approaches are available to examine the influence of social networks. The first approach addresses the informational advantages through relational- or structural embeddedness in

networks. Relational embeddedness refers to the probability that two actors will create an atmosphere of shared meaning as the relationship develops over time. Structural embeddedness, on the other hand, refers to the informational role a firm's position in a network plays. Structural embeddedness relates to the control benefits a firm can possess according to its position in the network where control can be derived by being situated between two or more actors. A firm in this position can either play the other two firms against one another due to its perceived attractiveness or because the two firms have conflicting demands. Gulati (1998) recognized the fallacy that can occur between the two approaches as control benefits can arise as a consequence of manipulating information. Furthermore, Gulati (1998, p. 297) acknowledged that, *"While firms may be connected through a multitude of connections, each of which could be a social network, some may be more or less significant than others and researchers have rarely focused on more than one network at a time"*.

Gulati (1998, p. 297) also emphasizes that it is important to study alliance networks over time because this perspective presents opportunities to gain a deeper understanding of network evolution and *"...allows us to examine the extent to which alliances formed by firms may lock them into path-dependent courses of action in the future. The normative side of this, of course, is that once firms understand the dynamics of alliance networks, they may choose path-creation strategies rather than becoming path-dependent"*.

Regarding how alliances develop, Gulati (1998) argues that the extent of market overlap between the dyadic partners helps determine the role of individual behaviors and thus how the relationship develops. Moreover, despite the impact of the initial inter-organizational variables such as individual objectives and commitment, *"...discrete stages that occur due to the discontinuous changes in the environment"*, (Gulati, 1998, p. 305) can affect and distort the evolution of individual alliances.

Linked to the development of the relationship over time, Gulati (1998) brings forward the performance of alliances, to which little attention has been given due to logistical challenges and measurement difficulties. Measurement difficulties are also related to the nature of an alliance, where asymmetric goals can create difficulties in determining performance rates. The foremost common approach to studying alliance performance is by examining when alliances are terminated. All but one of the studies (Levinthal & Fichman, 1988) to which Gulati (1998) refers

concern joint ventures rather than non-equity modes of inter-organizational relationships. Many of the factors affecting termination, however, can be interesting in an industrial exporter-distributor setting. These factors include, “...*industry and dyadic conditions such as concentration and growth rates, country of origin of partners as developed or developing, the presence of concurrent ties, partner asymmetry, age dependence or the duration of the alliance, the competitive overlap between the partners...*” (Gulati, 1998, p. 307). Gulati (1998) however, makes two distinctions concerning the problem of considering terminations as an indicator for performance. First, certain alliances might die natural deaths or be transitional in that they are predestined to die. In these cases, termination is not a valid indicator for weaker performance. Second, Gulati (1998) argues that studies concerning alliance terminations or failure see performance as an “either/or” situation, which is too imprecise to evaluate alliances as this approach is too “black and white” with no gray areas to account for tolerable performance.

Gulati (1998) also attempted to link embeddedness to the duration of relationships, where he concluded that there is very limited theorizing concerning the effects of structural embeddedness on alliance performance. However, concerning relational embeddedness Gulati (1998, p. 308) argues that, “...*the duration of exchange relationships is not only influenced by changes that may occur in task conditions that alter the extent of resource interdependence, but there may be ‘dyadic attachments’ between firms that lead to the persistence of such ties. Such attachments are conditioned by the social structure in which firms are embedded and include individual attachments resulting from the continuity of boundary spanners in the partnering organizations and structural attachments arising from the history of interaction between the organizations.*”

Gassenheimer, Houston, and Davis (1998) present a model to try to explain the deterioration of inter-organizational relationships, which used a combination of transactions cost theory, in which self-interest is the main driver, and social exchange theory, which is based on relational decision making and in which joint goal fulfillment and evaluation of relational values are central. Gassenheimer, Houston, and Davis (1998, p. 324) argue that, “...*we maintain that most exchange relationships do not survive long-term solely on economic or social value but rather a combination of the two*”.

To differentiate between one party’s economic and social motives for participating in an exchange relationship, Gassenheimer, Houston, and Davis (1998, p. 326) propose the term

“relative distance,” where they note: “...as social distance increases (i.e., parties increase their distance) relative to economic distance, the relative concern for others decreases, and self-serving economic interests increases. As social distance decreases relative to economic distance, the relative concern for others increases, and self-serving economic interest decreases”. Gassenheimer, Houston, and Davis (1998) argue that while self-interest motivates firms to engage in exchange relationships, parties in a dyadic relationship also recognize interdependence and the potential to gain benefits through communication. Indeed, they sacrifice potential short-term losses for the sake of potentially larger, long-term profits. Yet, it is also acknowledged that over time, firms can reformulate goals that affect the value of earlier goals. Because two firms are affected continuously by economic and social values that subsequently influences the relational distance between the partners, it is argued that the relative perspective of fairness in the relationship is affected as well, which can lead to an exit (Gassenheimer, Houston, & Davis, 1998).

Seabright, Levinthal, and Fichman (1992) point out that change within organizations engaged in a dyadic exchange relationship that affect the resource fit between the two organizations functions as a stimulus to dissolve the relationship. On the other hand, commitment functions as a counterforce to any organizational changes affecting relationship fit. Commitment or attachment reflects the history of the relationship. Seabright, Levinthal, and Fichman (1992) differentiate between individual attachment and structural attachment. Individual attachment reflects the socialization and learning among individuals in the relationship and is not necessarily connected to the duration of the relationship. Structural attachment, on the other hand, reflects the inter-organizational investments the two parties make, which accumulates with the duration of the relationship (Seabright, Levinthal, & Fichman, 1992). The authors conclude that the individuals involved directly in the resource and service transactions can have a significant effect on the dissolution of a dyadic inter-organizational relationship. If considerable commitment is evident, it acts as a force against dissolution. Still, changes in the partner’s resource needs increase the probability that the relationship will dissolve. The authors also note that attachment or commitment between the parties can be considered a resource and consider it is a property of the relationship rather than a resource of either party (Seabright, Levinthal, & Fichman, 1992).

Although Halinen and Tähtinen (2002) limit their study to professional service exchanges and built their research primarily on social psychology research on how interpersonal and business

relationship end, their study focuses on the process of relationships ending. The process is referred to as, “...the nature, sequence and order of activities and events that a relationship undergoes as it dissolves” (Halinen & Tähtinen, 2002, p. 164). The authors note that no categorization exists of the factors that influence the relationship ending, and that the limited studies that have examined relationship break-up most often picture events influencing the relationship’s end. Halinen and Tähtinen (2002, p. 164) also argue that, “*Explanations of how these factors or events influence the ending process are equally scarce.*” Moreover, it is argued that a most studies ignore, “...the essential role of human beings as change agents in the ending process” and that very often “...the embeddedness of business relationships within various network structures is disregarded” (Halinen & Tähtinen, 2002, p. 164). Furthermore, Halinen & Tähtinen (2002, pp. 164-165) argue that, “*The multiplicity of influencing actor levels in business (individual, team, department, company, relationship and network) as well as the effect of time, i.e., the history and potential future of the relationship, complicate theory construction in the area.*”

Halinen and Tähtinen (2002) also suggest that the end of a relationship involves a process in which the bonds, links, and ties between the parties are disconnected. When all activities, resource ties, or actor bonds (see Håkansson and Snehota, 1995) are broken, the relationship is considered dissolved. This can be contrasted to Havila and Wilkinson’s (2002) notion that it is difficult to determine when all individual bonds can actually be regarded as broken. They noted, “...relationship ending is problematic in that, even when trading stops, there still seems to exist a kind of “relationship energy” which continues on, especially in the social bonds that have been created” (Havila & Wilkinson, 2002, p. 191). Halinen and Tähtinen (2002, p. 166) note that the relationship ending can be influenced by the network itself and that the ending of a dyadic relationship is “...likely to influence other connected actors...” Halinen and Tähtinen (2002) also argue, however, that attenuating factors or exit barriers can exist that can alter the relationship ending. These factors could be actor-, dyad-, or network related. Actor-related factors concern organizational characteristics that increase organizational efficiency in maintaining the relationship. Dyad-related factors concern the statues of the relationship and therefore the strength of the links and bonds through trust, commitment, and interpersonal relationships between the two business actors, which are believed to moderate the effects of “precipitating”

events. Network-related factors concern, for instance, the lack of alternative partners (Halinen & Tähtinen, 2002).

2.4.1 Strategic Change and Implications on a Relationship

As a strategic alliance is formed, the partners in the dyadic relationship can evolve and change over time as a consequence of strategic decision-making (Doz, 1996; Koza & Lewin, 1998), which leads to a situation in which the alliances is terminated (Cui, Calantone, & Griffith, 2011; Larson, 1992; Reuer & Zollo, 2005). Cui, Calantone, and Griffith (2011) note that the endogenous aspects of change within a focal firm as a result of a dyadic partnership have been recognized. The effects of partners' strategic changes and their effect on the focal firm's strategic alliances, however, have received limited attention. The authors found that an increase in the partner firm's marketing resources, R&D resources, and M&A events within the same industry increased the tendency for partnerships to dissolve.

Specifically, an increase in marketing resources affect the tendency to dissolve marketing relationships and the increase in R&D resources affect the propensity to dissolve R&D relationships. Thus, an increase in resources in the focal firm that are similar to those in the partnership increases redundancy and thus reduces the value of the partnership. Furthermore, competitors' imitative activities are argued to erode the uniqueness of the relationship and thus increase the likelihood of terminating the alliance (Cui, Calantone, & Griffith, 2011). Interestingly, and linked to an industrial exporter-distributor relationship, Ping (1995), in his study concerning wholesaler-retailer relationships in the US, showed that revenue had a negative effect on exit intention. On the other hand, return on investment (ROI) and significantly higher ROI figures, showed a positive effect on exit intention. Ping (1995) proposes that his findings indicate that those retailers depend less on the wholesaler and are thus inclined to switch.

Cui, Calantone, and Griffith (2011) argue that M&As in the same industry are also likely to result in situations in which resources become redundant as the acquired resources become similar to those in the partnerships. Linked to marketing partnerships and M&As, Palmatier, Miao, and Fang (2007, p. 599) offer a nuanced one-sided perspective and add to the propensity of relationship dissolution, in which they argue that, "*...missing revenues and growth estimates have been identified as the primary reason that M&A fail to achieve financial objectives and the*

critical first step in maintaining and growing revenues after an M&A is the successful integration of sales organizations”.

Interestingly, Cui, Calantone, and Griffith (2011, p. 407) did not find support for their hypotheses that, *“The formation of competing partnerships is positively associated with the propensity of termination of the focal partnership”* nor that *“The formation of multiple partnerships with the same partner is negatively associated with the propensity of termination of the focal partnership”* (Cui, Calantone, & Griffith, 2011, p. 408). The authors did find, however, that a limited number of alternative partners decreased the possibility of terminating an alliance. The authors argue that the implications of managing an alliance portfolio (discussed later), where the effects of other alliances on the focal alliance can result in alliances relying on each other and implicate coordination. Cui, Calantone, and Griffith (2011, p. 417) argue that, *“Firms may not be able to successfully recognize or coordinate different partnerships to avoid resource redundancy, preventing them from adjusting for competing partnerships. Similarly, to recognize and realize the synergy between multiple partnerships and enhance the uniqueness of partnership resources, a firm needs to successfully coordinate multiple partnerships, sharing information and resources across projects. Lack of successful partnership portfolio management thus may prevent firms from generating unique resources from multiple partnerships.”* It is admitted that alliance portfolio management has increased research attention, but in the area of alliance coordination and leverage.

Some interesting implications of the study by Cui, Calantone, and Griffith (2011) involve the notion that the study is based on JVs. Thus, the firms being studied have relatively high levels of investments sunk into the alliances compared to an industrial exporter-distributor situation. A competing partnership would have direct consequences on the firm itself because knowledge and market information within the JV ought to be available for the focal firm. This could be exemplified by viewing the termination rate of the sample (150 JVs) being 57% where approximately 48.7% ended in acquisition and the remaining 8.7% in dissolution. Moreover, although Cui, Calantone, and Griffith (2011) discussed exclusivity in relation to the hypothesis concerning competitive partnership, it is discussed in terms of co-specialization of resources; that is, R&D collaboration rather than a marketing relationship as would be found in an exporter-distributor setting, where an area can be set aside as exclusive. Therefore, to measure the direct effects of increased competitive relationships in the industry and a combination of R&D,

marketing, and manufacturing relationships might be misleading. In another study, Singh and Mitchell (1996) study 693 collaborative relationships (135 cases being development-oriented, 509 cases being marketing-oriented and 49 cases being other) and omitted JV- and acquisition-activities. They found concerning the effects of a partnering firm shutting down or a partnering firm joining additional partnerships with other firms that, “...*businesses that are unable to find new partners face increased risk of dissolution for several years if a collaborative partner shuts down or forms a collaborative relationship with a new partner...Businesses that are able to work closely with current partners while at the same time identifying possible new partners are likely to succeed in an industry marked by ongoing technological change*” (Singh & Mitchell, 1996, p. 112). However, the authors also recognize a contradiction in the findings. On the one hand, collaborative relationships give competitive advantages because replication is difficult for others as are the boundaries created by the coercive, normative, and competitive requirements. On the other hand, they argue that the collaboration creates “organizational and institutional constraints” (Singh & Mitchell, 1996, p. 113).

Using the same sample in a later study, Singh and Mitchell (2005) investigate growth effects of entering into collaborative relationships with incumbent partners (defined as firms having an established position within a certain industry) or other entrants (defined as startup enterprises). The authors find that joining collaboration with incumbent firm results in immediate sales and can therefore help firms surpass initial problems of not reaching critical sales levels. However, it is also argued that “*Entrants that collaborate with large incumbents do not experience later growth. It would be useful to investigate why incumbents help their entrant allies initially but not subsequently*” (Singh & Mitchell, 2005, p. 515). On the contrary, when it comes to entry collaboration with a startup enterprise, Singh and Mitchell (2005, p. 515) argue that the immediate sales levels are lower compared to collaboration with an incumbent firm, “...*but may provide a base for longer-term growth*”.

2.4.2 An Alliance Portfolio Perspective

An alliance portfolio perspective, as well as the dynamics of maintaining and managing a bundle of inter-organizational relationships offers the possibility of combining aspects of dyadic relationships as well as network effects. This perspective also corresponds to Gulati (1995), who argues that it is unfortunate that empirical studies concerning the governance of alliances have a continued focus on utilizing transaction cost economics as it distinguishes each alliance as

independent and only takes into consideration the activities related to the specific alliance; as such, it treats them as reflections of the costs of that specific relationship. Lavie (2007) argues that social network theory (for a review see Gulati (1998)) offers a limited aspect on the performance implications for alliance portfolios as it does not take into consideration the characteristics of the actors. Rather, it is argued that an alliance portfolio refers to the immediate collection of relationships between a firm and its partners. *“It is akin to the notion of the egocentric network, which encompasses the focal firm (ego), its set of partners (alters), and their connecting ties”* (Lavie, 2007, p. 1188).

One idea that should be considered is that the definition of alliance portfolios is argued to be somewhat problematic as the level of analysis sometimes regards portfolios from a business or corporate level. Moreover, it is often unclear as business portfolios regard alliances of a particular business and from a corporate level regards all the alliances of a firm handling multiple businesses. Therefore, *“...multibusiness firms can theoretically have as many alliance portfolios as they have businesses”* (Wassmer, 2010, p. 143). Being aware of this problematization, but as a means to incorporate a definition that allows for an analysis from different angles in an exporter–distributor situation and using Lavie’s (2007) and Wassmer’s³ (2010) notions, an alliance portfolio can be described as the egocentric network encompassing the focal firm or subunit, its set of partners, and their connecting ties.

Due to the incompleteness of alliance agreements, Lavie (2007, p. 1193) argues that bargaining power defined as *“...the ability to favorably change the terms of agreements, to obtain accommodations from partners, and to influence the outcomes of negotiations”*, is not only a factor to consider during the initiation of the agreement, but also a factor that prevails throughout the relationship. Thus, as a consequence of an alliance portfolio, the effects of bargaining power are obtained from the dynamics stemming from the relative bargaining power from each alliance partner as well as the possibility of alternating between alliances (Lavie, 2007).

Lavie (2007) acknowledges that it is important to differentiate alliance performance from the effects of alliances on firm performance. In strategic alliance literature, the effects have often considered the dyadic relationships rather than looking at the effects from a portfolio of alliances on the performance on others. Although Lavie (2007, p. 1189) argues that research has

³ For a more complete, coherent problematization concerning definitions of alliance portfolios see Wassmer (2010).

progressed in terms of studying the network structures rather than the dyadic alliances, in which the general understanding revolves around the notion that larger firms and those firms that possess market-leading technological attributes are seen as the most valuable partners, he also acknowledges that, “...*although some complementary network resources create value, alliances with well-endowed partners may in fact undermine the market performance of firms.*” Lavie (2007) bases this argumentation on the notion of the mechanisms of value creation as differentiated from value appropriation where he argues that, as a consequence of the potential success of the partners of a focal firm’s alliance portfolio, which are increasingly more profitable; these firms are also inclined to increase access to more partners than the focal firm. Therefore, the focal firm’s market value is believed to decline. Lavie (2007, p. 1207) clarifies this by arguing that, “*Specifically, partners in the alliance portfolio may capture stronger bargaining positions by virtue of their higher profit margins or their access to more alternative alliances relative to the focal firm. By simultaneously accounting for the nature of interdependencies in alliances and the contributions of network resources, this study demonstrates how dominant partners can facilitate joint value creation while adversely affecting firm performance as a result of excessive appropriation of that value.*”

Moreover, Lavie (2007) argues that multilateral competition across the partners of a focal firm’s alliance portfolio enhances the firm’s market performance due to the possibility to “...*arbitrate among competing partners and control resource allocation decisions, which improve its appropriation capacity*” (Lavie, 2007, p. 1207). However, an increased amount of tension can be created among competitors, which can lead to a lessened commitment to the focal partner and the possibility of engaging in alliances competitive to the focal firm. Furthermore, Lavie (2007, pp. 1207-1208) argues that, “*In turn, the firm may face hazards when its partners engage in alliances with its competitors. Thus, this study complements prior research that noted how competitors that develop alliance portfolios can undermine the focal firm’s competitive position irrespective of the firm’s own alliances.*”

Lavie (2007) argues that the emerging research concerning alliance portfolios has been focused upon the “structural properties” of networks, thereby neglecting the importance of partners’ attributes, which is brought forward by his study. He further emphasized that the “nature of network resources” provided by alliance partners to the focal firm or the nature of the interdependencies across and between firms in an alliance portfolio ought to be increasingly

important rather than structural attributes. Lavie (2007) is very direct when arguing that “...*the notion of structural holes (referring to Burt, 1992) is intended to capture aspects of a firm’s bargaining power vis-à-vis its network partners, whereas structural equivalence (referring to Burt, 1987) implicitly assumes competition between equivalent partners. In a similar vein, the notion of embeddedness (referring to Granovetter, 1985; Uzzi, 1996) highlights the conditions that facilitate the flow of resources in the network, but it does not shed light on the nature and availability of such network resources.*”

Rather than looking at performance implications of alliance portfolios, Xia (2011) studies alliance survival and the implications of alliance portfolios on individual relationships, finding that if a foreign partner in “the same industry” forms an increased amount of alliances, these actions have a negative impact on the survival of the focal alliance as substitutability increases. Xia (2011) argues that acquisitions can be used to reduce partner dependency and increase its power as a firm can acquire similar resources. “*Therefore, once an alliance is formed, additional acquisitions in the same industry may reduce or erase a firm’s dependence on an existing partner, regardless of the geographical location of the acquired firm*” (Xia, 2011, p. 237). Thus, Xia (2011) argues that acquisition activities after the alliance formation decrease the likelihood of alliance survival. Xia (2011) further acknowledges that repeated partnerships increase the likelihood of alliance survival as mutual dependence is increased between the partners due to the amplification of resource dependence, thereby decreasing the possibility of exclusion.

Xia’s (2011) also corresponds to the black-and-white perspective of formation and termination by drawing in aspects of alliance portfolios as having an impact on alliance relationships. Thus, Xia (2011) argues that is not reasonable to draw suppositions concerning alliance termination simply from their formation. Although Xia (2011, p. 231) argues that alliances are intentionally temporary, it is common for firms not to specify the duration of an alliance as a means to maintain flexibility due to “...*the inadequate information regarding internal and external changes relevant to evaluate their resource needs.*” Furthermore, Xia (2011, p. 230) argues that, “...*once an alliance between partners A and B is formed, the addition of other alliances to A’s or B’s portfolio may shape the post-formation dynamics in the power relations between A and B and thus may affect the A-B alliance survival.*” This notion can be linked to the view that, as partner dependence changes, a power imbalance takes place in which the likelihood of survival decreases. Thus, a firm can decrease dependence by creating new alliances in which equivalent

resources are accumulated. According to Xia (2011, p. 231), “*The perspective suggests that individual alliances affect each other as they are interdependent in a firm’s portfolio. Thus, a firm’s alliance decision (formation or termination) relies not only on individual alliances but also on its alliance portfolio.*” However, it is important to keep in mind that Xia (2011) refers new ties into a portfolio as a means of substitutability.

2.5 Summary

The exporter-distributor literature recognizes the difficulties and implications of the exporter-distributor relationship. It highlights diverging agendas and the portrayal of a distributor as an actor situated in a position where a balancing act is played. However, the literature focuses on a single dyadic relationship without acknowledging the effects of being engaged in a number of relationships. The business network approach, although highlighting and theorizing upon the elements of dyadic inter-organizational relationships, allows for a wider contextualization recognizing the influential elements involving an actor’s connection to a number of organizations in which resources are shared and interdependencies created. As a counteracting theoretical perspective, the TCA acknowledges and highlights the interests of the individual firm, significantly the exporter in the prevailing literature, and the means of how a firm tries to influence a counterpart through governance measures. Thus the implications of the influential forces in an exporter-distributor context are portrayed. Finally, the strategic alliance literature portrays how strategic changes within an organization affects existing dyadic inter-organizational relationships as a consequence of firm interests. Further the latter theoretical perspective depicts how a bundle of inter-organizational relationships affect single dyadic relationships as the interests of the partners are recognized. Combined the theoretical perspectives throughout the conceptual framework add both width and depth in terms enhancing understanding concerning exporter-distributor relationship deterioration. The means of how the theoretical perspectives are going to facilitate an increased understanding together with the empirical findings is explained in the methodological chapter.

3. Methodology

The methodology chapter brings forward the reasoning behind the research question, how the research has been conducted and why the study has been presented in a certain manner.

3.1 Research Process

A previous study concerning the use of intermediaries in sub-Saharan Africa created an emerging interest to continue studying the inter-organizational relationship in order to increase understanding of the complexities of acting through an external partner in foreign markets. Consequently, and as a means of continuing to study the difficulties of utilizing foreign distributors, a master's thesis project was conducted concerning the relationships between an exporter and its corresponding distributors. The main finding from the thesis was that, *“Through literature review, the nature of the distributor allowed us to identify three factors, namely its strategic agenda, organizational dynamics and asymmetric behavior being drivers of the relationship. These elements were crossed with the concept of organizational learning which constantly affects perception and...a decreasing perceived performance on long-lasting distributorships from an exporter's perspective was found. Being a dyadic relationship, the intentions and reactions of the exporter were also identified, mainly stemming from the necessity of control which also had an influence on the evolving nature of the relationship”* (Naderi & Jakobsson, 2009, p. 60). The findings depict that a diverging agenda was found within the distributors; moreover, over time, a decreasing perceived performance on distributor activities was found within the exporting firm. However, the reasons explaining how these factors were interlinked as well as how they had developed and why they did so were not elaborated upon to create a coherent understanding of the deterioration of exporter–distributor relationships. Moreover, as the relationship consists of dual partners, the changes and development of the exporter were not emphasized.

Although the deterioration of exporter–distributor relationships has previously been investigated, the research process of this study revealed new insights. The researcher's familiarity with the exporter-distributor literature together with the gathered empirical data lead to a pursuit to increase understanding of the effects of a network perspective on the exporter-distributor relationship. As influence is emphasized in business network theory, the research process in this study lead to the TCA and its corresponding governance mechanisms as a means to increase the

researcher's understanding concerning an individual actor's interests. However, to understand firms' individual interests and their link to inter-organizational relationship development and portfolio perspectives, the final theoretical perspective that was reviewed concerned strategic alliances. Namely the continuous research and theoretical reviews gave space for a new approach in which the individual development of the two actors was seen as the basis for changes in the dyadic relationship. Therefore, the rich amount of data gathered was seen with "new eyes" and new theoretical lenses: the business network approach, strategic alliances, and TCA. These lenses are all related to inter-organizational relationships and have a diverging focus, ranging from the influential powers of the actors connected to a single organization to the individual interests of one organization and how these combine to affect how organizations act within one specific dyadic relationship. Thus, the empirical data were analyzed once again to increase understanding and portray the phenomenon of exporter–distributor deterioration as well as offering the possibility of increasing theoretical insights into the phenomenon, which is known but not well understood. Therefore, the relational cases reveal deterioration, differ in terms of the partners' perceived deterioration, and are unusual in terms of being able to depict a path that has not yet been heavily researched (c.f. Eisenhardt & Graebner, 2007).

3.2 Research Approach

"Whenever one reacts with the feeling that's interesting, that reaction is a clue that current experience has been tested against past experience, and the past understanding has been found inadequate" (Weick, 1989, p. 525). Existing understanding of the exporter–distributor relationship related to the phenomenon is limited. Andersen's (1993, p. 228) argumentation concerning the duration of distributor agreements and its connection to a firm's early internationalization behavior states that *"Little attention has been paid to the time dimension of the process...Critical events of the firms' development and factors that affect the firms' export behavior should be identified. This should probably be conceived by different methods, including case studies."* Taking this argumentation into account, the possibility exists to increase understanding of the deterioration of exporter–distributor relationships through a qualitative study.

By following Alvesson and Kärreman's (2007) decision-making path regarding mystery-focused research, it becomes possible to explain the journey of this research as a continuous race between

an interest in theoretical perspectives and empirical findings found with regard to the exporter–distributor relationship. The journey has led to the current understanding and presented problematization for trying to explain why and how the relationships deteriorate. Alvesson and Kärreman (2007) emphasize the importance of maintaining openness toward the field of interest in order to be able to counteract the researcher’s interpretative bias. Openness is ensured if an elaboration on the presented problematization is made from a wide number of theoretical perspectives (Alvesson & Kärreman, 2007) and also by following a systematic combining approach (Dubois & Gadde, 2002). In this study, the different theoretical perspectives highlighting varying aspects affecting inter-organizational relationships have been researched and reflected upon with regard to the empirical data as a means to increase understanding regarding the relational deterioration as well as reduce interpretive bias given that, “*The interest is in process rather than outcomes, in context rather than a specific variable, in discovery rather than confirmation*” (Merriam, 1998, p. 19).

The differentiated understanding and interpretation of previously gathered data and theory have evolved in order to depict the nature of the actors in the exporter–distributor relationship, and more critically to highlight the distributor, which largely has been neglected (Zhang, Cavusgil, & Roath, 2003; Racela, Chaikittisilpa, & Thuomrunroje, 2006; Gençtürk & Aulakh, 2007; Beaujanot, Lockshin, & Quester, 2006). This research takes its foundation in trying to elaborate upon both actors, taking into consideration both theoretical and empirical findings and subsequently using different theoretical lenses to point to specific characteristics within each theoretical perspective as to increase understanding of exporter-distributor relationship deterioration. The research will attempt to depict causality in terms of what Welch, Piekkari, Plakoyiannaki, and Paavilainen-Mäntymäki (2010, p. 9) refer to as “...*what objects are capable of doing.*” However, in the proposed research, it is rather about “*what strategic actions taken by the actors, affecting the market offering, are capable of doing.*”

As a means to theorize from case studies, Welch, Piekkari, Plakoyiannaki, and Paavilainen-Mäntymäki (2010) identify “contextualized explanation” where explaining and contextualizing do not necessarily need to be seen as opposing elements as, “...*causation is not about the search for event regularities: social scientists need to go beyond events to understand the nature of objects, and cause–effect relationships do not consistently produce regularities in an open system. Causal explanation lies rather in understanding the constituent nature of objects: in*

other words, what objects are capable of doing. Causal explanations are developed not by collecting observations, but rather by digging beyond the realm of the observable to understand the necessity inherent in objects” (Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2010, p. 9). Conducting a contextualized explanation requires an approach in which a path between theory and empirical findings is adopted whereby possibly new causal mechanisms need to be highlighted as these mechanisms might not have been as well understood as previous research has shown (c.f. Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2010).

In order to understand the causal explanation and holistic understanding, a transaction cost approach, strategic alliance, and business network perspective are used as these all touch upon various aspects affecting the exporter–distributor throughout the relationship. Thus, the challenge is not only about moving from “...*a shapeless data spaghetti toward some kind of theoretical understanding that does not betray the richness, dynamism, and complexity of the data but that is understandable and potentially useful for others*” (Langley, 1999, p. 694), but also involves on not betraying the theoretical constructs that have been created in order to understand the frame affecting the organization when making strategic actions, influencing connecting parties, and actors’ influencing the organization in an organization’s prevailing business network. After the conceptual framework is presented, the empirical chapter is depicted where much space is given to the individuals own understanding of changes to market offering and exporter-distributor relationships. The empirical chapter ends with a synopsis of some of the most important aspects that the reader ought to bring with him/her when reaching the analysis (c.f. Eisenhardt & Graebner, 2007). It is important to recognize that the TCA, strategic alliance literature, and business network theory alone can not autonomously be used as a single means to explain deterioration aspects as they do not focus upon deterioration aspects as such. To ensure consistency throughout the thesis and not blur the highlighting of aspects of each lens, the theoretical lenses that are linked to subject of inter-organizational relationships are discussed elaborately throughout the analysis, following an alternate template strategy (Langley, 1999), until a common understanding is settled in the concluding chapter. The chapter will therefore bring forward how the combination of the theoretical perspectives actually play a founding role for why and how exporter–distributor relationships deteriorate.

Therefore, as a means of highlighting aspects concerning exporter–distributor relationship deterioration and finding support in both theoretical and empirical foundations, this study follows Pettigrew’s five guiding assumptions outlined for process research whereby a deep empirical and theoretical elaboration is made while still ensuring a “...sense of coherence in the overall approach” (Pettigrew, 1992, p. 9). The assumptions are argued to be embeddedness, where processes are examined among a number of different levels of analysis; temporal interconnectedness, where consideration is taken for processes in the past, present, and future; the importance of being able to explain the context and actions that are accordingly taken, trying to distinguish holistic rather than linear reasoning for the development of processes, and, finally, the significance of considering the context as well as the elaboration of the outcomes when pursuing the analysis of the processes.

The previously mentioned reasoning related to the examination of the deterioration processes follows Merriam’s (1998, p. 33) reasoning concerning the suitability for case studies for such research: “*Process as a focus for case study research can be viewed in two ways. The first meaning of process is monitoring: describing the context and population of the study, discovering the extent to which the treatment or program has been implemented, providing immediate feedback of a formative type. The second meaning of process is causal explanation: discovering or confirming the process by which the treatment had the effect that it did.*” Therefore, as the process in this study consists of the development of two firms and their consequences for the inter-organizational relationship, a case study approach is needed in order to gain a better understanding.

