SME Entry Strategy in Foreign Markets

A case study of Aura Light, Slipnaxos and Norba

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Program: Growth Through Innovation & International Marketing

Subject: Master Thesis

Level and semester: Masterlevel, Spring 2009

Baltic Business School
Abstract

The internationalization of firms is an occurrence increasing in a rapid pace and during the last 20 years firms have changed their orientation from domestic to international. Geographical expansion is interesting to view from a single firm’s standpoint since it provides possibilities for the firm which allows it to grow and achieve a higher profit.

SMEs roughly accounts for 99 per cent of all firms in Europe and approximately 50% of local and national GDP, 30 % of export and 10 % of foreign direct investment (FDI) worldwide. Entering a foreign market through an intermediary becomes particularly interesting from a SMEs point of view since it is often the best or only alternative in an initial step towards exploring a new foreign market.

Managing the relationship towards the intermediary is an important and interesting topic since research has shown that the relationship quality between the exporting firm and its intermediary in the foreign market is positively related to the export performance in the foreign market.

The theoretical framework is based on three main concepts: Business Marketing Entry Strategy, Relationship development and Knowledge development. The entry strategy is seen from a process perspective in which the relationship with the intermediary are in focus. Moreover, how knowledge and information are handled and developed during the process are also in focus.

This thesis is built around four main problems concerning: distances and uncertainties prevailing in the exporter –intermediary relationship, the trade off between the linkage strategy the firm has towards customers and the one towards the intermediary, problems of opportunistic behaviour of the intermediary and information asymmetry. Solving these problems is seen as a base for enabling the firm to perform a well functional relationship with the intermediary and thereby enable the firm to achieve a successful entry process. Furthermore, by having been provided with an insight of how our case companies Aura Light, Slipnaxos and Norba have experienced these problems we present factors that are important to consider in the entry process.
Acknowledgements

We have enjoyed writing this Master Thesis and would like to thank everyone that has helped us during this process.

Special thanks are extended to Anders Berg, Bertil Flinck and Carl Sigfridsson for helping us by devoting their time. We would also like to thank our tutor, Joachim Timlon, for sharing his expertise and for his guidance.

Handelshögskolan i Kalmar, 2009-05-26

Hanna Berglund and Oskar Malmsjö
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1. Introduction

1.1 Background

Internationalization is interesting because it is an up-to-date subject in times of growing interdependence among national countries and increasing globalization (Hollensen, 2007). A growing number of firms are exploring the market outside its own country borders and the interface between different actors involved when internationalizing then becomes interesting from a single firm’s point of view. Agarwal et al (2003) describe how internationalization of firms in general is an occurrence increasing in a rapid pace and explains how firms have changed their orientation from domestic to international during the last 20 years and how at the same time firms have shifted from domestic marketing to global marketing.

Geographical expansion is interesting to view from a single firm’s standpoint since it provides possibilities for the firm which allows it to grow and achieve a higher profit. Possibilities that the firm only operating in the domestic market would not necessarily be provided with. Albaum et al. (2005) brings up different motives for an individual firm to internationalize. Apart from basic motives such as attaining profit, underlying specific motives may reflect a certain firm’s willingness to enter a foreign market. The authors distinguish two major kinds of motives or motivational factors as originating from the external or the internal environment of the firm. The internal motivational factors can be for instance risk diversification, marketing advantages, economies of scale, unique product/technology competence, and excess capacity of resources. The external motivational factors can be for instance foreign market opportunities, unsolicited orders, a small home market and a stagnating or declining home market.

Sleuwaegen and Onkelinx (2008) account for an increasing international competition which SMEs are confronted with that often forces them to go abroad which implies other an additional motive for SMEs in particular to go abroad. This internationalization can take many forms such as import, export, foreign direct investment (FDI) and international collaboration. Sleuwaegen and Onkelinx (2008) point out that one important motive for SMEs to internationalize is to gain access to know-how or technology. In addition, the authors also highlights that internationalizing often results in improved performance and competitiveness of SMEs which illustrates another main motive for the internationalizing of SMEs. Moreover, Beamish and Lu (2001) explains how one of the most important paths for firm growth is geographic expansion and that it is a particularly important growth strategy for SMEs whose business
scope has been geographically confined. The authors emphasize the motive of internationalizing in order to achieve a larger volume of products and to grow. They claim that if SMEs try to broadening their customer base through entering into new markets they can achieve this. In addition, SMEs are able to achieve higher returns on their resources by leveraging resources in different markets and thereby be in a position to capitalize on market imperfections. The authors state that sooner or later SMEs will adopt a geographic expansion strategy in the pursuit of growth and/or higher return to resources (Beamish and Lu, 2001).

Analysing the entry process via an intermediary in the context of being an SME is interesting since according to Doole and Lowe (2004) SMEs roughly accounts for 99 per cent of all firms in Europe and Brothers and Nakos (2004) conclude that SMEs account for a significant portion of international trade. The latest figures show that SMEs account for approximately 50% of local and national GDP, 30 % of export and 10 % of foreign direct investment (FDI) worldwide. It is also shown that SMEs are increasingly seeking participation in international markets as critical to their growth and survival (OECD, 2006). Beamish and Lu (2001) also highlights that a trend during recent years has been a more active role played by SMEs in the international markets. The authors also expect a further increasing of SMEs internationalizing in the future due to a decline in government barriers and continued advanced technology which will contribute to the world economy becoming even more integrated.

The business marketing entry strategy is an interesting topic in the field of internationalization because it sets a foundation for the firm’s future performance in the foreign market. It deals with the initial plan of building and establishing a strategic position in the market and involves how the firm get access to new customers in the new geographic market, which is a pre-requisite for doing business in any market and therefore interesting for a firm interested in successfully doing business in a foreign market.

Doing successful business through attaining profit in the foreign market is the goal for all firms entering a foreign market. How this is done is very dependent on what kind of firm is internationalizing into the foreign market. A small to medium sized enterprise (SME) possess a limited amount of resources and entering a foreign market therefore often requires the involvement of some outside party, such as an intermediary from the host country (Beamish and Lu, 2001). Entering a foreign market through an intermediary then becomes particularly interesting from a SMEs point of view since it is often the best or only alternative in an initial step towards exploring a new foreign market.
Managing the relationship towards the intermediary is an important and interesting topic since research has shown that the relationship quality between the exporting firm and its intermediary in the foreign market is positively related to the export performance in the foreign market (Solberg, 2008).

1.2 Problem Discussion

One problem that can effectuate the relationship towards the intermediary negatively and in the long run and also the performance of the firm is the perceived institutional differences between the exporting firm and the intermediary. Institutional differences can be for example differences in culture, economics, politics and underlying principles on how business is done in different countries. These differences can affect the relationship negatively because it can cause uncertainties and a distance between the two parties.

Cultural distance is an external uncertainty and can affect the process of information or reporting exchange from the intermediary towards the exporting firm (Solberg, 2008). The information exchange from the intermediary to the exporting firm is crucial for the firm’s performance in the foreign market. It is crucial because it is to a great extent through the information from the intermediary the firm gain knowledge about the market which allows the firm to move forward in the learning process and in the entry process. The consequence of not having a functional information flow between the two parties then becomes a slower progression of the learning and entry process.

Differences in politics and economy are examples of governmental differences that through for example rules, laws and procedures specific for a certain country can affect the way the relationship functions. A consequence of these types of institutional distances can be that the relationship works ineffectively. Differences in organizational structure as another type of institutional distance can also lead to misunderstanding and ineffective relationships. There are also many other distances that can affect the intermediary relationship negatively such as time distance or technological distances and also the geographical distance between where the exporting firm is located and where the intermediary and the market is located.

Another consequence of distances and uncertainties caused by institutional differences is that it can hinder communication, information and social linkages which lead to negative effects on the relationship (Jansson (2007a). The relationship quality and effectiveness, the ability to learn and move forward in the entry process as well as the overall performance of the firm is therefore threatened by perceived institutional differences between the two parties.
A second major problem present for firms entering a foreign market through an intermediary is managing the trade-off between the linkage strategy the firm has towards the intermediary and the linkage strategy the firm has towards the customer (Jansson, 2007a). Not having a balanced trade-off between the relationships involved in a triad can lead to many consequences that negatively can affect the performance of the firm operating in the foreign market.

An unbalanced trade-off between the linkage strategies towards the intermediary and towards the customers that results in a weak relationship with the intermediary and a good relationship with the customers can affect the firm’s performance on the foreign market negatively (Jansson, 2007a). The weak relationship to the intermediary can affect the performance negatively of the firm as stated earlier for many reasons as for example it might trigger opportunism or information asymmetry. Even though the relationship to the customers might be strong the unbalance triad might hinder the learning and knowledge process as well as the entry process of moving forward. There might be limitations to how much knowledge the firm is able to gain through experience especially when being a SME with limited resources.

An unbalanced trade-off between the linkage strategies towards the intermediary and towards the customers that results in a strong relationship towards the intermediary and instead a weak relationship with the customers can also affect a firm’s performance in the foreign market. A consequence can be that the firm are unable to have control over the marketing process since the firm have not got a clear idea of who the customers are and how they function (Jansson, 2007a). Not really knowing the customers unable the firm to make correct judgements and engage completely in the marketing process. Not being in control of the marketing process might limit the possibility for the firm to affect its future performance on the market. In that sense, laying the whole marketing process in the hands of the intermediary might imply risks for the firm.

Another consequence of this type of unbalanced trade-off is that it might hinder the firm from gaining experiential knowledge about the market. Even if knowledge about the market and customers are transferred from the intermediary to the exporting firm the knowledge might be limited since if actual experience with the market and the customers is present for the firm. The information that is received from the intermediary might also be filtered which leads to the third problem for firm’s entering a foreign market through an intermediary.
The third problem is called intermediary opportunism and is a problem that highly affects the performance of the firm entering a foreign market through negative effects on the relationship quality. Intermediary or distributor opportunism is present when the intermediary for example takes advantage of opportunities without regard of the consequences of the exporting firm. Since the intermediary is not a part of the firm it cannot be expected that the intermediary always act in the favour or interest of the firm. The issue of opportunism is related to the third party’s interest in keeping the seller in the dark about market developments and therefore delivers filtered information. For instance, if the third party reveals too much information about the market, the risk increases that the third party is not needed any more and is replaced by an own representative from the firm’s home country. It is also in the interest of the intermediary that the intermediary is perceived as a competent distributor or agent and therefore the intermediary might give a more opportunist view on sales or market situations.

Contradicting goals between the two parties regarding the knowledge and learning process of the firm can be expected, since the intermediary might restrain the firm from moving further in the learning or knowledge process in order to stay needed. This is a very critical issue, since it is highly contradicting towards a relationship development as well as the learning and knowledge process of the firm.

The fourth problem is called information asymmetry and can also affect the performance of the firm in the foreign market. Information asymmetry relates to problems that occur in the initial starting point of the entry process and the intermediary relationship process. In the initial phase of the entry process a mutual lack of knowledge characterises the entry as well as the relationship process (Petersen et al. 2000). The firm typically know very little about the foreign market and the intermediary knows very little about the product. A consequence of the firm having limited market knowledge in an initial stage is that it limits the firm’s capability of estimating the competence of the intermediary as well as the firm’s capability of controlling the foreign intermediary. The intermediary’s limited knowledge about the products affect the ability of the intermediary to communicate information about the product to the customers which affects the firm’s performance on the foreign market.
1.3 Problem formulation

The four identified problems regarding the establishment of a well functional relationship with the intermediary and the firm’s entry process is presented below:

- Perceived institutional and cultural differences between the exporting firm and the intermediary which leads to distances and uncertainties between the firm and the intermediary.
- The trade-off between the linkage strategy the firm have towards the intermediary and the linkage strategy the firm have towards the customer.
- Intermediary opportunism.
- Information asymmetry.

This leads to a couple of questions which this thesis aims to provide answers for:

Research question 1:

- How to reduce uncertainties and distances caused by differences between the exporting firm and its intermediaries?

Research question 2:

- How to handle the trade-off between the linkage strategy towards the intermediary and the linkage strategy towards the customers?

Research question 3:

- How to prevent intermediary opportunism?

Research question 4:

- How to prevent information asymmetry?

These four questions together are aimed to provide answers for our main research question:

- How to establish a well functioning relationship with the intermediary which enables a successful entry process for the firm?
1.4 Purpose

The purpose of this thesis is to:

- Describe the entry process of an exporting SME entering a foreign market through an intermediary.
- Identify and describe the different problems that can occur in the exporter-foreign intermediary relationship during the entry process.
- Analyze these identified problems according to a three-folded empirical case study, in order to:
  - Provide conclusions on possible solutions for overcoming these problems or prevent them from happening and thereby increase the chances of a well-functioning relationship with the intermediary and a successful entry process.
2. Methodology

2.1 Research Strategy

Alvesson and Sköldberg (2008) points out that the definition of qualitative research method is not obvious but to focus on open and ambiguous empirics is a central criterion. Another point brought up by the authors is that the qualitative research method takes the subject of the study’s perspective while a quantitative research method is often generated from the researcher’s ideas. Qualitative research studies phenomenon in their natural environment and ‘reinterpretation’ becomes a central idea while the research is about understanding these events. The authors also highlights that it is not always ‘events’ that are viewed but rather experiences.

The choice of research method should be made with consideration of the research question (Alvesson and Sköldberg, 2008). Since this thesis aims to provide answers to “How” questions the qualitative research method is more suitable. Moreover, it is also a matter of deselecting the quantitative research method since a quantitative method deals with “amount” and the answers to the research questions of this thesis cannot be explained by statistics and quantifiable values.

In addition, Merriam (1998) explain how the aim of using a qualitative method is to understand how other people or organizations perceive the world which is very much in line with what this thesis aims to achieve. The subject of this thesis are to a large extent related to ‘how to manage relationships’ which implies a need for the authors to put themselves in the position of others in order to understand the problems and in order to find solutions to the problems. Achieving a deeper understanding of how someone else perceives the world is therefore a pre-requisite for analysing the problems of this thesis and therefore an argument for using the qualitative method.

2.2 Research Process

There are three methods of research approaches according to Yin (2007) the inductive, deductive and the abductive approach.
The inductive approach proceeds from an amount of individual cases and claims that the patterns which have been observed from those are generally valid or applicable to other situations or cases. The deductive approach is done the opposite way around and proceeds from a general rule from theory and claims that the rule explains a certain individual case of interest for the author. The abductive approach imply a single or multiple case that is interpreted from a hypothetically over bridging pattern from theory and, which if it is in line with the empirical study, explains the certain problem or situation (Alvesson and Sköldberg, 2002).

In other words the deductive approach proceeds by the author from theory and the author then apply the theory into the empirical case study “the reality” and base the analysis and conclusion on whether the theory was in line with the empirical cases. The inductive approach is used when the author proceed from the empirical case study “the reality” and apply the empirical observations and conclude whether the reality is in line with what has been written in theory. According to Alvesson and Sköldberg (2002) an alternation between these two approaches are often done during the research process and the two are also reinterpreted along the way.

This thesis initially proceeded from theory on internationalization and business marketing entry strategies, where a focus was built on problematic situations regarding intermediary relationships that could occur during a firm’s entry process. The problems then laid the ground for the research questions with an aim of discovering if the identified problems was in line with what the empirical cases perception of reality. This phase of the research process is more resembling towards the deductive approach.

