

How Western Retailers manage Relationships in Emerging Market?

A company faces the uncertainty of uncontrollable factors in both its home and foreign markets during the internationalisation process (P. Ghauri & Cateora, 2010) The knowledge of the operating environment in the target country diminishes uncertainty. Hence it is crucial to identify the factors that influence the firms' international activities. From the theoretical aspect, studies of retail internationalisation have tended to focus on a number of issues such as motives of international expansion and entry mode strategies (Brown & Burt, 1992; Dawson, 1994; Pellegrini, 1994). There is a need for a fundamental understanding of the impact of networking in the retail industry. Most network and matching studies focus on manufacturing firms in Western developed countries (Buckley & Casson, 1998; Dunning, 1981; Johanson & Vahlne, 1977) however less on retail firms in developing countries (Rogers, Ghauri, & George, 2005). The focus is on the retail sector, especially during the retail international process. In addition, previous networking concept studies focus on international expansion to United Kingdom (U. Elg, 2003), Baltic States (P. N. Ghauri & Holstius, 1996), and to Eastern European countries (Rogers, et al., 2005). The existing gap in the literature on which this research aims to focus, is to study networking concepts during the international expansion of the retail sector, mainly in the Asian emerging market. The objective of this paper is to explore how to manage relationship in emerging markets. The main research questions of this paper are:

1. How retailers manage relationships in emerging markets?
2. How retailer uses network approach to responds to customer's need?

Managing Relationships in Emerging Markets

It has been emphasised that building, developing and managing business relationships are crucial issues for western companies investing in emerging markets (Cavusgil, Ghauri, & Agarwal, 2002). Good relationships facilitate successful business entry and could sustain a long-term investment. Thus, it is enormously important for western companies to develop and manage an excellent relationship with the host country's government, local partners, suppliers, local customers or even local communities.

There are many actors involved during the internationalisation process, leading to many ways of managing relationships with various actors: 1) relationship with local governments and policy makers; 2) relationships with relocated employees who work in the

host countries; 3) relationship with local partners, distributors and suppliers; 4) relationship with local communities; and 5) relationship with local customers (Cavusgil, et al., 2002).

Local government plays an important role during the internationalisation process and has an immense influence on the way in which businesses are run. Its legislations can affect completely the organisational activities, hence managing and retaining relationships with the local government is a crucial task. There are four approaches to handling relationships with the local government; alter, avoid, ally and accede (Austin, 1990). These approaches are suggested for employing in different scenarios, according to the power of the company and the importance of the issue to the company.

Managing relationships with **relocated employees** who work in host countries has proved to be crucial for retaining a valuable workforce, and ensuring a successful relocation. Many companies face problems where relocated employees fail in duty. Cavusgil et al. (Cavusgil, et al., 2002) suggest approaches to managing the relationship with them by training both employees and their families about the culture and background of the foreign country, communicating between the head office and the subsidiary to update the company strategy and information, motivating people through proper rewards, and providing training and job prospects after their return.

Companies need to build and maintain relationships with their **local partners**, such as their joint venture partners, franchisees, local distributors, and local outsourcing companies. It is important to build a relationship with the key decision makers in the company; however, the best technique for managing relationships with the local partners is building relationship between cross-functional staff, who are able to continue the task in the event of the departure of the main contact (Cavusgil, et al., 2002).

Relationship with **local communities** could be managed through investing in human resources, supporting local sports and cultural activities, having environmental friendly policies and showing respect for the local communities' culture. The benefits from such a relationship could improve the company's image and reputation, as well as attracting more support from the actors involved. Furthermore, employees with better skills would find the firm more attractive.

It is necessary to create and manage a good relationship with the **local customers**. The company needs to listen and respond to its customers' wants and needs. The company could use strategies, such as maintaining prices, quality and reliability, showing a long-term business commitment, communicating and getting feedback from customers and adapting to the local needs.