3.2.1 Case Study Process

As a means to depict and create an increased understanding related to the phenomenon of exporter–distributor relationship deterioration, a case study approach has been undertaken, thereby giving the possibility of examining four different relationships where one of the parties (the exporter) is part of all relationships. This approach allows for a broader exploration of how strategic actions affecting the market offering within the organizations can affect relationships while making comparisons as the relationships consist of the same exchange activities as the exporter is included in all relations. Therefore, although the combination of a longitudinal case approach together with a retrospective case approach arguably mitigates bias (c.f. Eisenhardt & Graebner, 2007), the organizational developments of the five organizations in the current study

serve to depict their developments in terms of market offerings together with the retrospective development and current relational situation between the exporter and the distributors. Thus, giving a strong indication of the consequences of strategic actions on the relationships and providing an answer to the research questions.

A multiple case study approach, in terms of a multiplicity of exporter-distributor relationships, being the unit of analysis, has been used in this study. Furthermore the interviewees, previously and presently involved in the relationships, have during various sequences in time been involved in building up the relational status allowing for comparisons to be made regarding the actors view upon each other, their organizational settings and competence levels (c.f. Yin, 2003).

The four exporter–distributor relationships have a positive impact upon reliability and/or dependability and consistency due to the “quadruplication” of empirical data (c.f. Merriam, 1998; Eisenhardt & Graebner, 2007; Yin, 2003). Furthermore, theoretical reasoning based upon multiple case studies are also argued to create more robust theory as they allow for a “...*broader exploration of research questions and theoretical elaboration*” (Eisenhardt & Graebner, 2007, p. 27). The uniqueness of each relationship makes it very difficult to statistically generalize the findings. Yet, combined with the comprehensive theoretical framework, the research touches upon and allows for an eclectic approach, where the four exporter–distributor relationships should not be viewed as a deliberate means to imply a sampling logic in order to try to pursue statistical generalization, but rather to use these as replicas of a relationship where the exporter can be perceived as a standing actor in order to try to reach an analytical generalization in which the relationships can be compared (Yin, 2003). Furthermore, it is argued that in complex multiple case studies a two-tail approach can be utilized in order to try to gather knowledge from two extremes (Yin, 2003). The different distributors could be argued to be two-tailed in terms of the time period in which they have been collaborating with the exporting company Impeller⁴. The oldest relationship (distributor in UAE) was established in the early 1970s whereas the newest (distributor in Saudi Arabia) was established in the end of 2005. Moreover, the organizational differences and developments in terms of market offerings as a consequence of strategic actions diverge between the distributors; for example, the distributor in Egypt is entirely focused upon sales of a specific product segment apart from the distributor in Qatar, which has diverged its

⁴ Fictive Name

portfolio into a wide number of industrial markets and products. The replication logic is also argued to give an increased external validity in terms of the possibility of testing the findings (Yin, 2003; Eisenhardt & Graebner, 2007).

Choice of Case

In order to delimit the scope of companies, the Middle East (ME) region was chosen as a focus region. The reason for the choice was not only based upon the notion that the need for distributors is high in order to perform sales activities, but also due to the emerging growth in the region enabling possibilities for firms established in the different markets. The choice of exporting company was based upon approaching industrial firms as industrial sales require a certain amount of technical knowledge; thus, when engaging in distributor relations, both parties have to commit to the relationship in terms of creating the capacity in terms of knowledge to handle marketing activities. Therefore, these relationships become interesting to study how and why they deteriorate due to the need for dual commitment. Impeller showed interest in participating and allowed for a study to take place. The firm had plans for expanding in the region and welcomed the opportunity for research within the research field and enabled contacts to four of its distributors in the ME markets, which represented one of Impeller's four main brands (Golden Egg [GE]⁵). Therefore, it can be claimed that the choice of Impeller was based on convenient sampling (Merriam, 1998). Moreover, Impeller was especially interesting given the opportunity to visit four of its distributors.

3.2.2 Data Collection

Data were primarily gathered through interviews, but also through documentation from the MNC as well as the distributors. In addition, observations were pursued as a means to gain understanding of the parties and the development of the relationships. The data collection period was approximately two months, with one month spent gathering data at Impeller HQs, during which the GE's factory was visited once. The latter was made in order to get accustomed with the firm and get an understanding for the product. Thereafter, for approximately one month, data collection was conducted in the ME at a working space provided in Impeller's branch office in UAE. The researcher travelled to Qatar and Egypt to visit distributors on one day and pursued the possibility to visit customers the following day before travelling back to UAE. The possibility of

⁵ Fictive Name

working at the branch office allowed for an increased understanding of the business as well as allowed for clarifications to be made as needed.

Data were collected in the respondents' working contexts, namely their local business environments. In other words, staff from HQs, the ME branch office, and the distributors were all met in their respective countries and offices (with the exception of the distributor in the Kingdom of Saudi Arabia⁶). Data collection in Saudi Arabia could not be gathered locally due to problems related to obtaining travel visas. All names, both related to firms and individuals, as well as the exact description of the industry and products are fictive in order to protect the respondents and the organizations and enabled the respondents to openly discuss the context and relational conditions prevailing.

The amount of data collected and the extensive literature review from a number of different perspectives concerning the exporter-distributor relationship are believed to have reached a satisfactory level of credibility as they create a better understanding of the phenomenon as well as a theoretical construct. The research process and the choice of which data and theories to portray in the thesis were developed through a cycling progression between diverging theoretical reasoning and the rich empirical case data (c.f. Eisenhardt & Graebner, 2007).

Interviews

Interviews were conducted as a means to understand the relational and organizational development within and between the firms. In order to mitigate bias and be able to present a reliable illustration of the empirical findings as well as understand the effects of strategic events (c.f. Langley, 1999), interviews were conducted with individuals who were knowledgeable informants (either with regard to intra-organizational and/or inter-organizational developments) from “...*different hierarchical levels, functional areas, groups, and geographies, as well as actors from other relevant organizations and outside observers such as market analysts*” (Eisenhardt & Graebner, 2007, p. 28).

In total, 32 interviews, constituting approximately 50 hours, were conducted. All interviews followed an interview guide wherein the questions relevant to the collaboration, history, development, and current status of the exporter–distributor relationship have been posed; thereby further allowing for narratives to be told (c.f. Eriksson & Kovalainen, 2008). To allow for

⁶ From now on, referred to as Saudi Arabia

flexibility and for the interviewees to depict their views of the relationships and developments within the respective firms, a semi-structured interview format was used, thereby promoting an increased understanding (c.f. Merriam, 1998).

Interviews were recorded with the permission of the interviewee in all cases where it was found appropriate so as not to increase suspiciousness and decrease the possibility of achieving an “open atmosphere.” Interviews with distributors and customers were not recorded as employees at the branch office, including a former employee of the distributor in UAE, indicated not to even ask for permission to record interviews when visiting the distributors due to the risk of affecting the outcome of the questions posed and insulting the cultural integrity prevailing in the region. However, as the interview settings were always handled by two interviewers, one took notes while the other took a guiding role. With regard to interview methods applied, one-to-one interviews (c.f. Frey & Fontana, 1991) were held with staff from the MNC. In the interviews with customers and the distributor personnel, a mixture of one-to-one and group interviews was held as settings could sometimes be altered from one to one to group according to the difficulties related to answering questions (Frey & Fontana, 1991). With regard to the Saudi Arabian distributor, a phone interview was conducted using a speakerphone. All recorded interviews were fully transcribed while notes from interviews with distributors and customers were written into documents as soon as possible.

English was used as the lingua franca during the interviews as it also was the language used between the exporter and the distributors. As seen in some of the quotations in the empirical chapter, English language skills differed among the participants. However, in order to increase transparency, language corrections were not been made in order to keep the quotations as authentic as possible. In addition, four interviews at Impeller HQs⁷ were conducted in Swedish. Therefore, quotes from these interviewees have been translated by the researcher.

Specifically, in the latter stages of the data collection period, when interviews were mostly conducted with area managers and distributors as well as during a follow-up interview at Impeller HQs, the interviews followed an interpretive questioning approach (c.f. Merriam, 1998), where the interviewees were posed with follow-up questions separate from the interview guide as a

⁷ Interviews in Swedish were made with Dan, Vice President & Director of Sales Region EMEA; Funck, Director of Sales Development & Support; Dirk, Business Unit Manager; Jocke, Former Expatriate at the Branch Office.

means to collect information that otherwise would not be gathered due to the sensitiveness of the deterioration of exporter–distributor relationships.

The Exporting Firm

Interviews were initiated at Impeller HQs, where managers involved in corporate strategy and sales and marketing were interviewed to reveal the changes occurring at HQs and the strategic focus. Interviews were also held with an expatriate who had previously been located at the ME branch office when it was set up in order to gain an understanding of the developments of earlier distributor relationships. Moreover, it provided the opportunity for understanding the knowledge levels at HQs concerning the ME markets and the distributors that were going to be met.⁸

In the ME and at the branch office, interviews took place with the personnel handling the distributor relationships, namely the area managers and the regional branch manager. Interviews were also held with other employees at the branch office not directly involved in the distributor relationships in order to get an understanding of the context to which the employees were subjected at the branch office, and also as a means to gain an increased understanding of the consequences of strategic actions taken elsewhere in the organization.

The Distributors

Interviewees were all involved in the relationship with the exporter. In the cases of UAE and Qatar, interviews were held with both sales engineers and distributor managers participating in the target negotiations with Impeller. In the case of Egypt, interviews were held with the distributor manager and assistant manager. In Saudi Arabia, a phone interview was held with the product manager responsible for the trading corporation within the distributor's organization handling the sales of GE products.

Customers

Three groups of customers, (consultants, contractors, and project ordering firm/facilitator) were distinguished in the industrial context in which GE sales take place. In UAE, a construction firm and facilitating firm were met. In Qatar, a consultant firm was met. In Egypt, a construction firm and a consultant firm were met. Although the customers were handpicked by the distributor, customer visits and interviews took place in order to get a third-party perspective of the

⁸ As the discussions were initiated with Impeller concerning the possibility to conduct the research in an ME context, the main coordinator was the regional branch manager (Colin) in the ME; therefore, the distributors to be met were already known to the researcher prior to the interviews conducted at Impeller HQs.

distributor and the exporter and were pursued in order to try to triangulate the findings from the ME branch office and the distributors and function as a means to increase internal validity (c.f. Yin, 2003). Therefore, there is a risk that these customers represent more satisfied ones who otherwise would not be found. In all customer meetings, distributor personnel came along and passively participated. However, the customer meetings also gave the author the possibility to observe reactions (c.f. Merriam, 1998) while collaborations and negotiations taking place between the parties served as business issues between the distributor and the customers and were dealt with either before or after the interviews. One understanding of the customer meetings was that it is not possible to delimit the possibility that the parties could have acted more cautiously due to the presence of the researcher.

Additional Interviews

An interview was conducted with the Swedish trade council in UAE in order to understand the context in which foreign firms operate in the region and to gain an increased understanding of the legal requirements of pursuing product sales in UAE. Furthermore, an interview was held with an additional exporter (ABC) that had previously been fully dependent upon the distributor in UAE. The firm had managed to a large extent to reduce its dependence upon the distributor. Thus, a phone interview was conducted with the product manager of ABC, who was located in the region and was part of the relational process with the distributor.

Secondary Data

In the initial stages of the research, secondary information about the exporting firm was gathered. When situated in the ME, secondary information was gathered through the settled business plans for each market that had been created at the branch office. Copies of the contracts between the exporter and the distributors in UAE and Qatar were provided by the branch office, as was a draft of the new contract format being developed. The distributors provided information concerning their organizations and the represented brands toward the markets.

3.2.3 Limitations

One limitation to this study is that Impeller facilitated the contacts and discussions with the distributors. Thus, the distributors were met as a consequence of Impeller asking them to take part in the study. Recognizing this limitation, the researcher explained the academic focus of the study during the initial discussions with the distributors and that the researcher did not represent the exporter.

With regard to the findings and the possibility of analytical generalization, the local context in which the research was conducted is both a blessing and a curse. Although the multiple cases allow for an increased analytical generalization, the notion that the legal context in all nation states favors the local party; thus, the distributors do not correspond to other settings in which a more harmonized legal context could possibly prevail. However, the ME context might be seen as a catalyst for highlighting deterioration aspects as the exporter–distributor relationships last for longer periods as a termination would result in a high risk of paying high severance payments for the exporter.

Moreover, the markets were seen as emerging and therefore allowing for increased possibilities for the distributors. Therefore, the context is not similar to that of a mature market. However, the emerging nature of the markets could also have functioned as a catalyst for entrepreneurial actions by the distributors to change their market offering.

4. Empirical Findings – Changes and Developments

The empirical chapter begins with a presentation of the exporting firm. The situation occurring at Impeller HQ's is presented concerning the market offering processes and perspectives on distributors and the situation in the ME. Thereafter, the empirical context surrounding the marketing activities involving distributors as well as the perceived consequences of actions taken at HQs from the branch office perspective is presented. Following the situation at the branch office, the distributors and the relational states are discussed. Finally, a synopsis of the empirical data is portrayed.

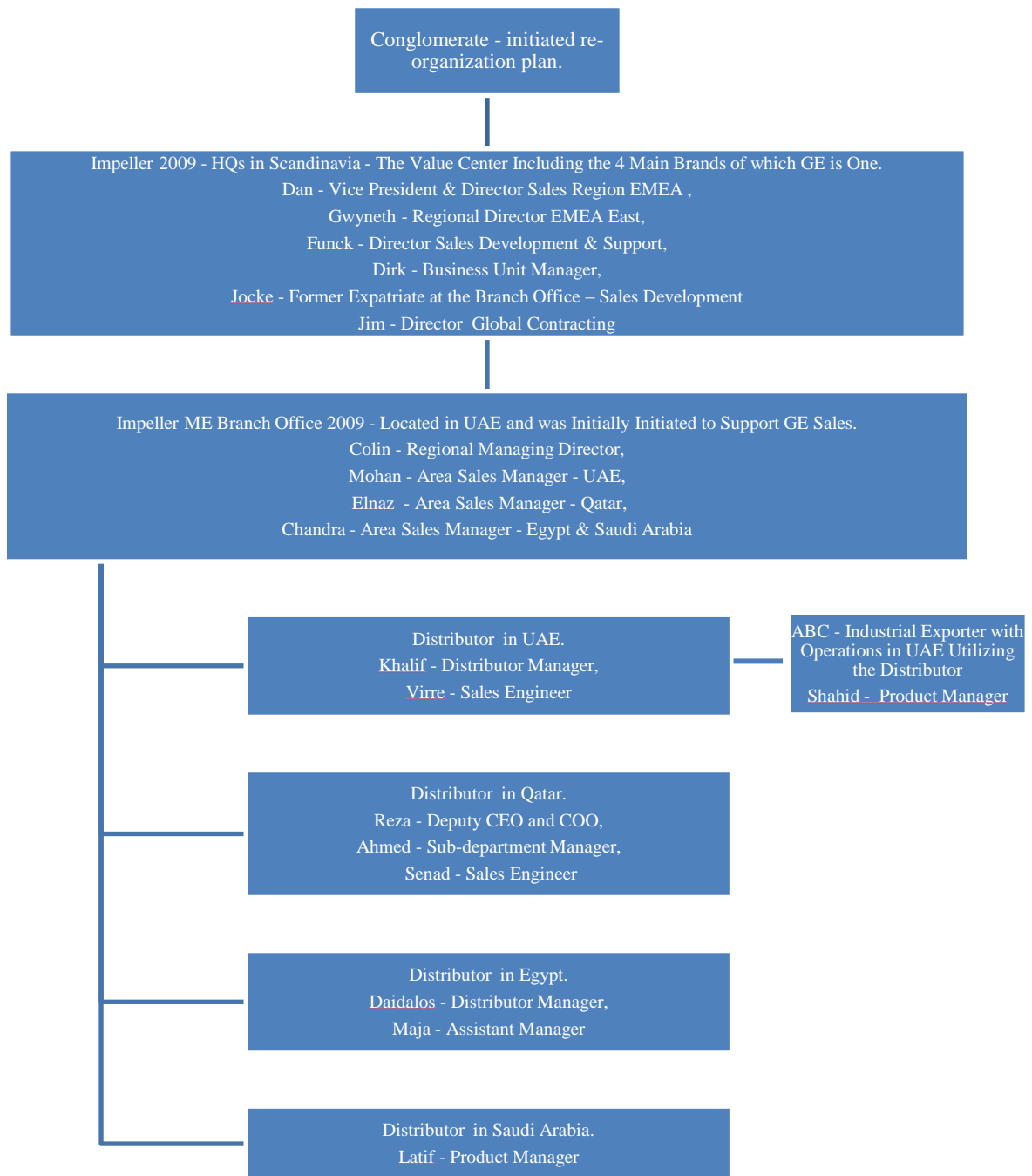
4.1 Impeller HQs

At the time of the study, Impeller, which was part of a larger conglomerate, had been transformed into a relatively new value center with four main brands applicable within high-technology engineering and manufacturing that was active in more than 100 countries (see Figure 3 next page). Whereas the brands had been part of Impeller's product portfolio for a varying number of years, these products had been running independently. When the study was conducted, a recent re-organization had taken place (end of 2007); consequently, the previous and recent merger and acquisitions (M&A) focused on integrating the products to be able to offer systems containing several products, thereby changing the overall business focus from a product-oriented business to a systems approach.

The strategic re-organization created a new vision of strategic positioning for the products and services, where Impeller as a value center provided was perceived to bring higher integrated value to the market. The decision to move from a differentiated product portfolio and engage in a number of M&As in order to offer integrated systems was made at the top management level at the conglomerate level. Impeller's HQs⁹ were previously the HQs for one of its most successful products (i.e., GE), while GE's manufacturing unit was established in Scandinavia. In the ME region, Impeller is represented through a regional branch office, functioning solely as a support organization for the region's distributors, without a legal right to sell.

⁹ HQs are referred to the headquarters of Impeller if not explicitly written otherwise.

Figure 3: Simplified Illustration of Case and Key Personnel Interviewed



Source: Author’s own rendering (2011)

Staff at Impeller HQs argued that the new strategic agenda was settled by a newly appointed CEO for the conglomerate. Slight confusion emerged at HQs regarding how to handle the integration from being a relatively fragmented organization with diversified products into a situation in which various system packages were to be sold to customers. As previously mentioned, Impeller HQs were historically the main coordination center for one of the most

successful products (GE), which had been part of the conglomerate for more than 30 years. This created some management problems as the other three brands still had most of their own employees situated in their own old HQs in other nation states. At the time of the study, much of the daily business activities at HQs focused on business activities concerning GE. Turbulence and frustration at HQs were relatively high, which was expressed by Impeller's various board members (Dan, Funck, and Dirk) due to the vast amount of coordination and uncertainty that were present.

It has been argued from a conglomerate level that the global trend in the industry was to be able to offer vast systems and that the major competitors were providing entire solutions to end customers. To be able to offer the integrated systems to the market, the company was trying to utilize the vast market channels that had been developed by GE. However, customers, locally present staff, and GE distributors in the ME as well as GE staff at the corporate level emphasized the need to offer product packages, including products similar to GE, rather than complex integrated systems. Moreover, staff at both the branch office and HQs argued that, to succeed in the industry, whether being related to GE products or the other brands, knowledge was absolutely crucial. The Director of Sales Development (Funck) had worked within GE and what later turned into Impeller for more than 30 years. He had previously worked as Director of Operations for GE, been president of a subsidiary in Europe for eight years, and thereafter moved back to Scandinavia to his current position. Funck (2009) argued concerning offering to market that, *"The important thing is not the products themselves but the offering. The next step is to have enough confidence to be able to say that our products are damn good, because they will save x percent of your energy consumption. That is something completely different thing. That is an offer"*.

4.2 New Impeller Strategy and Its Implications

Although Impeller sought to use GE's marketing channels for system sales, HQs staff argued that the product versus systems sales created some difficulties. Many of the distributors were seen as product oriented. Many distributors were furthermore not seen to be able to serve and handle large projects, also due to financial constraints. Thus, a global project team was initiated at HQs to handle the actual deals and negotiations where the distributors' role was argued to be passive and only receive commission on sold products. Dan, who was the Vice President and Director for

Sales Region EMEA (Euro-Asia, Middle East and Africa) explained, *“In reality, the penetration of markets is handled in two ways, through product and aftermarket sales and also through the projects where we enter and snap an entire project. They are parallel tracks and they are in conflict with each other”* (Dan, 2009). The situation was argued to be “bumpy.” *“It is horizontal and vertical integration. We are going closer and closer to the end-customer. Somewhere on the way, we are surpassing the customers we are doing business with [distributors]. That is why we are saying that we need to try to keep it apart. It is a problem because traditionally the distributors have been distributors for a certain product-family and locked out us from doing other business.”* It was subsequently clearly argued that, *“I would claim that the distributors we have nowadays are relatively good at products but further on it is stop”* (Dan, 2009).

Funck (2009) brought in another aspect with regard to systems sales: *“That is a business, in which you are not certain of closing a deal within a year and the employees are working on their bonuses and it can take 1.5 years before it is closed. Furthermore, they do not know how to do the specifications...It is really difficult to use this model. The next model is that we have one person responsible for every product. How many are then supposed to go to the same customer? That is also almost impossible. We should have probably thought a bit more in beforehand so that we would have had a few models in our heads for how this is supposed to work in the different environments where we are acting. ME could be such an environment. How are we going to secure that the sales employees feel comfortable in their environments?”*

4.3 Impeller ME Branch Office

Impeller’s branch office in the ME is located in UAE, where Impeller also has a local distributor. The branch office was set up in the early 21st century by the predecessor of the newly appointed Regional Managing Director (RMD) Colin as a support office for GE and one of the other brand’s businesses in the region, which at that point in time had become part of the firm. An expatriate named Jocke had been located at the branch office prior to Colin during the early days of the branch office in order to develop sales in the ME markets. This was a core function of the branch office as it is argued that, *“...if it does not provide any value, then it does not fulfill any purpose”* (Jocke, 2009). For a short period of time, the branch office was located in a more central position in UAE, but was later moved due to the increased focus on the ME market; consequently, more staff was needed to be able to support system sales. Dan had actually already

retired, but due to the sudden death of the previous director, Dan returned to the firm. According to Dan (2009), *“Very quickly we understood that we couldn’t start a wholly owned subsidiary in UAE, so we started a branch office...From the beginning we wanted to have staff down there and their task was to support the different distributors. So, there are no legal sales or product sales.”* At the time of the study, approximately 10 employees were working at the branch office compared to three when the branch office was first set up. The difficulties of acting in a foreign branch office were acknowledged at the corporate level by Funck, who discussed the difficulties of being posted in a foreign country and felt he could understand Colin’s situation. He had felt somewhat disconnected and isolated as the president of a European subsidiary and mentioned how isolated Colin must feel in the ME setting.

At the time of the study, the branch office was still very much focused on GE products. The staff in the branch office consisted of sales area managers for GE in charge of three markets on average, a person responsible for a niche strategy related to GE sales in some key markets, one representative for one of the additional brands as well as employees handling sales and technical support. Two persons had also recently become responsible for the sales of systems; with support from the representative of one of the other brands stationed in the ME branch office, who mostly worked independently. The former two persons handling system sales were newly appointed of which one had previously worked with the third brand. At the time of the study, the fourth brand did not have a representative at the office.

Concerning the responsibility at the branch office, one of the area sales managers (Chandra) stated that *“we are dealing here with more than 27 countries of which 10 to 12 are active. But still, it is too much and we have to satisfy everyone. The head office acknowledges that we are here and expects that we are to a lesser extent involved in day to day activities. Structurally we have three sales managers; me (Chandra), Mohan and Elnaz. How we were structured, is that out of say 5 or 6 major countries, like the major markets, say two were given each to the area managers and then some other less active countries”* (Chandra, 2009).

4.4 Communication and Information Channels

When asked about information concerning the ME markets and how information is reported within the organization, it was argued that the reporting routes in Impeller are relatively complex,

where the RMD (Colin) reports to the Regional Director EMEA East (Gwyneth), who in turn reports to Vice President and Director Sales Region EMEA (Dan). The controller within EMEA also reports to his respective manager. Similarly, HR issues from the region are reported to the HR manager within Impeller. However, Dan also acknowledges that “dotted lines” range horizontally within the firm. Thus, although an HR-related issue is formally structured to reach the HR manager, the information also reaches Dan. According to Dan, in the case of a conflict, the information channels are crystal clear for creating transparency within the firm. The transparency is, according to Dan, a great advantage of the reporting system. As all functions report what they see and interpret, it was argued that the need for internal control functions was limited. For example, *“there is no legal connection with me and the accounting department”* (Dan, 2009); a monthly reporting system indicated sales, margins, and other key performance indicators (KPIs). Furthermore, reports highlighted order intakes and prognosis on a weekly basis. *“This is an American firm so there are a lot of reports, much more than in Scandinavian ones. When it comes to which parameters that steer growth, we are as curious as you are. These kinds of companies are to a large extent driven by the info and the force which the local MD has [Colin]”* (Dan, 2009).

The main task for Funck was to grow EMEA sales through a market segment approach. Yet Funck (2009) stated that *“The problem we have at the moment is that we do not have any numbers which are reliable at the moment. When we normally talk about reporting, we’ll say that the finance guys will have to take over and then you write something abstract about that. The finance guys have other things to do and report P&L (profit and loss) and balance sheets...If they do not have any contact with reality, then everything just turns out as rubbish. So, first of all I am lacking the base. The base is actually about knowing the market, which has the same definition as your segment and where you are standing in relation to that.”*

Market information was deemed to be of absolute crucial importance at the branch office. However, developing a perception of the market shares in the various ME markets was not believed to be possible. *“We guess and the guess is always based on limited knowledge...we need a third party that provides us with the information and based on that we take decisions”* (Elnaz, 2009). With regard to area market visits, Chandra (2009) explained that *“the original plan was to do visits every two months within the two markets. In one month I would spend 2 to 3 days in one*

country and then alternate. This is the first step. Then I am visiting 3 to 4 (i.e., markets) times per year. I have to increase my visits there. Maybe I can spend a few months there to know more. Most of the information I am not receiving from the real end-users or customers from the market. Either I receive it from our source or distributors.”

4.5 Growth Strategies

According to Dirk (2009), the Business Unit Manager responsible for overall strategy for Impeller, *“When it comes to geographic expansion within a region, in other words organic expansion is primarily, the responsibility of the regional director, in this case being Dan...The situation when I come in is, in first hand when we engage into an acquisition, that is, if we acquire a distributor or set up a JV (Joint Venture).”* However, when looking at increasing presence in a country or in a segment, Dirk explains that they look at the attractiveness of the market, size, growth, and profitability as well as Impeller’s competitive position.

Funck (2009) discussed growth in emerging markets, explaining that the situation and understanding concerning growth is different. *“All emerging markets are suffering, because this place (i.e., HQs) does not understand their needs. I was in an African country yesterday. It is evident that people here do not understand how we are going to support an emerging market up here. The mindset is not made for emerging markets up here. It is made for western markets, although they understand that they are not the same.”* Funck further explicated that the current mindset can function for large and developed foreign units because they have the resources to “fix it” and adjust to the strategies after the segments, but not their markets. However, the current smaller emerging markets do not have the resources or the manpower needed at a HQ level even though they were in total figures contributing with significant turnover results. *“Every small thing, like setting up an office in an eastern European country must be a terrible process for them...There are procedures, which are used in all big companies. You cannot write as you wish. If you haven’t done that or do it every third year [i.e., regional strategies are formed every third year] then it becomes a hindrance...Moreover, they are supposed to sell at the same time. Everything which demands changes is really complicated...There is so much to think of. Now they are sitting there all alone and part of this [necessary] competence, it is not even sure that it exists here. Lawyers, they normally [don’t] know anything about the ME”* (Funck, 2009). Funck (2009) described the speed of development in the emerging markets, recognizing that *“There has*

been a bit resistance [at HQs], which hinders their development, while at the same time they are not receiving enough support in order to be able to focus on business. I think it can be like that. I feel that when I look into Colin's eyes and ask him how things are going."

4.6 The ME Context

Funck (2009) argues that Impeller should have some kind of presence in emerging markets as it gives an indication of what is going on in the regions and also allows for comparisons to be made with countries where a wholly owned set-up is present. From HQs perspective as a whole, although GE had a history of a relatively long presence in the ME region through its distributors, it was argued that the ME had been a low priority market relative to other emerging markets such as Eastern Europe, China, and India. The ME's significance became evident, but it was admitted that Impeller had 'missed the boat' compared to its main competitors in the region. *"All companies are drawn over one comb with the three year plans which have been made. This is however made irrespective of market, i.e. if it would be the US or France etc. That is why it is difficult to conduct a campaign on emerging markets. These markets must be handled in a special way"* (Jocke, 2009). When GE had independent product sales, an international division handled the support for markets and foreign branch offices.

When considering the ME as a region, certain aspects need to be highlighted. First, the region is seen as a good potential market for Impeller due to the increasing infrastructure and commercial needs as well as industrial investments. Although the region still is considered to be a complex one, investment needs have introduced Free Zone areas, which facilitate investments to a certain degree. One of the free zones is also the current location for the current ME branch office. Second, the role of utilizing local distributors is often not a choice, but a requirement due to legislative hurdles that protect local businesses and, more specifically, local distributors¹⁰ (Department of Commerce (a), 2009; Department of Commerce (b), 2009; Department of Commerce (c), 2009; Department of Commerce (d), 2008; Swedish Trade Council, 2009). Therefore, if an exporter pursues and breaches a contract, the risk of paying high severance payments is high in the ME region. It is also important to highlight that it was acknowledged that

¹⁰ In the case of Impeller and sales in Egypt, tendering for government organizations must be handled by Egyptian citizens, which severely influences Impeller's need for a local partner. Although sales in the market are allowed by foreigners, products must be produced in Egypt. All re-selling activities require (under Egyptian law) that the commercial agent or the importer has Egyptian nationality (Department of Commerce (c), 2009).

doing business in the region is very much dependent on expectations of long-term relationships as well as having the right connection in the local networks, regardless of the field of activity.

Concerning growth in the ME, it was argued that, *“The strategic growth road map has not been there in the past, it has been very biased and biased towards what our distributors would like to do”* (Gwyneth, 2009). Furthermore, with the introduction of the systems business, the previous model was argued to have crashed as Impeller had shifted towards a more project-oriented segment. Furthermore, Gwyneth (2009) asserted that distributors *“...don’t have the knowledge or the experience of the projects business and if we intend to continue down the path, there is a big gap that needs to close before we start that. That is our facing challenges now, because we have in my mind capabilities that do not fit.”*

When asked about Impeller’s local networks in the markets, Gwyneth (2009) stated that, *“...there isn’t that network at all as you call it. There are no direct channels to these customers and we have some relationships with consultants because we do influence them and then bring in the distributors... but after that point in time, particularly in UAE and Saudi Arabia, we do not have any parallel channels network at all and that is a big, big weakness. That knowledge, we can’t even challenge in some instances, because it is all third party and that is one thing the team has started to work on to get closer to the customer, without the distributor feeling threatened.”*

Gwyneth claimed that the expansion ideas did not only concern a will to grow faster and increase local presence. She also asserted that, *“In another instance there is a more commitment to take more control over not just the relationship but also over the business transactions. One particularly—being a US-owned company—we have very, very tight requirements around transparency, code of conduct and ensuring that our business is totally controlled and when working through third parties, you are not able to respond as quickly as the company would like to the growth opportunities due to the inherent market knowledge which is not there so you can’t internally respond when issues arise. The third point is that you are reliant on the third party to conduct business in a way that isn’t appropriate as a fit for the US owner”* (Gwyneth, 2009). Gwyneth further argued that the expansion plans would be considered even though the acquisitions forming the value center would not have taken place, as Impeller would be able to, *“...respond quicker even to our distributors needs and there is a commitment that is shown as a*

result of having a company in the region and that always opens far more doors” (Gwyneth, 2009).