However, after our three empirical case studies had been done the observation from those case studies was then brought back to theory in order to explore theoretical facts on new identified problems. In addition, the empirical observations were compared to theory in order to explore if possible solutions to problems new and old was in line with what the theory implied. This phase of the research process is more resembling towards the inductive approach. There was however stages within this phase where the approach was shifting from resembling an inductive and a deductive approach. After this phase the empirical study and the theoretical framework was analysed collateral in order to achieve a balance between the theory and the empirical case study.
2.3 Case study

2.3.1 Multiple Case Study

The empirical part of this thesis is built on a multiple case study of three industrial SMEs operating in a global market. Aura Light, Slipnaxos and Norba are all Swedish companies that export their products to many different countries worldwide. All three firms have entered foreign markets through intermediary’s many times and are also currently working with many intermediary’s in foreign markets and therefore have been and are managing relationships with intermediaries.

Yin (2007) explains how case studies remain one of the most challenging tasks within social science. Case studies as a research method are used within numerous of research areas such as psychology, sociology, political science, business and do contribute with real experience and provides a holistic perspective. The purpose of it is to contribute to the collected knowledge within the area by collecting, presenting and analysing data in an honourable way. A common misperception is that case studies could only be used in an exploratory stage of the research but some of the best case studies have been both explanatory and descriptive. Yin (2007) accounts for some factors to take in consideration when deciding the research strategy.

<table>
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<th>Focusing on current events?</th>
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<td>Yes</td>
</tr>
<tr>
<td>Survey</td>
<td>Who, what, where, how many, how much?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Analysing sources</td>
<td>Who, what, where, how many, how much?</td>
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<td>Yes/No</td>
</tr>
<tr>
<td>Historical study</td>
<td>How, why?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Case Study</td>
<td>How, why?</td>
<td>No</td>
<td>Yes</td>
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Figure 2.1 (Yin, 2007)

The first qualification that determines the research strategy is what kind of research question is supposed to be answered (Yin, 2007). A primary way to categorize the research question is
according to “who”, “what”, “where”, “how”, and “why”. Since this thesis aims to provide answers for “how” questions and the research focuses on present events our research strategy naturally falls into the category of case study. Entering a foreign market through an intermediary and managing the relationship towards the intermediary is a current phenomenon occurring among firms today which clearly motivates using a case study for this topic. Controlling the behaviour of the situation is not needed in order to answer the research questions for this thesis. Neither is controlling the situation in any way a goal since that would most possibly hinder the objective of perceiving the respondents real and “true” view of the studied phenomenon. This excludes the need for doing any kind of experiment which is the only study in the table that is a “how” question and focuses on a current event.

The objective of our case study is to observe examples of the reality in order to compare those situations to theory but also to gain knowledge about the respondents experience and expertise within our research field. According to Yin (2007) when the contributions of a case study are twofold, where it contains input from observations and examples and also interviews with different respondents that have experienced the same thing the “truth” is therefore seen through different eyes and contributes to a higher degree of credibility.

Using a multiple case study enables this thesis to provide different examples from reality on how different firms and respondents within these firms perceive the same problems in order to make generalizations on how to solve and prevent them from happening. It also gives the thesis a more steady ground on which to base conclusions on since the same problems are seen through different people. Yin (2007) explains how the research design is the same weather a single case study or a multiple case study is made. There are both advantages and disadvantages when it comes to multiple case studies. The results of a well implemented multiple case study is often seen as stronger than the results from a single case study. Having a multiple case study allows the author to generalize, compare and draw conclusions to a greater extent compare to having a single case study which is why this thesis is built on three different cases. In addition, it enables the authors to make recommendations that to a greater extent than a single case study can be applicable for other SMEs facing these problems, since the recommendations are not pointed towards a specific company.

2.4 Data Collection/Research Techniques

Respondent Presentation Aura Light
Anders Berg has been working at Aura light and on the export side since January year 2002. Anders Berg is stationed at Aura Lights in Sweden and works with export via intermediaries towards The United States, Australia, New Zealand, The Middle East, United Arab Emirates, Oman, Bahrain, Saudi Arabia and Kuwait.

**Respondent Presentation Slipnaxos**

Bertil Flinck is General Manager of Sales and Procurement within Slipnaxos – Steel Industry. He has a long experience of international business and is in charge of many of the large customers and the relationships with them.

**Respondent Presentation Norba**

Carl Sigfridsson is an export manager at the group Geesink Norba which is a part of the corporate group Oshkosh Corporation Company. Carl Sigfridsson is part of the team based in Kalmar that is responsible for the export.

### 2.4.1 Interview

The empirical findings in this thesis are exclusively based on interviews with respondents from Aura Light, Slipnaxos and Norba.

Yin (2007) explains how one of the most important sources of information regarding the case study is the interviews. Merriam (1998) points out that the limitations regarding observing behaviour, feelings or how the environment is perceived is a motivation for interviews. The preferred way to handle the interview is by a manoeuvred dialogue rather than a strictly structured hearing according to Yin (2007) which is how the interview for this thesis has been handled.

Merriam (1998) accounts for different types of interviews and their different levels of structure: *highly structured, semi structured and unstructured*. The interviews for this thesis have been structured according to the semi structured approach. The semi structured is a “mix of more- and less-structured questions” (Merriam, 1998). This way of carrying through an interview allows more flexibility and the discussion is more adapted to the situation. The interview is guided by some main topics and issues but the specific order and exact wording is of less importance.

There are two main objectives during the interview which the interview should consider: One is to follow the questions that are decided in the protocol and the other is to formulate the
questions in order to reach the goal of the interview (Merriam, 1998). That is what has been aimed to accomplish during the interview for this thesis empirical part. However, due to the aim of letting the dialogue continue naturally the questions were not asked in a specific order. In addition, in order to achieve a base for recommendations the respondents were

Merriam (1998) accounts for the importance of attendant questions and to be sensitive to unexpected changes throughout the interview in order to get a satisfying answer. The questions should be formulated in a way so that risks for misunderstandings are reduced or eliminated. This is why our questions were introduced by theoretical explanations and background descriptions of our problems in.

The questions formulated for our interviews fall under the categorization: ‘hypothetical questions’ and ‘interpretive questions’. Merriam (1998) accounts for hypothetical questions as “what the respondent might do or what it might be like in a particular situation and for interpretive questions as tentative interpretation of what the respondent has been saying and asks for a reaction”. Since we wanted to get the most out of our questions we did as mentioned before present a background before the actual question. In addition, some of the question was of a hypothetical art where we ask about what the respondent might do in a specific situation. The aim of these types of questions was getting an understanding of what can be done to solve out research problems. The other interpretive questions we asked because we wanted to make sure that we understood the representative correctly in order to prevent misunderstanding.

Yin (2007) explains how questions starting with “how” are to prefer rather than questions starting with “why” since those questions often makes the respondent unwilling to develop the answers to a desired level. Asking the questions in a non threatening way often leads to an interview with rather open characteristic, where the respondents can account for the facts as well as their own opinions on these. This is why we focused on questions starting with “how”. We also focused especially on question starting with “How do you perceive” in order to make the respondent feel free to speak very open about the specific subject and not feel put on the spot or threatened. We did feel, regarding all of our interviews that the respondents felt free to elaborate their answers. Another interesting aspect to bring up is how an answer to one question can lead to an interesting point that we didn’t consider beforehand. This, we believe, can be achieved when having less structure in the interviews.
The interviews for this thesis are face to face interviews with employees at the different companies. They were all informed and prepared for the topic of discussion through regular phone calls and we also sent them the questions before we visited them. We believe these preparations contributed to better interviews since the respondent where well prepared and also had the opportunity to prepare material for out meetings.

2.4.2 Primary and Secondary Data

Primary data is according to Merriam (1998) the data which build the base for the research investigation. In our thesis the primary data are the interviews with the respondents from the three different case companies and provides the base for the empirical part. Secondary data is according to Merriam (1998) the data that the author uses from already existing information. In our thesis the secondary data is used from academic journals, literature to some extent organisations homepages like The European Commission and OECD.

2.5 Quality of the Research

2.5.1 Validity

2.5.1.1 Construct Validity

Some of the critique pointed towards case studies is often regarding using subjective judgement when it comes to collecting data (Yin, 2007). If what to investigate is not specified by specific factors the reader cannot know whether the phenomenon in fact reflect ‘reality’ or if it is based on the researcher’s impressions. According to Yin (2007) there are two steps that must be covered in order to maintain the construct validity:

1. Specify what is to be studied, relate it to the original objective

2. Then the selected measure of the phenomenon is to be presented and demonstrate how it reflects the specific phenomenon.

The purpose of the construct validity is to design real operational measurements for the concept that is being studied (Yin, 2007). When the research question is established the next step is to justify why you are using certain data in order to answer this question.

The construct validity refers to how well the different theoretical concepts match each other (Merriam, 1989). We believe that there is a relevant relation between the different theoretical parts and that they together create a base for understanding needed in order to solve our research questions. The purpose of the theoretical framework is that; we have focused upon
creating a base for understanding, by a description of relevant terms but also presented a theoretical solution for the problems. We believe that a deeper understanding of the nature of the problems is needed but also to provide why these problems occur and why they are relevant to study. The different parts of the theoretical framework are supposed to complement each other and together provide a description as well as a solution for the research questions.

In our recent studies within the master's programme ‘Growth through innovation and international marketing’ at Baltic Business School in Kalmar an interest for the internationalization of firms was developed. In our recent classes especially SMEs and their internationalization was discussed and we gained a better understanding for how the theory describes this process and also the relevance of the subject.

We have probably been influenced by the recent courses in our education. We assume the term ‘relevant theory’ narrows down a bit towards the theories we have used in recent assignments. At least that our minds are a bit more set on finding theories based on research that we in some extent recognize. Our research questions are on the other hand very much in line with our recent studies and we therefore believe that an objective selection, not influenced by recent studies, would have resulted in the same or a very similar theoretical framework.

The theoretical framework is based on three main concepts: Business Marketing Entry Strategy, Relationship development and Knowledge development. The entry strategy is seen from a process perspective in which the relationship- and knowledge development are the main objectives. We believe the concepts match each other very well since the entry process is mainly based upon developing a desired relationship with intermediary as well as a desired relationship with the end customer. How this development goes on and what characterizes the different stages is presented in the theoretical framework.

We believe that we have achieved acceptable construct validity since we have managed to find a theoretical solution for our research questions by combining different relevant theories. The solution is presented in the summary of the theoretical chapter of this thesis.

2.5.1.2 Internal Validity

The internal validity is a matter of how well the findings in fact match reality – the explanatory power of the theoretical concepts (Merriam, 1998). Since the reality is perceived differently depending on who’s looking, it is not speaking for itself, it is important to consider a
lot of the factors that could lead to a mistranslation, reality is after all a subjective interpretation and not even physic ‘facts’ are considered to be single faceted.

Our theoretical framework provides a basis for understanding regarding how these problems occur, the nature of them, how they affect the firms in their internationalization problem but also theoretical solutions to the problems that the firms are facing. We find our theoretical concepts as acceptable for explaining the studied phenomenon and therefore believe that we have reached an acceptable internal validity. In order to maintain an acceptable internal validity we have implemented the following methods presented by Merriam (1998):

**Triangulation:** We have used multiple sources of data. This has been made both regarding the theory where we throughout the thesis have tried to make sure that more than one author describes the same phenomenon from a similar perspective and with similar conclusions but also regarding the empirical part where we have used three respondents discussing the same phenomenon’s in order to come to conclusions that are valid outside just one firm.

**Member checks:** We have sent our findings based on the respondents contributions to them in make sure that they can clarify if there are any misinterpretations made by us.

**Peer examinations:** We have also asked colleagues to read our findings and comment on them and taken this comments into consideration in order to make sure that our conclusions are not too based on our worldview.

**Researcher’s biases:** In construct validity we have provided an explanation of our resent studies and how that has affected our choice of theoretical framework. Our recent classes has probably affected our view on the studied phenomenon and therefore limited our possible findings in the sense that rather similar research has been made by our lecturers which probably have affected our view as well. We have on the other hand tried to collect and analyze information as objective as possible in order to provide both explanations, solutions and analyzes that we believe are valid and not to influenced by our own world view.

**2.5.1.3 External Validity**

The external validity concerns how well the findings in the research can be generalized and therefore useful outside the specific case study (Yin, 2007). If it for example is investigated how a specific organization reacts on an event, are the results applicable on another organization? A lot of the critic implies that case studies don’t offer a good basis for generalization. The generalization regarding case studies is the analytic generalization where the researcher
tries to generalize the results to a broader theory. However, in order for a theory to be generalized it must be tested in similar research area and lay ground for the same results to occur.

In order to achieve a higher level of external validity we have chosen to interview three different companies that all are SMEs continuously entering new foreign market as well as have been entering a lot of foreign markets in the past using an intermediary. We believe that our conclusions are valid within the context ‘A SME that is entering a new foreign market by using an intermediary’ and that our conclusions are generalised to the extent that they could be applicable in situations similar to the ones that our respondents have experienced. Some limitations that we see regarding how much our conclusions can be generalised are regarding culture. We believe that the exporter should be operating in similar domestic market in order for our conclusions to be of value for them. They should also be using direct export and entering the market through a triad to gain from our findings.

2.5.2 Reliability

The objective of reliability is that if another researcher followed the same path as the first, regarding methods and case study he or she should arrive at the same findings as the first (Yin, 2007). In order to minimize the risks of the thesis being perceived as unreliable we have been very thorough when interviewing our respondents not to force the respondents in to certain answers but to let them describe the discussed problems and situations as they perceive them. In order achieve a high level of reliability we have also been very thorough when going through the material and writing our empirical as well as theoretical part. We have made sure the material is not manipulated in any way to make sure the result is reliable.
3. Theoretical Framework

3.1 Entry Strategy from a process perspective

The business marketing entry strategy is the strategy set up by the firm when entering a new foreign market and plays a crucial role for the performance in the foreign market. When the firm are about to enter a foreign market, there are four interrelated strategic considerations the firm faces (Jansson, 2007a). The first refers to the entry mode and concerns how to establish business in the local market. The second relates to the entry node and concerns how the exporting firm are going to connect to the local network. The third is related to the entry process and concerns the development of relationships with different actors and the process which surrounds the relationship building. The fourth relates to what kind of commercial role the exporting firm will play in the foreign operation, being a seller, a buyer or and/or a manufacturer (Jansson, 2007a).

This thesis focuses on the entry process in relation to the entry strategy where the choice of mode is assumed to be a direct export mode via an intermediary, since the thesis focuses on intermediary relationship in the entry process. Moreover, the entry node is assumed to be a triad, which means that the firm connects to the local buyer network via a third party; the intermediary. Furthermore, the role of the exporting firm is assumed to be a seller or/and a manufacturer.

The Entry process needs to be considered when analysing the entry strategy. The core of the entry process is about establishing and developing business relationship (Jansson, 2007a). According to Jansson (2007a, p.153):

“The linkage strategy of the intermediary is dependent upon what kind of linkage strategy the intermediary is supposed to perform towards the customer.”

He also suggests that limitations of the entry node triad, regarding having an intermediated characterized relationship towards the customer and the market, can be better understood by analysing the development of customer relationship. Ford have conducted a buyer–seller relationship model which describes the different stages of the relationship-process (se figure 3,2) and is claimed according to Jansson (2007a) to be useful when analysing the Entry process where establishing and developing relationship with different actors involved is the core
objective. The model describes how distances and uncertainties decreases as the firm is moving forward in the entry process at the same time as commitment is increased and adaptations are being made. Knowledge is also gained along the development of the relationship, partly about the two actors involved and partly about the foreign market (Jansson, 2007 and Ford 1980).