The company should bear in mind that different cultures in different countries could be a barrier to managing relationships. Asian culture places value on personal relationships. They would not deal in business unless they have got to know their partner. Asians are very interested in doing business with individuals. They have to trust and share common interests with their partners before engaging in business activities. On the other hand, Americans tend to be interested only in the business issues. They would talk about business straightaway and be less involved in the personal relationship. Thus, it is beneficial to understand the cultural context of the target country.

Network Approach

Networking is a fundamental strategy used for managing the internationalisation of markets (U. Elg & Ghauri, 2002; U. Elg & Johansson, 1996). It involves a combination of flexibility, independence, high degree of control, and efficiency achievement. There is a high degree of risk and uncertainty during international expansion (Ford, 1980). A company could refer to a network identity as illustrated in figure 1. The company positions itself against others based on the numerous relationships existing, and this depends on the activities, actors and resources resulting from the existing relationship. As a result, each company has a relationship with its suppliers and customers, who, in turn, have their own relationships with other companies. Therefore, there are indirect relationships between all companies in the network (Ford, Gadde, & Hakansson, 1998).

It is important to recognise that companies are involved in a broad network of relationships. Therefore, a specific relationship cannot be understood in isolation. Each relationship should be reviewed in the connected network relationship context. This also includes the activity of exchange, whereby each connected company shares trust and knowledge, and depends on each other through mutual commitment. A relationship can be viewed as an asset where each party benefits from each other one. Also, the notions of learning, as well as building trust, emerge in a network relationship (Johanson & Mattsson, 1987; Johanson & Vahlne, 1977). However, the drawback is that those actors are dependent on each other.

(Insert Figure 1 here)

Network components

A network approach involves three factors: actors, resources and activities (Ford, et al., 1998; Johanson & Mattsson, 1987). The relationship existing between those factors could facilitate integration into a new market as well as enable the building of benchmarks. A relationship is developed in three stages (Anderson, Hakansson, & Johanson, 1994); firstly, only two

individuals are involved in the relationship. At the second stage, each individual has their own relationship with the external party and, similarly, each external party has their own relationship with the other external ones. Finally, at the third stage, a market structure is created; showing how each actor is interrelated. Ghauri and Prasad (P.N. Ghauri & Prasad, 1995) argue that a network is a relationship, which occurs between all these three factors involved. The expansion of the relationship could enlarge the existing structure, leading the overall network to become stronger.

Using Networking in the internationalisation process

Network relationships can assist companies during the internationalisation process. Companies face problems when they are entering new markets. For example, a company can lack resources and specific knowledge. The sharing of information and experience with the host companies can be very beneficial for the company (Meyer & Skak, 2002). Business networks facilitate the exchange of useful information, and so the dynamics of the network will influence the firms' internationalisation behaviour. Coviello and McAuley (Coviello & McAuley, 1999) has recognised the importance of business networks in facilitating the internationalisation process for the long-term business relationship between at least two partners.

During the internationalisation process, the more information is shared within a network, the more equipped and prepared its members will be. Also, the level of knowledge about the foreign market can enhance further learning as well as identify new business opportunities. There are two types of knowledge: formal knowledge and experiential knowledge (Meyer & Skak, 2002). The former includes hard facts such as consultancy reports, while the latter relates to knowledge gained through experience, such as active involvement and the understanding of the foreign culture.

Network positions determine the firms' strategic position and the resources it can access. Actors continuously improve relations with its existing network partners that have been useful to the organisation, while creating new business opportunities (Hakansson & Snehota, 1989). However, networks are not always successful, and reports show that business networks fail due to the partners being incapable of delivering the agreed services.