As to the increased changes within Impeller, not only the systems approach has affected the ME branch office, but also the implementation of new administrative routines. A new protocol was recently implemented with the creation of the value center in which a certain code of conduct had to be enforced not only within the firm, but also with firms who represented Impeller, including distributors. The codes of conduct include high morality and transparency, non-bribing promises, and a lack of relatives in governmental positions. *“It is a limiting factor but at the same time it is a security factor to ensure that we have good distributors that we can trust in these countries” (Dan, 2009).* Yet Dan (2009) also recognizes that, *“There are countries where they [distributors] refuse to answer. How can you do business in Saudi Arabia if it turns out that you are not allowed to have a distributor who is a relative to the king? We are facing gigantic problems here. There is hope in these countries. If you are at all going to be able to do business, you even have to be a relative to the king. But from an American perspective, there is a clear connection in this. I know that in specifically Saudi Arabia we have issues in how we are going to proceed. Other countries are a bit simpler. Egypt is one of the bigger issues and so on.”*

4.7 Impeller’s Sales Mechanisms and Market Channels

Impeller’s entire sales organization is made up of a combination of distributor markets and wholly owned sales companies. According to Funck (2009), except for setting up its own subsidiaries, the growth strategy in terms of geographical expansion has been through distributors. *“I think we have mostly been quite successful on finding the right partner. Most [distributors] have gone from being quite small and concentrating on GE-related products and then we have built up a very strong relationship and loyalty between us and them. They have gone from being small to becoming large and rich. Many of them are more ‘GE’ than we are. The last part of our expansion has been through this model. Therefore I think it is implanted in our heads [from a GE/Impeller perspective] that we do not change distributors that easily. It is included somewhere in the model that you start off with somebody [distributor] and later on if it is suitable to take over or acquire. It requires quite a lot. At least it was like that until 5-6 years ago. In other words it has been our model. Now, there have been some changes. Earlier, we have acquired 10 percent of the stakes and then when we have waited until they have become large*

enough to be able to handle the costs of being Impeller....Now we have implemented a culture where we are switching if things are not going so good. This has also been due to the new code of conducts” (Funck, 2009).

When initiating a relationship with a distributor, *“You should at least say that you are number one in the world. But we are not there. But anyways, you have to be so positive so that you reach that level”* (Funck, 2009). Meanwhile, one should ensure a great deal of assistance; if the distributor does not embrace it, then Funck (2009) stated that the distributors can be questioned. *“You have to watch out; it all depends on how the contracts are written. In these countries [ME] you can be tricked.”*

Related to the amount of sales channels, Dirk (2009) explained that, *“...the conglomerate questions our administrative costs because of our thousands of sales channels. Then they say ‘fantastic, they must be able to sell all of our other products, just add the rest of the products to the channels and ask them to sell everything.’ The conglomerate views our sales channels as some kind of ‘jack of all trades,’ but what they really are, are highly specialized channels with knowledge about GE-products and not so damn much about anything else. We started a gigantic education in order to gain momentum with the fusion and the creation of the value center and to use our global sales force more. But it is not easy, they are busy selling GE-products and earn a lot of money on what they are doing...and most of the new products have a lower profitability, so there is no clear incitement to let go of the GE-business to sell something else.”*

4.7.1 HQs’ Perspective of Distributors

Distributors are perceived as very different and not as a homogeneous group. They also have diverging interests towards Impeller or GE as explicated by Dan (2009): *“Some are happy when they have earned enough for their Mercedes. We think they should earn enough for 10 Mercedes. So, conflicts arise. Often the firms are privately owned and there are family relations, where we have the ‘smålands-syndrome’ where the sons and daughters are going to take over the business...without doubt, it is like that, that where we feel we can reach a critical mass, we also want to act in our own name.”* Yet Dan (2009) also claims that, *“When I have my distributor and he coincides with me, then the trade goes just as smooth between it and a ME branch office as between the branch office and the trade between it and HQs or the factory. I don’t think it impedes.”*

On the other hand it is also argued that distributors in general are not as effective as having their own sales personnel. *“It is most probable that you cannot take part and work with tenders and opportunities as aggressively. I would argue that own sales people who are capable of finishing deals can sell more than distributors”* (Dan, 2009). Moreover, if Impeller would have their own legal entity in foreign markets, it sends commitment signals to the market that the firm is “there to stay.” The distributors in the markets often question the targets, which Gwyneth (2009) perceives as positive: *“That is the way it should be, they should be saying, ‘Rubbish! We can do 20 percent more.’ I’d much rather have hungry distributors. That’s far easier than having to go and kick them out the back like with the distributor in UAE.”*

Collaboration with distributors also includes the possibility to gather market information. According to Jocke (2009), *“You work tightly with the distributors in order to get hold of info...The newer and less experienced a distributor is the more sensitive they are concerning price. This does not concern the distributor in UAE because they do not retain the competence.”* Competence, in addition to market knowledge, is seen as crucial in order to be able to sell GE products. *“Knowledge is extremely important. It helps the seller to choose products which in the cheapest manner provides the customer with the demanded supply”* (Jocke, 2009).

There have also been cases of increased collaboration with distributors in order to increase the flow of product knowledge as well as increase sales. A means to increase collaboration is by sending Impeller employees to work with and at the distributors. *“In some instances we have done that to try to increase the speed of knowledge transfer to a particular distributor”* (Gwyneth, 2009). Yet this also depends on the size of the market and if a “critical mass” of sales volume has been created.

In connection with knowledge accumulated at distributors, Gwyneth (2009) claimed that, *“...it has more been up to the local management team [branch office] to manage that relationship and try to retain that talent move talent from the distributor to our company to be lost. But of course that hurts the relation. Have you heard the discussion about the distributor in UAE and Mohan, [Khalif] was so upset, but Mohan was going to leave...”*

The development and view of using distributors differ concerning some aspects among the staff at the corporate level. For instance, concerning distributor product portfolios and the possibility

of a distributor having products that could be argued to be competing to any of Impeller's products, but not necessarily challenging the focal products with which the distributor represents (for instance GE products), Dan claimed that such a situation was not acceptable. Yet it was acknowledged that some distributors had products that were sold together with GE products in packages. Jocke, on the other hand, had been located at the ME branch office in order to develop the markets; he claimed that sometimes it is a requirement to accept these distributor activities in order to keep and even increase sales. *"It is about creating cooperation and not just a partnership"* (Jocke, 2009).

Presence and growth in the ME are very much dependent on distributors. According to Gwyneth (2009), *"The challenges that we have as far as growth is concerned is how we can overcome the fact that we have distributors that are so entrenched in their way of working, which has been very successful for us. Yet, in saying that, it has been successful in the sense of providing our goals have been aligned and we are struggling in, for example, UAE with a distributor who is a family owned company, their principle likes to dip in and take a lot of control and he doesn't see much of the outside of the GE business and even then he is not hungry enough for it. So we need to even reconsider that position regardless of if we want to expand or not, up the value chain. It is purely dependent on the third party and we have not got sufficient strong resources placed there to get close enough to the customers, again arm's length to actually identify what could be done differently and that's the big struggle. Again the local laws are very protective of the incumbent companies, Colin will give you some about this, and it is very costly to get out of existing agreements. We have been not only careful when we are selecting and trying out new distributors, but also get out of the existing agreements when people are comfortable. It is going to be very, very costly for us if we are going to do that with this distributor in UAE for example. So the difficulty we are going to face is how we can run a parallel strategy and whether or not running an equipment sales and systems integration strategy is possible and what mechanisms we can put in place to make that attractive for the distributors for example as we transition through that. Also, whether or not the cost benefit of actually putting in a platform ourselves, considering the time it is going to take to get that knowledge base that they have is worth it. So the risk return would be very interesting to seek. Very interesting."*

The main goal in the ME is to control the sales channels to a higher extent. The fact that they have a mix of distributors in the region is considered an exception, and the rule is rather to have their own sales subsidiaries. The main business model is not to sell GE products but to ensure reliability and security for the customers. *“In order to do this, you have to have very knowledgeable sales personnel that are close to the customers and ensure quality in everything. This is much easier when having an own set-up with own personnel than if you have a distributor which you hope does this. The best distributors are GEs so to say and they have Impeller in their hearts and they do it well, but not all and it is difficult to control all when you have the ambition to be close to the customer”* (Dirk, 2009).

4.7.2 Effects of Strategic Actions

Impeller’s new strategy was also seen as a factor increasing attractiveness for distributors due to the possibility of being able to cover a larger scope of business and grow faster (for the distributor), which was an effect of Impeller’s increased product palette. *“The requirements are that they are going to develop and be knowledgeable, but if you are an ambitious businessman on the local level, it is great to have a principal having a covering palette with many brands standing for high quality and where the brands have a value”* (Dirk, 2009).

Furthermore, Gwyneth (2009) stated that, *“The general strategy of the company is to move from a distribution model, either to acquire the distributors or set up independent platforms. The history of the company has been very successful as far as the acquisition of distributors is concerned. It takes a very long time.”* However, as Impeller engaged in a number of horizontal mergers and changed the business model, Gwyneth (2009) explained that, *“The previous growth strategy of buying our distributors I don’t think will create the step change that we need to take, in order to reach the growth targets of our company.”* Dan (2009) stated that, *“The experience we have is that there is not going to be any good speed in these markets if we don’t have people placed locally. The more local you are, the higher the speed. In markets where we have a critical mass, there we start up own affiliates or acquire a distributor. There are different tactics.”*

Dirk (2009) admits that he has a very limited knowledge of the ME region and the conditions occurring there, but stated that they have a clear strategy to, *“...step forward through acquiring distributors.”* The step-by-step growth model that Funck described earlier has in some cases also led to the creation of a JV with a distributor prior to a full takeover according to Dirk. Yet it is

acknowledged that this is complicated and something to be avoided: *“There are often differences in the expectations in future growth if the mechanisms concerning a full takeover are not clearly stated in the agreement, which it isn’t as these are based on commercial terms. Therefore there are a lot of quarrels concerning these commercial terms. Therefore, in the case of a distributor, where we see that a full ownership is interesting, we have the intentions to engage in a full takeover at once”* (Dirk, 2009). However, the suggestions for eventual takeovers normally stem from the regions. In addition to the reasons for acquiring a distributor as previously discussed, it is possible that Impeller faces a situation in which the distributor is going to retire and automatically allow for Impeller to take over and handle sales. Another mentioned reason is when, *“...the distributor can be good at some things but not our main focus. The distributor can be an old GE distributor, but because of an old tradition he is a distributor for a competing brand to one of our other brands and is comfortable with that. That is a limit in our development in the region as we are not going to be able to proceed from that situation. So, gaining control gives us the possibility to use this access for our entire range”* (Dirk, 2009).

“It is not our ambition to acquire all of our distributors, but it is pretty obvious that we can see that among our distributors, that there are those whom we do not want to do anything with, because they function so well. The market might be small and in order to ensure profitability is to have a broad portfolio and then it is efficient to work through a distributor. There are distributors, whom we want to break the agreement in order to set up our own subsidiary without having the distributor as the foundation...other reasons can be that we are not comfortable with from an ethical standpoint, which has occurred. Then there are those whom we don’t want to work with, those who we want to acquire and those who we want to dissolve. We have all sorts” (Dirk, 2009).

Another aspect brought forward by Dirk (2009) was that, *“The conglomerate became quite nervous and wondered if we are going to acquire all of our distributors. So we have a very pedagogic task and explain the criteria’s for takeovers. When we present a number of cases, they [the conglomerate] wonder if these are all and we [Impeller] explain that these are the cases at the moment. But due to the fact that the world changes and the competitive situation changes we stipulate the right to bring in new cases”* (Dirk, 2009).

Concerning the possibility to be able to participate in and maintain a distributor's network if an acquisition were to take place (as previously discussed by Gwyneth), Dirk (2009) stated that it *"...is very important and is part of the due diligence process, where we look at the customer relations and make a prognosis on what could happen if we would engage in an acquisition, whether it would be perceived as positive, negative or neutral by the customers...there is often a negative synergy and that has to be included in the calculations...a problem can be due the notion that the distributors are quite small, a few people can be crucial and have a vital role."*

When considering the possible difficulties of acquiring a distributor with many brands, Gwyneth argued that the integration process can take more than a year in order to restructure the business in order to separately package the parts of the distributor's business, which Impeller is not interested in. Meanwhile, it was also acknowledged that the need exists to have quite a large part of a distributor's business in order to be in control and have the capabilities of pursuing a takeover. When asked about the situation in the ME concerning distributors that had become large and diverse, Gwyneth indicated that influential ability was limited. A very important aspect highlighted only by Dan is the notion that it is not possible to engage in direct sales in the ME context.

From HQs, it is also argued that in those cases when a distributor has been replaced, it most often had to do with the fact that they had become too weak for Impeller's products. *"The distributor which we have in UAE, where we are having discussions, are stronger on other products and do not have enough focus on GE products. I even believe that we employed one of their previous employees. He wanted to leave the distributor and go to a competitor as there wasn't enough investment being made and then we got him on board instead, which sometimes is not completely successful"* (Dan, 2009). However, severing a contract is seen as a last resort. If a distributor works well but not well enough, then a breach might happen. *"You can always work on employing the distributor's personnel but the relationship becomes very gray if this is done"* (Jocke, 2009).

4.8 Branch Office Haze

The branch office in UAE has the formal function of supporting distributors in the ME markets with matters such as pricing, training, and commercial and technical support. It is common for

the region, including in UAE for distributors—irrespective of size—to be family-run companies. Impellers' stakeholders included distributors as sales channels and the customers who all have a level of influence in a project. The customers can in turn be outlined as the actual end customers who order the project, the consultants who design the projects, and the contractors who build it and place an order from distributors. The re-organization within Impeller implied new policies with regards to the contractual agreements, regardless of whether they were already established, where the content of the agreements was required to be far more precise and detailed than previous agreements and exclusivity was no longer seen as an alternative. Colin expressed his frustration of having to re-negotiate contracts and follow new policies with the counterparts in the region where some of the questions that had to be answered by the distributors were unnecessary and very unpleasant. The re-organization had somewhat Americanized the bureaucracy within the organization as opposed to the earlier practices within the firm. *“How am I going to explain to the distributors that it is necessary for them to answer some of the questions in an industry such as ours? If it would be the defense industry, it would have been a different situation”* (Colin, 2009). On the other hand, the contracts previously written with the distributors in UAE, Qatar, and Saudi Arabia showed an increased specification in the requirements and terms of the contracts when compared to older agreements with the distributor in UAE and the contracts in Qatar and Saudi Arabia.

Target settlements for distributors are very complicated and difficult. They are exemplified as, *“What has been done is that every year you give them a target and there is nothing to hold them accountable for the results. The targets are wrong. No study has been carried out so far, to know about the market size and as long you don't have the market information a business plan does not make any sense”* (Elnaz, 2009). Furthermore, although initiations of re-negotiating contracts had begun, not all distributors had been approached concerning these matters. The existing contracts were in some cases very vague as it was very difficult to keep distributors accountable for the actions and commitment regarding GE products. Elnaz (2009) stated that, concerning the possibility of accountability: *“Nothing! In our previous contracts there is nothing that claims that you have to achieve the target every year. No such thing. Now I'm working on the new one. There were very open sentences, like you need to do enough amount of marketing and so on. Who defines what that is? It does not even tell them that they cannot sell competing products.”*

Furthermore, the branch office felt that they were questioned by the distributors and been kept in the dark. *“The distributors were here before the ME office [Branch Office] was here and the knowledge they have is power. They give you info and people are buying whatever info was given and business was going on. On that time there was no huge market growth. Then it suddenly expanded and they did not change according to the market size. Information and knowledge of the market was still limited...when it was decided to bring in people to the ME office, coming from Europe they were not going outside the office. Jocke was going out and that’s why he saw that going directly out to the market is the way forward. Others were giving their info based on the distributor and based on that, they were giving back info to HQs and the targets were so wrong”* (Elnaz, 2009). Chandra (2009) explained that it is possible to influence the distributor managers, albeit only to a certain extent: *“We have to come up with information and demonstrate potentials. We cannot just say that the market is 10. This does not convince them...We have to prove this with figures and facts, so we need more information, more market intelligence.”*

As a comment on the different customers and stakeholders when pursuing sales and the knowledge of understanding the various stakeholders that can be influenced, Chandra (2009) reasoned that, *“I feel that the core thing which is required to grow is first of all; we have to satisfy the end-customer and the customers here are not always the end users...Maybe some distributors do not know how much they can do with our products...From our part we have to prove to the distributor how much they can do. Then they realize.”*

Concerning the possibility to conduct business directly or through distributors, Chandra (2009) claimed that, *“Either you should have full control or let others control it. Maybe they are competing internally...We have also discussed about this so many times, that this could be an option for us also. But I have not supported it. I have not supported this until now. If we are talking about a time span of 5 to 10 years, maybe we can work on that strategy. But right now I find it very hard even to mention and talk about this idea, because we are very dependent on distributors and we cannot give out a signal of losing their confidence. We are working on their confidence. We just try to build their confidence. I alone cannot do more than to use their set-up and if they somehow have this feeling that we have some strategy...(silence)...Of course it is good to be direct with the end user and customer but when? When will we be prepared for that?”* Chandra had no experience of handling a switch from a distributor to a wholly owned sales

organisation and therefore he was a bit uncertain about the necessary procedures and requirements.

Regarding the distributors and the dangers of sending wrong signals, Chandra (2009) argues that, *“...they are very protective. If we are there for a day when they do not know about our activities, they are suspicious. What I want to stress is that, if we are confident that we can do this when going direct. Until then it should not be that close to the distributors. Our business relation is built on each other’s confidence or trust. We cannot work if the distributors know that we are going to direct business. I think they will be totally de-motivated. Whatever they [distributors] are doing, it is not good. There will be no future for them. But there are countries where we have nothing to lose. But in other countries where distributors are giving good business we have to be careful with this approach.”*

At the branch office the various area managers found it problematic with the new value center as that was not asked for by their distributors. *“I have mentioned it to our directors in the region. I would prefer if GE was merged with other brands in the conglomerate.”* (Elnaz 2009) *“I would have preferred that the integration would have been with GE-products instead of saying that we are a solution provider. This is the edge, which the other competitors have. They can offer everything within GE-related products.”* (Chandra 2009)

Further on, Chandra (2009) said that, *“To me it is not very clear. We know that these are the products [Impeller’s new product portfolio] and that we can sell. But how, no one knows. A strategy means that everything has to be clear...I mean, what I have heard earlier in meetings is that we have to think about everything. We have such a huge range of products and we can do lots more business. But we have to work out our basics internally and then we can go out...Let’s say that you promote yourself to the market as a GE product supplier and then you have the global projects team [offering systems]. They would probably go out and see the need for some other brand [in order to fill gap and optimize systems for the customer]. How does that work? Doesn’t that confuse the market?”* (Chandra, 2009).

The stress concerning the shift from a pure product-based firm into a systems provider was frustrating not only regarding the changes, but also concerning the lack of employees at the branch office. *“Everybody cannot be involved in everyday work. If we visit distributors, if we are*

stuck with issues [daily] then these new things evolve...We are getting help from head office. It is not sufficient and it takes time. The help should have come earlier. We are sales companies and at the end of the year we are gazed by the figures. If I take any initiative and daily business is compromised, then you have to be responsible for what you have done...I think we are seriously not working with strategies or on customers. We are just coping with everyday requirements... We cannot wait for 3, 4, or 5 days until we reply to customers. Whatever it is, technical or commercial, it has to be immediate and I think that only builds confidence with the customer and distributor and that is the core. I have stressed this. We have to fix this first. I am not on top of distributors. I cannot turn to them without having answers to their questions” (Chandra, 2009).

Colin (2009) expressed that the new construction and focus that Impeller had changed into had led to a situation where there was “...a possibility to offer ‘functions’ [systems]...at least that is what I have heard that they call it.”

4.9 UAE and the Distributor

Much of the empirical data concerning the branch office was gathered in UAE, where a continuous flow of information concerning the distributor's activities was also gathered. The distributor manager (Khalif) was only met once, yet opportunities were taken where the distributor's current senior sales engineer (Virre) and the area sales manager (Mohan) met and were followed when they together met with customers in the market. Mohan had previously worked as a sales engineer/employee of the distributor. Mohan had just recently taken over as the sales area manager for UAE; thus, several discussions were also held with Elnaz, as she was the area manager prior to Mohan.

4.9.1 The Distributor

The distribution agreement in UAE was initiated in 1971 and concerned sales of GE products. The distributing company is a family-run business established on the market as soon as it opened up and allowed foreign investment. Thus, the distributor established itself very early on in the market and was described as an actor that over time introduced many industrial products to the market. Therefore, the branch office claimed that the distributor had a solid reputation and had been successful in establishing a well-known name and good relations.

The businessman and the manager of the distributor (Khalif), who was previously introduced to GE in another ME market, wanted to continue to deepen his ties to the business in the newly expanding market. GE was among the first brands included in the distributor's product portfolio. According to Jocke (2009), *"in 1971, on the second of January and also the day after firms were allowed to be established in the market, the distributor was established. However, sometime later 100 percent ownership was removed so he had to engage in split ownership with three other local and powerful people and had to go down to 49 percent ownership."* The partners were considered to be highly influential in the market due to their extensive local networks.

The distributing company is a trading company that also takes care of after-sales services and has a workforce dedicated to working solely with GE. The total product portfolio of the distributor does not provide much synergy to GE products and is focused on a different industry segment. This also became obvious as the researcher was shown around the distributor's facilities where it was clearly stated that certain infrastructure-related products created great sales and opportunities for the market. The sales of GE was at the time considered by the branch office to play only a

minor role in the distributor's entire portfolio, and Impeller did not feel that they possessed a major influence on how the distributor should conduct its business. The number of brands that the distributor handled at the time of the study was around 20 (see Appendix 1), yet the amount of products sold from these brands was considered to be considerably more than those from GE from a branch office perspective.

The working environment at the distributor was described by Mohan as easygoing and comfortable, yet rather outdated and non-motivating due to the old support systems that were in place. Administrative structures such as email and faxing systems were very old fashioned, and there was only a single email address to the entire company, meaning that all mails went through the top manager. Although the sales representatives were doing their jobs on time, the great administrative hurdle delayed errands to an extent where the sales personnel were blamed by customers and both GE's brand name and the distributor's brand name were hurt. Moreover, when considering the management of the distributor in general, it is important to note that it was regarded as being highly hierarchic and run with a firm hand by the distributor manager. The frustration at the branch office with regards to the impeding systems was indicated in the area manager's statement: *"Over nonsense things the distributor started to lose their name. Along with them we go down"* (Elnaz, 2009).

At the time of the research, the market had plunged and there was great concern at the distributor concerning the bound stock. The perception of risk from the distributor manager's perspective indicated levels of somewhat limited capabilities as the market had previously boomed with high levels of demand; consequently, the distributor had kept a big stock of products that now had a limited turnover. The market situation had also led to payment difficulties from customers, which also threatened the distributor's credibility.

4.9.2 Historical Development

The contract established between the two parties was exclusive for UAE, was self-renewing, and—according to Elnaz when shown and explained by the staff during the study—was inadequate. Elnaz also argued that the contract did not, from a legal perspective, put any pressure on the distributor concerning sales performance, nor did it provide any support to GE due to the widespread legal protection of local distributors in the market. The contract was written in a very general and open language that made it difficult to define the content. Termination of this kind of

agreement would imply running the risk of paying compensation in the form of severance payments. Moreover, possible termination was not the only obstacle to overcome on the market according to staff from the branch office. Since relations and networks in the market are of great importance, contracts that were terminated with an influential counterpart were argued by the branch office to potentially lead to future implications when trying to re-establish business due to the extended network of the distributor.

During the mid-1970s, a representative of GE was located at the distributor for a number of years, supporting and increasing the sales volume. Jocke (2009) stated that, *“around 1976-1977, we had a GE employee at the distributor who worked there for 6 to 7 years. He worked up the GE volumes on the market and stayed in the market for a total of 25 years before he left the market. During his time he also employed an Indian called Merchant, he was also known as the ‘GE Man’ and a GE product department was established at the distributor. He was a super-good engineer, which made GE into market leaders before he left the distributor in 1999-2000...When Merchant left in 1999-2000, the markets started to be handled through area-managers located in Scandinavia. The frequency of visits decreased.”* Khalif concurred, arguing that HQs consequently decreased the amount of physical presence and support in the market.

At the time when Merchant left, a new local sales engineer (Mohan) was trained and hired by the distributor and worked on securing GE business for another seven years. As he did not get the support he wanted from the management at the distributor, he decided to leave to work for a competitor. When the newly established branch office found out that he was leaving, they hired him to handle support issues for GE. Since Mohan was leaving the distributor, another sales engineer was appointed and trained by Mohan, who left after two years for a position at a competitor of GE with a higher salary. Once more, a new senior sales engineer (Virre) was appointed and trained, who at the time being worked with GE sales. He also had two junior engineers working beneath him.

During the 1980s, the distributor gradually increased its product portfolio, handling only top-of-the-line products. *“The distributor as a company is very strong. They have a name in the market. If you go to any local, they know about the management and have a reputation. One does not have to introduce them. They started in the 1970s-1980s and have introduced most of the European firms to the market in construction equipment and that was where they developed their*

business” (Mohan, 2009). The distributor did have geographical coverage over the two most important growing areas of the market, with a local presence in both. Although they had committed manpower to both offices in both regions, it became clear to Impeller that the distributor never committed to both regions equally from GE’s perspective. Although the potential business for GE had always been present in the neglected area, the lack of actions allowed competitors to gain a foothold.

When considering the level of competence at the distributor and the way the business had evolved, it was argued from the branch office that the current senior sales engineer did not have the right level of technical competence. It was commonly claimed that GE’s business required far more skill than simply sales abilities. This inability consequently affected price, performance, negotiations, and therefore relations, leading to decreased sales as well as a reduced brand reputation. This was exemplified as a customer visit took place where Mohan, Virre, and the researcher were present. After a discussion between the customers and the researcher, discussions took place among the three parties regarding the sales of GE products, where Virre was very close to finalizing a deal with the customer concerning a vast number of GE products. However, the area manager realized that the specifications and the discussed products were not suited for the desired function, and the deal had to be called off and re-negotiated. Later on while driving, Virre indicated his discontent with the management of the distributor to the researcher and Mohan and that he was looking for other job opportunities. The branch office stated that, regarding customers and wrongdoings in deals, *“Meetings have been held with extremely upset customers. I’ve never seen so upset customers in my life. This is extremely embarrassing for me”* (Elnaz, 2009).

One of the main identified hurdles from the branch office perspective was the distributor’s high employee turnover. Sales engineers were being trained by GE and, due to the complexity of the products, it was assumed that it took approximately one year before the engineers generated sales and many more years in order to gain credibility in the business. The training had an additional implication as the distributor; thus, the trained sales engineer, required increased support from the branch office. Therefore, the long-term investment demanded substantial resources from the branch office. The high employee turnover trend, in which the sales engineers tended to leave after the training period, was believed to be related to the low wages at the distributor and the possibility to get better jobs at competitors. According to the staff at the branch office, the

implications of problems with end customers that had occurred with fresh sales engineers were related to the lack of technical knowledge, which in turn was argued to create a lack of individual confidence necessary when arguing for the “high quality” of GE when negotiating with customers. Not only were possibilities lost, but wrong decisions could also be made with regards to technical specifications. This situation was believed to give momentum to GE's competitors. The situation at the distributor was portrayed as follows: *“They hire fresh people to be cheaper and they train them, it has become a training center... as soon as you want to reach results the person will leave”* (Elnaz, 2009).

4.9.3 The Recent Development of the Relationship

According to the branch office, the high employee turnover problem had been brought up between the two parties; however, no indication or interest of enhancing the situation had been implied from the distributor's side. This was an additional important factor behind the frustration of the branch office indicating severe organizational and managerial difficulties at the distributing company.

“I have brought up the turnover thing with the distributor recently. One of the engineers left last month which I trained from scratch. It took one year until he started giving the company something. He just left after 2 years. They are not ready to discuss why. I discussed it with [the sales engineer who left] and it was only about financial issues. I took this up with the distributor's middle management, but again he does not have the action role” (Mohan, 2009).

In the beginning of the 21st century, the market—and more specifically the area in which the distributor dominated—began to expand rapidly; consequently, competition increased. However until 2003-2004, the brand continued to take market shares. The stability of the business was argued to be significantly due to the sales engineer (Mohan) who was working at the distributor at that time. Since 2004, the distributor has started to show a negative trend of performance, as did the relationship between the two parties. Although the perceived turnover of GE sales of the distributor had grown in line with the increase in population but not with regard to the believed GE-market growth, the company setup had not developed much. Based on the distributors' own data, at the time of the study they were not even receiving one fifth of the amount they were quoting, which indicated substantial problems.

Virre saw the ability to offer a range of complementing products to the brand in question as being “key for the future” and a strength that the brand was lacking at the moment, yet no initiatives had been taken by the distributor to try to bring on the products that would provide synergies for GE. Moreover, in 2006 and prior to the re-organizations within Impeller as such, the branch office had tried to introduce the sales of a product similar to those of GE as a possible and very promising niche segment, yet there was no real interest from the distributor to bring these products on board according to the branch office. Moreover, even if promises were made by the distributor in this respect, they were not kept.

In general, the sales performance of the distributor was believed to be nowhere near the actual potential of the market from the branch office, although it had been steadily growing. The gap was evident when looking at the believed market’s share of GE, which indicated a negative trend. The manager of the distributor claimed that he was happy with the development of GE in general, and it was argued that previous targets had been met and in some instances exceeded. At the time of the study, it was argued that *“we are waiting for the target for 2009. With regard to targets, we are so far good, yet we are in a very dense fog”* (Khalif, 2009). However, Khalif also acknowledged that GE sales would be less affected by the current recession than the other brands of the distributor due to the large amount of sales to the public sector. The brand was still recognized as number one from the distributor’s perspective. However, they were themselves uncertain of the actual market share with regard to the product. When posing a question to the employees at the branch office concerning the settlements of the sales targets with the distributor, it was sharply expressed and contrasted: *“This has been presented and discussed in front of Khalif. We all went and had the discussion, Colin, Elnaz and myself”* (Mohan, 2009).

A common perception of GE products was their high quality, yet the factor came with a relatively high price, which was often seen as a hurdle for the product on the market by Virre and Khalif. However, the branch office argued that it was a deliberate choice of the distributor to represent these kinds of products; therefore, it all came down to the competence of selling the added value. Khalif referred to GE as the original inventor of the products it sold and that “all other competitors were all copiers.”