Ford (1980) accounts for four types of distances which he refers to in the model. These distances are the social, the cultural, the technological and the geographical distance. Ford (1980) explains how the geographical distance is beyond control and that the cultural distance can only be reduced by hiring local nationals. Ford argues that the social distance is very important to overcome and explains how lack of social relationship can lead to lack of trust and hamper the relationship process from moving forward. Distances regarding time are according to Ford (1980) noticeable when negotiations about transactions are being made and concerns the way individual perceive time. Technological differences can be for instance the time that must elapse in order to place orders and make transfers.

<table>
<thead>
<tr>
<th>The Relationship Process</th>
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<tbody>
<tr>
<td><strong>The pre-relationship stage</strong></td>
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<tr>
<td>- Experience none or low</td>
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<tr>
<td>- Uncertainty is high</td>
</tr>
<tr>
<td>- Distance is large</td>
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<tr>
<td>- The introductory face of the foreign intermediary relationship is critical for the future performance of the export company and the future quality of the relationship (Solberg, 2008).</td>
</tr>
</tbody>
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| **The Early Stage** |
| - Experience still low, starting to build up |
| - The expectations un-clear |
| - Hard to appreciate future costs and rewards |
| - Large distance |
| - Knowledge about the other party is limited |
| - Hard to know the commitment of. Likely that the commitment is low |

| **The development stage** |
| - Experience is increasing |
| - Knowledge about the other party is increasing |
| - Uncertainty is reduced |
| - Better idea of the future cost of the relationship |
| - Trust is established |
| - Distance regarding time reduced |
| - Commitment is often shown by reducing social distance and a way to show commitment could be setting up a sales office |

| **The long term stage** |
| - Mutual importance to each other |
| - Adaptations are made |
| - Uncertainties eliminated or reduced to a minimum |
| - Problems of institutionalization make it hard to know the expectations of the other party, can also lead to overdependence on the other party, can also make it hard for the parties to adapt to on-changes in the environment |

| **The final stage** |
| - Commitment taken for granted |
| - The relationship is extensively institutionalized |
| - There are however some threats to the relationship even in this stage |
| - The parties can become complacent due to the low uncertainty and distance which makes the relationship |
| - Sensitive to environmental changes |

Figure 3.2 (Ford, 1980)
Timlon and Hilmersson (2009) account for the entry process in the context of having an intermediated relationship towards the customers and the local market and discuss different types of knowledge that are accumulated during the process of entry. The development of these different knowledge types are described as a being a central element of the link between the exporting firm and the foreign country market. The link in this context is described as being the business marketing entry strategy. The authors claim that the business marketing entry strategy rests on the exporting firm’s resource constellation which consists of different knowledge types.

The different kinds of knowledge types that the authors highlight in the context of the entry process are:

- Internationalization Knowledge
- Marketing Knowledge
- Market Specific Knowledge.

Timlon and Hilmersson (2009) describe the internationalization knowledge as a procedural knowledge which concerns abilities related to foreign market operations built on the firm’s experience in international operations, i.e. a firm’s ability to adapt to local market characteristics. The learning accumulated in terms of internationalization knowledge gained from a certain foreign country operation helps the firm when entering another foreign country market and in that since it helps the firm’s ability to internationalize in a broader perspective according to Blomstermo et al (2004). The internationalization is said to be gained through experience and in that sense it is a form of experiential knowledge.

Marketing Knowledge is also a procedural experiential knowledge and concerns abilities related to the marketing activities, according to the authors it includes knowledge about solving customer problems and the transfer of solutions to customer problems (Timlon and Hilmersson, 2009).

Market-specific knowledge is according to Blomstermo et al. (2004a) knowledge about local networks of business relationship in a market. Timlon and Hilmersson (2009) separate market-specific knowledge into two different kinds of experiential knowledge, societal knowledge and network experiential knowledge. Moreover the network experiential knowledge is divided into three main types of network experiential knowledge, namely relationship specific knowledge, relationship development knowledge and relationship coordination knowl-
edge. Furthermore, an additional type of network specific knowledge is labelled business marketing knowledge.

- **Market-Specific Knowledge:**
  - Societal Knowledge
  - Network Experiential Knowledge
    - Business Marketing Knowledge
    - Relationship Specific Knowledge
    - Relationship Development Knowledge
    - Relationship Coordination Knowledge

Societal knowledge is according to Timlon and Hilmersson (2009) e.g. the understanding of language, culture, laws and regulations in the local market. Network experiential knowledge is defined by Blomstermo et al. (2004a p.358) as: “...knowledge gained from network relationships that are essential for the development of business in a local market”. Timlon and Hilmersson (2009) argue that network experiential knowledge is dependent on the societal knowledge and highlight indicators of this type of knowledge. One indicator is knowledge about the local network actors’ (i.e. the intermediary or the customers) and another indicator is knowledge about negotiating with the local network actors (i.e. the intermediary). In addition to this, the author describes essential elements of the network experiential knowledge to be knowledge about customer needs, product knowledge. Furthermore, an essential element of the network experiential knowledge is knowledge about matching the customer needs and the functionalities of the products with the customer needs. This type of knowledge is what the author’s labels as business marketing knowledge.

The relationship specific knowledge is argued to be partner specific, in other words the knowledge gained is not necessarily applicable to other relationships. In the context of entering a market via an intermediary it might concern i.e. knowing how the intermediary react to different kinds of actions, the ability of the intermediary or intermediary firm to adapt and the different roles individuals of the intermediary firm plays. Accumulating relationship specific knowledge can strengthen productivity since the better the partners know each other; the easier it is for the partners to coordinate activities together (Timlon and Hilmersson, 2009).

Relationship development knowledge is similar to relationship specific knowledge in the sense that it gives the firm knowledge about partner relationships. However, this knowledge
is applicable to other situations and other relationships. It gives the firm knowledge about e.g.
how to identify and contact new partners or how to develop relationships in general (Timlon
and Hilmersson, 2009). The relationship coordination knowledge concerns coordination of
activities in the relationships e.g. finding more efficient solutions regarding the value chain
process or deliveries (Timlon and Hilmersson, 2009).

In addition, Timlon and Hilmersson (2009) account for organizational learning in the process
of entry and explain how through exploration and exploitation of knowledge a dynamic or-
ganizational learning process occurs. The organizational learning process and the outcome of
the process is explained through the assumption that firm’s are constantly changing and
learning therefore needs to be built on changes. Timlon and Hilmersson (2009) explain how
social and psychological processes link the learning that occurs at individual, group and or-
ganizational level together.

3.2 Institutional and cultural differences
According to Ford’s “five stage” relationship model presented earlier in the entry process
chapter distances between the seller and the other part being i.e. the intermediary or the cus-
tomer decrease as the firm is moving forward in the entry process. To develop a relationship
further as well as moving forward in the relationship process requires adaptations in order to
decrease these distances (Ford, 1980 and Jansson and Sandberg, 2008).

Timlon and Hilmersson (2009) account for distances and explain how distances and differ-
ences between the domestic and foreign market cause uncertainties. As a reaction of the per-
ceived uncertainties the authors suggests a re-conceptualization of the local market which
means understanding the nature of it. The new understanding is then suggested to be incorpo-
rated into the entry process. Consequently, by developing new types of knowledge and
aligning the behaviour of the exporting firm to new local conditions, perceived institutional
distances are reduced.

The distances presented by Ford (1980) are the social, cultural, technical and geographical
distances. Jansson (2007a) do however provide a broader concept of many differences per-
ceived by the actors involved in international business and forming the actors in to institu-
tional behaviours, routines, rules or procedures. The concept is according to Jansson (2007a)
a broader concept than cultural and psychic distance and is called institutional distance. The
differences and the distances that are prevailing in a relationship is important to consider in
the entry process in order to be aware of what kind of adaptations that the exporting firm has
to make. It is also important to consider in order be aware of what kind of knowledge that the firm has to gain in order to decrease the distance and move forward in the relationship process (Jansson, 2007a). Timlon and Hilmersson (2009) argue that Business Marketing Knowledge being a type of network experiential knowledge is an essential type of knowledge when it comes to reducing the perceived distances and establish a successful entry into the foreign market. By developing new knowledge about new local conditions and match the customer needs which are dependent on the local conditions with the products, the firm align the exporting firm to the local environment. Consequently, distances are reduced due to the adaptations and alignment that has been made. The alignment and the matchmaking regarding the needs to the products and vice versa show how both the exporter and the intermediary need to possess the business marketing knowledge (Timlon and HIlmersson, 2009).

Making adaptations and aligning the behaviour of the firm to the local condition requires an understanding of the local conditions. Hence, a need for societal knowledge is also required which the author describes as a knowledge which the network experiential knowledge is dependent on (Timlon and Hilmersson, 2009).

The differences between the exporting firm and the host country which causes distances which in turn causes uncertainties often regard politics, economy, culture and corruption but also a psychic distance. Jansson et al (2007) explains that how business is done vary between different countries and how firms operate according to underlying principles. According to resent research these differences are affected by the institutions prevailing in the markets. The institutions are described by Scott (2001) as a system of actions that are said to be institution- alized to the extent that the actors in an ongoing relation orient their actions to a common set of standards and value patterns. Institutions are described by Jansson et al (2007a) out of characteristics within the human behaviour: codes, rules, habits, routines. The authors claim there are three substances of institutions: cognitive, normative and regulative.

3.2.1 The cognitive substance

This substance regarding institutions relates to how people think Jansson et al, 2007). The way they think affects their decisions and the result of that. Learning new things becomes easier when the practise is in line with the existing ways of thinking and doing things or within the “mental program” (Hofstede and Hofstede, 2005). Jansson et al (2007) accounts for three aspects of the cognitive substance: self, time and causality. Self is about the relation one has with the environment, both in the social environment and towards other individuals
in the firm. *Time* has to do with how time is perceived. It can be viewed as “a limited stretch or a space of continued existence” (Jansson et al, 2007, p.958). *Causality* is explained by Jansson et al (2007) as a mental process. Cognition is according to Scott (2001) related to underlying social aspects which lead to repeated actions, in other words lead to a specific behaviour. It is connected to how people manage, deal, select and code information as well as how people use the information. It is also related to feelings and motivational factors and affects evaluation and judgement. The cognitive substance is according to Scott (2001) the deepest level, since it rests on “taken for granted” understandings.

### 3.2.2 The normative substance

Institutions provide normative rules, based on values and norms that work as guidelines for the behaviour that is desired within the institutions. Honesty and working towards common goals are examples of values, which are the roots of our behaviour. The acceptable behaviour is then determined by the norms (Jansson et al, 2007). The normative structure is according to Scott (2001) related to the behaviour in the since that the values and norms are visible in the behaviour. Values are explained by Scott (2001) as preferred or desirable behaviour and standards for how behaviour can be compared. Norms are described as “How things should be done” (Scott, 2001, p.55). Moreover, the normative system functions as a definition of goals and/or objectives.

Samovar et al (2004) explains how there are many definitions of culture and highlights the main characteristics of culture as; shared values, attitudes, beliefs, behaviours and norms. According to Gudykunst and Ting-Toomey (1996) the culture in which individuals are socialized influence the way they communicate. A key problem in international marketing is developing and maintaining relationships with foreign sales and marketing intermediaries (Solberg, 2008). According to Solberg (2006) international relationships are more complicated than those in the domestic market since cultural differences and ensuing misunderstanding make them more demanding. The exporter firm is according to Solberg (2006) not only confronted with the challenges of not understanding the culture but also interpreting the local market information.

Hollensen (2007) brings up problems related to differences between the exporting firm and the intermediary and claims these differences, as for instance the cultural differences, can lead to distances between the two parties. He states that the distance contributes to problems related to communication and he also highlights the fact that it can lead to filtered informa-
tion from the intermediary to the exporting firm. Solberg (2008) also emphasises that the communication can be damaged due to differences and especially highlights the cultural aspects and claim that it affects the communication from the intermediary to the exporting firm. He claims that the cultural differences have a negative effect on the exporter–intermediary relationship. In addition, Jansson (2007a) also explains how all kinds of institutional differences can hinder communication, information and social linkages which lead to negative effects on the relationship (Jansson (2007a).

Ford (2003) and Jansson (2007a) claims that the information flow and the communication between the two actors involved in the entry process are crucial in order for the firm to move forward in the entry process. The firm need to have a functional information flow between the exporting firm and the intermediary in order to receive knowledge about the market and the customers. Further, Roath and Sinkovics (2006) demonstrate that communication is critical with regard to conflict resolution, since communication increases tolerance of conflicts.

The communication starts with the sender orientating a message, the message is encoded by the sender’s culture. The purpose of the message is to transfer information the sender desires to have understood. It can be transferred through different channels; verbal, visual or non verbal. The receiver is intended to create a meaning of the message. The message is then decoded by the receiver’s own preferences, values and beliefs influenced by the receiver’s culture. The noise can be referred to physical, psychological and semantic noise. The first refers to distractions in the environment, the second, how engaged the parts are in the communication. The last one is highlighted to be the most disturbing for the message delivery and
most influenced by the culture, it concerns, jargon, slang and professional terminology. (Samovar et al., 2004).

Samovar et al. (2004) explains how culture influence all components involved in the communication model and difference in cultures between the two parties may then cause misinterpreting, misreading and misunderstanding of the message.

Authors like Roath and Sinkovics (2006) conclude that societal knowledge plays a crucial role in order to reduce distances caused by cultural differences. They argue that speaking foreign languages and knowing about others’ cultures is an important basis of knowledge in the exporter–intermediary relationship. They also highlight the importance of being able to make adaptations to foreign cultures. Doole and Lowe (2004) also highlight the fact that international marketing requires knowledge about foreign cultures and the ability to make adaptations. This emphasises Hofstede and Hofstede (2005) as well and states that knowing about cultures is not sufficient, additionally; individuals need to use this knowledge and make adaptations in order to reduce cultural distance toward the partner representative.

3.2.2.1 Solberg’s Complexity Model

Cultural distance is according to Solberg (2008) an external uncertainty that creates problems in the field of exporter-intermediary relationships and essentially within the process of reporting from the foreign intermediary to the exporter. Task complexity is what Solberg (2008) explains to be one of many factors that lead to internal uncertainty. Examples of task complexity is when firms operating in foreign markets through an intermediary have complex products, where extensive information exchanges and interaction is required to solve functional problems such as delivery or installation of the product or service. Timlon and Hilmersson (2009) also account for the product complexity in the context of foreign market entry and claim that the less complex the product is the easier it is for the firm to translate the knowledge gained between different international contexts.

The degree of these two factors, cultural distance and task complexity, reveals according to Solberg (2008) how the relationship needs to be nurtured. He explains how a high degree of cultural distance has a negative effect on the exporter’s propensity to use clan control. Clan control is according to Harminder (2008) a process of socialization, which requires norms of reciprocity, common values and beliefs. The author also explains the meaning of clan in this context, which is a close-knit group whose member’s interaction is based on shared information, trust and equality. In contrast to these negative effects of cultural distance, Solberg
(2008) found that from the intermediary’s standpoint, the culture does not affect the relationship structure but it does affect opportunism, which means that the third party, the intermediary takes advantage of opportunities without regard of the consequences of the exporting firm. Concerning the task complexity, Solberg (2008) states that in general the more complex the product is and the more frequent transactions needed within the relationship, the more interdependent is the buyer-seller relationship.