A company in the network could reduce its risk and uncertainty and create a more efficient network (U. Elg & Johansson, 1996). In the home market, a company initially has established relationships with the other actors in the network. However, when a firm expands abroad, the relationship will change and new actors will be involved. There are two dimensions of network activity (U. Elg & Johansson, 1996). In the first dimension, a

company will create relationships with new suppliers, customers and competitors when it operates internationally. At the same time, the company will meet new competitors in its home market. Thus, it is important to maintain its home market position, as well as focus on international expansion. The second dimension is that the company should concentrate on managing both vertical relationships as well as horizontal relationships because of the impact that the internationalisation process has on them.

Methodology

Miles and Huberman (Miles & Huberman, 1994) highlight the importance of setting boundaries in order to define aspects of the cases that can be studied within the time limits time available and as a means of connecting directly to the research question. This facilitates the selection of the sampling approach to qualitative study. The case study approach was selected because it provides a clear description of the management situation. Also, it involves the collection of data through various sources, such as personal interviews, reports and observation. This study intended to point out detailed, valuable and useful insights into the retailers internationalisation process, which could not have been achieved by employing the survey method alone. Case studies combined with in-depth interviews aim to reduce this gap (P. N. Ghauri & Grønhaug, 2005). However, the main drawback of this approach is not appropriate for making generalisations. Relatively similar situations could have completely different outcomes (Blaikie, 2000; Denzin & Lincoln, 2000; Yin, 2003). This research studied the internationalisation process of M&S in Thailand. Several multinational retailers are potential sources of study but the access to the company is limited. The company criteria have been set as large Western retailers that invest in Asia. Thailand has been chosen for study due to its rapid growth and market attractiveness and due to the researcher's capability regarding the language and local market understanding. This research adopted Eisenhardt (Eisenhardt, 1989) and Yin's (Yin, 2003) first step for conducting case study by creating a clear definition of the research questions and research problem. This was then followed by identifying potential case studies (Eisenhardt, 1989), as well as selecting company cases and, finally, contacting the companies.

M&S has been selected as a suitable company to study, mainly due to its international activities in several markets as well as the importance of its networking and adaptation in this industry. M&S is a large organisation that has been established internationally for a long

time. Also, the fact that the company has a record of both international successes and failures makes it an interesting company to study. Primary data involves twenty-one interviews both at the head office, the franchisee in Thailand. From the head office, interviews are conducted with senior and middle managers. The aim is to obtain an overview of the process of expanding the market and understand the company's strategy regarding its overseas operations. At the subsidiaries in Thailand, the interviews are conducted with the country managers, marketing managers, business development managers and store managers.

Case Study: Marks & Spencer in Thailand

Marks and Spencer (M&S), a leading UK clothing retailer. M&S also diversifies into food, houseware, beauty and financial services. It operates in the overseas market, starting initially from Europe, with a company owned store. Franchising was used as a method to enter less familiar and more risky markets, such as the Middle East, Far East and Eastern Europe. M&S products were imported to Thailand by the Central Group through international franchising. The Central Group was the biggest retail chain, operating 10 stores in Thailand.

M&S is suitable for the research and allow the illustration of clothes retailing, which is the second biggest consumer expenditure sector, representing 12% of the total consumer expenditure in Thailand (Euromonitor, 2010).

Local Customer

M&S's position in the Thai market is that of a premium brand. The target customer's monthly income range is around 30,000-40,000 bahts or 20,000-30,000 bahts, depending on marital status. The single person might spend 30% on clothes. The best selling branch is Central Chidlom which markets the high end customers, such as executives and their wives (Marketing Manager, M&S Thailand). The aim of M&S Thailand is to expand the customer base and target younger customers. 10% of M&S customers are regular shoppers, whereas 44% of customers browse but shop less frequently at M&S. Therefore, it is an opportunity to turn less frequent shoppers into regular M&S shoppers (M&S: The Thai (Bangkok) clothing market report).