Over time, as the manager of the distributor grew older, Jocke—who had been situated at the branch office—explained that Khalif’s peculiarities had increased, and negatively affected

cooperation with key partners. Considering the age of the manager, no indications had been made on predecessors, and he was described by the branch office as a man who made decisions based on personal and emotional factors rather than what was “*strategically correct.*” Although the branch office was not happy with the way the distributor was performing, and did not feel that it was in line with their vision and expectations, the after-sales business was still considered to be rather well established and relatively appreciated by customers who simultaneously expressed their satisfaction of having to deal with just one counterpart when purchasing GE. Elnaz (2009) stated that “*we can see an increasing lack of trust between this office and the distributor, there are more important things than price, but still the distributor also has a margin. Yet they are very fair in their margins. I give them credit for that compared to other distributors.*”

Due to the fact that the branch office at the time of the study did not have internal capabilities of handling after-sales services, it created questions regarding whether a full termination of the relation was the best way to go. One of the reasons behind the branch office’s knowledge concerning the business within UAE and the ways in which the distributor functioned was due to the takeover of Mohan, who had left the distributor after 7 years and had planned to leave for a competitor. At the time of the study, Mohan was the newly appointed area manager for UAE, as the branch office was afraid to lose his competence. Prior to that, he had been trying to work with the sales of the integrated systems on the market, yet this had been troublesome as it demanded a high level of systems-integration knowledge. The “takeover” of the previous sales engineer created a very tense situation with the distributor and definitely affected the relationship as it was perceived as a very hostile action from Khalif’s perspective.

The distributor held exclusive rights to sell the products on the market; the branch office was not a legal entity entitled with the right of conducting direct business. Although the financial turbulence at the time was substantially affecting the market, it was argued by the branch office that it could be the right moment in time to invest in internal capability build-up as a long-term investment. Jocke (2009) revealed that “*we wanted to do direct business, we had good discussions with the distributor manager but it ran out into the sand...we were thinking of pulling out of the distributorship, a pre-study was made, but we had problems with the typology of the set-up and we were uncertain concerning severance payments. We also had internal problems at GE because my boss died, and we had a deputy for 6 months and then Dan came. During 2005 nobody wanted to take a decision and when Dan took over in 2006 he was not so informed and*

an OK to proceed never came.” However, Elnaz (2009) had a more nuanced perspective: “When [Elnaz] was hired by Jocke, the intention was to go direct...The idea did not materialize because the previous RMD (at the branch office) was not pro the idea because of exclusivity. He did not want to upset that. This was discussed in the interviews. I am sure that Jocke wanted to take the idea ahead but what happened between the two I don’t know.”

Mohan had now begun to support the distributor with short-term performance plans in order to try to “save the business,” which consequently resulted in an increased involvement and interest from sales and middle management at the distributor. Nevertheless, Khalif was still seen as a great hurdle, with strict and inflexible policies. At the same time, the driving factor for customer initiatives to push the GE business of the distributor was Mohan’s actions, whose main task was actually to support the distributor’s business and not to actually conduct it.

“When I took charge [for UAE] I felt that it was difficult. The distributor management were difficult and the distributor for me is an open book. When I started working, giving them my plan for the next 2 months of where to focus I have noticed that they have taken more interest and seriousness. Especially in high value projects. Specifically the newly appointed sales engineer and the distributor’s middle management have got more interest...But one thing which is still, is that of the top-level [distributor manager]. His policy will not change. I am taking appointments with customers and that should be done from their side, and maybe the others are feeling this pressure” (Mohan, 2009).

Elnaz (2009) was very frank concerning the distributors in general and the distributor in UAE: *“Personally, we should not be so dependent on the distributor; we have to have a strong core here. Any distributor, if going down, we have to immediately take over. The market would not sense that. At the moment it would probably not make difference. Mohan is securing that now and he knows how to play in between. Virre is not adding any value. He is also upsetting customers. A couple of key accounts were so upset because of his attitude...Mohan has the network and since he joined us it has been one of his major concern that he is losing market contacts...Keep the distributors but do the fundamental job yourself. The initial stages where you establish trust and relations and support your customers to secure your order—that needs to be done internally.”*

However, the distributor also expressed some concerns. Khalif expressed ambiguity over some instances of cross-market sales, claiming that GE had policies in place but no penalties. *“Each*

and every one should work in their own garden...everybody should feel protected in their area” (Khalif, 2009). An example was given regarding a Belgian distributor who did not refer an order to the distributor in UAE, but supplied the order themselves. The distributor found out about the order when the project was initiated and the Belgian distributor and its customers needed help. *“It has taken a long time to establish a civilized system, yet the referral system does not work and it is a jungle at the moment”* (Khalif, 2009). In order to exemplify how it ought to be done, Khalif explained that a customer who was happy with the distributor had a project in another market at the time of the study yet the distributor did “the right thing” and referred the customer to the distributor in that market. The problems had been brought up with the branch office, *“...but they have only come back with excuses”* (Khalif, 2009). According to the branch office, this was not seen as a major issue.

Although the relation between GE and the distributor was pressured, the history of the distributor and its extended network on the market and previous marketing efforts created a sense of comfort among some established customers. Although in some instances sales representatives from the distributors had created tensions in relations with customers, it was believed that the business relations did not end overnight and they were looked upon from a rather long-term perspective. Nevertheless, it was noted that the high quality of the brand also played a major role in its success. The distributor had been confronted by GE about the several issues, yet even if problems had been recognized in some instances, actions had according to the branch office not been taken. Although performance had been openly discussed, the increase in questions concerning the manner in which the distributor handled the business had also increased the uneasiness of the relation. Khalif indicated that the system that they had been working so hard for together with GE was no longer there and he had also observed that GE had become Impeller, who now supported its “Sales Offices” (i.e., branch office) rather than them as distributor. However, Elnaz (2009) argued that, *“Here we don’t get calls as a normal sales office, being updated with the market information...Information is power and we are absolutely powerless here now...They are controlling us.”* Concerning the manner in which the branch office worked and assessed the market potentials, Mohan (2009) further expressed that *“it is very hard to find out the market shares. Everything begins with mathematical assumptions.”*

Khalif also described the relationship with GE as a very settled family-like one, describing it as a journey that “initially had a honeymoon”; however, he explained that all relationships have ups

and downs. Moreover, with regard to Impeller's history as a whole and most significantly the conglomerate and thus the current relation with the branch office, Khalif argued that Impeller had a history of engaging into politically influenced market actions, acting like a colonial power around the world. He was aware of the vast amount of acquisitions that had been made by Impeller and that the acquired companies still had several of their own distributors in the ME region. He also expressed ambiguity with why the researcher used the company name Impeller rather than talking about GE and asked for an explanation of the value center.

Although the branch office previously and currently had plans to enhance their position on the market, they were restricted in several ways. First, some employees stated that acting through distributors somewhat restricted their access to the market knowledge. Elnaz (2009) revealed that, *"Now we are kept in the dark we don't know the market info, so decision making is somewhat a gamble, being based on the info from the distributor."* Other employees at the branch office instead indicated that it all came down to how they worked with the distributor, without the distributors feeling threatened. Second, internally there were capabilities missing at the branch office, such as the business network, staff, and practical knowledge regarding how to handle the entire process of a project, from the enquiry to delivery. At the time, there were also limited possibilities to train and increase the workforce at the branch office due to HQ restrictions. The different scenarios for the branch office at that time were whether to move toward direct business or find a middle way whereby the distributor was not entirely excluded. Whatever the outcome, Impeller/GE was aware that any decision made would not only affect this relationship, but also send future signals to distributors in other markets.

The branch office had identified weaknesses in the work of the distributor in areas such as, commitment, reporting systems, communication, follow-ups and appointing appropriate sales people with the required competence level. Interestingly, another firm (ABC) which had been represented by the same distributor had also experienced the same negative development and had recently successfully removed the exclusivity right of the distributor. Colin had got into contact with the exporter's regional manager (Shahid) in order to increase his knowledge concerning their measures towards the distributor.

4.9.4 A Different Tale

The researcher also had the possibility to speak with Shahid, who was a product manager. He provided a description of ABC's development in the ME and the relations it had with distributors and significantly their relationship with the distributor in UAE (the same one that GE had as a representative).

In the early 1980s, ABC established a joint venture (49 percent ownership due to local legislation) in Saudi Arabia. Until 2001 and 2002, the firm had operated through distributors in the remaining ME markets. However, according to Shahid (2009), *"When you rely on someone else's resources what you do basically is that you are not able to direct those resources, and when I say resources I mean human resources. You are not able to control and do exactly what you want to do and this was something that was realized and the company started thinking very broadly on how to, you know, take care of the complete market a part from Saudi Arabia."*

Thus, in 2003, the firm established a regional office (RO) in Bahrain, and an increased emphasis on the other markets was initiated. *"...we set up a regional office in 2003 after a lot studies and analysis, to be closer to the customer. The division that was actually taking care of the ME was closed in Europe and we setup RO in Bahrain in 2003...they started a developing competence center in Bahrain, and this center has developed quite a lot and then we started looking at markets very closely and then we realized as soon as Bahrain office was established in 2003, we realized that UAE is a very important market and one that is going rapidly. Our distributor [the same as for GE] in UAE is actually not able to keep pace with the growth that is taking place in the market and they were literally overrun, they were growing 5 percent or 10 percent per year when the market was growing 25 to 30 percent per year so you know, there was a lot of debate on this distributor adding a lot of resources and trying to put people and making divisions but unfortunately it was not working because, the owner he did not want to invest"* (Shahid 2009).

As a consequence of the developments in UAE, ABC appointed a business development manager and settled a customer center in UAE in 2006 in order to increase sales, where ABC *"started working very closely with the distributor to see what could be done and how it could be done...There were a lot of meetings and it did not work out. We did not see any growth or improvements, commitment were made which were not kept so therefore we thought it is time putting our own people and expand the operation. In the beginning of 2008 it was decided that the distributor will handle a minor segment ABC's business, which is just one area of business."*

And as far these products that are concerned they keep stocks and we had no intention of keeping stocks” (Shahid, 2009). The business left at the distributor concerned goods being used in the construction industry. The other side of the business concerned more customized products needing an increased level of knowledge, where no need for carrying large stock was necessary.

Concerning the procedures and negotiations when de-investing in the relationship, Shahid (2009) revealed that, “You need to build up logic and reasons when you’re taking these steps. You can’t simply go and say you are fired and start own operation, can’t do that. There are so many contractual obligations, which basically are opposed to both parties; one party does business and the other one provides support. What happens is if this party is able to proof or let’s say first is to proof the party involved that you are not doing what you have been asked to and this has to be proved over a period of time, let’s say with notices, you know. Business review meetings, we have this system of doing business review meetings every quarter. So what you do is that you set up goals, targets both quantity of units and value and then you analyze the market and you tell the distributor that this is what is accepted of you and this is what is going to be your annual target and apart from sales you also have obligations to conduct business development and these are the sectors where we believe there is opportunities and these are the actions that we want you to take in terms of investing in manpower and trying to develop competence and stuff like that and then you do an analysis every quarter vis-à-vis the plan you are and you can show and proof to the involved party that you are not really doing a good job and once you keep doing this every quarter a stage comes where they are mentally prepared to give up and this is what precisely happened [to the distributor in UAE] in fact when the decision was taken there was no resistance...when the decision was taken, the concerned [distributor] was quite surprised that the whole thing was not taken away...(laughter)...they were happy to at least keep part of the business...The point is that we have not broken the relationship fully with them. It has been progressively phased out.”

ABC’s current regional office led to the creation of five business managers who were responsible for certain markets. This also enabled the firm to gain knowledge regarding the specific markets as research is being made concerning competitors. Yet a lot of information stemmed from the distributors being used. Thus, ABC also hired marketing and sales agencies to conduct market analyses of the markets, including the UAE. Shahid acknowledged the need of being close to the market and using a number of different sources for market information as much of the research—

specifically from research consultants concerning market developments—relied on data gathered from the web.

As a result of the developments in UAE, ABC engaged in another distributor relationship in a different part of the market handling and facilitating the sales in the other main business field. Due to recent developments, this distributor was also increasingly functioning as a “sponsor” who receives commissions on sold products within the industrial sector and was now seen as the mainland partner. The developments were seen as a consequence of previous distributor’s (who still handled minor sales) lack of commitment: *“We don’t see light the in the end of the tunnel to be very honest with the distributor, that is the issue”* (Shahid, 2009).

4.10 Qatar and the Distributor

The interviews were held on one day at the distributor in Qatar, whereas customer visits were pursued the following day. After being introduced to the firm, an interview was initiated with Senad (the sales engineer for GE products) and Ahmed (the sub-department manager for the trading division). However, as the interview continued in the small office and additional questions were posed, Senad and Ahmed found it difficult and reluctant to answer some of the questions concerning the relationship with GE/Impeller. Thus, after a while the interview ended, and the researcher was transferred to a new larger office, where Reza, the deputy CEO and COO of the entire firm (who was simultaneously handling the trading division), was ready to answer the questions. Once again an interview was initiated, with Senad and Ahmed quietly being present.

4.10.1 Development of the Distributor and Its Consequences

Prior to the currently acting distributor, GE had another distributor in Qatar. However, “...*the distributor more or less did not sell anything and did not have any interest in making a larger commitment*” (Jocke, 2009). Therefore, the distributorship was changed. GE came into contact with the founder of the new distributor, who was seen as a young and very driven “up-comer.” He had initiated the firm in 1984 together with a local partner and convinced GE that he was the right person and promised to commit in order to get a good start. An exclusive contract was signed in 1997. Apart from the experiences that Jocke had as a prior expatriate in the ME, Impeller’s HQ personnel had very limited knowledge about the market and the distributor.

The distributor’s business grew significantly as the market started to boom. From Impeller’s perspective, it was argued that “*our experience was that the market was a sleeping one until 2002-2003. That was when investments were being made into the large gas fields, and since then it has gone fast. From early 2000 until 2006-2007, our turnover [GE] has increased tenfold*” (Jocke, 2009). From initially being a contracting and trading firm, the growth of the distributor led to the creation of a number of divisions. At the time of the study, the firm went through a re-organization from its old organizational structure (see Appendix 2) due to the firm’s immense growth. From the distributor’s perspective, the re-organization was expected to increase flexibility and productivity as the former organization had become too big. Furthermore, the different divisions and sub-departments were also given performance responsibility, which Reza

explained would make it easier to measure effort and responsibility. Reza (2009) acknowledged the need for organizational change: *“It is about renewing one-self. It is important to develop one-self.”* The new organization consists of a holding firm and 10 divisions handling a vast amount of activities ranging from logistics and electro-mechanical sub-contracting to real estate (see Appendix 3). The trading division is divided into 7 sub-departments, of which one handles the sales of GE products. The sub-department also represents a few other brands from other exporters believed to fit GE products.

Concerning the distributor’s—and more specifically the trading division’s—business, Reza explained that their offering to market is based on the sales of high quality products. However, *“...quality always comes with a price. Quality still gives competitiveness...brand name is pushed together with the company. It is always important to ensure that both are connected”* (Reza, 2009). On the other hand and related to the previously mentioned consequences, the trading division faced *“risk as an investor in terms of holding stock and constantly measuring turnover”* (Ahmed, 2009).

During the initial years of the distributor agreement, the market was not perceived to be critical from Impeller’s perspective. However, when it suddenly expanded, it was argued from the branch office perspective that the distributor did not change according to the market size while their information and knowledge of the market remained limited. When representatives from the branch office visited the market, the potentials had become evident. Senad and Ahmed admitted that their sales were good 4 to 5 years ago. From the distributor’s perspective, the lack of proper technical support from the branch office was seen as a limiting factor for the sales of GE products in Qatar. Although the consultants that the researcher met had knowledge about GE products and acknowledged the high quality, they agreed that more information was needed in order to pursue negotiations and, from their perspective, the key area of improvement was for GE to give more support to the distributor. As explained by one of the consultants, even if Impeller is 50 percent more expensive, they will try to promote it due to the quality.

Reza had previously been the manager of what earlier had been the electric and mechanical division. In the branch office, he was perceived as a very “sharp gentleman.” As a consequence of the re-organization, he became the Deputy CEO and COO of the firm; at the time of the study, he was also the current manager of the trading division. Unfortunately, the previous manager of

the trading division had according to the branch office left as he had not agreed with the changes made within the distributor's organization and because of the lack of support from the distributor's top management concerning investments and training into the trading division. *"...all the changes and investments that he wanted to make, including training the guys more and making them more competent...such a shame that it did not go through"* (Elnaz, 2009).

From the branch office perspective, the size of the distributor is seen as positive for GE, but the real stronghold for GE relates to the distributor's name and reputation in the market. It is also worth noting that, as the distributor has grown, its contracting business has grown with it. In the branch office, it was acknowledged that the contracting division was seen as a major opportunity, not only because it can utilize the represented brand but could also provide knowledge about products, market segments and potential business projects. Moreover the previous sales engineer who worked and was accustomed with GE products for 6 years at the distributor became the manager in the contracting division. However, the contracting division works separately and, according to an open competition policy, occurs where there is no preference for certain products (including GE products). *"With regard to contracting business, this leads to an open competition where it is not ensured that GE is chosen"* (Reza, 2009). In a discussion with Ahmed and Senad (2009), it was stated that other GE-product competitors approach their contracting division: *"The contractor wants to save as much money as possible."* More often, specifications from contractors are not clearly written. Therefore, *"big GE products mean big problems"* (Ahmed and Senad, 2009).

One problem observed in the branch office is that the sales force of the distributor is not handling one product, but instead representing a range of products and that their payroll is based on the provision of sold products. Since the sales process of GE products is argued to be rather complex and pays off in the long term, other brands are believed by the branch office to be prioritized. It should be considered that the knowledge of the current sales force should limit the sales of the products and furthermore as the previous sales engineer became manager for the contracting division and the previous manager for the trading division left, key competence has been lost. According to Reza, they do have a clear perception of what is important in order to push GE products on the market and the motivation of the distributor is reflected in their willingness and the perceived importance of following up on projects, although some are lost. In addition, Reza argued that their commitment is represented in their willingness to provide the branch office a list

of future potential projects. However, during the second half of 2008, the positive trend for GE sales started to decline.

4.10.2 Relational Development

Reza, Senad, and Ahmed claimed that approximately half of the annual turnover from the sub-department within the trading division stemmed from the sales of GE products. Although the market in question was previously not considered to be important until 2003, it was perceived in the branch office at the time of the study to be one of the few markets in the region that has not slowed down, despite the existing global recession. Quite the opposite, it was considered to be a huge market for Impeller's entire and relatively new product portfolio and the new systems approach. The sales targets set for the distributor from the branch office are perceived to be lower than what the actual market potential is, partly due to recent large developments and because of the believed market knowledge that the distributor holds. When posed to a question concerning sales targets for the year, Elnaz (2009) answered with a laugh: *"The target that we have set is so low, it is out of not knowing...We are missing out on the whole opportunity...my target was 3.5 and I know that they could easily do 10 with normal job efforts, not even excellent."* The distributor's communicated estimate of the market was not the same as the one from the branch office and was even said to be smaller. Thus, the branch office perceived that the distributor is not openly communicating the actual size of the market.

With regards to the settled performance targets, the distributor felt somewhat neglected in the settlement process and expressed that the targets are informed from the office side and not elaborated. The branch office was asked to visit the distributor and discuss the business plan. Reza (2009) explained that *"targets were not informed in 2006. The targets are just informed from the GE side and not elaborated with us."* Furthermore, Reza (2009) stated that he has never heard the question *"How much do you think you can sell in a year?"* According to Ahmed (2009), *"targets are given. Yet how the distributor is supposed to work is not clear. How does GE want us to approach the market and which persons we ought to reach?"* An examination of the communicative reporting systems leads to some discrepancies. For instance, a project list is available that is not asked for by the branch office. *"GE could ask for the project list, it is available. During a period of time, this was sent on a monthly basis"* (Reza, 2009).

When discussions were held at the branch office, the request from the distributor was welcomed by the branch office, where Elnaz argued that they believe in cooperation rather than dictating when setting up the business plan. However, it was also argued that *“the distributors tell us the info that favors them. They are not going to tell you the right size of the market. Sometimes it is based on their own calculations and it is so silly”* (Elnaz, 2009).

The main reason GE is facing challenges in the market comes down to price according to Ahmed and Senad. From the branch office, the counterargument concerning the problems of prices is that it *“is their getaway”* (Elnaz, 2009). However, according to Reza, the price is not the major problem; rather, competition is: *“It is important to be aware of competition and price differences also from GE’s point of view. During one year, competition went from three to ten competitors...Prices are not the problem; Competition is.”* Reza (2009) also acknowledged that *“commitment and support are missing [from GE].”*

The branch office is a bit skeptical concerning the prices and competition. Concerning the sales engineer (Senad), *“He says a lot about KLM and NOP [competitors]. That’s what he says normally, but I got a bit difficulties believing exactly what they say. It is so easy to say that they are on the market but it is not really like that. In a couple of cases they have faced competition and they always want more discount, that’s why they mention that, but there are so many things they can do to avoid being in this trap...”* (Elnaz, 2009).

Senad described a big customer who withdrew from negotiations with him regarding GE products without any warning. Senad approached the customer and found out that they instead turned to KLM but never found out why the shift was made. Senad (2009) further stated that the business *“is all about giving the correct specifications and knowing what the customer needs.”* Although the market is now considered to be prosperous, the number of physical visits from GE has been limited. Reza (2009) admits that they, *“...do not mind working on technical specifications. However, in that case, support is needed.”* Reza (2009) concluded that *“contacts should be good although contracts are lost.”*

Concerning communication between the distributor and the branch office and the possibility of strengthening GE’s/Impeller’s market opportunities, Reza explained that four years ago they started to request a technical support employee from Impeller, who would handle technical specifications and work at the distributor for a longer period of time, with all accommodating

costs covered. *“It is our strength to bring Impeller staff to customers. We want this...This would work as a driver...For four years we have been trying to convince GE about this, but nothing has happened”* (Reza, 2009). Reza ensures that the division has had previous experience in working in this manner, which resulted in a large increase of sales. According to the branch office, this request was communicated two years ago but did not go through due to difficulties of finding the appropriate person who would be willing to relocate to the market for a longer period of time.

The distributor showed interest in the increased product offerings of Impeller. As Reza (2009) stated, *“growth comes with the range of product offerings,”* which has been taken up with GE. Both Senad and Ahmed acknowledged the lack of range in products. However, all three interviewees referred to products similar to those of GE in order to be able to sell product packages. Project sales had been lost due to a lack of range in products and the possibility to sell packages. According to Ahmed (2009), *“customers have to turn to other supplier in order to compose a whole package, and they do not like turning to other people.”* The familiarity and understanding of the changes that had occurred, viewing Impeller as a value center with four main brands in order to possibly sell systems, were limited from Ahmed’s and Senad’s perspectives. For example, Senad (2009) stated that one of the other four brands within the Impeller portfolio, *“...would bring a new dimension to our business, due to the fact that our competitor KLM has a full range of products.”* However, the competitor KLM is also a competitor to GE whose product range does not in any way offer the same system synergies as the three other brands within Impeller’s portfolio.

Connected to the sales of GE products and their increased commitments to bring on additional products, Senad argued that he had acknowledged that there was a possibility to engage in a niche segment available at GE that could be a complement to the existing products. Yet, at the branch office, the employee who was entirely committed to increasing the market of this niche market segment had a major concern that the initiatives for the business were not being actively pursued by distributor personnel. As a consequence, the branch office did not believe that the distributor had the current capabilities of handling the possible sales of the other brands within Impeller’s product portfolio. *“They have been asking for that, but personally I wouldn’t do that now. They don’t have even one person that can handle one product, so we would be ending up messing up our name. They would love to represent the entire Impeller portfolio”* (Elnaz, 2009).

Considering the distributor's perspective on the activities of Impeller/GE and the creation of the value center, it can be argued that, *"GE is spending money on much but not on the core development of the business...Impeller-GE [Note the combination of brand-names] has the worst governmental routines just to get something through. It is not bureaucracy; it is routines and decision-making"* (Reza 2009). Senad (2009) openly questioned the GE strategy, because they, *"actually have the range, but no strategy"*.

Similar to the comments coming from the distributor in UAE concerning the liability and correct manner of the distributor's actions, Senad openly argued that in a number of projects they had seen cross border sales from a neighboring market. Yet they had only seen it once on paper, but still they received the information about these sales actually happening. However, he takes responsibility and refers the foreign projects if they come his way. Further, concerning the relationship, Reza argued that, *"At the moment we have a good relationship with GE"*. Yet, a moment later, he also argued that, *"There is much room for improvement in order to be able to meet demands in the future...We appreciate the support from the local partner [branch office]. However the market has changed. Both have to think differently of how to approach the market"* (Reza 2009).

Reza mentioned the prospects in the ME region, and significantly, those in Qatar and further on played with the thought and the possibilities of Impeller's setting up a regional office in the Qatari market. This action would create difficulties for the distributor, as Impeller would become a competitor. Yet, in the next moment Reza (2009) states that, *"We have transparency towards our suppliers [GE]"*.

With regard to the heavily emphasized lack of support from the branch office mentioned by the distributor, the distributor asked for both commercial and technical support by branch office. Although Senad and Ahmed argued that businesses are not believed to ever be lost over one late response, that issue does affect perceptions, trust, and relations and also confuses customers. With regard to commercial support, Reza argued (2009) that, *"GE has previously had seminars with us and this is something which is not outside the box and should be basic support. Stickers, Pictures and Flyers are not free for us. GE should give more marketing support"*. Moreover, *"We should not reach a stage where the brand is not visible. Then we cannot sell it"* (Reza 2009). The distributor believed that advertisements and discounts provide flexibility and an edge.

When confronted about the lack of marketing tools, the branch office declared that the product is not a consumer product that should be sold through simple advertisements, but rather a product sold through experience and engineering knowledge.

4.10.3 Knowledge Levels

From a branch office perspective, the competence levels prevailing at the distributor is truly affecting market development negatively, and it is something that really needs to be enhanced, which the distributor also argued could be to realize, as indicated by the request of a branch office representative. Moreover, certain cultural clashes and attitudes are working against GE's brand as mentioned by branch office employees and are related to the distributor's representatives for GE sales. Much of the problems are specifically directed towards the current sales engineer, which is hurting the business of GE products. Senad has worked at the distributor for a number of years, and yet according to the branch office, he is not seen as being capable of planning, becoming aware of the market, and following through with a long process of establishing relationships with consultants. His sales style is seen as a purely trading one, which neglects the concept of knowledge as a value adding momentum. It was argued that, *"...his ways of doing it, they [distributor] are really losing it. When this guy goes to technical people, they will say that this guy has no clue what he is talking about. They need to work on stock and the competence of his people"* (Elnaz, 2009). Moreover, it was argued that, *"...he does not feel comfortable in challenging the consultants in technical discussion. They can very easily select the bigger product for no reason, and we are 30% more expensive. It all comes down to competence. That is what is lacking all the time. They need somebody technical to get along with them. I do feel for them, so that is what should be provided in short term from our side"* (Elnaz, 2009).

Ahmed (2009) argued that the sales engineers receive training in Scandinavia every two years; yet, *"most of their experience is gathered through quotations and pricing"*. From the branch office, it was argued that, *"The distributor's trading team is really incompetent; the guy [sales engineer] has gotten all of our training but still makes silly mistakes. I talked to his manager yesterday"* (Elnaz, 2009). Later on, it was argued that, *"Our competence is going down there. I have joined Senad with the meetings [customer meetings]. He is not competent to talk on a certain level with consultants. He has three guys working for him, and since our projects take time to retrieve, there is no motivation to sell. Instead, they focus on other products and get the*

commission paid next month. The previous trade manager knew about it, but since he left, we are back at square one” (Elnaz, 2009).

4.11 Egypt and the Distributor

The discussions were held with the manager, chairman and founder (Daidalos) and the assistant manager (Maja). Initially, the discussions were held with Maja in her office, but as she was not able to answer the questions and was rather questioning our intentions with the study, Daidalos eventually let us into his office, and the interview was again pursued there. Both Daidalos and Maja were present during the interview. From the branch office, it is worth noting that the area manager for Egypt (Chandra) was simultaneously the area manager for Saudi Arabia and had been working with the market since 2007.

4.11.1 Development of the Distributor

In 2001, the same year as the distributor was established in the market, Daidalos was approached since GE was having problems with the previous agent. In 2003, the distributor began to represent GE on the market. However, the distributor was also the representative for similar products from the conglomerate as well as from other exporters. Yet, these products were used in a completely different industry and context and were not part of Impeller's portfolio. The distributor was given exclusivity on the market. Concerning exclusivity, Daidalos (2009) argued that, *"There is no conflict in Egypt when it comes to brands; there are no companies like us..."* Moreover he argued concerning one of GE's greatest competitors in the market that they have, *"...4-5 representatives in Egypt and they are killing themselves. In fairs, all are represented. They are killing themselves when all are tendering"* (Daidalos 2009).

The distributor is a family-run company, and the firm is dedicated to business that is directly related to related products or those similar to GE. They have other equivalent products to those of GE's that do not compete, but fulfill other application areas. These products are to some extent from the conglomerate to which Impeller belongs, enabling the possibility of offering product-packages to customers. However, both Chandra and Jocke argued that the distributor acted as a commission agent for those products. Chandra also mentioned that sales for one of the conglomerates' other products were estimated to be around four to five times more than the sales of GE products. According to Daidalos, the distributor focuses on two segments, namely, infrastructural build-up in which specifically GE products are used and in an industrial context where similar products to GE's are used but with a different purpose (See Appendix 4 for the number of brands represented by the distributor).

Daidalos (2009) argued that, *“there are two different schools of distributorship with regards to products similar to GE. Either you are a showroom, off the shelf agent, or you deal with projects. You are one or the other, but you cannot be both”*. The latter school of thought was the type of business, in which Daidalos considered his firm to be engaged. The distributor dedicated ten employees to working with the brand of which three were working in the workshop performing repairs and service. However, the distributor’s organization was considered to be vague by the former expatriate, Jocke (2009) explaining that, *“The distributor is a pure GE-related product sales firm and they are good in that sense. But they have a messy organization, and they have no real development.”* According to the distributor, approximately 90 percent of its GE business is located in Cairo where it also has its main office. Apart from that location, the firm also has a representative office in the second largest city (Alexandria) in the market. Yet the latter office was not (at the time of this study) actively pursuing sales of GE products. However, Daidalos argued that it was still under consideration.

It was pointed out by Daidalos that they are not interested in broadening the portfolio with diverging products, which would dilute the current core business of being in line with GE related products. According to the distributor, GE products constitute a rather large part of the distributor’s turnover relative to other represented products.

The employee turnover is not high according to Daidalos, a situation that has, therefore, guaranteed long-standing customer relations. If increased personnel is needed, the strategy is to employ *“...people preferably with experience”* (Daidalos 2009). Considering the risks it was argued that problems can occur with regard to the local currency, delays in end-customer payments’ affecting payments to GE, and there is an extensive use of unconditional payments where customers might withdraw without notice. Moreover, the high investments that the distributor has been forced to make in facilities are regarded as putting the distributor at risk.

In general, indications were gathered from customers, the distributor, and the branch office that the market is a rather complex one to handle compared to others in the region. Daidalos referred to the market as a game of ‘Russian Roulette’, since one never knows what the competitors are offering, and as soon as one is playing, technicalities are not important. It will all come down to price. Therefore, the distributor does not even consider approaching some customers since they believe that they would not stand a chance with them. Most of the current sales are done with the

municipality, and Daidalos acknowledges that the government is struggling with infrastructure needs and, therefore, trying to increase development. Although the municipality still is one of the strongest segments, its sales growth when compared to the private sector has actually decreased. GE previously had a unique status in the market, where a higher price could be demanded. However, according to Daidalos this same policy does not work in Egypt anymore and price, therefore, becomes an obstacle.