Solberg (2008) combine these two factors or dimensions of uncertainties into a model and explains how uncertainty related to the relationship between parties from culturally distant markets together with having a complex product hampers the information flow and aggravate the information asymmetry embedded in the exporter-agent relationship. Figure 3, 4 illustrates the dimensions of cultural and task complexity. He suggests that a high level of cultural distance requires a need for sensitivity in the exporter–intermediary relationship and that a high level of product complexity implies a need for greater interaction between the two parties.

Solberg (2008) suggests that in a situation where the firm and the intermediary from the foreign country has a low cultural distance between them and a low complex product or low task complexity, the agent is first and foremost important for the export firm in the introduction phase. The firm needs to become embedded with the customers and identify the customers and after that goal is accomplished it is assumed according to Solberg (2008) that the exporter can operate with less agent participation. In the case of low cultural distance and high task complexity Solberg (2008) highlights clan control as a key for relationship quality, which is in this case possible due to the low degree of cultural distance. In the case of high cultural distance and low task complexity the agent plays a fundamental long-term role ac-
cording to the founder of the model. In the case of a high degree in both dimensions the author also suggests clan control as well as flexibility.

3.2.3 The regulative substance

The normative substance expresses a desired behaviour. In order to accomplish effective behaviour “reward and punishment” has to be present so the regulative substance involves rules. The authority system and the sanction system are the two major aspects of the regulative substance. The first refers to how for example powerful actors may influence the behaviour of others. They obey out of respect. The sanction system is about punishment or rewards, often by laws and rules. The purpose is to eliminate unacceptable behaviour and to encourage acceptable behaviour (Jansson et al, 2007).

Hollensen (2007) highlights some legal and political barriers that can divide the home country environment from the host country environment. The political barriers can be for example the risk associated with transferring capital between countries. The legal aspect which sometimes serves as a barrier between the two countries involved in the entry process are for instance import restrictions, price controls and tax controls.

Another major barrier concerning the host country environment structure is corruption. Corruption can be complicated matter when doing business in a foreign country and a major problem to deal with is concerning how to deal with the bribery. The history shows how bribes where paid on a regular basis by many companies doing business abroad and how it naturally became a part of international business; this is still today a common phenomenon. Managers today argue that the moral standards of the home country cannot be applied in other cultures and bribes therefore can be necessary in order to compete on a market with that specific culture. The risk of corruption and bribes is that it may open up for loose moral standards and the result might be that the focus is put on “how best to bribe” instead of produce or market products the best way. Hollensen (2007) suggests carefulness when distinguishing between reasonable ways of doing business internationally and business involving bribes and corruption.

3.3 The trade-off in the intermediary relationship

The main objective of having a linkage strategy is to add value to the end product along the vertical product chain through building long-term and mutually beneficial relationships with the customers, dealers and distributors. It is through the linkage strategy that a bond is established between the parties involved in the relationship. In a triadic entry to a foreign market
the seller network is connected to the buyer network through a third party being the intermediary as mentioned in the entry node chapter. Even if the firm enters the market via an intermediary and connects to the local network through the same, the foreign market operation also requires a linkage strategy towards the customers. The firm thereby has two linkages to strategically manage in a way that adds value to the end product (Jansson, 2007a).

Linkages in industrial product/service markets are often characterized by a long term character and investments in linkage-specific resources and capabilities. According to Jansson (2007a) it is important to be flexible in a relationship and not to lose the competitiveness that a strong relationship can result in, by the letting the relationship become set in a fixed mode. This flexibility is according to Jansson (2007a) obtained by continuously adapting to a changing context. Timlon and Hilmersson (2009) also account for the importance of being able to adapt to a changing context and emphasises organizational learning in the context of developing intermediated relationships.

Jansson (2007a) describes how there usually is a trade off between main types of linkages presented above. The most important linkage in the initial stages of the relationship and/or the foreign entry is often the information linkage, at this stage the parties build up knowledge about each other. Jansson (2007a) brings up how social linkages seems to be important throughout the whole relationship process. He also highlights the importance of social linkages in the context of building and maintaining relationships with various key persons. Another factor that Jansson (2007a) emphasizes in the context of establishing and maintaining fruitful relationships is trustworthiness. He makes a distinction between organizational and individual trust. The former is impersonal and formal and can be for example trust between a buyer and a seller that promises given on quality, price or delivery-times are kept. However, this “formal” relationship can be as emotional as any informal relationship. The latter concerns people and friendship among them, it concerns in this context the individual as a representative of his or her company. It can also be called professional trustworthiness and has to do with how tasks are completed together with other individuals.

3.3.1 Balance in the triadic relationship
The firm should strive for a balanced triad since an unbalanced triad that result in a weak relationship with the intermediary and a strong relationship with the end customer has negative effects on the performance of the firm in the international market (Jansson, 2007a and Solberg, 2008). In addition, Jansson (2007a) claims that having an unbalanced triad that results
in a weak relationship with the end customer and a strong relationship with the intermediary also affect the performance on the international market.

The consequences of focusing entirely on the relationship towards the intermediary without any deeper consideration of the relationship towards the customer and the market can be that the firm is unable to control the marketing process. If the firm is unable to gain the necessary network experiential knowledge by being active on the market the control of the marketing process becomes restricted. Network experiential knowledge is needed in order to get a clear idea of who the customers are and how the function (Blomstermo et al, 2004).

How to balance the trade-off and avoid the consequences of having an unbalanced triad is by building strategic linkages towards both the intermediary and the customer which results in two strong relationships. Jansson (2007a) suggests that the linkage strategy towards the intermediary should be built upon the linkage strategy the intermediary is supposed to perform towards the customers (Jansson, 2007a). The firm should then use the intermediary to function as a link and build the intermediary relationship based upon how or what the firm wants to communicate with their customers. In addition, in order to develop a functional linkage strategy to the intermediary, the linkage strategy towards other individual parties within the network in general also needs to be emphasized but in particular the linkage strategy towards the end customer (Jansson, 2007a).

According to Timlon and Hilmersson (2009) the relationship building process where the firm connects to the local network via an intermediary involves organizational learning. The intermediated relationship process is explained in the context of a ‘balancing act’ where knowledge that the exporting firm possess is exploited and new knowledge is explored. Internationalization knowledge is argued to be exploited by the firm at the same time as new knowledge in terms of network experiential knowledge is explored together with the intermediary. The authors describes this process through feedback loops, where feed-forward learning occurs when the firm transfer knowledge in terms of internationalisation to the intermediary and subsequently the network experiential knowledge which is explored together with the intermediary is feeded-back to the internationalizing firm. Hence, this enables the firm to gain the necessary experiential knowledge needed in order to avoid an unbalanced triad, via the intermediary or together with the intermediary. The most important network experiential knowledge that is explored together with the intermediary during this process is according to the authors the business marketing knowledge. In other words, the network experiential
knowledge about matching customer needs to functionalities of the products and the functionalities of the products to the needs.

3.4 Intermediary opportunism
Hollensen (2007) defines opportunistic behaviour as self-interest behaviour with guile which can be in the context of the exporter–intermediary relationship from the exporter’s view that the intermediary is misleading the exporter to its own benefit.

3.4.1 Motives for opportunism
According to the author the intermediary may manipulate information on market size and competitor prices in order to obtain lower prices from the producer. Hollensen (2007) suggest that a solution to this kind of opportunistic behaviour can be solved by paying the intermediary a commission of realized turnover.

Hollensen (2007) as well as Jansson (2007a) also accounts for opportunistic behaviour in the form of keeping the seller in the dark. According to Hollensen (2007) and Jansson (2007a) the risk of being replaced by a subsidiary is the main reason for why the intermediary may deliver a limited amount of feedback. If the intermediary is performing well and develops the market is the risk are increased that the intermediary gets replaced by a subsidiary of the exporting firm.

3.4.2 Long-term Strategy and Goal Alignment
A solution to this problem presented by Hollensen (2007) is to develop a long-term strategy where it is reasonable to include the intermediary in any new entry mode decisions. This might limit the fear of the intermediary and therefore allow the firm to gain a greater knowledge about the market and the customer through the intermediary. Furthermore, Solberg (2008) conduct that if agent or intermediary opportunism is to be restricted or limited the key objective is the goal alignment of the agent.

Timlon and Hilmersson (2009) explain how in the context of the entry process, developing business marketing knowledge plays a crucial role in order to reduce intermediary opportunism. The dynamic learning process in the intermediated relationship where knowledge is exchanged as explained in the previous chapter creates mutual knowledge. The mutual knowledge together with a mutual orientation creates a stronger bond between the firm and the intermediary and they become more and more dependent on each other. Subsequently, the need for replacing one another reduces according to the authors.
3.5 Information asymmetry

Petersen et al. (2000) highlights a number of factors that dissatisfaction with the intermediary can be associated with, among those are; poor service level, insufficient geographic coverage and the delivery of competing lines. He also clarifies that dissatisfaction of some level does not have to mean that the intermediary is replaced. Petersen et al. (2000) implies that the level of performance and whether it is what the exporter expects is in the end is what determines the exporter’s satisfaction with the intermediary. He also states that replacements can be difficult and explains how severance cost penalties can be entailed (Petersen et al, 2000).

Information asymmetry refers to problems in the exporter -foreign intermediary relationship in the initial starting point of internationalization where a fundamental mutual lack of knowledge is characterized. It is a typical situation where the exporter possesses a great knowledge about its products and the intermediary has knowledge about potential customers in the foreign market but not vice versa (Petersen et al, 2000).

The balancing of the dynamic learning process in the intermediary relationship explained in chapter 3, 3 is suggested by Timlon and Hilmersson (2009) to also reduces information asymmetry. They explain how a new joint knowledge platform which constitutes new capabilities is a result of the balancing act. A result when the business marketing knowledge explored together is institutionalized is that the intermediary is able to more independently operate on behalf of the exporting firm and are ready to take a more active role. When the business marketing knowledge is explored together both parties explore new knowledge from the other part together and thereby complement each other’s initial lack of knowledge.

Petersen et al. (2000) argues that information asymmetry existing between exporting firm’s and agents/intermediaries is a classical problem in economics. He explains that this problem is particularly pronounced in international business. The outcomes of information asymmetry when it comes to the exporters initial lack of knowledge about the foreign market are distinguished by Petersen et al. (2000) into two different kinds of problems, pre-contractual and post-contractual. The former is related to the difficulties for the exporter to know the true qualifications and shortcomings of the potential agent/intermediary. It also concerns the fact that it usually takes a while until the exporter is capable of estimating the true nature of the intermediary. The latter concerns the controllability of the intermediary’s actions or the outcome of the actions in order to counteract shirking. According to Petersen et al. (2000) many
studies suggests that there are difficulties in monitoring the performance of the foreign intermediary.

3.5.1 Pre-Contractual Problems

Hollensen (2007) also accounts for the pre-contractual kind of problem related to information asymmetry and explains how the selection of a suitable intermediary is very crucial in order to know the true qualifications of the intermediary. He presents different ways of finding a competent intermediary and thereby prevents problems not knowing the intermediary’s qualifications which are presented in the model (see figure 3, 5). The author also presents some specific desirable characteristics of an intermediary which are also presented in the model.

![Ways of finding a competent intermediary](image)

- Asking potential customers to suggest a suitable intermediary
- Obtaining recommendations from institutions such as trade associations and chambers of commerce
- Using commercial agencies
- Poaching a competitor’s agent
- Advertising in suitable trade papers

![Desirable characteristics](image)

- Covers the whole geographic area
- Not having competitive products in the product programme
- Have good relations/connections within the industry
- High level of technical know-how
- High level of service support to the product and marketing and selling expertise in a particular industry

Figure 3.5 (Hollensen, 2007)

Hollensen (2007) explains that other characteristics like; the intermediary being financially well consolidated, the size of the intermediary firm, reputation with suppliers and customers and overall experience are also important to look for in addition to the characteristics presented in the model.

Because of little prior knowledge in terms of business conditions in the foreign market in the beginning of the exporter-intermediary relationship, the exporter’s capability of estimating the competence of the intermediary as well as its capability of controlling the foreign inter-
mediary is quite limited. It is also difficult for the exporter to judge the intermediary’s commitment toward marketing tasks (Petersen et al., 2000).

The problem of estimating the intermediary is quite complex, since poor sales results which could be shown after working together for a while, might not be because of the intermediary. Other factors such as the products not working that well in the market regardless of the intermediary’s ability to market and sale the products might for example be the reason for poor sales results according to Petersen et al. (2000). The authors explain how unfavourable business conditions may counteract a brilliant intermediary’s performance. They also highlights that good economics results can still occur even though the intermediary’s performance is weak.

5.5.2 Post-Contractual Problems

In order to be able to judge the competence of the intermediary, to control the intermediary and to evaluate the performance of the relationship as well as the foreign operation the exporter needs market-specific knowledge and mode-specific knowledge. The former is knowledge about the foreign market that the firm is entering and the latter concerns knowledge and skills about managing and dealing with foreign intermediary’s (Petersen et al, 2000).

Another dilemma within the field of information asymmetry which is closely related to intermediary opportunism is according to Petersen et al. (2000) that the intermediary may withhold information that concerns the marketing activities, for example the true extent of it and the prerequisites for performing these activities. It is often difficult for the exporter to judge whether poor sales results are a consequence of insufficient sales effort or because of adverse external factors and this is because of the information asymmetry between the exporter and the intermediary (Petersen et al, 2000).

The distance to the intermediary or to the foreign country is also an important factor in the context of the exporter’s ability to control the intermediary or the outcome of the intermediary’s behaviour. Petersen et al. (2000) argues that the amount of frequent visits that the exporter are able make is related to the travel distance and affects the exporters opportunities to monitoring and evaluating the foreign intermediary.

Petersen et al. (2000) brings up the importance of experience in the context of monitoring and evaluating foreign intermediary’s. The authors claim that the procedures are transferable across countries, which means that by gaining experience from an agent/distributor relation-
ship in one country the exporter can improve its ability to handle the partnership with an intermediary in another country. In other words, mode-specific knowledge which concerns knowledge about how to service foreign markets through an intermediary mode accumulates in the progress of internationalization expansion. Petersen et al. (2000) also states that the control capability of an exporter gradually grows over time. Moreover, the authors claim that as mode-specific knowledge related to the intermediary grows stronger, the exporter becomes better at avoiding pitfalls involved in the recruitment of intermediary’s.

Petersen et al. (2000) argues that information asymmetry is most obvious in the initial stages of the relationship process and claim that information asymmetry is over time gradually reduced. It becomes easier over time for the exporter to spot shirking and identifying short-comings of the intermediary. The opportunity for experience-based benefits to increase for the exporter grows with the length of the manufacturer –representative relationship according to Petersen et al (2000). The authors explain how a higher level of trust, more efficient communication and a greater confidence are likely to be the outcome of older relationships.

3.6 Theoretical summary - Synthesis
How to reduce uncertainties and distances between the exporting firm and its intermediaries?