Business Networks and Relationships

It has been found that the company use networking activities to respond to customer's needs. The food and drug regulations (FDA) and custom clearance process might delay the transport time, so it could be negative for short shelf-life food products. As a consequence, M&S in Thailand needs to network with the customs department in order to facilitate the customs

clearance procedure. M&S Thailand uses networking with *local customs* to facilitate the custom clearance process so the goods arrive to the store at the right time, which affect sales positively. If the goods arrive late, the company needs to discount food and snack products that are close to their sell-by date, which has a negative effect on sales figure. Due to the complex customs clearance procedures present in the Thai market, it is critical for businesses to take advantage of networking with the local customs. The British Embassy also provides updated information on new legal regulations and local economic news. M&S uses the *local franchisees*' expertise to overcome the cultural difference issue because the local franchisees understand the market well.

M&S build relationships with the *local employees* in both cases to train and motivate them to provide a good service to the customers. The local employees could provide customer information and feedback. They help in terms of sharing best practice and communication with headquarter. The motivation is mainly financial rewards, such as monthly target rewards and bonuses. M&S also treats its staff well in terms of working conditions, staff discounts, meal allowances, and holidays. M&S in Thailand is operated entirely by local people. The importance of the local employees is in reducing the cultural differences between the brand and the local market. The local staff makes the operations easier locally, including activities such as creating local market campaigns or selecting the right merchandise for local customers. Networking also helps the company to collect information about the local market and customers, such as using local employee's feedback in terms of customer's trends, best practices.

(Insert Figure 1 here)

Marketing Mixes

The overall question of how M&S responds to its customer is divided into the marketing mix: product, price, place and promotion. M&S Thailand creates a marketing strategy through a combination of UK marketing techniques and the Central department store guidelines. There are UK guidelines and standards to follow but M&S needs to consider the main Central department store's events. Also, they need to adapt some promotions to suit the Thai market. For example, the UK launched the 'Back to School' promotion, which has a different timing in Thailand, so the promotional campaign needed to be adapted (Marketing Manager, M&S Thailand).

Product Range

M&S Thailand offers a range of womenswear, menswear, lingerie, toiletries and food. M&S products are divided into 36% womenswear, 18% menswear, 12% lingerie, 21% food and 13% toiletries (General Manager, M&S Thailand). M&S has the freedom to select products from the UK catalogue. The head office suggests that the main top selling products are to be promoted through the décor or the media. They will be available to promote in every country with a constant look and standard. “UK predict the best selling products and this is usually correct 80%-90% of the time. We will decide whether it is suitable in Thailand...we have the freedom to select products.” (Merchandising Manager, M&S Thailand)

The buying team prepares the buying budget and the proportion of products. They look at the previous sales and trends of the season. “We will select products according to the target customers.” (Merchandising Manager, M&S Thailand) Sales history assists the buying team to select products. However, M&S relies greatly on maintaining the same style from the sales history. Therefore, they select pretty much the same style of products.

(INSERT TABLE 2 HERE)

According to research, the second most common reason why a customer does not shop at M&S is because the product design does not suit his/her taste (19%). The third is the old-fashioned style (13%) (Table 2). 16% of M&S customers do not shop at the store often because of the old-fashioned style product and 15% because M&S does not have the styles and designs that they like. So the products do not respond well to the customers. Therefore, M&S can only target certain groups of customer who like conservative styles and good quality products. “M&S products do not respond well to Thai customers.” (General Manager, M&S Thailand)

M&S products are classic and respond only to a specific type of customers; women aged late 30s to 50's. The products respond slowly to fashion trends. “M&S is always a little bit behind the others. Our competitors follow the fashion trends about 3-6 months faster than us...we are not a trend setter. We are not like Mango, Zara where you have to launch only products according to the trend immediately.” (Merchandising Manager, M&S Thailand)

M&S has specific products adapted for the Asian market because of the size, customer preferences and weather differences. 15% of the products are Asian fit products adapted to the local market (Merchandising Manager, M&S Thailand). M&S has a smaller sized bra to fit the Asian figure. The products can be adjusted, such as the shirt length or arm length to suit the customer preferences. Asians prefer not to show their arms, so they prefer

three quarter length sleeved tops rather than sleeveless ones. The majority of women do not want to show their arms and chests, so they prefer different products from Western customers. A market orientated company needs to understand the local culture and customer preferences in order to respond to their needs. M&S uses local experienced buyer staff to select products to suit the local needs.