Cost reductions from the Impeller side have been undertaken, and the distributor feels that today they have the possibility to engage in high-class large projects. Although the GE brand is considered to be one of the best, the presence of strong competitors is shedding light on the price aspect. With regard to price, a contractor mentioned that at a first glance, there is a large difference between the price of the brand and the price of its main competitors, and yet only a minor difference when quality and performance are calculated as well. Other factors, such as maintenance, warranty, and quality, also come into consideration, and it is not only about “killing the price”. A customer who has been doing business with the distributor for six years and dealing with the same sales engineer expressed his trust toward the sales engineer, since the customer sometimes relied greatly on the sales engineer who chooses products without the customer really knowing why.

4.11.2 Relational Development and an Opposing View of Competence

The distributor was confronted during the mid-2000th decade to try and increase both commitment and sales in the market. According to the branch office, that pressure led to an increased effort by the distributor and thus increased sales in the market. However there were indications of certain coincidences between the two parties, which then led to a lack of trust on the distributor side. Jocke (2009) revealed that, “*Daidalos seems like a driving force, but during a period, the market was handled really badly. The distributor lost confidence in the branch office. I don’t really remember.*” Since the negotiations that took place the branch office indicated that the distributor continuously has to be pushed and challenged. Daidalos was believed to be rather protective and also ambiguous about customer visits from the branch office.

In 2004 the branch office requested double sales by 2007, which was considered a tough target by the distributor, and both parties were told to cooperate to achieve the target. The performance eventually took off, and in four years it almost tripled. Albeit the sales success did occur during

this period, the branch office was not able to convince the distributors that the same positive trend could be maintained, and thus the target for 2008 was set at a slightly lower level than that for sales in 2007. It was set in order to ensure that the increase in sales was not simply a coincidence. Size-wise the market is believed to have much more potential than what was delivered by the distributor at the moment, and the branch office believes that the Egyptian market should be equivalent to the largest markets in the region. However, with regard to knowledge about the market, the branch office did declare its frustration concerning the possibility to evaluate the distributor's commitment. One of the main differentiating characteristics of the distributor in Egypt compared to other distributors in the ME is technical skills in GE-products, where they are almost seen as self-standing. This level of competence is acknowledged both by the branch office and the distributor.

Except for Jocke, other information concerning the developments in Egypt (as well as in Qatar) and the distributor from Impeller HQs was very limited although it was asked for. When asked about the distributor in Egypt, HQs could only give sales figures for the last 6 years. Otherwise Gwyneth mentioned that the market was not really developed, and that it was juvenile. When asked about whether the distributor in Egypt had been informed about the new strategic focus and their possibilities of engaging them, Gwyneth (2009) replied, *"Egypt, I am not close enough."*

The branch office handles very few technical matters for the distributor, and Daidalos (2009) argued that the branch office supports, *"...mainly commercial issues, very little technical."* and further declared that the chance of bringing up a technical matter with the branch office is, *"...one in a thousand"*. The office has set up performance tools for the distributor according to Daidalos (2009), which *"...they are entitled to"*. The branch office is only considered as a medium between the HQs/factory and the distributor. At the moment, the distributor does not consider there is a need of support. When asked if he would want support focused upon the market, Daidalos (2009) answered, *"No. No need for technical support, it is good...GE is needed for tuning of prices, which is decided at the factory in Scandinavia, and there is also support needed in payment terms."* From the distributor's perspective this is seen as a problem since the information changes during its path if it is mediated through the branch office, and they do not see the branch office being more technically knowledgeable than themselves. Even concerning pricing, Daidalos (2009) referred to the problems with the branch office, such as *"This takes*

time. We have been waiting for completing a tender. We had a problem with control panels, and we were waiting for two months.”

An aspect that relates to Daidalos is that he often referred to the factory for GE products in Scandinavia rather than to Impeller HQs. He mentions concerned weaknesses, for example, *“Field service is missing. The factory used to have a spare parts specialist, but now they don’t. Nobody is coming from Scandinavia giving us training. The factory should have somebody available”* (Daidalos 2009).

From the branch office, Chandra (2009) argued that *“We will only be on top when we are more active with them. In Egypt we need to push the distributor. They are not a big company and maybe they are happy with what they are doing, so we always have to push them. Egypt is very focused on GE- related products...We have to work with them”* (Chandra 2009). The latest business plan assembled by Chandra stated that the branch office had limited strength and expertise and there were monitoring and control difficulties concerning the activities in the market. Yet it was acknowledged that the strength in the market was that the local partner was strong.

From a distributor’s perspective, they have tried to influence the branch office to redirect strategically towards a segment of product that the distributor believes is saleable and marketable. *“GE’s strongest point is in its big products, and we have tried to convince them to compare this part of the business to others on the market”* (Daidalos 2009).

Moreover, with regard to pricing and the role of GE, Daidalos (2009) argued that, *“GE used to have a unique ‘If you want GE, you pay more’. This policy does not work here. GE has changed this view, and they have done cost reductions and tried to source. Now they have the possibility to compete for higher class big jobs.”*

With regard to the strategic changes within Impeller, Daidalos (2009) argued that they *“have not been introduced to the three brands and are not sure what the strategy of Impeller is”*. Further on, Daidalos argued that he would like to know, if they were confronted with a situation where they were asked to sell these three brands, how Impeller would want them to approach customers, and furthermore, if it would be possible to train GE sales engineers to handle system sales. *“I don’t know”* was the comment (Daidalos 2009). Finally, Daidalos (2009) declared clearly, *“We are a GE product- related company! We are associated with GE- related products!”* Maja

declared that she had previously been working with another company that had another of the Impeller brands in their product portfolio, but there were no sales for those products.

Considering the business plans being set up by the branch office, the distributor acknowledges that this is something with which they have not really been involved over the past eight years. *“The office started to get involved. Yet, they have not really been involved during the past eight years. If they only read books and then try to help out, it is not really considered to be helpful. No thanks”* (Daidalos 2009)! Yet, when targets were set up, it has always been done face to face and not reported purely on paper to the distributor. Daidalos (2009) also argued that, *“In 2004, GE asked for double sales in 2007. It was tough, but we took the challenge, but also GE had to give in.”* It was indicated that the reporting was previously done on a monthly basis, but currently it occurred every three months.

Daidalos also mentions the lack of physical presence and training given to customer, referring to consultants by Daidalos, either in the market or by bringing them to the factory in Scandinavia. He further argued that, *“Impeller has the tools to keep the strength running and simply providing a CD is not enough...We have asked for this support, and it is all about keeping the momentum going”* (Daidalos 2009). This training not only increases knowledge, but was argued by Daidalos that it somewhat indoctrinated the consultants and had a positive effect on business. Furthermore, a specialist from Scandinavia to give distributor employees training was missing and requested from the distributor. Daidalos also welcomed the change in management at the branch office, and recognized that new management can make new better things happen.

4.12 Saudi Arabia and the Distributor

Due to the difficulties of obtaining a visa to this market, it was unfortunately difficult to travel to the distributor and have a discussion at its facilities. Instead a telephone interview was settled on with the product manager (Latif) in order to pursue an interview on the latest distributor-relationship from a branch office perspective.

4.12.1 The Initiation Process

GE had a previous distributor in this market. However, regarding the reasons for moving out of the previous distributorship, Dan (2009) from HQs argued that *“We were simply not pleased with the volume-development. That is always a continuously proceeding conflict. The local distributor can have GE-products and something else. We really want him to commit the resources that are needed in order to increase our business. We are pretty tough toward them [distributors] when it comes to our demands and that we want to see growth in the market where they represent us.”*

Similar HQ views were also presented by Funck (2009), explaining that the shift from the previous distributor to the new one was, *“...actually made in Paris under very secretive conditions. It was a distributor to one of our larger competitors, and they met on neutral ground. Perhaps that has been one of the success factors. The success has been very good. The market has been very positive if one may say that.”*

From a distributor perspective Latif (2009) argued that, *“First of all, maybe you know that GE was present in the market since the seventies, being almost 30 years. To be frank with you, I believe that GE has not been satisfied with their sales during this time. Maybe it was a wrong choice for GE to be represented by them [prior distributor] for the whole of Saudi Arabia. Because as I mentioned before, our core business is in this field [similar to the business of Impeller]. Maybe the other [prior distributor] was interested in other business types...I believe GE has a strong and well-known name in the market, but maybe there was no attention to that previously.”*

On the other hand, the distributor also had to invoke changes to its trading division. Latif argues that the fact they were moving from one competitor (KLM) to the other was not considered as an easy change. Latif argues that due to the fact that the relationship was not good with KLM, they decided to represent GE instead. The consequence of that was that they instead chose to try to represent a product with a better reputation in the market which helped them when turning toward

customers. From a branch office perspective, the distributor is seen as determined to succeed by moving on and representing a higher quality brand.

From the branch office, it was argued that the previous 15- year long experience within the GE-product business gave the distributor extensive technical capabilities and knowledge of the market. Yet, there was some confusion at the branch office regarding the reasons behind the break- up. When Chandra (2009) was asked about the reasons behind the termination between the competitor and the distributor, he explained that *“No, I do not know the reason exactly. You will maybe not get the real reason if you ask them. What I have understood is that KLM did not have the intention to change. Maybe they would have changed to go directly towards direct business.”*

The agreement between the distributor and Impeller was initiated at the end of 2005.

4.12.2 Distributor Capabilities

The distributor is a large conglomerate and has been operating for over 50 years. It has seven different divisions of which one is the trading corporation that handles the sales of GE products and has an entire focus within the same field as Impeller (See Appendix 5 and Appendix 6). Among its many divisions, the distributor also has a contracting division that utilizes the products from the trading division. The distributor geographically covers the majority of the large market, and in total, eleven regional branches cover the market. The trading corporation has around 300 employees of which 35 are sales engineers who handle the sales of GE products. There is a product manager (Latif) in charge.

The new trading corporation had previously been a representing a competing brand (KLM) for over 15 years. However, the firm as a whole still has connections with KLM. As Chandra (2009) explains, *“...the distributor also has an assembly plant in collaboration with KLM but it is not related to the trading corporations business. Now they [the trading corporation] are only selling GE. I feel that somehow they are very dedicated that they can beat KLM and they will show that they can achieve more with GE. They have maybe taken it as a challenge.”*

The trading corporation within the distributor handles the sales for four additional product groups, which can be combined in packages together with GE products. During the last 20 years, as it was argued by Latif, the distributor built up a strong reputation in the market with regard to their ability to supply and provide total solutions. Yet Latif mostly associated these solutions to the ability of combining various GE-related products. Latif argued that the trend is to sell

packages and systems to customers. This trend also helps the distributor with regard to pricing because packages and systems allow more room for elaboration on margins. However single product sales are still very common according to Latif.

Latif argued that the trading corporation targets consultants for sales of the brand. Collaborative discussions are held with these consultants where the representatives of the trading corporation help the consultants make proper selections. These are made through high risk calculations and analysis, which is something unique for the distributor as these are done free of charge and according to them not performed by any other representative. Moreover it is argued by the distributor that the niche segment related to GE-sales which the branch office is trying to push into the region is considered to have a huge potential in Saudi Arabia. They have taken the products on board, and they believe they can achieve record sales this year.

When considering the distributor's perception of risk, Latif mentions that the price of oil is the major risk, because it affects the government budget for any infrastructure developments. Currently, the trading corporation only sees the major Western competitors to GE as the main supplier of products to this market. *"We are afraid, and it is a threat to us if this would be changed in the future, and they open the door to other low quality products"* (Latif 2009).

Chandra argued that the distributor set-up as a whole is unique for the market, and there is no other distributor with the same capabilities and product-portfolio. The capabilities are seen as a major advantage because not only can all the products used in a system or portfolio be purchased from one supplier, but the distributor's sales engineers can also identify the opportunities for all of Impeller's products when visiting customers in the market. Furthermore, the contracting division has the possibility of purchasing Impeller's products. However, due to the need to keep costs down and in line with the situation in Qatar, the contracting division can bring in other competitors for tendering. Among those competitive products, KLM was mentioned, with which the distributor still has a JV assembly plant.

Due to the distributor's extensive history within the field of business, Latif estimated that since the government policies with regard to privatization were changed in 2005-2006, it would be a "must" to stay in the forefront of the market. This goal had been declared for the branch office, and this act was perceived by the latter as a declaration of the distributor's commitment. The distributor's vision was seen by the branch office as a force that ran straight through the

distributor's organization. Chandra (2009) proclaimed that, *"The last time when I was talking to the owner [for the entire distributing firm], he was very clear that in 2005-2006 that the government policies were going to change in this sector. The distributor had plans and realized that the one in the top in the coming 3-4 years will be the leader for the next 10-15 years. Therefore, they had to take actions now, otherwise they would be out. In both Saudi Arabia and Egypt, in the last 3-4 years the policies have changed, and investment has changed. The governments have changed their thinking with regard to privatization. Therefore, it is the vision of the leader or the distributor...the top person has to present a message."*

4.12.3 Relational Development

The branch office representative has been working with the distributor for one year and visited their head office a few times and yet not being able to truly interact with customers. Chandra (2009) argues that, *"...with Saudi Arabia I have been working for one year. I have been there three times, for one or two days. Then I do not think there is sufficient time to interact with the customer. I have met big customers like the Ministry of XYZ, who controls everything in Saudi Arabia. They are a major customer there for us and the distributor, but the customers are working closer with them, maybe on a daily basis. But we should be there more. Still, we cannot accommodate."*

After terminating the contract with the previous distributor, the sales targets for the new distributor have always been exceeded. This result has to do with the efforts and capacities of the distributor, and also the uncertain and careful stand of the branch office. *"For Saudi Arabia they [the new distributor] have always exceeded after the old distributor. But we have also been a bit conservative in setting up their targets. They have much more capacity. They did 8, so we expected 9-10. Yet from 5.6 to 8 is a 40 percent jump, so they do not want to commit to more than that. So 8 will be our official goal. But they do say that they will achieve more than that"* (Chandra 2009).

With regard to influencing the distributor, Chandra (2009) mentioned that, *"We can influence it to a certain extent. We have to come up with information and demonstrate potentials. We cannot just say that the market is 10, as this does not convince them. Is it 10? We have to prove this with figures and facts, so we need more information and more market intelligence. If KLM is doing 10, we are doing 2. For this you need to have time or sources to be able to do this."* When looking

into the recent business plan for Saudi Arabia, assembled by Chandra, it stated that the branch office had limited strength and expertise, similar to that stated for Egypt.

GE is believed by the branch office to have a substantial market share presently in Saudi Arabia and also a relatively large share of the trading corporation's turnover. The privatization programs in place have created a vast number of business possibilities, and although the financial crisis has hit the business, the investment programs appear to ensure that the business is not going to be severely affected. Furthermore, Latif argued that the two main competitors (KLM and NOP) were believed to have problems.

However, another competitor has entered the market with a range of very competitive products and a low pricing strategy, thus creating some difficulties. The pricing of GE is becoming a major problem according to Latif, not only because of the increased high quality competition, but also due to the fact that the distributor feels that price negotiations with the branch office have to be made for every order which is placed. Concerning pricing issues, the branch office is considered to be helpful and cooperative, but continuous discussions about discounts is time consuming and require a lot of effort. Latif (2009) argued that, *"The guys [the branch office] are doing their best, but maybe the volume of the business is getting bigger and bigger, and everybody is a bit overloaded. But for us in the market, our main factor of success was the first response. Sometimes we get business just because of our first response...other than that, we need more attention paid to the market in terms of people visiting from the head office. I believe from the time we started working with GE, nobody from management there has visited the area. Of course, the mentality of the locals here is that they like to be visited by people from the head office in Scandinavia. They are interested in that. They like it when foreigners come and visit them."*

The performance and will of the distributor is highly valued. However according to the branch office representative, the branch office has to become more developed and organized. Chandra (2009) mentioned that, *"Saudi Arabia will go strong. We have a good set-up, a good distributor. But the only thing is that internally we have to be more organized. So that is the only concern with the market. They are very demanding. If a distributor from another country expects same-day clarification or in 2-3 days, then that is not justified. But the distributor in Saudi Arabia expects that they should be given preference since they are delivering. We will only be on top when we are more active with them."* Yet, the success of the relation is also described by

Chandra (2009) stating that *“Well our product is good and we have matched it well with our distributor also, and they are hungry”*. Later on Chandra (2009) also argues that, *“Having an office here [branch office in the region] has increased a lot of interaction with them.”*

The distributor stated they have a high level of cooperation with the branch office and also with the value-center, which has led to the current success. Latif (2009) stated, *“When we started with GE at the end of 2005, the first year was very surprising for all of us because it was in the beginning of the boom in the market, so we reached x in sales. This was only at the start, and we had just started to know each other, just studying everything. The second year was excellent. We doubled sales, and this year has extremely high sales...Of course this was all because of GE and our efforts combined together. We have a high level of co-operation with everybody, including the branch office and the guys at the head office and at the factory”*.

From the viewpoint of the trading corporation, the coming three years are seen as being a very important time for both Impeller and the distributor and where the parties need to work together in order to get as much as possible from this market. At the beginning of every year, the branch office and the distributor meet to have sales review meetings where the business plan is settled on, and the actions for how to reach the sales targets are set. The market is studied and estimated by the distributor every year, and an agreement is made of what market share to reach. Due to the size of the distributor, it is estimated that the possibilities of estimating the market size are good since every region collects project enquiries which are then summed up to provide a relatively secure figure for total market size. As the market is booming and the distributor is constantly over targeting, Latif perceives these negotiations as very smooth and not very tough, and he further expressed that everybody leaves the negotiations happy.

At Impeller HQs, Gwyneth (2009) emphasized there was total dependence on the distributor, arguing that, *“In Saudi Arabia we have relied very much upon a distributor who has got fantastic (emphasized) relationships in the country, and they have been incredibly successful (emphasized) and we have no complaint with them whatsoever. They have invested people in certain segments, keen to take on new segments, sister companies who are process contractors, but we need to be a little bit mindful of competing with our customers again, because they are, one of the distributors that have far more capability. However, they want the products that we have, and they actually want us to be able to package more of the systems together. But then again, how that fits with*

their sister company is an interesting aspect we need to test. But then our other products lie within the value center. The distributor is wanting to bring those into their portfolio, so they are hungry, but we do need to go through an assessment of whether/or not the particular group is purely looking at it from an equipment supply or whether they want to go in from the broader scope.” The distributor is acknowledged to have been incredibly successful, and there are no complaints at all at the moment. In contrast to many other distributors, the capabilities of the distributor have led to a “pleasant” internal discussion at HQs regarding how many products and systems they have capabilities and knowledge to handle and bring on board in the future.

To be taken into consideration concerning the notion that the distributor as a whole can utilize competing products, Chandra (2009) mentioned that, *“The trading corporation is not selling, but their sister companies might be buying other products. But they are hiding that fact. They are saying that if KLM's offer is better, then they will go for that offer. They are contractors, and everything they are getting is from two products and if one is better priced, then they would go for that.”* Moreover, concerning the possibility of the distributor’s selling the other brands within Impeller, Chandra (2009) argued that, *“I think that if the distributors want to sell the other product, then they can do it. The trading corporation has said that they will sell one of Impeller’s main brands [besides GE products] but they are not very comfortable doing it. So maybe only when a customer asks for a package [package system], they would come to us.”* He also later mentioned that the trading corporation had identified opportunities for the other Impeller brands. The business plan for Saudi Arabia also stated that the branch office did perceive monitoring and control difficulties with the market and the distributor.

4.13 Empirical Synopsis

Table 1 - Synopsis of Empirical Data

Relationships	UAE	Qatar	Egypt	Saudi Arabia
1) Initiation	Initiated in 1971	Initiated in 1984	Initiated in 2001	Initiated in 2005/2006
2) Relational Situation	Disturbed relationship as distributor is seen to have limited administrative capabilities. There is a lack of trust in the relationship. Knowledge levels at the distributor are perceived as low, and there is a very limited will to invest in the capabilities to promote GE products.	Initially high commitment levels were perceived. A department has been created in which products can be combined with GE products. The competence levels by the sales engineers are considered to be very limited. The wages are believed to be sales oriented and perceived as limiting the commitment to GE products.	Relationship began as there was a perceived problem with the previous distributor. Thereafter the distributor perceived a lack in commitment from the branch office, as it could not support the distributor. After a while, an increase in commitment was needed from both parties to increase sales.	The relationship was begun as both parties perceived a need for the products and had had difficulties with their previous counterparts. The distributor highly values the product, and the branch office has seen sales levels not met before in the market. Sales targets were set where both parties "walked happily from the negotiations".
3) Perceived Competence Level of Distributor	Very low – The personnel are sales oriented and even if the sales engineer has very limited competence levels, he still mentioned that he might leave the distributor. This situation would result in a need to train a new sales engineer at the distributor which is already portrayed as a "training centre".	Although the branch office perceived relatively high competence levels previously, the promotion of some personnel as well as the departure of others due to a lack of managerial commitment has left the sales relationship with individual counterparts with very limited competence levels according to both the customers and branch office employees.	High competence levels of the sales employees focused on GE sales. The levels are perceived as higher than the ones found at the branch office, and the distributor argues that they would not for "one in a thousand" use approach the branch office for technical issues.	Very high competence levels, where the trading corporation is seen as being able to provide possible solutions for Impeller's entire portfolio. The distributor argues that it would not for any reasons contact the branch office for help concerning technical matters, but rather just price related issues. But even with regard to these matters, there are problems, as the distributor feels that the distributor is not prioritized although they are seen as one of the most important markets in the region.

<p>4) Perceived Competence Level of Branch Office</p>	<p>The distributor acknowledges and is completely dependent on the branch office for training, sales related and technical issues. The business would be harmed if the branch office would not involve itself in the daily activities.</p>	<p>Highly needed advice is needed, as the sales employees argue that they need help in how to sell the products. The argument depicts the lack of competence to sell a product, which needs high technical skills, and is also a sign of a limited commitment to sell the products, taking into account that wages are built on sales.</p>	<p>As a complete opposite to the previous two relationships, the manager of the distributing firm does not want to engage in technical matters with the branch office, as they are arguably very bad at what they are doing. The products are sold on the market with only some marketing support from the branch office which also is questioned.</p>	<p>Similar to the situation in Egypt, the distributor only sees the branch office as a centre that can provide marketing support and bring managers to customers in the market as a way to promote sales.</p>
<p>5) Employee Turnover handling GE Sales from Impeller's Perspective and Interest in Bringing in Products from Impeller's Portfolio</p>	<p>Very high employee turnover. The branch office has problems getting the distributor interested in retaining the employees, and therefore, Impeller has immense problems with the marketing and sales of GE products. The distributor has no interest in bringing on additional products from Impeller's portfolio. Yet, the branch office has no interest in letting the distributor represent the other products from the portfolio.</p>	<p>Employee turnover has been perceived on a managerial level. Apart from the situation in UAE, the distributor has mentioned that it is interested in representing Impeller's entire portfolio. Yet, the knowledge levels are revealed as low, as the rest of the products from Impeller's portfolio are referred to as GE-products that can be combined in packages rather than in systems. Although intentions are perceived as good, the distributor's possibilities to take on these products is not seen as possible from the branch office.</p>	<p>Very low employee turnover. The branch office perceives the knowledge levels as high at the distributor. Yet, the distributor has a completely GE product- oriented focus and does acknowledge its own lack of capabilities to take on the rest of Impeller's portfolio.</p>	<p>At the time of the study, the branch office had not perceived any turnover of personnel. On the other hand, the trading corporation consisted of 35 employees' specifically handling products similar to GE products, and the possibility for potentially taking on Impeller's other products were discussed.</p>
<p>6) Perceived Possibility for Influencing the Distributor</p>	<p>Very Limited. Although training of sales engineers is continuously needed and thus</p>	<p>Limited. Training of sales employees occurs as in UAE but not to the same extent. Linked to</p>	<p>Limited. The distributor was pushed to increase sales, which needed an increased</p>	<p>Limited. As the relationship is relatively new, both parties have seen the possibilities to</p>

	<p>influences the sales of GE products. The possibility and result of trying to pursue the distributor manager to bring on an increasing amount of GE- related products are not perceived by the branch office. Furthermore, although the branch office is situated in the market, and Mohan has been the previous sales engineer for GE products at the distributor, the branch office does not perceive itself as having good knowledge of the market and its potential.</p>	<p>the above-mentioned. The possibility of bringing on a small market offering in a terms niche segment connected to GE-sales by the branch office has not been brought on board by the distributor. Moreover the branch office has problems' ensuring that the sales engineer focuses on GE-sales. Furthermore, the branch office has very limited knowledge of the market potentials.</p>	<p>commitment by both parties. The distributor also represents other products from the conglomerate. However, there is a very limited possibility to push sales more, as the branch office does not have enough understanding of the market. The willingness by the distributor to bring on additional products from Impeller's portfolio is not prevailing as the distributor perceives themselves as a "GE-product related" firm and are self-conscious about their lack of competence to engage in such business.</p>	<p>increase the sales of GE products. The branch office, as well as Impeller HQs, sees possibilities for the distributor to possibly bring on more products from Impeller's portfolio. However whether these intentions will be implemented is still very ambiguous according to Chandra and Latif. Although the yearly target discussions are left by all parties with a "positive atmosphere", the branch office has limited capabilities to push sales of GE products as a very limited knowledge of the market currently prevails.</p>
<p>7) Fit Between the Two Parties Regarding Business Focus</p>	<p>Although the distributor was a start-up firm when becoming a representative firm for GE products, the initial commitment to GE through use of GE-personnel to increase competence and sales levels indicates a relatively good fit. Yet, as the portfolio of the distributor is currently focused on other industrial products, the fit has decreased and is currently very low.</p>	<p>The commitment of the distributor was perceived as being good 4-5 years ago, according to both parties, and although the trading department has some products that can be included in the sale package, dependence on the sales of GE- related products is very limited considering the distributor's and trading department's full capabilities.</p>	<p>With regard to GE-related matters, the fit is very good, taking into consideration the distributor's focus on GE- related products. Yet, acknowledging the current situation of Impeller and its systems approach, the fit can be perceived as decreasing, as there is no will on the part of the distributor to engage in representation of these products.</p>	<p>The distributor's trading corporation was not satisfied with the previously represented firm, and likewise, GE saw an opportunity to engage in a highly specialized firm in the business. Furthermore, due to the specialization of the distributor, business opportunities are seen from a branch office and HQ perspective in terms of the distributor bringing on products and stemming from Impeller's portfolio where "pleasant</p>

				discussions” concerning the distributor’s capabilities are held at Impeller HQs.
8) Growth of the Distributor Since Initiation of Agreement	Since the initiation of the agreement, the distributor has grown and become a firm with a well-known reputation and broad contacts in the market. The diversification of products as a precondition or consequence of growth has led the firm toward the construction market and thus away from the core business of Impeller/GE.	During the time period in which GE has been tied to the distributor, the market has experienced a boom, and the distributing firm has grown immensely to where it not only has diversified in the amount of represented products being sold on the market, but also with regard to service- related divisions.	Since the initiation of the agreement, it is difficult to estimate the growth. Yet the firm is in terms of the represented products and its expansion in the market relatively small, but still focused on GE-related products.	Prior to the establishment of the agreement, the history of the firm shows an immense growth where the expansion and the different departments are linked to the possibility of offering solutions within Impeller’s business segment.
9) Impeller HQs Understanding of the Relationship in the Specific Markets	Impeller HQs have a relatively good understanding of the relational situation with the distributor due to the historical development of the relationship and the current problems in the market.	Impeller HQs have a very limited understanding of the situation of the relationship. Jocke, who was a former expatriate at the ME branch office, is the only person who has knowledge of the distributor.	Impeller HQs have a very limited understanding (comparable to Qatar) of the situation with the distributor in the market.	Impeller HQs have a very good understanding of the dissolution of the previous distributor relationship and the settlement of the new relationship. Furthermore, as a consequence of the new settlement and the due diligence process, Impeller HQs also has a very good understanding of the distributor’s capabilities.

Source: Authors own rendering (2011)

5. Analysis

The four relationships outlined in the empirical data present different relationships in different time spans wherein the parties are perceived differently by each other. As Balzer (2004) argues, they constitute different relationship paths. Although none of the relationships had ended at the time of the data collection, they do reveal to various extents both constraints and in some cases a severe degree of frustration and perceived lack of commitment. The initial part of the analysis brings forward the aspects seen in the empirical findings and views these findings in light of the exporter-distributor literature. Thereafter, the aim is to confront the empirical findings and relate them to business network theory, strategic alliance theory and a TCA so as to bring forward (1) an increased understanding of the reasons for industrial exporter–distributor relationship deterioration and (2) the differences that can be seen when comparing that data to the exporter-distributor literature, and finally (3) add to the limited understanding of the research topic (c.f. Liesch, Welch, Welch, McGaughey, Petersen, & Lamb, 2002).

5.1 The Exporting Firm and the Distributors

5.1.1 Initiation of Agreements, Strategic Fit and Learning

The distributor relationships in UAE, Qatar, and Egypt were all settled during a sequence in time when only GE- related transactions were in focus. As an integrated system approach started to settle in at Impeller, it also affected the perspectives on new distributorships and strategic fit seen in Saudi Arabia. This strategic action also affected the perspective on the previous relationships, as the possibility of including increasing amounts of Impeller products into the portfolios of the older relationships (UAE, Qatar and Egypt) was evaluated. Although a learning process is seen in terms of the increased sophistication in the contracts with the different distributors over time, the sophistication was also a matter of the recent requirements stemming from the conglomerate HQs. Yet, the local legislation was still perceived by the branch office and some HQ employees as favoring the distributors in the markets, while the work at the branch office was not focused on comparing the specifications in contracts apart from the day to day work of trying to ensure and facilitate sales. Thus, relationship management as described by Welch, Benito, & Petersen (2007) was not only a means to try to control the distributors, but rather to secure performance levels and the activities in the different markets.

With regard to the selection of the distributors, the only relationship that was settled in a context where also the distributor simultaneously set-up operations was in UAE, although the distributor relationship in Egypt was initiated in 2001 when discussions with GE were held, but the agreement was not signed until 2003. In UAE, the initiation process followed the perspective where the distributor manager was familiar with the product from a different market and saw an opportunity for it in UAE when he established the firm there. Thus, it could be argued that the agreement was established as a means of least resistance (c.f. Ellis, 2000). Yet the other settlements in Egypt, Qatar and Saudi Arabia were settled after a previous representative firm was present in the markets and, therefore had an existing infrastructure and customer base for GE's products (c.f. Rosson & Ford, 1982; Ward, 1984; Welch, Benito, & Petersen, 2007).

The moment when the distributor relationships were settled in the region follow a path of learning orientation and an understanding of the previous relationships (c.f. Welch, Benito, & Petersen, 2007) since a perceived increased commitment from the distributors was observed from Impeller's perspective. All distributors were in the initial stages close to the time of the agreement settlement, and seen as partners who had the same business direction and orientation as the exporter (c.f. Beaujanot Q., Lockshin, & Quester, 2006; Cavusgil, Yeoh, & Mitri, 1995; Gadde, 2004). Moreover, as an additional aspect of the historical feature of acquiring knowledge concerning previous relationships, the branch office engaged in managing an increasing number of distributor relationships simultaneously, which increased the possibility to learn and compare commitment and knowledge levels. It is also important to highlight the process perspective and the argumentation from Beaujanot Q., Lockshin, and Quester (2006), Cavusgil, Yeoh, and Mitri, (1995) and Welch, Benito, & Petersen (2007) where changes in the exporting firm as seen in Impeller did affect the perspective of distributor characteristics. Due to the integration of activities at Impeller HQs, a strategic movement towards its own sales branches in foreign markets was initiated (c.f. Coughlan, 1987).