- By understanding the nature of the local market, incorporate the new understanding into the entry process and aligning the behaviour of the firm to new local conditions.
- By understanding the nature of the local market, identify differences and implement necessary adaptations.
- Exploring new knowledge together with the intermediary.
- By developing a functional information flow between the firm and the intermediary
- By possessing the necessary language skills and understanding the culture. In other words; by accumulating societal knowledge
- By accentuate a sensitivity in the meeting of the foreign culture
- By developing “new” norms, reciprocity, common values and beliefs within the relationship, in other words use clan control
- By having a careful approach when distinguishing between reasonable ways of doing business abroad and business involving bribes and corruption

How to handle the trade-off between the linkage strategy the firm have towards the intermediary and the one towards the customers?

- By having a balanced triad. In other words, by establishing a strong relationship to the intermediary and the customer. Thereby the firm avoid an unbalanced triad where there is a weak relationship with one or the other party.
- By exploring new knowledge together with the intermediary and continuously adapting to a changing context, which could mean by developing dynamic organisational learning capabilities.
- By developing network experiential knowledge in order to stay in control of the marketing process and building the intermediary relationship based upon how and/or what the firm wants to communicate with their customers.
- By building the linkage strategy towards the intermediary based upon the desired linkage strategy the intermediary is supposed to perform towards the customers.
- By striving for trustworthiness in the relationship.
How to prevent and cope with intermediary opportunism?

• By paying the intermediary a commission of realized turnover. This can prevent opportunism since one of the motives for opportunism can be obtaining a lower price.

• By developing a long-term strategy for the intermediary relationship where it is reasonable to include the intermediary in any new entry mode decisions. Thereby the fear of the intermediary regarding being replaced by e.g. a subsidiary, which is one of the motives for opportunism, is reduced.

• By goal alignment of the intermediary, meaning synchronising the firm’s goal with the intermediary’s goal and thereby limit the intermediary’s fear of being replaced and increase the opportunities for a trustworthy relationship.

• By exploring business marketing knowledge together with the intermediary and exploit international knowledge where both parties creates mutual knowledge and mutual orientation. This creates a stronger bond between the firm and the intermediary. The stronger the bond is the more dependent the parties are to one another and thereby the need for replacing one another reduces.

How to prevent and cope with information asymmetry?

• By dynamic learning processes in the intermediary relationship, where mutual knowledge is exchanged. The balancing act of the dynamic learning creates a new joint knowledge platform which constitutes capabilities as a result of the balancing act. When business marketing knowledge is explored together both parties explore new knowledge from the other part together and thereby complement each other’s initial lack of knowledge. The problem of the initial lack of knowledge from the intermediary’s standpoint about the products and the initial lack of knowledge from the firm’s standpoint about the market is then solved.

• By putting resources and focus into the recruitment and selection of a suitable intermediary and thereby from the start make it easier to know the true qualifications of the intermediary. The pre-contractual problem of information asymmetry is then solved. (pre-contractual)

• By increasing the chances of finding a suitable intermediary through asking potential customers to suggest a suitable intermediary, obtaining recommendation from institutions, using commercial agencies, poaching a competitor’s agent, advertising in suitable channels. (pre-contractual)
• By during the selection look for desirable characteristics e.g. the intermediary -covers the whole geographic area, not having competing products in the product portfolio, have good relations/connections within the industry, high level of technical know-how, high level of service support to the product and selling support to the product, marketing and selling expertise in the specific industry. (pre-contractual)
• By accumulating market specific knowledge and thereby be able to evaluate the performance of the intermediary and be able to judge the competence of the intermediary and to control the intermediary (Post-contractual)
• By reducing the distances between the intermediary and the foreign country and thereby being able to control the intermediary or the outcome of the intermediary’s behaviour. (Post-contractual)
• By visit the foreign country frequently and meet with the intermediary and the customers and a greater interaction between the firm and the intermediary.
• By using clan control, which means developing “new” norms, reciprocity, common values and beliefs within the relationship.
4. Empirical Study

4.1 Case Company Presentations

4.1.2 Aura Light

Aura Light is a manufacturer, developer and supplier of high-quality light sources. Aura Light’s head office and production plants are situated in Karlskrona, Sweden. Aura Light is divided into different market regions: the Nordic region and the UK region that includes Scandinavia, UK and Ireland. Region Central: which a subsidiary in Hamburg controls. Aura Light have own representatives that works in Germany and in Austria. In Austria they also work with distributors. For the Swiss market they have one distributor that handles the Swiss market. Aura Light also have a distributor in Poland that initially was a Joint Venture but the minority part was sold off to the distributor. This distributor is in charge of Poland, The Czech Republic, Hungary and Slovakia. Region South is another market region that Aura Light is active in and Aura Light’s Italian firm is in charge of this region. This region includes Italy, France and Spain. In all of these three countries Aura Light have their own corporations, with own representatives. The representative from Sweden who is stationed at Aura Lights own corporation in Italy has also representatives in Croatia, Bulgaria, Israel, Greece and Portugal. Aura Light’s biggest markets are Scandinavia and Germany. These markets represent approximately two thirds of Aura Lights turnover. The other markets are still in the construction phase.

4.1.4 Slipnaxos

Slipnaxos is the largest manufacturer of grinding wheels in northern Europe. They are a part of the corporate group Winterthur Technology AG, located in Zug. Slipnaxos started to establish their operations in 1985 with handmade grinding tools and has today developed into a worldwide organization. The production is located in Västervik, Sweden and they have established own offices in Denmark, England and France. 70 percent of their total sales are through export and they have intermediaries in 60 countries.

4.1.6 Norba

Norba is based in Blomsternåla in Småland, southern Sweden. The core business of Norba is to develop and manufacture products for collection and transportation of refuse and recycling
material. Today Norba is a part of Geesink Norba Group within the Oshkosh Truck Corporation. Geesink Norba Group is consisting of the brands Geesink, Norba and Kiggen.

Today Norba has a clear focus on the Russian market where they today see a great deal of potential. They are also well established in Eastern Europe, the Middle East, parts of Africa and in Asia. The main focus is however still on the Russian market since they believe that once the economic situation gets better the market will develop in a positive way and lead to opportunities for Norba.

4.2 Institutional and cultural differences

4.2.1 Aura Light

Concerning perceived cultural differences Anders Berg brings up Australia and claims that they generally perceive time a bit different from how business people in Sweden does. He argues that they have a more short-term perspective and that customers often wants to receive pay-back in a year or two and seldom has the perspective of receiving pay-back over a 6, 7 or 8 years cycle. Anders Berg explain that in Aura Light’s case the time perspective of the customer is important since Aura Light’s products is sold under the argument of “The life cycle cost perspective”. Since their products last so much longer according to Anders Berg Aura Light wants the customers to understand that they are saving money over time.

Anders Berg explains how there are major cultural differences perceived from Aura Light’s point of view when working with intermediaries in The Middle East. He brings up the importance of relationship building in The Middle East and how the relationship very much determines if you manage to sell.

“You know someone that knows someone who recommends you and so on. You have to sit down and drink a lot of tea and talk with them and after that come back maybe three or four times before they even begin to think about starting doing business.”

Anders Berg also brings up how different organizational structures affect the relationship with the intermediary in the context of cultural differences.

“In Dubai for instance there is usually a CEO or a leader on top of the hierarchy that is actually from the United Arab Emirates, but lower down the hierarchy, the people we actually talk to are very often Europeans, South-Africans or Americans and Indians who actually run the company. The Arab on top of the hierarchy mostly just holds the pen for when something
needs to be signed. He does not work actively with the export and thereby the cultural differences are not as strong.”

The role and function that the intermediary plays are extremely important in countries where there are larger cultural differences according to Anders Berg. This is because the distributor according to Anders Berg knows how everything works and how you should come across and thereby the firm avoids a lot of pitfalls.

When it comes to how these cultural differences could affect the relationship towards the intermediary Anders Berg explains that if for instance a westerner does not read signals correctly it can lead to complications such as misunderstanding between the two parties. According to Anders Berg sometimes intermediaries or customers from certain cultures which are different compared to “western” culture express themselves more indirect or implicit. In those cases where for example Aura Light does not really understand if the intermediary or the customer are interested, since perhaps the intermediary do not clarify and state that they are not interested Aura Light sometimes have their local agents accustomed with the culture who reads this signals and can explain it for other colleagues.

Culture is also an important factor when it comes to government and laws according to Anders Berg. He brings up The Middle East and explains that it is very difficult to do business there because of all the different certificates and approvals that are needed. It can take a long time before the actual selling can begin according to Anders Berg. Singapore on the other hand is relatively easy when it comes to laws and regulations according to Anders Berg. It is important according to Anders Berg to do research about these governmental regulations and to talk to the distributor about it.

4.2.2 Slipnaxos

Bertil Flinck explains how the intermediary is important because he knows the market, the culture and how to do business in the specific foreign market. He further explains that Slipnaxos in Sweden will support with business knowledge and technical competence. In addition, Bertil Flinck explains how the commitment is different depending on which market they are doing business in and that the commitment depends on the demand of their products on that specific market. In Spain for example Slipnaxos has two customers and on that specific market Bertil Flinck describes how the commitment is very low.
In the context of cultural differences Bertil Flinck explains that he does not perceive the distance to be that long. Most of the international contact is between Slipnaxos and the intermediary and this is often done on an international basis according to Bertil Flinck. The cultural behaviour is not that country specific and they meet according to Bertil Flinck on a neutral ground. Bertil Flinck points out that cultural differences is dealt with only by showing respect to one another and how if there is a lack of understanding and a lack of respect it can easily creates problem. “Mostly an international language is spoken and the business culture and behaviour is not that country specific.” Handling the cultural differences is not seen as a problem at Slipnaxos. Bertil Flinck feels that he experience of managing intermediary relationships makes it easier to handle and avoid situations where this could be a problem.

Being aware of the main differences when it comes to culture and institutional distance is useful but the meetings are often characterized by an “international code” according to Bertil Flinck. When the technicians from Slipnaxos visit the end customers on the other hand, then it is of greater importance to be aware of the differences between the countries in terms of culture, behaviour etc.

4.2.3 Norba

The evaluation of the market potential before the entry is of great importance for the success on the market according to Carl Sigfridsson. Norba puts a lot of effort in evaluating the markets out of economic values and into collecting information regarding the potential of the market today, signs of future growth etc. The entry barriers, such as corruption and perceivable differences within the behaviour, are discussed as factors considered before deciding to enter a new market. These complications are compared to the possibilities regarding economic potential.

Carl Sigfridsson explains how there has to be limits to what should be accepted in a foreign intermediary relationship. Some relationships should be ended and requires more than they give, both in terms of money and time. It is often cultural difference that in some ways are the factors behind the failure of these relationships. Carl Sigfridsson explains how he feels that Swedes are in some ways more afraid to express what they really want to gain from the relationship. In addition, similar problem do occur on a rather regular basis where the solution is not always to end the relationship instead it is of great importance to establish ‘the rules of the game’ in a very early stage in order to prevent these problems from happening.
All of the markets have their own specific nature which you have to take into consideration when entering the market. Carl Sigfridsson also explains how:

“The cultural differences account for the big part of the analytical work that is done before entering the market. The agent is also supposed to function as a bridge over these barriers and work as a good link between the exporter and the end customer”.

The differences between the markets are not only seen as problem according to Carl Sigfridsson. It is in fact a part of the export process, ‘part of the game’ and seen as something interesting both among Norba and the end customers. But being aware of the differences is seen as something positive and necessary in order to be successful on the international market. Carl Sigfridsson highlights how corruption is a very common issue when it comes to handling the foreign intermediary relationship, especially within Russia. “Within the authorities in Russia there is a lot of corruption. It is just a matter of how to deal with it because you know that it exists.”

He also points out how Norba has chosen not to be part of any bribes and how it is a reason for them not to get involved with that specific market segment. “You simply have to make a choice whether you want to be involved in the bribes and the corruption or not.”

Carl Sigfridsson points out the importance of finding the ‘right’ agent and how it is hard to build a model around that choice but how it all comes down to trust in the end. This will be elaborated on deeper in the information asymmetry part.

4.3 The Trade-off the in the intermediary relationship

4.3.1 Aura Light

Anders Berg highlights the importance of balance in the two relationships the firm are involved in during the entry process, the relationship towards the customers and the one towards the intermediary. He points out that the risks of completely relying on the relationship to the intermediary for a successful entering to the foreign market are that the firms understanding of the market is built up on filtered information and therefore might not be the whole picture. In addition, if the firm instead has a good relationship to the customers as well as to the intermediary this also helps the learning process of the intermediary. The intermediary also gets more honest if the three parties have a closer connection according to Anders Berg.

The only effort the firm can make in order to keep a balanced triad is according to Anders Berg to travel to the host country and meet with the customer face to face and make joint vis-
its together with the intermediary. Anders Berg states that keeping a close contact with the customers directly can be misinterpreted by the intermediary as a betrayal.

“I do not want to lift the phone and call directly to the end-customers. That might seem like I am going behind his back and thereby the only way to get a relationship towards and connection to the customers is through joint customer visits together with the intermediary.”

How well Aura Light knows their end-customers are very dependent on which market is being looked at. According to Anders Berg it is very dependent on where the market is, geographically. He explains the geographical distance as important through an example: Anders Berg describe how The Middle East (where Aura Light works with a distributor) which is not a market that far away in contrast to Australia is a market that Aura Light can visit fairly frequently and have joint visits with customers together with the distributor. Therefore Aura Light has a more clear understanding of which customers the distributor sells to and how the structure looks. In addition to this, in Australia where Aura Light are not capable of visiting as often Aura Light has to confine to a greater extent in the information from the distributor via phone or e-mail. Below he talks about the face-to-face visits with the customers together with the intermediary:

“It is of great importance for us but it is also of great importance for the distributors because of the fact that we can be very, very strong in one segment on the Nordic market, a segment that perhaps the distributor is not in yet. I can then interview my colleagues in Sweden and find out how they managed to get into that specific segment. I can provide reference companies here in Sweden that previously bought our products and ask them why they did it and so on. In that sense I can help him, so it is a mutual exchange.”

Anders claims that the firm can in fact learn about the market and the customers only from information received from the agent or distributor and do not have to learn from experience with the market and the customers themselves. He does however point out that the firm need to be aware of the fact that the intermediary delivers filtered information.

In the context of transferability of knowledge about specific markets as well as relationship knowledge within Aura Light Anders Berg states that he is trying to convey specific knowledge and experience he is gaining through working with different intermediary’s in different markets. However, he also states that he believes that very often the person who is in charge of a specific entry and the intermediary possesses the greatest knowledge about both the mar-
ket and the relationship and clarifies that he himself delivers filtered information, since every information which is delivered from one person to another to some extent is filtered. In the context of risks associated with having the whole operation resting on two individuals’ personal or impersonal relationship Anders Berg explain how in a construction phase very much rests on relationship. However, Anders Berg argues that after the entry process moves forward and the intermediary starts making money a replacement of the two persons involved does not have to be a problem.

“The relationship is still important, but if I were to be replaced in this phase and if that person has an understanding of the situation, is positive and wants to help and support then the intermediary will continue the same way as before because he has got dollar signs in his eyes and has the feeling that the business is going good.”

Anders Berg explains that the initial stage in the relationship is the most critical because everything in this stage is about overcoming the threshold and start becoming successful. He adds that some people at Aura Light might be better at handling the initial stage and other people better at handling the stages after the business has been built up. That is why Aura Light has made the decision to have employees like Anders Berg handing over the market and the intermediary relationship after a certain phase.