M&S Thailand's objective is to broaden its customer base. Therefore, they offer a greater variety of products and emphasise the food and lingerie business to target more customer groups. The company selects colorful lingerie products to target younger customers and promote food and toiletry products, which could appeal to the wider customer group.

Service

Even if the products are not a key strength, M&S still offers a good service to its customers. The staff is also helpful and knowledgeable about the products. The exchange and refund policy within 90 days is generous and unusual for Thailand, because exchange and refund is not a common policy there. Customers perceive M&S as offering good customer service. Customers can give feedback by letter, telephone and through the Central department store customer service. M&S responds to customers' complaints by ringing the customer back or contacting them by post. Complaints are usually about wrong product sizes and colours. If the customer requests out-of-stock products, these will be delivered from another branch and the customer can collect them the next day. If it is not available in Thailand, it can be ordered from abroad without the customer paying a deposit. M&S uses and shares information between its branches. For example, M&S has learnt to expand the opportunity of smaller store in limited spaces by offering a wider range catalogue, which allows the customers to order products from different branches as a free service (Merchandising Manager, M&S Thailand).

Price

Customers perceive M&S as a mid/high end brand because the price is expensive. The price has been calculated from the Freight on Board (FOB) from the UK, import tax, insurance and margin to cover the transport costs and other expenses. The exchange rate is also a factor in establishing the price (Commercial and Operation Manager, M&S Thailand). Managers from different markets meet occasionally to share their experiences and best practice. M&S headquarter and Thailand work together to improve its product and price.

(INSERT TABLE 3 HERE)

High price is the main reason to prevent customers from shopping at M&S frequently (58%) (Table 3). They do not have a strategy to bring the price down or reduce its margin. Instead, they target the upper market customers and provide them with a premium service as well as promote themselves as an exclusive brand through various advertisements. The customers think that the price of M&S products is too high in Thailand. So M&S communicates with their customers to explain about the quality and value of the brand: “Customers said we are expensive. When we use advertisement, we change and try to show that we are premium and have something to add, we have better service, and we improve the customer relationship. We invest more in the loyalty card.” (Marketing Manager, M&S Thailand)

Place and distribution

There are a few challenges concerning transportation delays, which have an impact on sales. Some food products, such as biscuits, sweets, and snacks have a short shelf life. If they face delays in shipment and customs clearance, the food will be near to its ‘display until’ date. Therefore, they need to sell products at an 80% discount or they will be thrown away (General Manager, M&S Thailand). The distribution system depends on when the ship arrives at the port and the customs clearance procedure. M&S network with the local customs to speed up the procedure and prevent transportation delays. In terms of store look, M&S Thailand invested heavily to renovate its stores at Central Ladprao (2011), Central Chidlom (2004); the M&S best selling branch in the prime location by redecoration for a lighter look and modern fitting. M&S managed to get the best location in the womenswear section and provide a nice and trendy shopping environment.

Promotion

M&S use mainly the standardisation of marketing strategy and activities. However, it is locally adapted to the rules of the franchisee, culture, and season. M&S Thailand adjusts the promotion plan or launch to suit the local market because of the different culture, different climate and season. M&S in the UK launches Christmas during October, whereas M&S Thailand does so in mid-November because Thailand is mainly a Buddhist country. Christmas is a significant trading time in the UK, whereas M&S Thailand promotes Father’s Day (December 5) instead.