Beaujanot Q., Lockshin, and Quester (2006), Cavusgil, Yeoh, and Mitri, (1995) and Welch, Benito, and Petersen (2007) present an exporter perspective concerning the choice of a distributor. However, it is important to highlight the notion that since an industrial distributor relationship requires an increased commitment by both parties in terms of equipment and training needed (Bello & Lohtia, 1995), the choice to engage in that relationship is a dual action taken by both parties and when trust and commitment is a dual understanding. Kuhlmeier (2005),

Cavusgil, Deligonul, and Zhang (2004), Brown and Herring (1995) and Rosson (1987) highlight the need of having both trust and commitment for the relationship to function. However, first of all, the studies only take an exporter perspective, and secondly, the studies do not take into account the development of the firms in terms of their offers to market.

5.1.2 Influential Capabilities

All relations inherit the difficulties of control and the possibility of obtaining market information and market size (Gripsrud, Solberg, & Ulvnes, 2006; Bergen, Dutta, & Walker, 1992; Liesch, Welch, Welch, MCGaughey, Petersen, & Lamb, 2002), and therefore, the relationships depict different views of market performance from a branch office perspective. Thus, GE's (and possibly Impeller's) sales are dependent on exclusive distributors, as the legal environment in all cases disallows Impeller from independently handling sales. Although the legal environment plays a very important role in the reasoning and rationale for using distributors in the given markets, the possibility of being given returns depends on limited levels of fixed costs and commitment. This notion is evident, as all relationships depict phases of satisfaction from GE/Impeller's perspective and also by the possibility of being able to create synergies with the rest of the distributor's products (specifically in Saudi Arabia).(c.f. Bello & Lohtia, 1995; Eriksson, Hohenthal, & Lindbergh, 2006; Buckley & Casson, 1998; Rosson & Ford, 1982; Welch, Benito, & Petersen, 2007; Ward, 1984) The distributors handle after sales activities and the risks as illustrated from the distributors' perspective include fluctuated exchange rates and the risks of not obtaining payments from end customers as argued by Brown and Herring (1995).

Although it is argued by Brown and Herring (1995) that distributors have the ability to perform market research, train sales people, invest in promotion activities, provide technical assistance and give customers direct support due to their location in the same market as the end customers, different views are apparent in different relationships. Market research by the distributors is performed in their own interest and presented to the exporter as a means to show future targets. In the UAE as well as in Qatar, the distributors who handle sales activities have a very limited understanding of sales possibilities and opportunities. That training, given by Impeller, is a means to increase the competence level of the sales engineers, as they are perceived as having limited understanding and potentially can hurt future and current GE business . In Egypt, technical training is not requested for, as the competence level is seen as being far better than the level seen at the branch office. At the distributor in Saudi Arabia, the service of giving a tender in terms of

technically evaluating the increased possibility of enhancing efficiency for customers is given free of charge as an additional service. Training in Egypt is seen as a means to “indoctrinate” and train end customers (consultants in this case) in order to make them (and not distributor employees) familiar with the products, create comfort and increase sales. With regard to support activities, the area manager in UAE has to meet customers to ensure that they receive the right products that fit their specifications. Thus, it is a matter of day-to day involvement in activities and not just a matter of support. In Qatar, the consultants who were visited argued for Impeller to give the distributor employees training, as they could not get the direct support they needed and required.

Thus, in line with Brown’s and Herring’s (1995) argumentation, the distributors that are more knowledgeable and involved within a similar industry as GE or Impeller are in Egypt and Saudi Arabia, were able to give technical assistance and marketing- related input and were not interested in turning to the branch office for these enquiries (only for pricing assistance). On the other hand, the relationships in which more problematic atmospheres were found, as found in UAE and Qatar, demanded and requested for technical support and marketing activities from the branch office. Therefore, the same activities provided by the branch office, which were perceived as insufficient in Egypt and Saudi Arabia, were also valued in UAE and Qatar.

In Rosson’s (1987) study, where out of the 21 relationships over a 7-year period, only one was perceived as prosperous, he argues that high performance is associated with relationships where a low degree of tension and disagreement is evident. He also observes that the communicative interaction between exporters and their distributors decreased over time. Thus, it could be argued that Rosson’s (1987) argument is contradictory as increasing disagreement and tension ought to be significant in deteriorating relationships where communication does not depict a decreasing trend. The cases rather depict a different and more dual perspective of how to perceive commitment, where tension, frustration, and disagreement from an exporter perspective was seen at the branch office concerning the relationships and situation in UAE and Qatar. On the other hand, the branch office portrayed a much better situation in Egypt and Saudi Arabia where their sales, competence, and commitment levels were observed as being high. On the other hand, the depicted frustration, tension, and disagreement in these relationships with a counterpart stemmed from the distributors in Egypt and Saudi Arabia. They perceived a lack of being able to receive adequate help and response as they tried to push sales in their respective markets. Thus, the view

on trust and commitment is a relative perspective of the different business parties, and therefore, Kuhlmeier's (2005), Cavusgil's, Deligonul's, and Zhang's (2004), Brown and Herring's (1995) and Rosson's (1987) argumentation depicts the exporter perspective. Yet it is somewhat far-reaching to argue that that perspective portrays the relationship as a whole. Dissatisfaction from a distributor's perspective could be seen as a feature that portrays a healthy relationship although it might also have a negative connection to trust, when taking into account the situation in Egypt and Saudi Arabia. Thus, this notion does acknowledge Kuhlmeier's (2005) findings that trust does not have a significant influence on distributor performance.

Much of the difficulty of acting with distributors relates to separate ownerships that create split loyalties and ambiguous intentions stemming from both parties and related to the view of the distributor as a circus performer only engaged in a balancing act (Brown & Herring, 1995; Rosson, 1987; Welch, Benito, & Petersen, 2007; Bergen, Dutta, & Walker, 1992). In these cases, the legislative nature of the different markets prevents Impeller from engaging in direct sales activities and can limit the need to perform a circus act, as described earlier. However, replacement can occur if the distributors are perceived as underperforming. Thus, the split loyalties or ambiguous stemming can argued as stemming from other aspects found within the parties and their focal relationships and perhaps also from the actual nature of the activities and other relationships that settle the core competencies of their organizations. As a distributor is to a large extent a sales- oriented firm where marketing efforts will relate to the products that are the easiest to sell, a single exporter is subject to the possibility that a distributor can diverge the focus towards other products other than the exporter's own. The possibility to emphasize the sales of other products can arguably be a reason for why a distributor would portray an alternative perspective of market opportunities towards its exporters. The equipment and resources bound to different exporters are still a sunk investment for the distributors (Dent, 2008) even though all represented products might not continuously be prioritized. Yet, market information concerning the various markets is extremely difficult to obtain from the branch office perspective (Bergen, Dutta, & Walker, 1992; Gripsrud, Solberg, & Ulvnes, 2006), so it is rather the actions of the individuals within the distributors, such as the short-term sales orientation found in UAE and Qatar, that portrays both opportunities and commitment, and the information given by distributors concerning, for instance difficulties as a consequence of competitors, is highly emphasized in UAE and Qatar and are signs of sales problems. Moreover, the gathering of

information from the product manager of ABC for “how” the firm managed the process of stepping away from the distributor in UAE was gathered by the regional managing director of the branch office rather than from gathering market information from a third party (Gripsrud, Solberg, & Ulvnes, 2006). Thus, it could be argued that this notion of the distributors activities functions as a possible tool of power for the exporter rather than one for gathering market information as described by Welch, Benito, & Petersen (2007).

5.1.3 Distributor Developments

Taking into consideration the potential growth opportunities of distributors the development seen in the distributor cases, all have grown through an increase in their product portfolios (c.f. Pellegrini, 1994; Welch, Benito, & Petersen, 2007). In Qatar and in Saudi Arabia, the firms have also grown in terms of handling construction and service- related matters. These then indulge value- adding activities that relate to the creation of a service stemming from their own capabilities, such as construction divisions, rather than functioning as purely sales- oriented firms that add value in terms of after- sales service and customer assistance, as occurs in UAE or Egypt. However, the trading divisions/corporations in Qatar and Saudi Arabia handling GE sales have a sales- oriented manner. The cases depict the various paths of development of distributor portfolios that portray divergent trajectories. Where the distributor in UAE has engaged in construction equipment, the distributors trading division in Qatar has engaged in sales of a diverse number of differentiating products. The distributor in Egypt has completely focused on GE-related products within different industrial segments and the trading corporation in Saudi Arabia is currently within the same GE segment as well as partly within the same segment as Impeller’s portfolio. Thus, the cases follow Dent (2008) and his emphasis on the importance of strategic orientation and the decisions of distributors and how these are connected to day- to- day management within a distributor so as to ensure continuous cash flow when tied- up capital needs to be turned.

As Benito, Pedersen & Petersen (2005) argue, the driver for exporter alterations to distributor agreements reflects the need for reclaiming control over business activities rather than the accumulation of market knowledge. The growth of the distributor in terms of an increase in its product portfolio thus demonstrates a depiction of its strategic orientation (Dent, 2008) and is a path that derives over time. The changes and growth within GE/Impeller over time also posits the

exporter with resources (Welch & Luostarinen, 1988) and new aspects and opportunities that do not necessarily follow the same path as that of the distributors (Coughlan, 1987).

5.2 Dependence, Independence and Interdependence

Interdependence is brought to the forefront as a strong force that binds and enables business relationships to be initiated and develop between two actors or firms. A business relationship would not occur without a certain level of interdependence, as otherwise, it would not allow the acting parties to utilize the resources that are in transaction nor be able to create resources. On the other hand, to be flexible and be able to pursue the parties' own interest, a certain degree of independence is needed. Moreover, dependence could be argued to be in need of being viewed within different layers of the dyadic relationships. Benito, Pedersen and Petersen (2005) argue that changes in organizational and environmental conditions create the foundations for which predictions of foreign operation mode shifts can occur. The continuation of this analysis will bring forward different and interlinked characteristics from the three different schools of thought and refine the description by Benito, Pedersen and Petersen (2005) into an understanding revolving around the deterioration of the exporter-distributor relationship.

Keeping in mind the empirical findings and the developments of the distributors as a whole, significantly in Saudi Arabia and in Qatar, it is evident that their activities also include other activities than those solely related to re-sales activities. Thus, when referring to distributors in the present analysis, these reflections refer to the functions that relate to re-selling, and therefore, relate to the trading departments/corporations within the distributors in Saudi Arabia and Qatar if not said as otherwise. This analysis is placed under four sub-headings: Growth and Change, Effects of Growth, Dyadic Relational Development, and Influence vs. Governance. Within these four subheadings, different theoretical perspectives are used as they to a large extent do correspond to the assigned headings (see Table 2).

Table 2 - Theoretical Perspectives Based on Sub-headings

Business Network Theory	TCA	Strategic Alliance Perspective
Growth and Change	Growth and Change	
Effects of Growth		Effects of Growth
Dyadic Relational Development		Dyadic Relational Development
Influence vs. Governance	Influence vs. Governance	

Source: Authors own rendering (2011)

Business Network Theory, as described and discussed in the theoretical chapter, tries to cover all subheadings, as significantly the discussion concerning activity links, resource ties and actor bonds incorporate the aspects found in the topic headlines. In its presented theoretical framework, the TCA focuses on the individual interests of a single firm as a means to grow and also the impacts of pursuing one's own interests towards a partner through governance modes. Thus, the effects of internal growth are not focused upon, as the theory emphasizes activities taken in the present and does not take into consideration the impacts of the corresponding partner as a means of dyadic or interdependent relational development.

Therefore, the strategic alliance perspectives brought forward in the theoretical chapter focused on those aspects that give increased focus to how internal developments affect the dyadic setting. The TCA approach allows for a discussion on the interests of the focal firm, while the strategic alliance perspective broadens the picture and emphasizes the development of the dyadic partners, and their effects on the relationship and the business network approach while still emphasizing that the dyadic relational development also takes into account a more holistic perspective where networks ties as a whole will affect the development of the dyadic inter-organizational relationships.

5.2.1 Growth and Change

The contextual situation for growth for the different parties will differ in the various markets where the entrepreneurial decisions in sales- based environments are a means to grow and accumulate resources. The branch office has exclusive ties to the specific distributors in the markets, which limits the parties' possibilities for exploiting opportunities for distributors in other nation state markets and hinders Impeller in utilizing other representatives to develop sales in the local markets. Entrepreneurial activities examined as a means of changing the offering towards the market from an exporter perspective were taken at Impeller as a consequence of the integration process post the mergers made. In terms of the branch office, it focused on GE (and possibly Impeller) sales and implemented a niche segment created with regard to GE-products and viewed as an entrepreneurial activity. The distributors are subject to a situation in which purchases are made from the represented exporters and sales are made to actors in their respective markets within the nation state borders (although the distributor in UAE and Qatar saw occasional cross- border activities by other distributors taking place). Yet, the different distributors took diverging trajectories to develop their respective organizations due to the

entrepreneurial decisions taken as a consequence of the manager perspectives of their local environments (c.f. Penrose, 1959) and their interests in directing resources to develop their organizations at a lower costs than those posed on the local markets according to a TCA (Coase, 1937). This conception is evident through examining the different developments of the distributing firms in UAE, Qatar, Egypt, and Saudi Arabia where all have taken individual trajectories for growth and added representations and created increased product portfolios following the growth possibilities for distributors (Pellegrini, 1994; Welch, Benito, & Petersen, 2007). As an exporter needs distributors to reach local markets, these relationships create a network of transactional business relationships, which in and of themselves are dependent on the distributors' possibility and commitment to create transactional exchanges and ongoing relationships in the respective markets. Thus, a network perspective can give considerable insight in the growth opportunities available for the parties.

While all the distributor organisations are placed in a ME context and more specifically in their respective markets and tied to actors in the local context, the branch office as a strategic business unit (Thorelli, 1986) is located in the UAE and has a sub- network of one actor in the specific nation states. Therefore, the function of the branch office is limited to a certain number of exchange relationships that are bound to certain products (GE and potentially others within the Impeller portfolio), whereas the distributors have different and diverging sets of functions as a means to establish their relations to exporters as well as towards customer relations and opportunities in the four different markets. Håkansson and Snehota (1989) argue that an organization has access to a number of identifiable counterparts and that a certain number of resources are controlled by other actors in the network; therefore, the situation for the branch office is a possibility for the distributor to utilize its sales force to create sales, apart from the kept stock and the equipment needed after sales activities, and the systems put in place for ordering products. From the distributors' perspective, it is a matter of receiving technical and commercial support, training and the physical resources mentioned earlier. As these activities are sales oriented, the purpose is to create resources through added value towards end customers, increase knowledge levels, and ensure revenue so as to acquire an increased number of resources through an exchange (c.f. Håkansson & Snehota, 1989) between the branch office and the distributors. The possibility of acquiring resources through exchange lies in the branch office as a means of facilitating exchanges with the distributors, whereas from a distributor perspective, the purpose of

the exchange with GE is to gain support and resources that facilitate an exchange with end customers in the respective markets and create resources. Therefore, the function aspect comes into place (c.f. Håkansson & Snehota, 1995) where the distributors and the branch office view the relationship between them differently. Moreover as the branch office is in a situation where it has similar relations to different distributors, it is arguable that analogous environmental conditions will prevail concerning activities with the distributors (c.f. Håkansson & Snehota, 1995).

With regard to the distributors and the activities at stake, it is relevant to discuss several aspects of the relationships where the distributor managers have settled and committed to the relationships in terms of providing after sales set-up and ensured communication channels with the branch office and in some cases (Egypt) with the factory to facilitate sales and after sales needs. Apart from the function aspect, these cases bring forward interesting aspects regarding the substance (Håkansson & Snehota, 1995) of relationships that consist of activity links, resource ties, and actor bonds. Activity links relate to the “...sequence of acts directed towards a purpose” (Håkansson & Snehota, 1995, p. 52) where cost and effectiveness dimensions are pursued to ensure that activity interdependencies are clearly optimized. The structures of these activities are argued and become modified and adapted to by the counterparties, giving a meaning to the relationship where individuals develop routines that will ensure local efficiency. The facilitation aspect contributed by the distributor managers, regards future oriented matters as well as past oriented matters, as they do enable exchanges and the possibility of handling post- sales activities in terms of after- sales service possibilities.

Yet, in terms of the core of actually handling the sales activities that are the core of the relationship, these are handled by the distributor employees. The cases significantly in UAE and Qatar show how distributor personnel directly relate to the day- to- day activities and are exchanged because of employee turnover as a consequence of individually bound dissatisfaction, thus severely affecting the efficiency of core activities from the branch office perspective. According to Nelson and Winter (1982) routines can function as a truce mechanism to delimit the divergence interests of individuals. However, as employees that are enabling the exchange activities within the relationships are bound to the distributors, the branch office cannot enforce the fact that their interests are recognized. Therefore, the interests and commitment by both

parties to playing a vital role of interdependence can become potentially efficient locally (c.f. Nelson & Winter, 1982).

The performance of the individual firm can be argued as being dependent on the resource collection of a firm and ties to external resource providers (Håkansson & Snehota, 1995). However, both the branch office handling the relationships as well as the distributors, do not tie up a considerable amount of physical resources (the branch office has none, whereas the distributors have invested in after- sales handling possibilities and purchasing systems and can hold stock) (c.f. Bello & Lohtia, 1995), and can be argued as limiting the possibilities of the firm. Thus, as the resources are bound to activities, the relationships persist over time as long as the activities continue (c.f. Håkansson & Snehota, 1995). The perceived frustration at the branch office concerning the individuals' handling of sales related activities in specifically the UAE and Qatar depict not only the problems involved in creating sales but also a frustration in terms of having enough adequate knowledge to be able to manage sales. Therefore, the activities and the possibility to handle activities (Bello & Lohtia, 1995) and the human capital linked to specific exporter-distributor relationships could be the focus of attention from the distributor and branch office perspectives rather than due to the physical resources per se.

In a sales- related relationship with the exporter-distributor relationship and the focus on reaching sales targets in the four exporter-distributor cases, it could be argued that the economising aspect is highly important, as the actual exchanges of products create resources and the creation of resources for others becomes a priority for the party offering a ready-made product (exporter). Thus the possibility to gain from offering resources for others becomes a priority for the distributor. Considering the resource aspect of these relationships, it can be a bit problematic as the conception depends on the relative view of the partners and how these partners perceive the potential for the resources. As the relationships activate and develop resources, these are not seen as entities that are given at once, but rather offered as variables. Thus, resources from the partners in a dyadic relationship create value for others, whereas the creation and development of resources is argued as more important than economizing on resources (Håkansson & Snehota, 1995).

This notion becomes evident when Håkansson & Snehota (1995) differentiate between the various resource ties of an organization. Since a distributor can be seen as a firm whose resource

provider as well as resource user is external to the firm, the situation can become more problematic. The distributor will try to portray itself as a representative of the provider towards the end-customer as well as being more simple, as it is argued that the firm has no obvious role to play (Håkansson & Snehota, 1995). Thus, Håkansson and Snehota (1995) have difficulties outlining the importance of the shared resources in an exporter – distributor setting. While taking into consideration the employees of the distributor, the resources which are important could rather be linked to the services provided along with the finished products, which overall establish the uniqueness of the firms (c.f. Penrose, 1959). Therefore, when considering an exporter perspective and thus an Impeller perspective, the viewpoint of being an internal resource provider and having an external resource user (as exemplified by the distributors) the distributors do not have any inquiries concerning the products as such (c.f. Håkansson & Snehota, 1995), but do have diverging interests concerning the development of the complete offering and the strategic direction of Impeller in terms of not being able to deliver packages but rather becoming a systems provider. This point is exemplified by the questioning of Impeller's strategic direction by the distributors in UAE, Qatar and Egypt.

5.2.2 Dyadic Relational Development

The cases show that the distributor relationships are long lasting in terms of the institutional environment surrounding the exporters' limiting switching possibilities, their uncertainty, and any lack of capabilities. Therefore, the value of the relationships is still seen as viable although it can be argued that partners choose their collaborators freely (Johanson & Mattsson, 1987). Yet the number of known actors in terms of distributors, which are available, is limited (Welch, Benito, & Petersen, 2007). As the establishment of an agreement is a dual process, the matter of timing further comes into place as evidenced in Saudi Arabia where the joint opportunities of both parties lead to a settlement of the agreement.

In terms of the initiation of relationships, all distributor relationships were initiated as a consequence of the potential for sales (c.f. Håkansson & Snehota, 1989; Gassenheimer, Houston, & Davis, 1998; Levinthal & Fichman, 1988). Even in the currently most frustrated relationship in the UAE the initiation of the relationship was drawn from the distributor manager's previous experiences and the observed possibilities for the sales of GE products in that market. Similarly in Saudi Arabia, the possibility to engage in a relationship was seen as positive from both sides, as the distributor was not satisfied with the previous products and Impeller was not satisfied with

its previous distributor and saw a possibility for the new distributor to bring on other products from its portfolio.

Although the possibility of alternatives in terms of distributors can affect the relationship, the satisfaction aspect (c.f. Gassenheimer, Houston, & Davis, 1998) may not only be related to the possibility of viewing other actors in the network, but also seen as a means of learning (c.f. Cyert & March, 1963). The branch office perspective allows for analogous (c.f. Håkansson & Snehota, 1995) comparisons to take place as a consequence of the number of relatively equivalent distributor relationships. Thus, it could be argued that not only does the history of the relationship affect every episode (Ford, 1990) within it, but also that every relationship within the portfolio allows for comparisons to take place. Thus, the changes and actions within each relationship of the focal firm will affect the perceptions and views of the other relationships. Similarly, as the distributors are situated in a sales-oriented setting, they will have the possibility to compare and learn from each relationship that they engage in, although the resources shared and exchanges taking place will differ for each.

As a consequence of learning, actor bonds are brought forward by Håkansson and Snehota (1995). Although both actors can create a mutually acquired meaning, it is a relative perspective of the counterpart and other parties in the network. Moreover, subunits can possess separate identities concerning their activities and capabilities. In the case of the branch office being a pure service provider, it is perceived as having various degrees of competence (high in UAE and Qatar, whereas the opposite in Egypt and Saudi Arabia). Håkansson and Snehota (1995) focus on the individuals within the relationships as the creators and interpreters of the imagery of these organizations. Yet, it is important to recognize that daily interactions are handled between the branch office and the distributors and between the area managers and the sales engineers, whereas the involvement of distributor managers occurs when business plans and targets are clearly settled. Moreover, whereas the area managers and sales engineers have a relatively ongoing understanding of the current development of the counterpart, when taking into consideration the turnover of personnel, it is rather the distributor managers who have a portrayed holistic and more historical interpretation of the relational developments over time. Thus, it is important to highlight the differentiation between the individuals' handling the daily operations

and the individuals' (distributor managers) handling negotiations and facilitating resources for the relationships.

Hence, trust and commitment, as discussed by Håkansson and Snehota (1995), plays a dual role, depending on the character of the bonds at stake. Therefore, mutual orientation through trust and commitment is needed within both levels, as the daily activities need to be managed as well as the more long- term and strategic aspects. Thorelli (1986) argues that information and power might be more important than money and resources in a business network setting since the learning aspect will shed light on the on the process of managing information. Yet, power might also be linked to the effects of strategic decisions when engaging in an increased number of relationships.

From a strategic alliance perspective, the implications of the fluctuation of employees who handle the relationship from the exporter's perspective (Impeller and the branch office) and the turnover of employees' handling the day- to- day activities within the distributors indeed can depict a situation in which relational embeddedness (c.f. Gulati, 1998) is constantly in flux and where perhaps the structural aspects of embeddedness (c.f. Gulati, 1998) could have a stronger impact on the relational development. The relational cases depict the difficulties of the measurement activities as described by Gulati (1998) and also the difficulties described by the exporter-distributor relationship within the branch office. Yet, the strategic actions and commitment to the exporter's offerings are evident for branch office employees. From the distributor's perspective, the fluctuations in strategic actions from Impeller and the growth of their own product portfolios (c.f. Singh & Mitchell, 1996; Singh & Mitchell, 2005) could increase the social distance between the parties as the managerial decision-making power within the distributorship increasingly diverges from the day- to-day activities of the exporter's business as depicted by the distributors in UAE, Qatar and Egypt. Thus, in line with Gassenheimer, Houston and Davies (1998) and their argumentation, the growth of a distributor might correspond to the notion that the relative concern for others decreases and self-serving economic interest increases when an increased amount of relations are settled with exporters.

Through a strategic alliance perspective, Gulati (1998), Seabright, Levinthal & Fichman (1992), Halinen & Tähtinen (2002), Gasenheimer, Houston & Davies (1998) do recognize individual attachments and that these are the result of inter-firm historical interaction. Yet, the question

remains whether these individual attachments can hinder inter-organizational change and dissolution as a force stemming from strategic actions. Relational embeddedness ought to correspond to all individuals who are prevailing in the dyadic inter-firm relationship; yet as the distributors in the cases have grown, they also increase their relational ties. The distributor managers, therefore, have an increasing amount of influential forces to correspond to apart from the employees' handling sales for a limited number of products. Therefore it might be arguable that the structural position of those exporter relations that have a better fit to the distributor's overall portfolio of represented products could be a stronger force than the relational embeddedness as such and following Gasenheimer's, Houston's and Davies's (1998).

Connected to the above -mentioned notion concerning the possibility and willingness to represent highly reputable partners as mentioned by Stuart (2000) is the view that all distributors in the four markets were happy to represent GE-products in their respective markets. That product was perceived to be among the best in its class. If the uniqueness of the distributor is the effective use of a combination of resources and services (c.f. Penrose, 1959), it could be argued that although an exporter's products are not continuously prioritized over time by a distributor, resources in terms of know-how, products, stock, and after-sales services are most probably not going to be scrapped as they still can create value (c.f. Dyer & Singh, 1998). The question lies, however, in how changes within both firms due to entrepreneurial strategies will affect the combination possibilities over time. Although the distributors in UAE and Qatar had grown and diverged their dependence and focus away from GE-products, they still could see the potential benefits of being the local representative for that brand. It could be linked to the relative sunken costs initially made to represent the products and existing customer relations, as well as the learning period which although paid for by the branch office still reduces product turnover for a period of at least a year as the training as argued by the branch office will not produce results until this amount of time has elapsed.

From a branch office perspective, substitutability in terms of being able to supply the UAE market in which the local partner is present when acting through distributors can be difficult. Exclusivity is in place as well as the coercive legislation protecting local business. Therefore, although a distributor in the present context can present high ROI figures, giving very clear indications of the needed investment to obtain revenue and be a strong incentive to handle sales

by a potential exporter (Ping, 1995), the possibility to engage in these actions is not possible in the current settings. Thus, substitutability in terms of being able to cover the most fragile relationship in the UAE is not possible. As discussed by Xia (2011), repeated partnerships with a specific partner might be a means for increasing dependence. However, an increase in alliances with a partner must ensure that the opposing partner actually has the competencies to correspond to the following alliances as discussed above. Thus, when the actual size, scope, and resources between two firms in an alliance differ or become increasingly differentiated, the possibility for a corresponding partner to engage in an increased number of partnerships with a certain and existing partner ought to decrease. Further, although an increased number of alliances are formed with a foreign partner, it is not possible to exclude the possibility that the foreign partner will engage in other alliances both in terms of a proactive measure to take advantage of upcoming entrepreneurial possibilities (c.f. Penrose, 1959) and/or as a re-active measure to decrease dependency on exporters (Deligonul & Cavusgil, 2006).

5.2.3 Effects of Growth

As a consequence of growth, both parties (the branch office and the four distributors) have committed themselves to a number of new business relationships. The four distributors in these cases have developed in different directions and structures where the corresponding actor GE has changed from being an independent division to becoming one of four brands within Impeller, which once combined is supposed to offer increased systems solutions to the markets on a global basis. However, the focus of the branch office as an extended sales support organization is still committed to GE-sales. Being active in the relationships and the network is seen as a means to cope with change for a single firm based in a network and through creating a redundancy of relationships increased flexibility (Håkansson & Snehota, 1995) can be developed. However, that flexibility is dependent on entrepreneurial capabilities and limitations of the actor handling the relations. Moreover, if a redundancy of relations is created, it could be argued that increased levels of resources are bound to the relationships and, therefore, require that the resources stemming from existing relationships be utilized by the actors handling the relationships as a means to utilize flexibility. If both parties situated in a dyadic relationship increase the number of relationships within their relative networks, that scenario could also result in diverging interests regarding how to correspond to each other's changes. The relationships that a firm creates are

unique for every firm and, therefore the influential partners for each of the two corresponding actors will differ.

With regard to the knowledge levels concerning relationships, it could be argued that whereas the branch office has knowledge about its relationships and the recent history of them, the situation at Impeller HQs depicts that managers involved in sales- related matters have knowledge about the situation regarding the most infected relationship in the UAE as well as an awareness of the latest relationship being initiated in Saudi Arabia. This notion shows that knowledge levels concerning these relationships will differ within the organization. The IMP Project Group (1982, p. 101) argues that relationships are seen as “...one of a number of similar relationships”. This view is somewhat of a simplistic means for looking at the business network, but it has several dimensions and one is linked to the actual knowledge about all business relationships. It can be questioned, whether an organisation as a whole can actually have a full understanding of its business relationships. Connections can be drawn to Cyert & March(1963) who argue that as a means to spread decision-making, issues concerning local aspects are drawn to the sub-units; therefore, the branch office in this case, which has a limited set of problems and goals to deal with, is set to handle daily issues as a local rationality is in place. Thus, as the number of sales- related relationships are settled and increase around the world for Impeller HQs, their involvement might be argued to be sequential in terms of handling the most problematic relationships and to be involved in the “solving process” for these (c.f. Cyert & March, 1963). In the case of the ME, the previous problems in Saudi Arabia and the opportunity to engage in the new relationship as well as the deeply problematic relation in the UAE are known at Impeller HQs as opposed to the situations in Qatar and Egypt.

With regard to the implications of growth on an individual level at the distributors, the sales engineers in the UAE and Egypt that are linked to GE sales are also bound to the sale of GE products, and it ought to be in their best interest to engage in sales activities. Yet, in the case of the UAE, in contrast to Egypt, the lack of individual knowledge of the sales engineer harms GE business (thus the intrusion of the area manager in activities) and decreases the motivation of the sales engineer as acknowledged by his own confession of possibly leaving the distributor. In the cases of Saudi Arabia and Qatar, the sales personnel are simultaneously handling the sales of several products, where several exporting firms have the same individuals at the distributor as

representatives for the market. This scenario enables individual appropriation possibilities for the distributor personnel, possibly conflicting with the branch office or other exporter interests. This situation was exemplified by the situation in Qatar where re-organization had enabled increased financial responsibility by each division (including the trading department) and where the payroll for the sales engineer stemmed from the provisions for sold products. Therefore, it was perceived that the focus on sales in Qatar was based on other products rather than just GE sales since other products were easier to sell.

Thus, to view the inter-organizational routines (c.f. Nelson & Winter, 1982) as automatically creating sustainability in relationships is far reaching, as the area managers from the branch office or the exporter perspective are engaging themselves in the activities in the UAE and Qatar. They are trying to sustain the routines and priorities in their own interests. In Egypt and Saudi Arabia, involvement is not needed from the area manager, where on the other hand, the support activities are perceived as lacking by the managers at the corresponding distributors. Thus, it can be questioned how strong the active interdependencies within the single relationship truly are for the distributors as a whole, as these can be argued to constrain overall flexibility. Perhaps interdependence should only be limited to the specific relationship as such, taking into consideration the growth of the distributors seen significantly in the UAE, Qatar, and Saudi Arabia, which is given further complexity when distributor employees become increasingly responsible for marketing a number of imported products.