Anders Berg explains that the knowledge that he has gained through working with many distributors is that it is very important to be flexible yet still have a clear framework. He explains further that he have also learned the importance of being very clear when communicating especially when it comes to prises. Openness and truthfulness in an early stage are key success factors and is something beneficial for all parties involved according to Anders Berg. Anders Berg believes that otherwise a very uncertain situation on the market can occur. He explains below why it is important for them to often keep their intermediary even after a sales office or a subsidiary is established.

“Openness and truthfulness are beneficial for all parties involved. Otherwise the situation becomes very uncertain and the reaction might be from the customers that if a distributor quit, they do not know where they can get the products from and this is an even more critical situation if we do not know who the end-customers are. The situation becomes very confusing.”
Anders Berg explains how Aura Light wants the customer to commit one hundred percent and that is why Aura Light sets up activities together with their distributors. Aura Light might tell distributors that a certain fair is interesting from Aura Light’s point of view and might encourage the distributors to put out in that fair. If it then is too expensive from the distributor’s point of view Aura Light might finance the activity or half of it and in exchange half of the space on the fairs might exclusively be saved for Aura Light’s products. Anders Berg explains how the same goes for advertisement.

When it comes to marketing Aura Light also continuously build up databases in their CRM system. Inquiries from for example Australian companies go through their system and Aura Light forwards them to their distributors and Aura Light are therefore able to save the personal details in their CRM system. Aura Light uses these details when they perform direct campaigns via e-mail.

Anders Berg claims that a firm can never be in full control over an intermediary and points out the importance of explaining to the intermediary what has worked and what has not in other countries when concerning marketing of Aura Light’s products. If Aura Light does not believe in a certain marketing activity they usually tell the distributor that they are not willing to finance but that if he or she is willing to do so it is okay. He also states that no one is happier than Aura Light if the distributor turned out to be the one who made the correct judgement. The distributors have some level of freedom related to the marketing activities in that sense according to Anders Berg. However, Aura Light provide all the digital pictures, adds, product folders, catalogues and such. Aura Light only add the intermediary’s address and logotype but the rest of the material are Aura Light’s and cannot be changed. They have experienced that intermediary’s do change the material sometimes but they do not allow that because Aura Light wants to keep the same identity all over the world.

Anders Berg explain how Aura Light do have distributors who manages their marketing activities themselves but where the commitment is till high. For instance Aura Light had a distributor’s sales force in Switzerland come to Sweden to visit the factory and Anders Berg claims that it gave them high motivation and commitment without Aura Light having to in detail engage in their sales or activities. He states that the sales force started to “feel for the products”.

One consequence of not having control over the marketing activities can be according to Anders Berg that Aura Light has different images and looks in different countries and since a lot
of the customers’ purchases products from different countries it is important to have a united message and image to communicate.

4.3.2 Slipnaxos

Bertil Flinck explains how the limited resources of the company make it impossible for them to manage the relations in the international market all by themselves and that they therefore always need an intermediary in the entry process.

The involvement that Slipnaxos have themselves with the end customer differs a lot between the different markets. Bertil Flinck explains how Slipnaxos themselves most often is contacted by the end customer regarding technical issues. In most cases contact with the end customer is done through the intermediary but since they often lack the technical competence the end customer turns directly to Slipnaxos in those matters. Bertil Flinck also explains that the relationship with the end customer is closer with their larger customers and that in those cases contact is handled to a much larger extent directly from Slipnaxos in Sweden. This is a lot due to the importance of these customers when it comes to sales figures. In those situations controlling the relationship to the intermediary is perceived as much more important as well as to engage in the linkage strategy towards the relationship with the customers according to Bertil Flinck. Bertil Flinck explains how the relationship to the smaller customers is not that close and that the intermediary in those cases more or less buy from Slipnaxos in order to sell to the end customer. Slipnaxos does not handle the relationship with the end customer in those cases.

Bertil Flinck believes that their end customers do not care about the intermediary and that they would rather do business directly with Slipnaxos. Using an intermediary is to a large extent a matter of not being able to deal with the constant relationship maintaining to the customer according to Bertil Flinck. Maintaining a good business relationship requires a rather large commitment in most cases according to Bertil Flinck. Bertil Flinck also points out that dealing with unfortunate situations such as complaints is much more efficient if it is done through an intermediary, someone closer to the end customer. The closeness needed in those situations is too costly for Slipnaxos to handle with their own staff.

Bertil Flinck believes the personal relationship is of great importance in order to build up good linkage strategies to both the customers and the intermediary. He appreciates a more informal relationship and believes that meeting the other parties on a regular basis is what
makes the relationship good and long lasting. He gives an example of a Chinese firm and their manager that is soon retiring:

“Within the Asian culture you go through many years before you reach the relationships that we have established. It will take us very many years to just get back to a similar situation to the one we have today.”

He continues and explains how the similar problems can occur with Slipnaxos and the intermediaries. “If they change representatives we have to start all over again there so a lot of the relationships are very focused to the specific person.” Handling the business relationships with the customers from the office in Sweden are, according to Bertil Flinck, not a possibility. A lot is due to the geographical distances concerning what separates Slipnaxos in Sweden from their customers in for example Australia, China and Korea. Maintaining a good relationship and handling the day to day business requires some one present in the market and an intermediary is therefore needed.

Regarding the information flow within the three party relationships, Bertil Flinck account for the feedback as a very useful information source. It is mostly gained through steady conversations with the intermediaries and is seldom gained directly from the end customers in Slipnaxos case. From the larger, more important customers on the other hand, information is more often coming directly from the end customers. Slipnaxos also see a greater need to visit them on a more regular basis in order to keep the relationship on a desired level.

2.3.3 Norba

“A very important thing to keep in mind is that you have to be on the market, with the end customer yourself. You should never just get the information through the intermediary.”

Carl Sigfridsson explains how an intermediary with whom you have a good relationship encourages that you visit the end customer together with him or her. “In most of our relationships we feel that we gain knowledge about the market”. Carl Sigfridsson also stresses the importance of the learning process. He explains that normally they feel that the distance that initially is large in fact decreases as they increase their commitment to the market. It is also of great importance that the intermediary perceives the gained knowledge as something positive.

“There are few things that are seen as positive, from the customer’s point of view, as when the exporter, together with the intermediary, visits the end customer and when it is obvious
that we knowledge about the market. It indicates a great deal of interest from our part and it is seen as an honour to meet the manufacturer, especially in far off markets such as Russia.”

Carls Sigfridsson explains how this is one of the reasons why Norba always wants the intermediary to be willing to share information about the market and have a positive attitude towards these kind of collaborations.

“How well we learn about the market and the customers often depends on how well the information is shared from the agent. However, in order to really learn you have to get in touch with the end customer yourself. That is the only way to really learn”.

He further explains how the products in some ways are adjusted to satisfy specific needs among the end customers, and how the marketing activity is adjusted to fit the market needs. This indicates the importance of getting to know the end customer. The main thing that the intermediary contributes to according to Carl Sigfridsson is shortening the cultural distances. He further explains that when it comes to a lot of the practical issues regarding export, the market knowledge is often gained through visiting’s with the end customer.

In the discussion regarding the relationships between the different parties: the intermediary and the customers, Carl Sigfridsson points out how the relationships are very much on a personal level and not only a relationship between the different firm or organizations. The market knowledge is also brought up as something rather centred to the team within the company that is working with export on a daily basis. There is therefore a risk associated with this structure for Norba since both the relationships and the market specific knowledge lies within a rather small part of the firm Carl Sigfridsson confirms.

It is of great importance according to Carl Sigfridsson that the intermediary acts in a way that is in line with what Norba wants. Norba often work together with the intermediary when forming a marketing mix and a strategy of how to reach out to the market.

“Being from Sweden is a strength in this matter. We are often aware of how different the markets are and are therefore aware of the fact that we need to adjust our marketing activities to suit the different markets.”

Another positive affect related to this humbleness which Carl Sigfridsson describes as a typical Swedish feature is that is in addition has led to increased knowledge for Norba. Some markets are very different regarding for example the environment regulations and knowing
that beforehand makes it easier for Norba to adjust their products to suit the demands on the different markets. When it comes to knowledge and how they evaluate different types of knowledge in terms of the success of entering a new market Carl Sigfridsson accounts for the market specific knowledge as being the most valuable one. The market-specific knowledge lays the ground for the strategic plan that is made before the entry.

“How you get that information and how you learn differs. It could be gained through an intermediary but the most valuable information is gained through being present on the market yourself.”

There are situations where a specific behaviour with the intermediary is desired according to Carl Sigfridsson therefore some level of control over the marketing process is required. He points out an example with a fair where a checklist was sent from Norba to the intermediary which explained dress code, specific questions to be asked to the customers, code of conduct etc. This is explained to be a way of controlling the behaviour and how the brand is perceived at the fair. In a broader sense Carl Sigfridsson accounts for the importance of Norba being perceived in a rather similar way around the world. Norba wants to be associated with the values that they stand for and therefore the intermediary’s behaviour has to be in line with that. The environmental issue and security for example is very important to maintain regardless of which market they operate in Carl Sigfridsson clarifies.

4.4 Intermediary Opportunism

4.4.1 Aura Light

The biggest motive for why the intermediary might filter information is according to Anders Berg that they wants to impersonate themselves as a good partner and wants to show that they are doing a good job. Despite this, Anders Berg explains that the attitude from the intermediary is usually very positive when Aura Light wants to make joint customer visits together with the distributor.

Anders Berg explains how during 2002 Aura Light had been working with a distributor in England during a 10 -15 years period. At that time Aura Light did not have their own subsidiary in England. This distributor was working almost exclusionary towards the “oil and gas” segment. Anders Berg explains how he was doing a very good job and making good business in this segment but how he did not do work towards the rest of Great Britain. That was why Aura Light at that time chose to set up a subsidiary. Aura Light did however make sure to
clarify that Aura Light was not going to actively work towards the “oil and gas” market and
that this market would be left for the distributor to handle. Anders Berg explains how because
of the sincerity and straightness the operation has worked very successfully. Aura Light did
make sure that the distributor understood that the “oil and gas” segment was his core busi-
ness, and that it was in this field he was making money. They also made sure that he under-
stood the logic behind why Aura Light wanted to set up a subsidiary, it was because of all the
other segments which they wanted to build up.

Anders Berg describes how setting up a subsidiary or having some kind of own representative
in the host country is not always the goal of entering a foreign market. He clarifies the state-
ment with an example: Aura Light had a distributor in Switzerland who Anders Berg was
working with in year 2002. In the year 2003 many people at Aura Light wanted Aura Light to
set up a subsidiary in Switzerland, but Ander Berg made an analysis with the result saying
that it would not be cost-effective and they chose not to. He explains how the sales have more
than doubled from that time until today. Setting up a subsidiary would not be cost-effective
according to Anders Berg because the distributor worked with complementing products in his
portfolio which was positively affecting the sales for Aura Lights products.

“The distributor’s customer structure was built on three or four major projects which he had
successfully been able to sell to in large volumes and also a large mass of SMEs which
bought a 100, 200 or 300 lamps here and there, which is a lot. In order for us to go in and
cover that whole market with one sales force would mean having a large amount of sales per-
sons and still these sales persons would sell for small volumes since they would only have
Aura Light in their portfolio. That is why at that time we made the evaluation that it would
not be cost-effective to set up a subsidiary.”

It is very common that some distributors are protectionists concerning their database accord-
ing to Anders Berg. He explains how they often do not want Aura Light to know which cus-
tomer they are selling to. Anders Berg argues that this has to do with relationship and trust.

“I build up a good relationship during time. For instance, with our distributor in Switzerland
I honestly described that it is not in our interest to set up a subsidiary because of how the
structure is formed. Thereby I build up a relationship during the years and they sense how I
support them in every way. This is also how you get information.”
Anders Berg explains how in a lot of markets Aura Light travels and visits the distributor and sits down together. According to Anders Berg Aura Light then discuss plans and strategies with the distributor and also do joint visits to customers. These jointly visiting’s to the customers are primarily made to customers which the distributors evaluates as important for Aura Light to visit in terms of Aura Light’s presence as a manufacturer having a positive impact on the purchase of the buyer. Anders Berg explains how Aura Light is always striving for these joint visits with customers, where both Aura Light and the distributor are present.

Anders Berg explains how there are limits to how far you can reach in terms of commitment when “only” working with an intermediary. With own representation Anders Berg believe that the firm is judged from the end-customer as a more long-term partner and a more investing partner compared to how the firm are judged via an intermediary.

Anders Berg explains how he has experienced fear from the intermediary in the sense that the intermediary asks about Aura Light´s strategy and wonders what will happen to the intermediary if Aura Light are or are starting to become successful. Anders Berg explains that what he can do to limit the intermediary´s fear of being replaced by a subsidiary is promising that during a certain time limit Aura Light will not set up a subsidiary. He also points out the fact that it is often impossible for Aura Light to know what will happen in five or ten years and therefore difficult to make promises that far ahead.

Often, where there is a potential to set up a subsidiary Anders Berg explains that it is the goal and that a solution to opportunism can in this case be to make sure for both parties sake to sign volume clauses. These clauses are built up in order to provide the firm with a justice to fire the intermediary or set up a subsidiary if the intermediary is not selling for a specific volume certain years.

In addition, Anders Berg explains how in most cases where Aura Light have set up a subsidiary after having operated in the market through an intermediary, the intermediary has been kept and has continue to worked nest to the subsidiary. Anders Berg admits that the commitment towards the distributor might decrease. Aura Light usually asks and talks a lot about these potential problems with the intermediary in the very beginning. Aura Light often asks the intermediary in a situation where they decide to set up a subsidiary which customers they have got in order to make sure that Aura Light leave those customers to the intermediary. Aura Light guarantees the intermediary that the customers the intermediary has will not be the focus for the subsidiary and that is what Aura Light calls “Customer Protectionism”. Ac-
According to Anders Berg, it does not matter when this type of problem might occur, Aura Light is always there for their intermediaries to protect and support them and this approach is according to Anders Berg something that can prevent opportunism.

Anders Berg explains how a way to prevent filtered information from the intermediary relates information exchange. The solution is done through hiring a salesman from the distributor’s sales force who becomes completely dedicated to Aura Light’s product and pays the new “employee” half of the person’s salary. It is something in between having an agent and an employee Anders Berg explains.

“When it comes to information exchange it has worked very well for us to tell the distributor that we do not want to set up a subsidiary it is too expensive but we do want to hire a person in you firm, in your sales force who becomes completely dedicated to our product and we are willing to pay half of his or her salary.”

Chemistry is very important explains Anders Berg, but the most important thing in the relationship towards the intermediary is that the intermediary feels that he or she gets support and protection from the manufacturer and that he or she is making money. Anders Berg clarifies that it is the money it all comes down to because if the intermediary is making good money he will put more effort into it.

4.4.2 Slipnaxos

Bertil Flinck discusses how the long term goal within Slipnaxos in some ways can be conflicting with the intermediaries’ goals and expectations from the business relationship. “If the market is large enough we at least have to evaluate the possibility of establishing an own sales office in the market”. Bertil Flinck does however express some scepticism towards setting up an own sales office: “It is often very costly and if the relationship with the intermediary is working well we might as well continue with that”. He also explains how establishing a subsidiary of Slipnaxos on the international market could lead to competitiveness within the corporate group which could lead to specific units within Slipnaxos being less prioritized.