From the research, print is the most popular advertising method for the clothing market in Thailand. M&S Thailand advertises through billboards, magazines, brochures and radio advertisements. M&S Thailand launched a bi-lingual brochure in English and Thai. M&S issues a newsletter every two months to communicate regularly with their customers,

providing product knowledge and beauty tips. M&S also emphasise their seasonal catalogue, which shows fashion and products (Marketing Manager, M&S Thailand).

The customers pay a higher price for M&S products because of the brand (Marketing Manager, M&S Thailand). Therefore, the company needs to emphasise brand building and marketing communication, such as VIP events, and brand promotion. M&S normally create a major campaign following Central's campaign in order to be compatible. M&S has monthly events to promote the brand and stimulate sales. Customers need to show their VIP membership card to participate in membership events, such as prize draws, games, or extra discounts. This helps the customers to be aware of the promotion and stimulate customer to apply for the card. It helps M&S to increase its customer database (Marketing Manager, M&S Thailand). The best activity, which is accessible to customers, is sales promotion. "Fewer customers came to fashion shows than we expected. If we have free gift or discount events, people come early and the branch gets very busy and this increase sales." (Commercial and Operation Manager, M&S Thailand)

"Customers have noticed that we have changed. We bring more attractive products; we advertise by using younger, attractive models in magazines and we renovate stores. The brand has changed and the customers have noticed it." (Marketing Manager, M&S Thailand)

In Summary, The customers perceive M&S as providing a good service and good shopping environment. M&S has renovated its major stores to be contemporary, aiming to attract more customers with the new products and new store looks. M&S's main current issues include their unappealing products, high prices, transportation delays and obtaining permission. Therefore, the short shelf life products are almost out-of-date by the time they arrive in store. M&S UK has improved their product range and became more attractive to customers, attracting younger customers through their Per Una range. The results of the research show that the brand position lies between the mid-range and rather high-end market with expensive products, which is different from the mid-market range volume products. The company takes this finding into account to create suitable marketing strategies, such as promotion, advertising and service.

Conclusion

To answer the research question, the study found that networking helps at many levels to reduce and avoid the risks involved in international operations (U. Elg & Johansson, 1996; P. N. Ghauri & Holstius, 1996; Holstius, 1991). Although networking with different actors might vary in terms of importance. This paper agreed that Western retailers apply network approach in the emerging markets through developing relationships with the local

government and the embassy to gain local knowledge and to manage the dissimilarities of the market environment between the host and home country (P. N. Ghauri & Holstius, 1996). The company also build and maintain network with local employees to promote the brand, obtain an understanding of the local markets (such as customer needs, purchasing trends, consumer behaviour, working culture) and also run their day-to-day operations. It has been noticed that the local supplier has not been mentioned as crucial factor in this case compare with previous studies (U. Elg, 2003). This is because the franchise in Thailand receives with the final products from headquarter and does not have direct contact with local supplier and any local production. It is recommended that the company could use the knowledge from local franchisee and should allow the local franchisee to build relationship with suppliers in order to share local information in order to create the strong network. From a managerial point of view, this would be beneficial to company in terms of sharing customer preference, discussing the suitable price, production technique, and increasing local sourcing products. From this research, M&S faced the brand image issue due to its unattractive merchandise at high prices. The research showed that customers think that M&S are changing but still maintain their traditional image. There is an opportunity for M&S to improve their products and increase the proposition of new trendy products against their core traditional products. Products are the major challenge from both the Thai and UK market. M&S UK should increase the proportion of fashionable products and design products to be more appealing to customers. This is because all of the franchisees and subsidiaries rely on the UK catalogue. M&S Thailand should increase and emphasis on the Per Una sub brand, which target younger customers and should aim to change the customers' perceptions as well as improve the M&S brand. M&S benefits from the growth opportunity of menswear, toiletries and foods in Thailand. The main challenges faced while conducting this research are the limited time and resources, the difficulty in accessing the company contacts, and the availability of the respondents. The future research is to study other Western retailers in the different markets to see whether the concept would apply to different companies.

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