Taking into consideration the increased opportunities for an exporter and the growth opportunities available through an increased product portfolio (Pellegrini, 1994; Welch, Benito, & Petersen, 2007) or diversification of products (Penrose, 1959), which also can be exemplified by the developments of the distributors in all markets, it can be argued that these actions play an important role in the development of the focal exporter-distributor relationship. As accumulated strategic decisions are argued to determine the direction and the “true goal” of a firm (Quinn, Mintzberg, & James, 1988), an increased number of actors that are connected to a firm will consequently also affect the demands from these actors as they, “...will direct and pull the company to develop its products or services.”(Håkansson & Snehota, 1995, p. 133) Moreover, in accordance with Håkansson’s and Snehota’s argument (1995, pp. 136-137) that, “*The potency of the resource collection of a company depends on how it is tied into those of others. It is through*

relationships that different resources can be mobilized, made available and offered to others.”, it could be argued that the dependency of certain actors has a greater impact on distributor performance as these offer a possibility to combine resources and, therefore, increase the more efficient use of existing resources within the distributorship (c.f. Alchian & Demsetz, 1972; Penrose, 1959). Therefore, end customers, rather than exporters, could have a greater impact on development, incorporation, and the use of resources of a distributor. Thus, although resource ties to exporters can be developed early on in a distributor’s organizational development, the notion that interdependency consequently increases (Håkansson & Snehota, 1995) could be questioned, as an exporter’s products can move toward the periphery of a distributors “true goal” over time as the strategic actions are made. Even if each relationship is unique and impossible for any other actor to imitate, the same situation occurs for both firms in the focal relationship. They can have difficulties imitating other relationships in the network and, therefore, creating uniqueness (Håkansson & Snehota, 1995) and can be questioned as a determinant for performance. Thus, the relative perspective of the value of the resources and how these are used within each actor can be seen as a determining factor for the development of a relationship. Hence, the learning aspect concerning the resources (Demsetz, 1988; Håkansson & Snehota, 1995) might be important for the partners, but perhaps, learning about each other as independent organizations and activities pursued could be seen as increasingly important as these can change through the strategic activities that occur over time.

Returning to the effects of growth from an exporter perspective, the joint and believed added value of the integration process at Impeller will be difficult to achieve if the existing sales channel cannot be used efficiently (c.f. Palmatier, Miaou, & Fang, 2007). This factor can be seen in terms of the actions by Impeller HQs where an overall strategy of reducing intermediary channels as well as the reactions posed by the distributors in the UAE, Qatar and Egypt. More significantly, the consequences of the integration process posit that the partnering firms were in a situation where they were subject to the influential force of adding a new product to their portfolios. These products can compete with an existing product or not be part of the developed strategy of the corresponding distributors as described by the distributor managers in the UAE, Qatar, and Egypt who questioned the strategic focus of Impeller. Moreover, the changes imposed on a central level of Impeller are difficult for the personnel working within the branch office to foresee and proactively work with until they are set in the situation. These can be depicted by the

frustration stemming from the employees within the branch office when attached to them. The new context within Impeller also places the branch office in a new setting regarding their view of the distributors and the notion of whether these existing distributors actually do have the competence to handle the new situation (c.f. Cyert & March, 1963). Thus, a re-evaluation of existing sales channels and the distributor relationships takes place as depicted by the area managers' views of the distributors' potentials to handle an increased amount of products. The actor bonds on a managerial level are linked to the formation of strategic relations and the impacts of those relations on created alliance portfolios. Taking an Impeller perspective and taking into consideration network changes, according to Andersson and Matsson (2006), Coughlan's (1987) argumentation on the effects of changes made to business offerings by exporting firms, together with aspects of M&As as described by Cui, Calantone and Griffith (2011) and Palmatier, Miao, and Fang (2007), strategic actions and M&As not only potentially create a situation in which not only a redundancy in similar resources is created, but a circumstance that also posits the exporter in a situation in which diversification and a joint offer to the market becomes difficult to handle.

From a distributor point of view, it is important to note that the purpose or needed resources from alliances becomes increasingly specified and also narrowed into certain segments as the distributorship grows, reducing the possibility for mutual flexibility and adaptation if changes occur over time. Moreover, the aspect of what an alliance portfolio actually is ought to be highlighted, as alliances can have differentiated influential possibilities that could be argued to differ with regard to different functions and activities or the nature of the business within the respective firms (whether a distributor or an exporter). As the relational situation from a branch office perspective could be argued to be a pure business setting (c.f. Wassmer, 2010) in terms of currently focusing on the exchange of GE products as opposed to a distributor perspective towards its exporters, these relations, although constituted of a number of business relations, are situated in a corporate environment (c.f. Wassmer, 2010). Thus both acquisition and integration with regard to the offerings of a firm can affect other alliances and other functions (for instance, sales), but it does not necessarily mean that the actions are immediately linked and reconsider partner substitutability (Xia, 2011). Rather it indicates the evolving change in the strategic fit between the firms, as the actors changed from alliance formation to the moments where a change to the offerings to market occurs through, for instance, an M&A or increased product portfolio.

The distributors in the UAE, Qatar and Egypt were relatively small companies and/or start-ups when they engaged in sales concerning GE products, whereas the distributor in Saudi Arabia can be identified as an incumbent firm within the specific industry of current interest for Impeller. From an alliance perspective, Doz (1996) discusses the aspects of inertial forces and the importance of early events in the relationships for an outcome of strategic alliances. A link can also be made to Singh and Mitchell (2005) regarding the growth effects from entering collaborative relationships when collaboration with an incumbent firm results in immediate sales but could then be placed in a situation where later growth was not seen. Otherwise, an entry collaboration with a startup enterprise resulted in lower immediate sales, but it could provide a foundation for longer-term growth. A reflection and possible cause for this given outcome could be determined in terms of whether a lessened flexibility to correspond to each other's organizational changes appears when joining collaboration with an incumbent distributor. A new collaboration with an incumbent firm ought to fit a certain niche within the incumbents' offering to a market, as with the sales of GE-products in Saudi Arabia where the distributor also announced the potential possibility to combine Impeller's new offering with the existing products within the Saudi distributor's portfolio.

Impeller saw the potential possibility for the distributor in Saudi Arabia to represent other products than GE-products, and moreover that the distributor had the competence to represent the other products; the terms and agreements for the other products were not signed by the distributor. On the other hand, it could be argued that when engaging with a new and/or small distributor, that scenario offers the potential ability to affect the partner, as the partner to a larger extent is dependent on the exporter in order to survive (Dent, 2008). Further, if the distributor is relatively successful, it can also produce an increased possibility for the linked exporters to affect and influence the distributors as it provides increased possibilities for the distributor. The distributors' network in terms of dyadic relationships toward exporters is limited in contrast to a situation where a distributor is incumbent within its market. Therefore, the exporter can influence the distributor to add other products that fit the market offers of the focal exporter. However, this notion is still dependent on the distributor's entrepreneurial interest and perspectives regarding the conditions prevailing in its own market, as well as the possibility of risk mitigating activities from adding products from a diverging number of exporters (Deligonul & Cavusgil, 2006). Regarding the changes within the exporting firm in terms of its offerings to the market as

discussed previously regarding Impeller's M&As, these changes can offset the setting and the influential effects even if the distributor previously has changed its portfolio as a consequence of an exporter's previous influence where a distributor takes on products that would have complemented the distributor's and exporter's previous market offering.

In terms of the growth of the distributors and their effects on the increased portfolios and the representations of well reputed exporters' products (c.f. Stuart, 2000) for ME distributors in the empirical cases and the difficulties of acting through a foreign distributor, the study by Lavie (2007) produces interesting insights from a strategic alliance point of view that indirectly portray the possible growth path of a distributor. As a partner becomes successful and adds other partners to its portfolio, these added partners allow for increased opportunities of value appropriation among a larger number of possible product transactions, and any relative organizational dependence on the initial exporting partners in the current cases decreases. Thus, although value creations are created throughout the relationships due to sales by the distributor, the distributor simultaneously controls the information on market potentials (Gripsrud, Solberg, & Ulvnes, 2006; Ping, 1995) and thus has the possibility to play a balancing game with the exporter (Welch, Benito, & Petersen, 2007) As a consequence of relatively successful growth, that feature allows a distributor to be able to appropriate and reduce risk through a larger number of represented products (Deligonul & Cavusgil, 2006) and therefore an increased divergence of possible product exchanges in the market.

As a continuation of this reasoning, Lavie's (2007) argumentation is based on the notion that market value will decrease from an exporter's perspective as the opposing partner, the distributors in this case, gains access to more partners than the focal firm has. In a distributor setting, one could question whether the argument is actually about the number of alliances as the critical factor for decreased market value for the exporter or if the issue is actually about flexibility in terms of being able to correspond to one another's changes to the market offerings in the alliance relationship (c.f. Singh & Mitchell, 1996). As the firms change, there is a consequence of fluctuations in their relative networks as posited by the network approach and therefore the relative perspective of influential power changes.

Moreover, Lavie's (2007) discussion considers dyadic partners as whole organization, which does not prevail in the depicted cases, but rather for the branch office and its sub-network of

distributor relationships and where the distributors have their entire organizational build-ups in the four markets. However, if using the context found in the ME for the branch office, that setting becomes even more inclined, as the branch office has a limited number of products that it can offer to the prevailing markets and is situated in a situation in which it has given exclusivity to all its distributors in the local markets. Thus, an increased change and an increase in the dyadic partners' relative alliance portfolios ought to create a lock hold not only for categorizing each other within a certain niche within the product portfolios to gain access to specific resources, but also with regard to the actual strategic purpose of the relationship. This reflection can correspond to Gulati's (1998) discussion concerning path-dependent courses apart from path-creating ones, where potential changes requiring adaptation and change by the corresponding partner might be increasingly difficult over time as their relative organizations do change.

A very interesting and crucial point of interest in the presented cases is the notion that the institutional regulation, the local networks, and the exclusive contracts for a specific foreign and local context in which a distributor sets acts, is a stronger force in terms of bargaining power concerning the specific relationship rather than the relative size of the firms when comparing Impeller against the local distributors. None of the longer distributor relationships (in the UAE, Qatar and to a certain extent in Egypt - since the latter's focus is on a differentiated industrial context) presents a situation where their organizations have grown according to Impeller but have also diversified into other business fields although presenting reasonably good relational earlier periods (from a GE perspective) (c.f. Singh & Mitchell, 1996). Ghulati (1998), however, argues that firms might be locked into path-dependent courses of action when situated in alliances and also acknowledges that through an understanding of the dynamics of alliance networks, firms might be able to choose path-creation strategies. It is questionable whether the reasoning is actually about an either- or situation, but rather an understanding that certain relations are likely to evolve in a certain manner and that exporters and distributors acknowledge to accept the need for re-configuration of existing alliances. By choosing certain relationships at a specific point in time, later actions affecting the market offering which is at core in the exporter-distributor relationship will affect these. These notions are referred to in Andersson's and Matsson's (2006) conceptualization of "negative effects" as when strategic changes occur in inter-firm networks including distributors and exporters.

Lavie (2007) further brings in the notion of the possibility of a partner to create multilateral competition across its portfolio and offer the possibility to arbitrate among the partners. Considering the empirical exporter-distributor cases, the written agreements between the exporter and its distributors exclude the possibility of direct competition in terms of including direct competitors for GE at the time of the written contract. However, it is possible that indirect competition is prevailing, considering the possibility for the represented exporters of a distributor to compete for the distributor's resources in terms of actual commitment and thus appropriation capability to commercialize their specific offerings. Therefore, the influential capability from an exporter's perspective is at stake. Simultaneously, as the distributors are settled through exclusive agreements within their markets, increased competition concerning a specific product within the market occurs if a rivaling distributor initiates the representation of a competing product, for instance a GE product. Thus, an increased local competition on the local foreign market as argued by all distributor managers incites a distributor to appropriate from resources offered by the exchanges of other exporter products which it also represents. Moreover, when having an exporter's perspective, exclusivity offsets the possibility of being able to account for the benefits that Lavie (2007) suggests. However, this possibility was exemplified by Daidalos in the Egyptian market where the main competitor KLM used several distributors, and then seen as "killing themselves".

As the distributors specifically in the UAE and Qatar have grown in terms of adding a number of products and therefore representations that are not related to Impeller's current market offering, therefore also producing divergence from GE's business, resource indivisibility decreases (c.f. Dyer & Singh, 1998) between the firms limiting the possibility to correspond/react to each other's changes and, "*Although value may be generated through the partnership, there is the potential for a loss of flexibility, which should be considered at the outset.*" (Dyer & Singh, 1998, p. 673) Taking into consideration the notion that a distributor does not have patents and production facilities and further recognizing that its only entrepreneurial possibility as a pure distributing firm or trading corporation for growth, is through an increased product portfolio (Pellegrini, 1994), that also reduces distributor risk and dependence (Deligonul & Cavusgil, 2006), it is possible that the two parties avert each other over time, while taking into consideration that the possibility to respond "equally" towards all of its export ties is reduced. Moreover, the relative and different ideas and perceptions of the closest environment (Penrose,

1959; Penrose, 2008) and the network, in terms of the local markets and the actors own capabilities to act will differ from an exporter's perspective and a distributor's perspective. This reflection could also relate to the terminology of entrepreneurial resources by Penrose (2008), where the business context of a distributor is described as a purely commercial context (Pellegrini, 1994; Dent, 2008) and differs from an exporter and where it can be argued that refinement activities take place and thus changes are made to correspond to both internal processes and to external ones.

5.2.4 Influence vs. Governance

Branch office managers all argue that they do not have control of the activities and potentials in their different markets. Therefore, the relationships between the branch office and the distributors represent the boundaries of the firm as activity control is also limited (Håkansson & Snehota, 1989). On the other hand the distributors with regard to GE sales are tightly bound to their respective markets.

A TCA does account for every relationship in isolation (Håkansson & Snehota, 1995), but in the case of the exporter-distributor relationships, it could be argued that it is rather about ensuring the interests of one of the firms in the dyadic relationships rather than focusing on the transactions as such. As argued previously, the need to handle every exchange or exporter distributor relationship is important, as every relationship is unique with the partners' having diverging interests as a consequence of their own set of network connections. The interest in pursuing transaction activities for a firm (Coase, 1937) is relevant, as these are a consequence of the immediate influential powers that the focal firm is subject to as a consequence of its own ties. In terms of a distributor setting, transactions with the exporters are also activities that allow for exchanges to take place within their customer networks.

In the situation of an exporter-distributor relationship, the role of the branch office and thus the exporter in terms of resources found at the distributor addresses the distributor's possibility to handle after-sales activities as well as marketing activities. The branch office depends on the distributor to perform activities in the market. Thus, the employees of the distributor are resources on which the exporter is dependent. Idiosyncratic investments are limited in their specific relationships as such, and some, in terms of distributor employees being able to market products other than GE products, can be used for other relationships as well (Håkansson &

Snehota, 1995; Bello & Lohtia, 1995) as they can represent several exporters. In order to perform these activities, the distributor is dependent on being able to implement systems for purchase, after sales equipment, but more necessarily after training from the exporter provided without any charge by the branch office. Taking into consideration the diversification of sales activities by the distributors as a consequence of growth, idiosyncrasy towards an exporter could be argued not to be that high in the first place and then decreases as a consequence of growth. Thus it could be questioned to what extent the terms idiosyncratic and to a certain extent relation-specific investments are suitable for trying to view these resources as terminology for the symbiotic need for each other as successful organisations become decreasingly dependent on a single representation sales relationship.

The discussion above takes into consideration the dyadic relational setting, and thus, the TCA perspective could be incorporated where the training is seen as an investment for sales to take place. However, when taking into consideration the learning aspect, the possibilities to fix and accumulate these resources is not possible, as employees are not static assets. Without training, the activities could potentially damage the transactions on the local markets and result in a lessened focus placed upon sales if individual appropriation mechanisms are possible as seen in the Qatar and Saudi Arabia. Moreover, the resources required and the costs of maintaining knowledge levels significantly in the UAE are very high for the branch office (c.f. Welch, Benito, & Petersen, 2007). Taking into consideration the developments and structure of the distributors in the empirical data, together with the description of vertical integration of distributors as described by Williamson (1981) (who refers to Chandler (1977)), it could be argued that neither idiosyncratic investments nor an increase in transactions lead to internalization taking place. It could rather be argued that an increased uncertainty concerning the activities that do lead to a change in set-up relates to an unwillingness by the distributors (in Chandler's 1977 example) to invest their resources in a manufacturer's product as the offering to the market changed. This unwillingness and path is depicted in the current empirical data by the straightforward unwillingness by the distributor in Egypt, who is considered to have an organizational setting with high knowledge levels by the branch office, to change his offering to the market in line with Impeller's change and the proclamation that the Egyptian distributorship is a GE-product related organization and nothing else.

The branch office functions as a means, through its prevailing capabilities, of facilitating exchanges in the ME environment of mainly GE products. It does not have the possibilities to diverge its capabilities into areas that are prevailing for the distributors in the four different markets (c.f. Coase, 1937; Cyert & March, 1963). It is argued that a transaction cost approach has the notion of trying to pursue sustainability through governance in a dyadic relationship, apart from the business network approach, which allows for higher levels of dynamicity as it undertakes a resource heterogeneity assumption (Håkansson & Snehota, 1995). However, although the business network approach does consider and take into account the dynamic setting in which every firm is subject to its own network ties, the interests within a focal firm are built from these connections in every moment in time and, therefore, are taken into consideration when trying to pursue and affect the counterparty as a means of governance. Therefore, Knight's (1921) argumentation comes into play, as it is not the execution of an activity that is the core, but rather the function of what and how to handle these activities as the reasons for utilizing a distributor. To choose to use a distributor in the first place is due to uncertainty and the potential possibility of creating transactions in a market, while also taking into account the coercive institutional forces in the four markets. Yet, when situated in a distributor relationship, uncertainty turns into the how and what measures to take to try and ensure that the distributor acts in your interests and affects the frequency of the transactions.

The use of all governance forms does affect the powerbase where the exporter is based within (Solberg, 2006), but it does not say in what way it influences the powerbase. The cases demonstrate that the means of valuing and setting sales targets is based on a situation where the distributors and the branch office negotiate and agree upon both terms and targets. For unilateral control methods, output-based control modes can influence the performance of the distributor. However, the question is whether the influence is unilateral when taking into consideration the situation in the depicted relationships where sales targets depend on agreed targets and on information stemming from the distributors. With regard to process control, it is the context that becomes important to take into consideration. Solberg (2006, p. 98) argues that process control negatively affects the "relationship quality" where direct engagement in the "*...local marketing activity is not specially appreciated by the local middlemen*". On the other hand, in the Qatar and the UAE cases this governance form is asked or needed for as a consequence of a lack of knowledge. Therefore, it is important to differentiate between an agreed involvement and a

disagreed and potentially sensitive involvement and the perspective of each other's competence levels in order to actually make a difference. In the Egypt and Saudi cases, the branch office is perceived as a centre which would not add any value to the activities, as the competence level is perceived as being lower than the existing levels at the distributors. Thus, as the product is a complex one, handling the strategic coherence between the organizations could be considered to become increasingly important as employee turnover might not have the same level of immediate impact on the relation as seen in Egypt and Saudi Arabia. These counterparts have a knowledge base that allows for a faster possibility for handling transactions. In the case of Saudi Arabia, strategic orientation and previous collaboration with the direct competitor KLM not only positions the distributor in a situation where a large number of individuals are handling the sales of the products, but also allows for enabling the distributor to immediately create sales as a consequence of the knowledge levels of a more or less identical product. The opposite circumstance can be found in Qatar and the UAE.

As for bilateral governance mechanisms, the terminology suggests a dual setting in which trust and flexibility are seen as key characteristics. However there are opposing views. Brown & Herring (1995, p. 293) argue that control in an exporter-distributor setting stems from a “...*lack of trust in the environment*”. Trust as a means of clan control is seen in the context that is created between several individuals within the relationships. As an illustration, in the case of the UAE, the perceived takeover of the previous sales engineer (Mohan) by Impeller severely hurt the relationship as perceived by the distributor manager. On the other hand, the allowance by the distributor manager to let the previous sales engineer (the current area manager in the UAE) help the current sales engineer with sales is an indication of trust. Moreover, the current sales engineer is dependent and trusts the involvement of the previous sales engineer, as the latter is present in any sales negotiations. Yet, although there is an individually bound trust between several of the individuals in the relationship, that relationship is seen as the most problematic one. Johansson and Mattsson (1987), argue that trust rather than opportunism is a fundamental difference between the TCA and a business network approach, wherein usage and management of resources is more important than the accumulation of resources and information. However, if trust is a future oriented concept (Thorelli, 1986; Hosmer, 1995), it is questionable whether it alone can function as a governance method, as governance itself exists in the present and includes the possibility to use and manage resources. Perhaps it should be seen as a mechanism that fills in the

gaps between the parties in order to ensure the exchange activities (Deligonul & Cavusgil, 2006); further the activities are in focus, trust can help facilitate exchange, but is simultaneously also dependent upon it.

Flexibility on the other hand is argued to be a characteristic that increases export performance (Bello & Gilliland, 1997; Solberg, 2006; Bello, Chelariu, & Zhang, 2003). Yet, with regard to the exporter–distributor setting, flexibility is linked to the notion of mutual interests. Thus, as the distributors have similar interests, the possibility to correspond to each other’s inquiries does increase. In the case of the situation presented in relational cases here, the branch office does not have the possibility to adjust to distributor inquiries if these flexible adjustments regard other products than those regarding the overall portfolio of Impeller. Therefore, as the distributors correspond to their daily markets and network ties over time and increase its portfolios of relations as a consequence of growth, the exporter products become niched so as to serve a specific role within each distributor’s portfolio. When changes are inclined to occur for the offering, from Impeller’s perspective, it becomes increasingly difficult for the distributor to correspond if it has not developed in the same direction as the exporter. Perhaps this could be a reason why Gripsrud, Solberg, & Ulvnes(2006) found that information stemming from a young relationship had a positive effect on an exporter’s perceived performance, whereas in long-term relations, information stemming from the distributor had no effect.

The different dependencies, activities from the branch office perspective, and the possibility to represent the products for the distributors can help settle a divergence in the discussion concerning governance in the exporter-distributor setting. The divergence in output, process, clan, and the relational means of governance also blurs the initial setting which the TCA is based upon, as Coase (1937) and Williamson base their argumentation on the entrepreneur rather than the sales-oriented workforce, described as the individuals affecting and being affected by the governance forms. However, the governance modes discussed do vary between focusing on trying to control the management and trying to manage the day-to-day activities with which sales personnel is connected. It could be argued that whereas the exporter has control over its products and can affect the transfer of the products, the activities in the foreign market are controlled by the distributor, thus equalling the governing power and, therefore, increasing the difficulties of handling the relationship from an exporter’s perspective.

An increasing number of relationships for a distributor increase the number of influential ties to exporters with diverging interests and opportunities for the distributor. Even when a distributor has grown in the same direction, promises cannot be made concerning the inclusion of new products as a means of flexibility from a distributor perspective as seen in Saudi Arabia. The differentiation between situations in which diversion in the distributor's product portfolio starts to differ from an exporter perspective toward other market segments as opposed to a situation in which the same market segment prevails, is the notion that the influential forces from other represented exporters increases as these direct the distributor into their business interest directions. This trajectory thus lessens the reasons for flexibility towards an exporter who increasingly becomes a represented product supplier in the periphery of the core business of the distributor and lessens the incentives for flexibility.

To pursue interests and use governance mechanisms places a firm in a situation in which it gathers information. If no governance mechanisms take place, the counter or diverging interests of the other partner will be less obvious when correspondence takes place or there is a lack of feedback. Governance mechanisms could give an indication of the distributor's own strategic agenda (Peng & York, 2001; Rosson & Ford, 1982). Williamson (1979) and Williamson and Ouchi (1982, p. 352) argue that governance is a means to harmonize interests and ensure that antagonistic sub-goals are not pursued. If no opportunistic behaviour is evident, there will be "...*joint profit optimizing results*". This notion highlights a situation that is optimal for one party in its current context and, therefore, also its network ties. Yet, the context in which the two actors are acting within differs, and the distributor as a means to reach a foreign market is argued to be a FOM with low levels of control for the exporting firm (Bello, Urban, & Verhage, 1991; Roath & Sinkovics, 2006; Root, 1994; Hill, 2009). Due to the day-to day management and the need of staying flexible, decreasing dependency and the entrepreneurial opportunity to grasp opportunities in the network, explain why joint profit optimizing result in which both parties' interests are in line and where harmonization occurs is very difficult to achieve. The dyadic setting also steps away from the Simonian (1955) individual perspective of rationality (used in TCA) as it regards joint understanding and be able to explain why a distributor that has grown might not give all available market information to its exporters as it has to correspond with several other exporters in a similar setting, thereby reducing its flexibility in terms of own entrepreneurial interests. The correspondence has to be made with each exporter and with the

distributor's customers. Governance might be needed to be seen as a commitment to the relationship and as an influential force rather than simply a means to control the counterpart, which from an opposite perspective, can be perceived as opportunistic and constraining its own influential forces at hand.

Williamson's (1979, p. 251) discussion on contracts give an indication of the above-mentioned circumstance when discussing a bilateral governance situation. He acknowledges that on the one hand, both parties have an interest in sustaining a relationships as a means to avoid "*...the sacrifice of valued transaction-specific economies*", but more importantly, "*On the other hand, each party appropriates a separate profit stream and cannot be expected to accede readily to any proposal to adapt the contract*". Thus, by creating a contract, not only are binding obligations settled for both parties concerning commitment, but rather if these are not viable for both parties no agreement is settled in the first place. However, dynamics are at hand where the value of the specific transaction-specific economies can decrease as a consequence of other profit streams.

6. Concluding Remarks

The following chapter presents the concluding remarks of the study where an overarching reasoning is presented related to the research question. The findings present a nuanced picture of a difficult relationship to handle from both perspectives and gives an increased understanding concerning the deterioration of the exporter-distributor relationship. Thereafter, managerial implications present some insights which managers from both an exporter and distributor perspective can take into consideration. Further, some suggestions for future research are presented.

6.1 The Consequence of Growth on the Industrial Exporter-Distributor Relationship

The research in this study revolves around the understanding of how and why exporter distributor relationships deteriorate. The following supchapter presents the research question and thereafter follows a comprehensive reasoning in order to reveal an increased understanding for the phenomenon and give answers to how and why.

The research has been conducted as a means to give an answer to;

- How do strategic actions that affect market offerings contribute to the deterioration of industrial exporter-distributor trade relationships?

Penrose (1959) and Håkansson and Snehota(1989) propose survival and growth based on the accumulation of resources, which in the exporter-distributor setting revolves around monetary accumulation through the sale of products. Penrose (1959) also emphasizes the need for an organization to create a relatively impregnable basis from which the firm as a whole can then act in its own interests as a way to react to the surrounding and dynamic environment. Linked to this impregnable basis, Håkansson and Snehota (1989) emphasize the bargaining position which a firm as a whole creates in its network as a means that affects its possibilities to acquire resources with its counterparts. Thus, organization is viewed as an entity with entrepreneurial capabilities to use to direct its resources.

The analysis depicts a diverging picture where distributor relationships are created by the sales function at the exporting firm as a consequence of a prevailing uncertainty concerning the potentials of local nation state markets and networks and the possibility to access these potentials.

The sales function within the exporting firm is a means used to focus and specialize on marketing- related aspects and deal with managing distributor relationships, but it also limits the possibilities for engaging in entrepreneurial activities outside the scope of these specialized activities.

Thus, strategic actions affecting the overall offering to market at a corporate level (read as a whole) are not part of the activities that independently can be undertaken by a sales function as opposed to handling business relations and strategic marketing decisions that relate to already settled corporate decisions (c.f. Cyert & March, 1963).

As sales in networks are developed by sales function and made to keep distributors active in the presented local markets with local networks from an exporter perspective, the corporate and business portfolios (c.f. Wassmer, 2010) of distributors are based in the same environment. Thus, the sales function represented by the branch office has limited entrepreneurial freedom and must push the marketing offering imposed elsewhere in the organization, where changes to the market offering are taken as a consequence of developments on a much broader scale than those affecting the sales function and the distributors in a locally-bound context. Thus, it could be argued that the function and activities within a sub-department (branch office) are involved in the handling of a network of business relations that become homogeneous as these regard the facilitation of similar exchanges. In the case of local distributors, the activities and various functions within their organizations are heterogeneous. Therefore, freedom of entrepreneurial actions is the key to arguing that a redundancy of relationships increases flexibility (c.f. Håkansson & Snehota, 1995).

This finding also posits that the branch office is in a situation where new distributor partners are chosen as a means to establish the best possible strategic fit within the existing conditions prevailing and considers the exporter's offering to market. It also posits that the branch office, as an extension of the exporter's sales function, in a situation in which present comparisons are made between newly established distributor relations and earlier established distributor relationships.

In the local markets, the survival and growth of the distributors is based on the possibility for creating monetary accumulations through transactions with end customers since the transactions with exporters do impose a cost. As the corporate relationship portfolio is based in the local

environment, entrepreneurial flexibility in terms of reducing risk, reducing dependency towards exporters, or taking on prevailing opportunities is much higher and also possible. The resources developed through existing and created relationships can be used freely as opposed to the sales function perspective of an exporter.

Distributor growth through strategic actions leading to portfolio diversification increasingly niches an exporter's product within that portfolio and makes the relationship towards a single exporter more fragile in terms of being able to correspond to exporter changes in product offerings. It also constitutes the true goals and strategic agenda (c.f. Quinn, Mintzberg, & James, 1988) of the distributor as a consequence of the network within which the distributor is acting due to its uniqueness. This unique impregnable base becomes increasingly difficult to imitate as a consequence of growth through not only a strengthened bargaining position in the local network, but also the difficulties of one actor being able to influence the organization.

If the distributing firms are successful, their entrepreneurial actions correspond to opportunities within the network context and, therefore, increase the number of relationships for both exporters and customers. Thus, from a distributor perspective, not only is the relationship established with an exporter during one moment in time positioned further back in time, but also the entrepreneur or distributor manager commits to new relationships that require commitment. Also the increased number of relationships increases the relational distance (c.f. Gassenheimer, Houston, & Davis, 1998) from a managerial perspective towards a single exporter since an increased number of influential forces stemming from exporters will try to project distributor resource commitment towards their own interests.

As a result of growth, the distributor is also able to appropriate different exporter product exchanges as alternatives to focus upon and create sales, depending on the prevailing opportunities. The branch office or exporting firm, on the other hand has but one sales link to each nation state due to the specifications of the agreements, including exclusivity. Yet, even if exclusivity would be abolished, an increasing number of distributors do not allow for appropriation activities to take place for a branch office as a result of their limited scope of activities, thereby hindering engagement in a wider divergence of opportunities, rather than the facilitating of sales and marketing activities of the market offering stemming from the exporting firm as a whole.

Whereas the distributor is dependent on being able to receive products from the exporter to exchange in their own local networks, the exporter is dependent on the distributors' activities for these exchanges to occur in the first place. Therefore, governance functions are not only a means of trying to influence the distributor from an exporter perspective; governance is also an activity via the sales function that requires resources and is a commitment to individual dyadic relationships. There is an importance in facilitating and ensuring that transactions with the market are made and trying to ensure that competence levels are adequate to be able to perform transactions that do not potentially harm the exporting firm as well as ensuring a stable frequency of transactions linked to the day-to-day marketing activities. However, governance on a managerial level is also very important, as it not only reduces relational distance, but also functions as a means to influence the distributor to take strategic actions related to the current activities that are prevailing within the existing sales function of an exporter. Even if these actions cannot hinder re-evaluations of the sales relationships that take place due to corporate actions within the exporting firm, potentially posing difficult and problematic situations for the sales function and the relationship, successful influence imposes the distributor's knowledge base to prevail within a similar field as within the exporting firm. This managerial governance activity from an exporter makes the relationship between the exporter's sales function less dependent on single individuals within the distributors' organizations, where fluctuations can create severe consequences to performance levels. Therefore, these managerial governance activities act as a means to prolong and sustain the relationships.