Bertil Flinck highlights that when establishing new relationships it is mostly a question of seeing economic potential in the relationship. He believes that all of the frequently discussed differences between markets is not as importance as common sense and just being able to see how both parties can gain from investing in the relationship in an economic perspective. This
rather hard-drawn view of the potential is even more common as further away from Sweden as you get according to Bertil Flinck.

Another issue brought up is that since the end customers are rather few and intermediary could never survive economically just by selling Slipnaxos products which could decrease their commitment, at least in an early stage where it is even harder to make money as an intermediary. This often leads to Slipnaxos being less prioritized by the agent, especially in the smaller markets. However, when establishing new relationships with intermediaries Bertil Flinck explains that Slipnaxos is in a rather good position today: it is a nished market they operate in and they are well known worldwide and a lot of the work is therefore already done.

When Slipnaxos experience that they are being less prioritized by an agent something has to be done according to Bertil Flinck. If this problem is in a market with a great geographical distance the costs of handling the problem becomes even bigger. If a meeting is required and maybe even establishing a relationship with a new intermediary Bertil Flinck explains that it is not always worth it. It largely depends on the size and economic potential of the market.

There are situations where Slipnaxos do not get that much information from the intermediary and Bertil Flinck explains how that often is a result of the intermediary feeling threatened that Slipnaxos could decide to establish an own sales office in the market. The same threat has lead to the intermediaries holding back on the sales. “The intermediary is willing to share information as long as he’s not feeling threatened”. However this situation occurs very seldom since the volumes of Slipnaxos export often are too small to motivate an own sales office. Over all Bertil Flinck’s opinion is that most of the feedback that should come from the intermediary is in fact coming from them. Bertil Flinck explains how he is of the opinion that Slipnaxos does not need a detailed knowledge about the market in order to do business there.

4.4.3 Norba

Regarding the conflicting goals of the two parties when it comes to the firm’s potential interest in eventually setting up an own subsidiary Carl Sigfridsson brings up the economic aspect. The initial cost always is an important aspect to consider according to Carl Sigfridsson. He claims that it is typically the low initial costs associated with having an intermediary that emphasizes the argument for having an intermediary. He continues to explain that even if the initial costs are smaller when using an intermediary compared to establishing an own sales office in the market the initial costs do still exist. Costs associated with working with an intermediary can also lead to a negative result even after a long while according to Carl Sig-
Carl Sigfridsson explains how they have had a lot of rather bad relationships with intermediaries in Israel and The Middle East which has led to difficulties and in some cases it has meant the end of the relationship. He highlights an example where the profitability of using this intermediary was way to low in relation to what the intermediary was making. This went on for a while since Norba was not informed about the situation in a way that was desired which could have prevented the situation from going on for such a long time. This situation is according to Carl Sigfridsson not a common situation since it was a result of dishonesty and shirking. “He always wanted to keep us away from the end customer and he believed it was his customer exclusively”.

The intermediary’s unwillingness of sharing knowledge is not a very common dilemma but it is something that occurs every now and then according to Carl Sigfridsson. The factors behind this behaviour are mostly concerned with economic interests according to Carl Sigfridsson. He further explains that the intermediary creates a situation where it has more knowledge than the exporter because it gives the intermediary a bargaining power.

Carl Sigfridsson explains that the conflicting goals between the exporting company and the intermediary are the nature of the game. That the procedure works this way and being clear about the objectives from day one is of great importance in order to maintain an honest working relationship with the intermediary.

“The agent is often used on a specified time basis, for example three years. The purpose of this is for Norba to get to know the market. We always explain this right away in order to avoid misunderstanding. The next step is to increase the commitment on the market and therefore the existing relationship with the intermediary will change. Sometimes we hire him or her but we seldom use him or her just as an agent at this stage.”

There is however situations where the commitment has not increased to a point where the mode is changed from beyond using an intermediary to own representation or some kind of acquisition of the intermediary firm. Even if having own representation is the objective when Norba enters a market there have been situations where the export to that specific market did not pay off they way Norba expected. Therefore the entry process do not always end with
own representation or an acquisition and this clearly points out that is does not naturally has to be the next step according to Carl Sigfridsson.

Carl Sigfridsson explains how he is aware of how the fact that the intermediary may be holding back on information and even holding back on the sales in order to strengthen its own position. He suggests that these problems can be prevented by being active yourself side by side with the intermediary. Norba has a rather high commitment themselves at the same time as the intermediary is present on the market. Not on a daily basis but by visiting on a regular basis and being in contact with the end customer themselves. “There is no need to disturb and try to change things when they work well but in situations where we do not receive any information at all it is often seen as a signal of something being wrong.” Carl Sigfridsson highlights a risk regarding the step that is desired as to be the next one after the agent: setting up an own sales office for example.

“We have a situation now in Greece where the existing intermediary has about 80-90 percent of the market share within our industry. If we where to suggest to him that we would set up an own office he would probably just turn to another company and sell their products instead. It is after all he that has the close connections to the end customers.”

In this case Norba experience that the intermediary has a very strong position and changing that situation is concerned with a great deal of risks. The commitment is seen as very high even though they use an intermediary. There is therefore not likely that Norba does any changes to this situation, if any it would be to buy the existing distributor in Greece according to Carl Sigfridsson. He does however point out that it is generally more profitable to switch the mode into setting up a subsidiary after a while, because the profitability of working with an intermediary is not always seen as satisfactory.

4.5 Information Asymmetry

4.5.1 Aura Light

The initial stage where recruiting and evaluating the intermediary’s competence is absolutely the hardest part according to Anders Berg. He compares this problem to hiring and recruiting employees and states that it is really hard to get the right people and points out that in the beginning of the relationship it is hard to really know the true skills of the intermediary. He claims that in a situation like this the firm have to make an analysis of the firm that the agent or the distributor works for. Aspects that are important to look at according to Anders berg is:
What the firm are selling today? What segment are they stronger in? Are those segments, the kind where Aura Light would be suitable for? If the answer is yes to all those kinds of question Anders Berg argues that Aura Light start to investigate more. Another important aspect in this context that Anders berg brings up is that it is important for Aura Light to not only be a small part of the intermediary’s large product portfolio. Aura Light tries to avoid those kinds of intermediary’s who may have a large amount of competing products or brands in their portfolio.

“It is not interesting for Aura Light to work with an intermediary who has got fifty competing products or brands in their product portfolio. Instead we look for intermediary’s that have complementing products in the portfolio. This allows them to while they are visiting a customer to sell a product A to present Aura Lights products at the same time."

Anders Berg explains how it is very different from situation to situation how they act in order to make sure that they get a competent intermediary. He explains that Aura Light get in touch with a lot of distributors through their info box at their homepage, where the intermediary’s are the one who take the initial step towards a relationship and contact Aura Light. In addition, Aura Light sometimes recruits intermediaries through The Export Council through what The Export Council call “partner search”. Other types of recruitment methods are fairs, either local fair’s in the country where Aura Light wants to enter or in a country where they already are working with a distributor, where other distributors from other countries come to visit.

It is also very hard after the relationship has developed a bit further and the firm has moved forward in the entry process to know the real qualifications of the agent or the distributor according to Anders Berg. He claims that the only accurate way to really find out or at least get a sense of the intermediary’s real qualifications is to have a very close dialogue with the distributor. He suggest that the person in charge of the relationship towards the intermediary in the home country talks a lot with the intermediary and also proceed to the host country as much as possible and make joint customer visits. Anders claims that this is important in order to receive facts and information from the end-customer and in order to be able to hear the real and true arguments to for example why the customer does not want to buy a specific product, why there are delays and so on. He claims that this is extremely important.

It is also hard to evaluate and control all the intermediary’s if there are too many according to Anders Berg. He explains that it requires a focus in order to really understand what is going
on and in order to gain more from the relationship. The relationship is in that matter very much related to commitment according to Anders Berg.

“..With the intermediary’s you feel that you have a good relationship and the ones who sells very good you tend to focus on and have a closer dialogue with compared to the other. But I noticed when I was handing over the “good” intermediary’s that the ones I had left behind indeed had the potential and that is only recognisable when you focus on them and establish a better relationship.”

Anders Berg explains how he often ask for up-dates via a-mail frequently about different projects and saves everything on print so that he can look it through later and evaluate and that if nothing happens after a while with a certain project he acts on it. He brings up the importance of the intermediary feeling like Aura Light does not forget. “If you are a little pushy and communicate that increases the chances that something actually happens because they feel that it is annoying to have me on the phone”Anders Berg do however point out that it is important not to be too difficult because“...that is when they start to play with the truth to get rid of you. It is about keeping it balanced and a continuous dialogue rather than control. I want honest answers.”

Anders Berg explains how customers often ask why the lamps last as long as they do or have other questions about the products and brings up the importance of the intermediary’s capability of answering these questions. The distributors have to be able to clarify exactly what it is that makes Aura Light’s product so unique and especially why. Aura Light therefore have training days to make sure the intermediary acquire the necessary knowledge about the product that they need.

“A lot of times you feel like you provide a lot of good information about the products of Aura Light to the intermediary’s, you draw and explain and hold training days and you think that it is crystal clear. But then you hear the worst explaining from the intermediary when you are making joint customer visits. This is yet another reason for why joint customer visits are so important.”

Anders Berg explain that through being present when the distributor are meeting with the customers Aura Light are capable of notifying when the distributor are not really aware of everything the need to know about the products, in that case Aura Light train the intermediary more.
4.5.2. Slipnaxos

When it comes to establishing a successful relationship with an intermediary the main issue according to Bertil Flinck is to find a competent one. It takes time since Slipnaxos is a rather small company; they are not in the same situation as the larger companies where agents stand in line in order to work for them.

Bertil Flinck points out the importance of finding an intermediary with connections on the export market. “In some countries you do not get the business because you are good at what you do, you get them because you have the right connections and existing business relationships”. Once again he points out how the technical competence is less prioritized than knowledge about how business is done in the specific market. Bertil Flinck further explains how there are countries that Slipnaxos have tried to establish business in for about twenty years but have still not succeeded to this day. But it has never been a question of lack of quality of the products but a question of not being able to find the right way in.

Regarding the three party relationships: Slipnaxos, the intermediary and the end customer, Bertil Flinck explains that the intermediary is evaluated out of commercial terms. “How well he or she can do business in the specific market”. The technical competence that the intermediary need in order to inform the end customer is gained by education and the advanced technical issues are handled directly by Slipnaxos. Bertil Flinck also means that Slipnaxos products require more support in an early stage, both in terms of regular meetings between the intermediary and the end customer but also in terms of technical backup from Slipnaxos in Sweden. Bertil Flinck’s opinion is that a higher degree of technical competence is not needed among the intermediaries since the support given from Sweden is sufficient.

4.5.3 Norba

In order to prevent situations that are not satisfying Norba puts a lot of focus on finding ‘the right intermediary’. A lot of the determinants of a good relationship are on a personal level according to Carl Sigfridsson and he highlights the personal chemistry as something crucial for the success of the relationship. Carl Sigfridsson explains how Norba believe it is a good thing if the future intermediary has some kind of experience from working with Swedish producers before. In that way they are aware off the differences that exists and it is proven that it has not been a problem in their previous relationships.

“The intermediary can only for a while make more money with the behaviour that lead to the exporting company having limited knowledge about the market and the end customers (op-
portunism). You seldom realize this until some part of damage is already done which emphasizes the importance of putting a lot of resources into focusing on finding the right intermediary. Doing that is one of the main issues regarding the success of the entry process to that specific market.”

The intermediary’s network regarding authorities is of great use according to Carl Sigfridsson. A lot of the permissions that is needed in order to be able to enter the market are handled by the intermediary in a much more efficient way than could ever be done directly from Sweden. The existing connections within the industry are an important factor when it comes to choosing an intermediary. Often a specific market segment is the outline for the export and the intermediary is then chosen according to whether he or she has existing connections within that specific segment. Russia is an example where Norba wanted to reach the ‘town segment’ a lot of the preparation was put on finding someone that knew that segment and had valuable connections there.

In order to make sure the right knowledge about Norba’s products is transferred to the intermediaries Norba arranges education rather early after the choice of intermediary is made. “We educate them about our products but also about the service so that they can handle possible problems that can occur with the end customer.” There has been situations where Norba realizes that some misunderstandings has occurred and the end customer has not been well informed but in most of the cases the knowledge transfer is done in a satisfying well. This has been done numerous of times and the experience of working with intermediaries has made this process very efficient.

Regarding the relationship with the intermediary Carl Sigfridsson explains how the rules of the game should be established in an early stage. It all comes down to the flow of orders and if the relationship is profitable. A lot of factors are discussed regarding a successful relationship but as long as the relationship is not profitable all the other factors becomes irrelevant according to Carl Sigfridsson. “Sales are after all rather easy to measure and in the end it is about making money. You have to perform if the relationship is about to continue.”

Carl Sigfridsson explains how the ‘trial period’ is necessary since the knowledge about the intermediary’s competence is very limited and if sufficient results are not presented it is good not be bound for a too long period of time. Regarding the agent’s commitment and the potential of the future relationship Carl Sigfridsson explains how it seen as very positive if the other products that the intermediary promotes are in line with Norba’s. The best case scenario
is if the product portfolio consists of complementary products according to Carl Sigfridsson. Thereby it increases the chances that the end customers to a greater extent are the same and thereby the sales increases.

### 4.6 Empirical Summary

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Regarding the cognitive substance of institutional distance Anders Berg describes how time is perceived different within different cultures and that intermediaries sometimes have a more short term perspective on business that Aura Light has. Both Bertil Flinck and Carl Sigfridsson highlight the personal chemistry as a distinct factor regarding the cognitive substance.

Regarding the normative substance Anders Berg accounts for how reading signals in the meetings with the intermediaries can be difficult and how it easily can lead to misunderstandings because it hinders the communication. Something that Carl Sigfridsson also has experienced and he explains that the cultural differences have lead to many misunderstandings and mistakes. Bertil Flinck on the other hand does not perceive the normative substance of the institutional distance as that long and explains how an ‘international language’ is often spoken in the meetings between Slipnaxos and their intermediaries. He does however point out the fact that respect for the differences is always necessary. Being aware of the differences is something that Anders Berg, Bertil Flinck and Carl Sigfridsson all highlights as important when doing business internationally.
Regarding the regulative substance Anders Berg accounts for political- and governmental differences as something that Aura Light often gets in contact with and how makes the business less efficient. Carl Sigfridsson explains how Norba rather often face situations in foreign markets that involve corruption and how that is a factor they have to consider when they are evaluating new potential markets to enter.

4.6.2 The trade off in the intermediary relationship

Anders Berg, Bertil Flinck and Carl Sigfridsson all explain how balance in the three party relationship is wanted and something they all strive for. Both Anders Berg and Carl Sigfridsson claims that the balance is wanted in order to gain experiential- and market specific knowledge and Anders Berg also argue the importance of knowing who their end customers are. Anders Berg, Bertil Flinck and Carl Sigfridsson all claims that information flow that involves all three parties is important and Anders Berg and Carl Sigfridsson states that it is important since it help the intermediary to learn, which is perceived as positive even from the firm’s point of view.

How the trade-off is managed is according to Anders Berg and Carl Sigfridsson partly by joint customers visits, which is argued by Carl Sigfridsson as “the only way to really learn”. To be honest about the view of the future and the intentions right away is brought up by Anders Berg and Carl Sigfridsson as very important and Anders Berg explains how handling the communication directly with the end customer can be misinterpreted as betrayal towards the intermediary. Carl Sigfridsson also expresses some scepticism towards disturbing too much in terms of having contact with the end customer yourself. Bertil Flinck describes how the direct contact and involvement with the end customer is much dependent on the ‘importance’ of the customer and that the regular contact most often concerns technical issues. He also describes how the contact with the intermediary is on a more regular basis.