To treat a distributor as an equivalent of your own sales or marketing department (c.f. Brown & Herring, 1995) is wrong. The exporter-distributor relationship is one constituted between two organizations with diverging network ties, both in terms of corporate and business relationship portfolios (c.f. Wassmer, 2010), which in this case can be differentiated by a corporate perspective that takes into account an organisation's whole range of inter-organizational relations. Still, a business perspective on a relationship portfolio regards the relations handled by a specific function within the organisations. Therefore, the possibility to correspond to each other's inquiries differs and depends on the context in which both the corporate and the business relationships portfolios of the organizations in the dyadic relationship are settled.

Considering the partners who are creating and managing the bonds between the organizations involved in the dyadic relationship, and the partners' possibility of affecting functional versus corporate activities is separated by the degrees of entrepreneurial freedom and the ability to be able to utilize created resources through the relationship. The relationship becomes increasingly difficult to sustain as a consequence of the divergence of growth and the size of the firms where the dispersion of influential network ties impact the elasticity of the center of gravity from which organizational entrepreneurial actions affecting market offering are made.

Thus, growth affecting and changing an organization's offering to market, leads to lessened flexibility to correspond to one partner, but does allow for corporate flexibility, so as to pursue strategic actions that can direct the resources within an organization's entire relative network, consequently imposing constraints on the existing relationships. Therefore, success through growth by both partners imposes increasing difficulties for the parties to continuously correspond to each other's' inquiries, thus deteriorating strategic fit and forcing continuous re-evaluations to take place. These effects eventually will lead to a break in trade when dyadic flexibility is brought to its brink and the interdependence or dependence on one of the partners is no longer essential for survival.

6.2 Implications for Distributors

From a distributor perspective, whether an increased product portfolio is a consequence of decreasing dependence on a limited number of exporters or as a means to take advantage of opportunities in its network, it posits the firm to an increasing number of influential actors. As commitment is needed in order to pursuit trade activities in terms of facilitating physical and human capital, and there is a need for a distributor to be able to commercialize on the investments, the distributor has to maintain viable relationships with its exporting firms which it represents. However, if the business is based upon day to day management in an uncertain trading environment, too highly promised commitments towards its exporters posit the distributor in a situation in which flexibility is limited as to correspond to market related contingencies without constraining the existing relationships and the promised obligations. Thus, for a distributor, a balancing act where neither too much or too little is promised towards exporters might be needed in order to sustain existing relationships while safeguarding itself in terms of entrepreneurial flexibility.

6.3 Implications for Exporters

Dependence in the relationship is argued to be two-sided, as the exporter is dependent on the exchange activities of the distributor, and the distributor is dependent on the exporter to be able to represent the exporter's products on the market. This implies that the exporter cannot assume that it can control the distributor. As an exporter is subject to a number of influential relationships which it corresponds to as a means to refine and readjust its offering to market, a distributor will do likewise in its network. Thus, as firms grow, they become subject to an increasing amount of influential counterparts and therefore it cannot be assumed that a sales-related relationship remains sustainable over time.

However, the reasoning above does not imply that an exporter cannot influence a distributor. Apart from influencing sales targets through negotiations and knowledge levels through training, an exporter can influence the distributor's entrepreneurial actions in terms of trying to ensure that future representations stay within a related industrial context to the exporter's present market offering. This influential action is a means to ensure that the counterparts' organizational knowledge levels are somewhat sustained within a certain industrial segment and therefore limiting the exporter's dependence upon a restricted number of individuals within the distributor. Otherwise, dependence on trade activities is fragile as employee turnover requires training to be initiated from scratch. Further, it also enhances that the distributor's entrepreneurial focus of attention is linked to a similar field as the exporter. An exporter can also try to influence a distributor to have its employees handling one brand rather than several and therefore hindering the possibility of individual appropriation mechanisms to take place.

An exporter should be cautious of the organizational developments of the distributor in terms of where the strategic agenda is heading regarding the trajectory of represented products. If the exporter's products are no longer part of a larger segment of a distributor's portfolio, it might be increasingly difficult to persuade a distributor to acknowledge or bring on increased products if changes are made within the exporter's market offering. As control is limited to the products offered to the market by the exporter, a lack of influence possibilities in terms of ensuring that the distributor commits and adapts to the exporter constitutes a decrease in an exporter's perceived performance. This leads to a situation where there is a possibility that the exporter might have to re-evaluate the relationship. If indications of decreased performance are perceived by an exporter,

an exporter should increasingly accumulate market information from third party sources. Although gathering of market information from third party sources might have a negative effect on the relationship, depending to the extent which influential pressure is settled upon the distributor, it also gives an indication of the market potential as well as an objective perspective of the distributor's actual commitment to the exporter's business in the market.

6.4 Future Research

It would be interesting if future research is conducted in order to increase understanding to how distributors engage in an increased number of inter-organizational relationships. This would also shed more light upon the distributor's decision making mechanisms for exporter product representation. Therefore it would be exciting to examine to what extent these mechanisms stem from acknowledged opportunities in the foreign distributor's local network or as a consequence of ties to exporters. Moreover, as a means to possibly strengthen the findings in this study and mitigate possible exporter bias, it would be beneficial if a study would take its starting point by examining the distributors and thereafter approach tied exporters. Further, a study in where the context is neither emerging nor legally protective of the partners could also be researched in order to study if differentiating results would be obtained than the findings revealed in this study.

The findings in this study relate to the growth and changes of market offering by exporters and distributors and how these affect relationship deterioration. It would be fruitful and insightful if the findings could be tested with a larger sample of firms. Therefore, the findings in the study could be increasingly viable in a more widespread context than the setting found in this study. Some possible propositions that could be tested include:

- Changes in exporter's market offering will have a positive deterioration effect on the exporter-distributor relationship.
- Changes in exporter's market offering will have a stronger deterioration effect on a relationship with distributors having a large product portfolio.
- An increased distributor product portfolio will have a negative effect on a single exporter's influence on the relationship.
- An increased distributor product portfolio will have a negative effect on flexibility towards a single exporter.

Theoretically, the findings propose some interesting insight which can be incorporated into internationalization theories of firms. Johansson & Vahlne (1977) as well as Johansson & Vahlne (2009) argue that foreign market knowledge increases foreign market commitment or strengthens a firm's network position. However, the findings in this study reveal that changes to market offering, forces organizations to reconsider and re-evaluate existing distributor relations and therefore their established FOMs or network ties. Thus, it would be interesting to study implications of changes to market offerings as a dynamism which might force the focal firm to change FOMs and perhaps act as a means to increase foreign market commitment and thereby by-pass certain intermediary relational ties in the firms' networks. In line with the above mentioned and connected to Johansson & Vahlne (2009) it would also be interesting to examine if influential forces of inward internationalization ties can affect the dynamism and possible circumvention of outward internationalization ties as firms through changes in their resource configurations impose effects on their market offering.

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Conducted Interviews

Impeller HQ

Dan (2009) Interview considering the value centre's current status and future development [Personal interview] Vice President & Director Sales Region EMEA (Personal Communication, February 1, 2009)

Gwyneth (2009) Interview considering the value centre's current status and future development in the ME [Personal interview] Regional Director EMEA East (Personal Communication, February 10, 2009)

Gwyneth (2009) Follow up Interview considering the value centre's current status and future development in the ME [Personal interview] Regional Director EMEA East (Personal Communication, March 31, 2009)

Funck (2009) Interview considering the value centre's current status and future development [Personal interview] Director Sales Development & Support (Personal Communication, January 19, 2009)

Dirk (2009) Interview considering the value centre's current status and future development [Personal interview] Business Unit Manager (Personal Communication, January 25, 2009)

Jocke (2009) Interview considering the early historical developments of the distributor relationships [Personal interview] Sales Development (Personal Communication, March 31, 2009)

Interviews held in order to increase understanding of the situation at HQs and product flows between manufacturing plant and distributors.

Jim (2009) Interview considering the value centre's current status and future development [Personal interview] Director Global Contracting (Personal Communication, February 10, 2009)

Manufacturing Plant (2009) Visit and Conversation considering the logistics of Impeller's products [Personal interview] Project Manager Group Logistics (Personal Communication, January 10, 2009)

UAE

Colin (2009) Interview considering the operations in the ME and future aspirations [Personal interview] Regional Managing Director (Personal Communication, February 25-March 20, 2009)

Elnaz (2009) Interview considering the operations in UAE and Qatar [Personal interview] Area Manager (Personal Communication, March 2, 2009)

Chandra (2009) Interview considering the operations in Egypt [Personal interview] Area Manager (Personal Communication, March 15, 2009)

Mohan (2009) Interview considering the operations in UAE [Personal interview] Area Manager (Personal Communication, March 5, 2009)

Khalif (2009) Interview considering Impellers current and future position on the market and the collaboration with branch office [Personal interview] Managing Director (Personal Communication, March 3, 2009)

Virre (2009) Interview considering Impellers current and future position on the market and the collaboration with branch office [Personal interview] Product Sales Manager Impeller (Personal Communication, March 3, 2009)

Shahid (2009) Interview concerning ABC's relationship with the Distributor in UAE [Phone interview] Product Manager (Personal Communication, March 16, 2009)

Construction Group UAE (2009) Conversation considering Impeller's market position [Personal interview] Senior Project Manager (Personal Communication, March 1, 2009)

Municipality UAE (2009a) Conversation considering Impeller's market position [Personal interview] Head of Maintenance (Personal Communication, February 23, 2009)

Municipality UAE (2009b) Conversation considering Impeller's market position [Personal interview] Head of Network Department (Personal Communication, February 23, 2009)

Swedish Trade Council UAE (2009) Interview considering business setups in UAE [Personal Interview] Associate - Middle East & Eastern Africa (Personal Interview, March 4, 2009)

Interviews held in order to increase understanding of the situation at the branch office both with regard to GEs products as well as to the remaining three brands within Impeller.

Branch Office ME (2009a) Interview concerning Impeller and Global Projects [Personal interview] Business Development Manager – Global Projects ME (Personal Communication, March 5, 2009)

Branch Office ME (2009b) Conversation considering the technical support of GE [Personal interview] Sales and Technical Support (Personal Communication, March 18, 2009)

Branch Office ME (2009d) Interview considering the new focus segment for GE [Personal interview] New Focus Segment Manager (Personal Communication, March 5, 2009)

Branch Office ME (2009e) Interview considering the sales and development of sales concerning one of the other brands within the Impeller portfolio in the ME [Personal interview] Sales Manager Middle East (Personal Communication, March 4, 2009)

Swedish Trade Council (2009) Interview concerning conducting business in the ME [Personal interview] Associate - Middle East & Eastern Africa (Personal Communication, March 4, 2009)

Qatar

Reza (2009) Interview considering GE's current and future position on the market and the collaboration with branch office [Personal interview] Chief Executive Officer and Chief Operating Officer (Personal Communication, March 7, 2009)

Ahmed (2009) Interview considering GE's current and future position on the market and the collaboration with branch office [Personal interview] Divisional Manager (Personal Communication, March 7, 2009)

Senad (2009) Interview considering GE's current and future position on the market and the collaboration with branch office [Personal interview] Product Sales Manager Impeller (Personal Communication, March 7, 2009)

Consulting Group Qatar (2009) Conversation considering Impeller's market position [Personal interview] Commissioning Manager, Senior Design Engineer and ICA Design Engineer (Personal Communication, March 8, 2009)

Egypt

Daidalos (2009) Interview considering Impellers current and future position on the market and the collaboration with branch office [Personal interview] Chairman (Personal Communication, March 10, 2009)

Maja (2009) Interview considering Impellers current and future position on the market and the collaboration with branch office [Personal interview] Department Manager (Personal Communication, March 10, 2009)


Construction Group Egypt (2009) Interview considering Impeller's market position [Personal interview] Chief Mechanical Engineer (Personal Communication, March 11, 2009)

Consulting Group Egypt (2009) Conversation considering Impeller's market position [Personal interview] Project manager (Personal Communication, March 11, 2009)

Saudi Arabia

Latif (2009) Interview considering Impellers current and future position on the market and the collaboration with branch office [Phone Interview] Product Manager (Personal Communication, March 18, 2009)

Appendix 1. UAE Distributor, Offered Products in 2009



Distributor A

Represented Brands L.L.C.

ABC J K

GE - Products L M

N O P

Q R S

T U V

Q R

S

Company information provided by the distributor

Appendix 2. Qatar Distributor, Prior Organizational Structure

HVAC & Plumbing Division

- HVAC Works
- Plumbing, Drainage & Fire Fighting Works
- Maintenance Contracts

Building Materials Division

- Arabian Chemicals Company – Styrofoam
- Cartonal
- Catnic

Industrial Contracting Division

- General Services
- Service Center

Mechanical & Electrical Division

- Pumps
- Pipes & Fittings
- Tiles & Sanitary ware

Fosroc Division

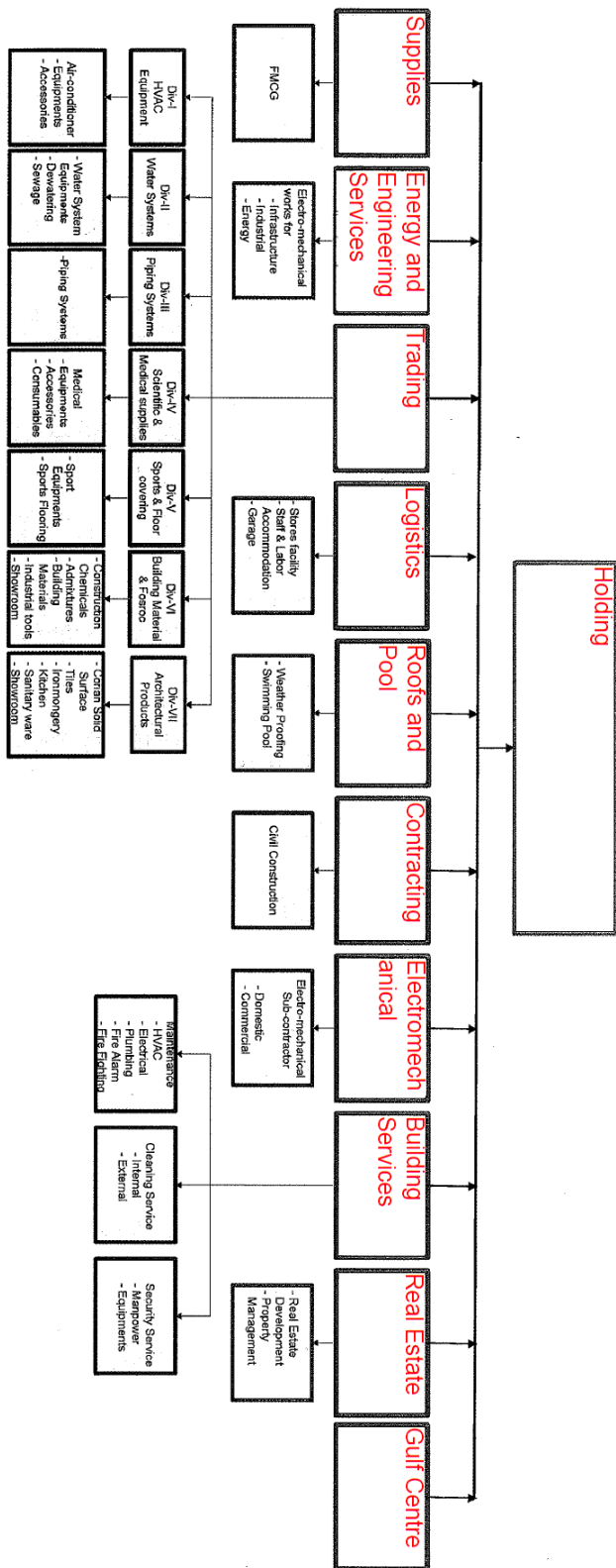
- Admixtures for concrete
- Surface Treatments for Mortar and concrete
- Grouts and Anchors

Sports & Leisure Division

- Indoor & Outdoor Sports Surfaces
- Sauna & Steam
- Artificial Grass

Company information provided by the distributor

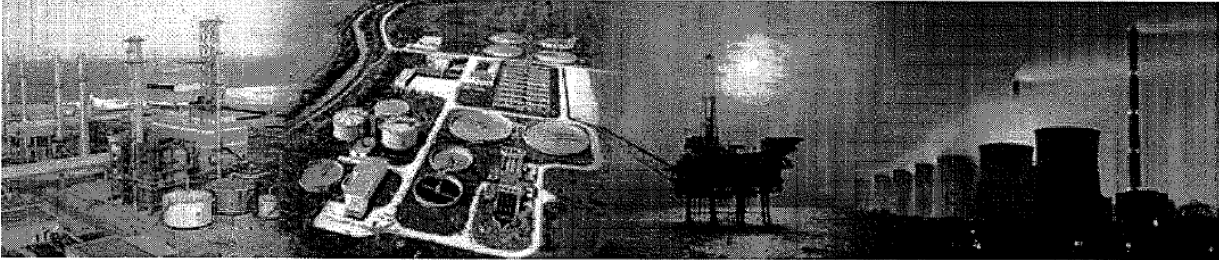
Appendix 3. Qatar Distributor, Group Organization in 2009



Company information provided by the distributor

Appendix 4. Egypt Distributor, Represented Brands

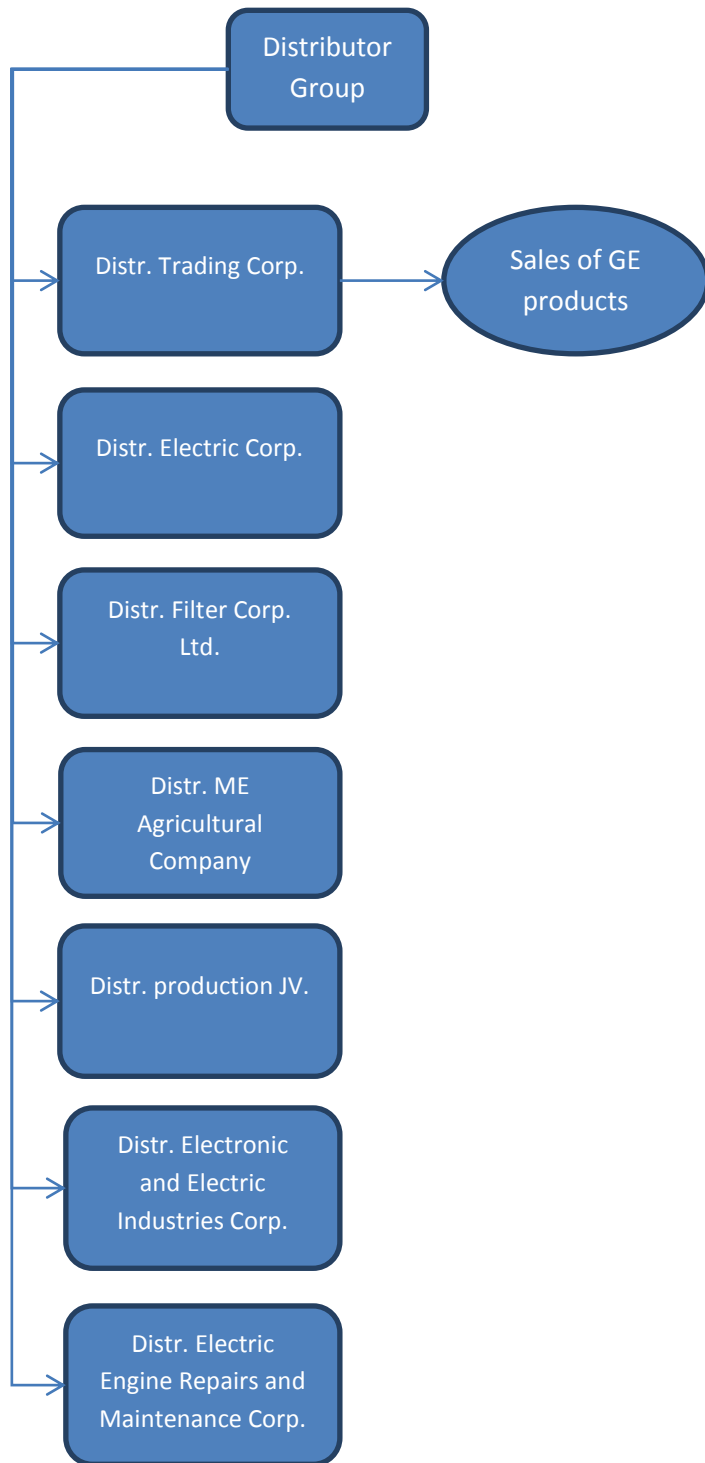
Distributor C



We represent major suppliers from the United States and Europe including: A, B, C, D, E, F, GE, H and I.

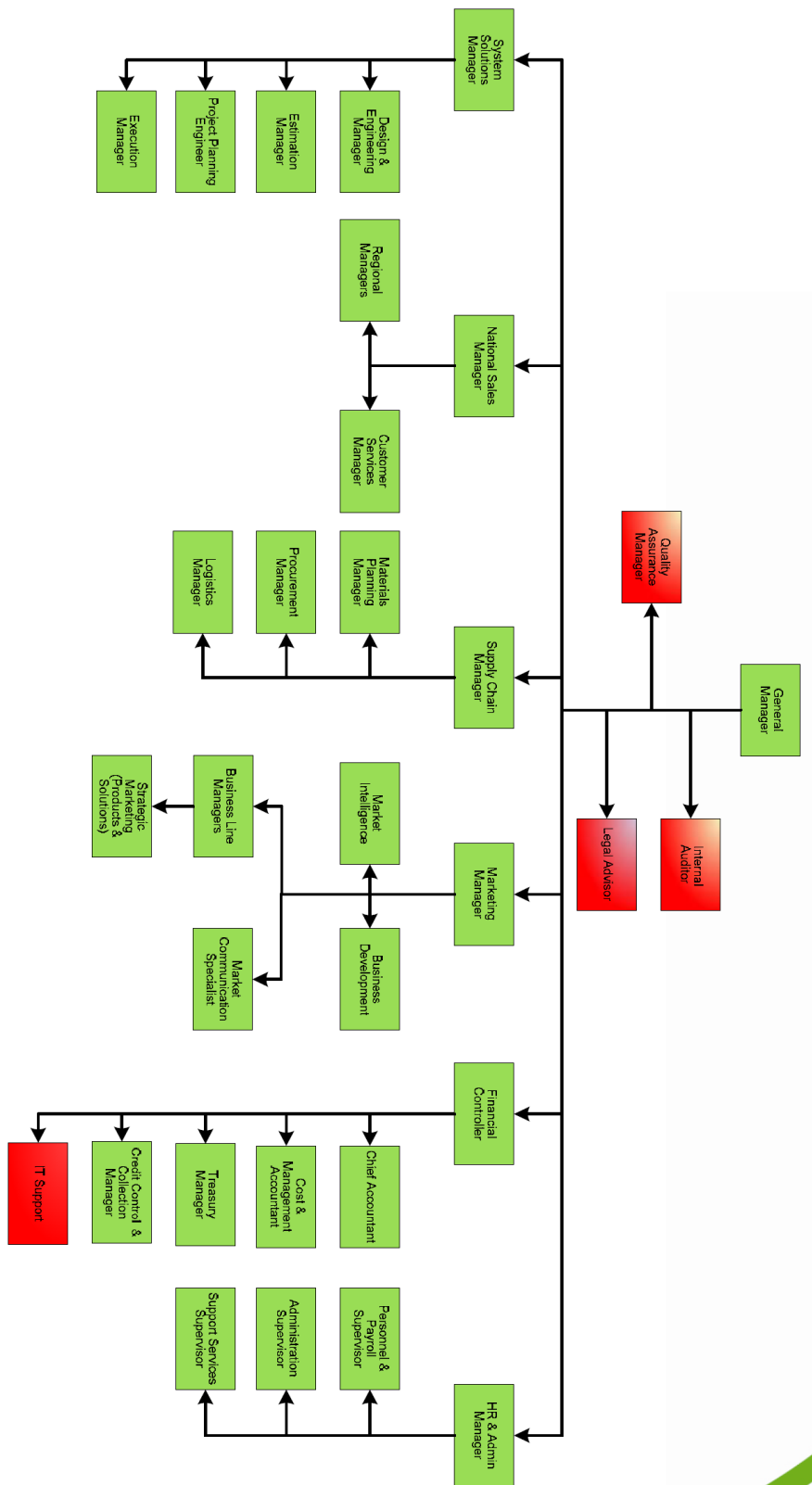
Company information provided by the distributor

Appendix 5. Saudi Arabia Distributor, Group Organization 2011



Authors Own Compilation (2011) Company information provided by the distributor

Appendix 6. Saudi Arabia Distributor, Trading Corp. Organization



Company information provided by the distributor

Appendix 7. Interview Guide - Headquarters

1. Tell us about your position and your daily concerns? What are the questions which you are dealing with?
2. How have the specific markets developed and what are their future potential and current bottlenecks?
3. With regard to the Middle East context, how has Impeller developed in the selected countries?
4. If looking upon the selected markets what strategies have been used with regard to expansion and market entry?
 - What factors have these been based upon?
 - How are these weighed toward each other?
 - Have these changed over time in the selected markets?
5. What is your perception of the distributors?
6. How would you describe the relations with the current distributors in the selected countries?
 - How have these evolved?
7. With regard to privatisation efforts within the industry within the markets, how has Impeller approached this?
8. What problems and barriers do the respective brands experience on these markets?
9. What are Impeller's experiences with regard to changing intermediaries?
 - Are there any written policies?
10. What is your experience regarding the knowledge and possibility among the distributors to handle complex products?

Appendix 8. Interview Guide - Director Global Contracting

1. Tell us about your position and your daily concerns? What are the questions which you are dealing with?
2. What is the role of the global project teams in the ME context?
3. How have the specific markets developed and what are their future potential and current bottlenecks?
4. With regard to the Middle East context, how has Impeller developed in Saudi Arabia, Egypt and UAE?
 - More specifically, how have the different brands within the portfolio developed in the region.
5. What problems and barriers do the respective brands experience on these markets?
6. With regard to privatisation efforts within the industry within the markets, how has Impeller approached this?
7. To what extent does the Global Project team cooperate with the ME branch office in UAE & to what extent are the business activities in ME dependent on the Global Project team?
8. Where is the limit drawn between the project taken over by the Global project team and the order that they go through the regional office.
9. Who handles the after sales services when a contract is signed by the contract teams?
10. What is your experience regarding the knowledge and possibility among the distributors or branch offices to handle this?
11. Who is the contact-person when after sales services are required?
12. When considering the development of global contracting and collaboration with local offices in a ME context, to what extent do global project teams collaborate with distributors?
13. How is communication handled and how does this differ with regard to communication to own subsidiaries?
14. To your knowledge, does Impeller strive to continue selling single brands with a possibility to combine the products through own distribution channels or is the goal to focus upon sub system solutions in the future?
15. What are the demands from the ME region?

Appendix 9. Interview Guide - Branch Office

1. How has the specific market developed and what are its future potential and current problems?
 - What problems and barriers does Impeller experience on the specific markets?
2. How would you describe your current situation at the branch office?
3. In the specific market context, how has Impeller developed?
4. How would you describe the relationship with the distributor?
 - How has it developed over time?
5. How do you obtain market knowledge?
6. Could you outline the strengths and weaknesses of the distributor?
7. What are the recent sales trends of Impeller in the specific market?
8. With regard to privatization taking place in the market, how have you approached this potential?
9. What is the strategy when working with the distributors and Impeller's sales/development?
10. What is the future vision of Impeller in the effort of increasing market shares?
 - How is the distributor optimizing these?
11. To what extent is the distributor aware of how and through which strategies other distributors are selling competing Impeller products and what kind of approach they have to the specific markets?
12. How does the market structure look like in the specific market?
13. What are the distributor's activities with regards to Impeller and what are the segments which they are serving?
14. To what extent is collaboration taking place with the distributor with regard to establishing and developing a business plan?
15. Are the distributors aware of the reorganization which Impeller has undergone?
16. How have the distributors perceived the transition that has occurred?
17. According to the distributors, is there any specific knowledge, competence, resource or support that is lacking from their side or from Impeller's side?

Appendix 10. Interview Guide - Distributors

1. Could you please tell us about your organisation and structure?
2. How has the specific market developed and what are the future potentials and current problems?
 - What problems and barriers does Impeller experience on the markets?
3. In the specific market context, how has Impeller developed?
4. To what extent is collaboration taking place with Impeller's Branch Office?
 - With regard to establishing and developing business plans?
5. How would you describe the relationship with GE?
6. As a distributor are you taking any risks? Would you please out-line and describe these?
7. How do you perceive the re-organisation which Impeller has undergone?
8. Can you please tell us about recent sales trends of GE on the market?
9. How is GE marketed?
10. What is your strategy when working with Impeller/GE sales/development?
11. To what extent are you aware of how and through which strategies other distributors are selling competing products and what kind of approach they have to the market?
12. How does the market structure and segments look like?
13. What are the segments, which you are serving?
14. According to you is there any specific knowledge, competence, resource or support that is missing from your or from Impeller's side?

Appendix 11. Interview Guide - Customers

1. How were you introduced to GE/Impeller?
 - Was it the brand that created awareness or was it through the distributor itself?
2. For how long have you been dealing with this distributor?
3. In general, how many other distributors do you deal with?
4. How was the relationship initiated with the current distributor?
5. When the need for the product is identified, how are the pros of the product weighed against the benefits of a specific distributor?
 - What is more important?
6. What are the most important characteristics of a reliable distributor?
7. If competing brands to Impeller approach you, what is the reasoning behind the final choice?
8. How would you describe the communication between you and the distributor?
9. Do you in any way come in direct contact with Impeller?
10. What is your perception of the value center?
11. Within your extended network, how would you describe the reputation of Impeller?
12. In general, what areas of improvement do you see?

Appendix 12. Interview Guide - ABC - Shahid – Product Manager

1. Could you please tell us about ABCs organisation and development in the ME?
2. Could you describe the development and relational process with the distributor?
3. Did you have an exclusive contract?
4. How did ABC handle the negotiations with the distributor? How were you able to convince the distributor when disengaging to the relationship?
5. How do you collect market information about the UAE market?
6. What support did the contract give you?
7. Are you aware of any other represented brand within the distributor that has gone the same process as ABC?
8. How does your current sales operation look like considering the legislature in the market?

Appendix 13. Interview Guide - Swedish Export Council - Associate Middle East & Eastern Africa

1. What can you tell us about the latest trends within the infrastructure business in UAE?
2. How has the financial crisis affected UAE?
3. How have Swedish firm normally choses to establish themselves and expand in UAE?
4. When establishing operations in UAE, in what way would you argue that the approach might have changed in the present compared to earlier?
5. How common is it to use distributors?
6. Which problems have usually aroused as a consequence of trying to move away from distributorships to other means of operations in the market?
7. If a change in operations occurs, how would you describe the process?
8. To what extent are foreign investors protected by local legislation?
9. How would you describe the development of the trade legislation in the region?