When marketing activities is discussed Anders Berg describe how Aura Light work together with the intermediary in order to create a interconnected message and an united image. Carl Sigfridsson also explains how Norba wants to be perceived similar around the world and that they recently have introduces a code of conduct regarding their activities on a fair. Anders Berg states how Aura Light partly, together with the intermediary, or completely finance some market activities in order to express the desired message.
4.6.3 Intermediary Opportunism

Carl Sigfridsson states that it is very important for Norba to maintain a very low tolerance regarding dishonesty and shirking among the intermediaries. The fear of being replaced among the intermediaries is something that he, Anders Berg and Bertil Flinck have all experienced since there often are conflicting goals between the firm and the intermediary. This dilemma is handled by honesty according to Anders Berg and Carl Sigfridsson. Anders Berg explains that the long term solution should be presented and Carl Sigfridsson explains how Norba should explain how they do not have a long time perspective on the relationship. Bertil Flinck claims that Slipnaxos often evaluate the possibilities of replacing the intermediary by own representation but how the solution most often is to keep them.

The opportunism is according to Anders Berg also often prevented by Aura Light promising a minimum collaboration time, signing volume clauses etc and both he and Carl Sigfridsson highlights the importance of establishing ‘the rules of the game’ right away. Another way to prevent opportunism can be to buy the distribution company and/or having the intermediary working side by side to the subsidiary according to Anders Berg and Carl Sigfridsson.

4.6.4 Information asymmetry

The main issue for all three companies is to find ‘the right’ intermediary, to beforehand knowing the qualifications and competence of the potential intermediary. It is also described by Bertil Flinck as an expensive process. Anders Berg explains how they search for a potential intermediary among the export council, fairs and how they receive request through their homepage. Anders Berg, Bertil Flinck and Carl Sigfridsson all states that the right connections within the right segment are of great importance. Anders Berg further explains how Aura Light do not want to be a too small part of the intermediaries product portfolio and both he and Carl Sigfridsson states that it should not be any competing products within the portfolio. Carl Sigfridsson highlights the personal chemistry as an important characteristic among the intermediary and Bertil Flinck explains how the technical competence is of less importance than the knowledge of ‘how to do business’.

After the intermediary is chosen Anders Berg states to have a close dialogue with the intermediary and visit the host countries are ways to maintain a good relationship while Carl Sigfridsson and Bertil Flinck also highlights that the relationship is mostly evaluated on sales figures.
Anders Berg claims that it is hard to evaluate and control the relationships with the intermediaries, especially if there are many. He explains that it requires focus and commitment. Anders Berg, Bertil Flinck and Carl Sigfridsson advocate ‘monitoring’ the behaviour of the intermediary rather than controlling it. They all explain how controlling the behaviour could be perceived as something negative and might impede the performance of the intermediary. Situations where the intermediary experience a lack of knowledge is according to Anders Berg, Bertil Flinck and Carl Sigfridsson prevented by education. They all in an early stage make sure that the intermediary gain the relevant knowledge about the products in order to be able to successfully market it.
5. Analysis

5.1 Institutional and cultural differences

5.1.1 Cognitive substance
The cognitive substance relates to how people think. According to our theoretical findings the differences regarding the cognitive substance which could affect the relationship are: time, self and causality. Anders Berg claims that how time is perceived is the most distinguishable factor within the cognitive substance affecting the relationship with the intermediary. “The self” and how the intermediary relates to other individuals are brought up by Carl Sigfridsson who claims that a lot of the determinants of a good relationship are on a personal level. He highlights the personal chemistry as something crucial for the success of the relationship. This implies that the cognitive substance is in fact affecting the relationship and is therefore something that the exporting firm needs to consider. The fact that the cognitive substance is the deepest substance and a part of the mental program makes the differences visible first when it results in behaviour. This implies that the cognitive differences might be difficult for the exporting firm to overcome; however being aware of the differences might limit the risks of these differences resulting in misunderstandings and communication problems etc.

5.1.2 Normative substance
The normative substance is a result of the cognitive substance and describes the desired behaviour. Theory shows how Institutions provide normative rules, based on values and norms which are also what culture is described to be built on. Cultural distances are affecting the relationship between the firm and the intermediary according to our theory since it for example hinders the communication. Misunderstanding between two parties from different cultures is a common problem since the different values, beliefs and preferences affects how encoding and decoding of the message is done. Our empirical findings regarding cultural differences also reveals that reading signals incorrectly can lead to complications such as misunderstanding between the two parties and is a common problem, both Norba and Aura Light has experienced this. On the other hand misunderstanding as a result of institutional and cultural differences is not a common problem at Slipnaxos. Bertil Flinck states that: “Mostly an ‘international language’ is spoken and the business culture and behaviour is not that country specific.”
This reveals how cultural distance prevailing in the relationship is affecting the communication. It also reveals that reducing cultural distances and uncertainties in this sense is done by establishing an ‘international language’. This is in line with our theoretical solutions where clan control is highlighted and is described as developing “new” norms, reciprocity, common values and beliefs within the relationship. This implies that finding ways of establishing an “own” culture can be effective in terms of reducing distances between the parties. This requires a functional information flow which is brought up in the theoretical framework as being something crucial for the quality of the relationship towards the intermediary.

The theoretical findings show how the understanding of the culture is important when it comes to reducing cultural distances and uncertainties between the exporting firm and the intermediary. All three respondents suggest that being aware of the cultural differences between the firm and the intermediary is important.

However, being aware of cultural differences is first and foremost important when they meet with the end customers as opposed to the meeting with the intermediary according to Bertil Flinck. This highlights the fact that the intermediary serves as a bridge between the domestic and the foreign market and less cultural differences is perceived between the firm and the intermediary in comparison to how it is perceived between the firm and the customers. Possessing language skills together with an understanding of the culture is highlighted in theory as something important in order to reduce distances. Moreover, knowledge about the specific foreign language and the culture is examples of societal knowledge. Hence, societal knowledge is crucial in order to reduce distances also between the firm and the intermediary.

According to our theoretical findings adaptation to the foreign culture is important in order to reduce distances and uncertainties. All three respondents argue that adaptations need to be made, but highlights how there usually are a mutual adaptation between both parts. This reveals a possibility to use clan control where a mutual adaptation could result in an “own” culture built on both parties compromised cultures.

As presented in the theoretical framework the longer the distance is, the greater is the need for sensitivity in the foreign relationship in order to overcome distances. All three respondents explain how respect is of great importance in the meeting with the foreign intermediary. They also highlight the importance of both parties being able to make adaptations to the foreign culture. This clearly shows how in order to reduce distances the relationship needs to be built on mutual respect for one another and that both parties are willing to adapt.
The importance of being aware of the cultural is argued to prevent problems of cultural distances by Carl Sigfridsson. He highlights the importance of establishing ‘the rules of the game’ in a very early stage in order to prevent these problems from happening. All of the markets have their own specific nature which you have to take into consideration when entering the market. Carl Sigfridsson also explains how:

“The cultural differences account for the big part of the analytical work that is done before entering the market.”

4.1.3 Regulative substance

According to the theory the regulative substance involves rules and is in this context put in relation to legal and governmental barriers as well as barriers such as corruption which can affect the intermediary relationship. Legal and political barriers divide the home country environment from the host country environment.

The legal aspect which sometimes serves as a barrier between the two countries involved in the entry process are for instance import restrictions, price controls and tax controls. Anders Berg explains how political and governmental differences between the home and the host country can sometimes make the intermediary relationship less efficient since it can slow down procedures. Anders Berg brings up The Middle East and explains that it is very difficult to do business there because of all the different certificates and approvals that are needed. It can take a long time before the actual selling can begin according to Anders Berg.

It is important according to Anders Berg to do research about these governmental regulations and to talk to the distributor about them. Even in this scenario knowledge and awareness seems to be the key to reduce distances.

Our theoretical findings show how another major barrier concerning the host country environment structure is corruption. The risk of corruption and bribes is that it may open up for loose moral standards and the result might be that the focus is put on “how best to bribe” instead of produce or market products the best way. The theoretical solution is that the firm should carefully distinguish between reasonable ways of doing business abroad and business involving bribes and corruption. Our empirical findings also show that carefulness from the exporting firm is important when dealing with countries where corruption is present. The entry barriers, such as corruption and perceivable differences regarding the behaviour of the intermediary, are discussed as a factors needed to be considered before deciding to enter a
new market Carl Sigfridsson highlights how corruption is a very common issue when it comes to handling the foreign intermediary relationship, especially within Russia. He brings up the importance of accumulating knowledge about where corruption exists in the phase of evaluating potential markets in order to avoid it. He also points out how Norba has chosen not to be part of any bribes and how it can be a reason for them not to get involved with a specific market segment. Hence, in contrast to the other institutional distances, where learning and adaptations are the identified solutions, the problem of corruption is handled by avoiding it.

5.2 The trade-off in the intermediary relationship

Our theoretical findings show how the main objective of having a linkage strategy is to add value to the end product along the vertical product chain through building long-term and mutually beneficial relationships with the customers and distributors. The firm should strive for a balanced triad since an unbalanced triad that result in a weak relationship with the intermediary and a strong relationship with the end customer has a negative effect on the performance on the international market. In addition, having an unbalanced triad that results in a weak relationship with the end customer and a strong relationship with the intermediary also affect the performance on the international market.

Our empirical findings also imply a need for having a balanced triad. Anders Berg points out that the risks of completely relying on the relationship to the intermediary for a successful entering to the foreign market are that the firms understanding of the market is built up on filtered information and therefore might not be the whole picture. Bertil Flinck explains how he feels that it is important to have functional information flow where all three parties are involved and Carl Sigfridsson also stresses the importance of a strong relationship towards the customers and the intermediary. This implies that handling the trade off between the linkage strategies in a balanced way is very important since both our theoretical and empirical findings reveal this.

5.2.3 Balance in the triadic relationship

According to our theoretical findings an important factor regarding achieving balance in the intermediated relationship is by exploring and exploiting knowledge. The theory reveals that internationalization knowledge is exploited and feeded forward to the intermediary at the same time as new knowledge and essentially business experiential knowledge is explored together and is feeded back to the firm.
This is very much in line with what our empirical findings suggests. Anders Beg claim that
the best effort the firm can make in order to keep a balanced triad is travelling to the host
country make joint visits together with the intermediary. Aura Light has through this ap-
proach managed to get a more clear understanding of which customers the distributor sells to
and how the structure looks in many markets. In addition, Carl Sigfridsson also highlights
that: “...there are few things that are seen as positive, from the customer’s point of view, as
when the exporter, together with the intermediary, visits the end customer.” They both ac-
count for the importance of learning in this context and highlights that both the firm and the
intermediary gain knowledge through the joint customer visits.

This mutual knowledge exchange illustrated by both the empirical and theoretical findings
implies that balance can be established between the linkages by exploring new knowledge
together with the intermediary. An important way of exploring new knowledge together
seems to be through the joint customer visits.

However, Anders Berg states that keeping a close contact with the customers directly can be
misinterpreted by the intermediary as a betrayal.

“I do not want to lift the phone and call directly to the end-customers. That might seem like I
am going behind his back and thereby the only way to get a relationship towards and con-
nection to the customers is through joint customer visits together with the intermediary.”

This implies that carefulness could be necessary when developing a strong linkage strategy
towards the customer in order to not damaging the linkage towards the intermediary.

In order to achieve a balance in the intermediated relationship it seems important to have
control over the marketing process. According to our theoretical findings, network experien-
tial knowledge, which means knowledge about specific actors in the network, in this case the
customer, is helpful in order to stay in control over the marketing process.

The ability of accumulating knowledge about the customers seems easier the closer the mar-
ket is geographically judging by the empirical data. Anders Berg states that the joint customer
visits is harder to have more frequently when the market is far-off and thereby staying in
control over the marketing process is harder according to him.

In the context of having control of the marketing process Anders Berg describe how Aura
Light work together with the intermediary in order to create an interconnected message and a
united image. Carl Sigfridsson also explains how Norba wants to be perceived similar around the world and that they recently have introduced a code of conduct regarding their activities on a fair. Anders Berg states how Aura Light partly, together with the intermediary, or completely finance some market activities in order to express the desired message. When it comes to marketing Aura Light also continuously build up databases in their CRM system. Inquiries from for example Australian companies go through their system and Aura Light forwards them to their distributors and Aura Light are therefore able to save the personal details in their CRM system. Aura Light uses these details when they perform direct campaigns via e-mail. This illustrates one way of having control of who the customers are in order to keep control of the marketing process.

Moreover, theory suggests that the linkage strategy should be based on the desired linkage strategy the intermediary is supposed to perform towards the customers in order to achieve balance. In our opinion and based on the empirical findings presented above, this means using the intermediary as an extended arm in order to communicate the desired message to the end customers.

5.3 Intermediary Opportunism

According to our theoretical findings the intermediary may manipulate information on market size and competitor prices in order to obtain lower prices from the producer. A theoretical solution to this kind of opportunistic behaviour can be solved by paying the intermediary a commission of realized turnover. The factors behind this behaviour are mostly concerned with economic interests according to Carl Sigfridsson. He further explains that the intermediary creates a situation where he has more knowledge than the exporter because it gives the intermediary a bargaining power. This reveals how the economic interest of obtaining a lower price is in fact a problem.

Our empirical findings from the Norba case show how the firm need to be intolerant towards this kind of behaviour and a solution can in many cases mean the end of the relationship according to Carl Sigfridsson. “If the agent tries to block the information flow or delivers false information in order to obtain lower prices there is no possible future for that relationship”.

Our theoretical findings clearly show how the motive for opportunism in many cases is related to a fear the intermediary can have of being replaced by a subsidiary or any type of own presentation. The risk of being replaced by a subsidiary is the main reason for why the intermediary may deliver a limited amount of feedback. If the intermediary is performing well and
develops the market the risk increases that the intermediary gets replaced by a subsidiary of the exporting firm.

5.3.1 Long term strategy

A solution to this problem presented in our theoretical framework involves developing a long-term strategy where it is reasonable to include the intermediary in any new entry mode decisions. This might limit the intermediary’s fear of being replaced; meaning that one of the motives for opportunism is restricted. If the intermediary does not feel threatened of becoming replaced, it increases the chances that the intermediary delivers information to the firm which is built on truthfulness. Consequently, this allows for the firm to gain a greater knowledge about the market and the customer through the intermediary.

Anders Berg also emphasises this solution and claim that honesty, support together with a long term strategy towards the intermediary’s are things that Aura Light strive for:

“I build up a good relationship during time. For instance, with our distributor in Switzerland I honestly described that it is not in our interest to set up a subsidiary because of how the structure is formed. Thereby I build up a relationship during the years and they sense how I support them in every way. This is also how you get information.”

Anders Berg explains that what he can do to limit the intermediary’s fear of being replaced is promising that during a certain time limit Aura Light will not set up a subsidiary. He also points out the fact that it is often impossible for Aura Light to know what will happen in five or ten years and therefore it can be difficult to make promises that far ahead. This implies that there are restrictions on how far ahead in the future a long term strategy together with the intermediary can be built.

Furthermore, our empirical findings from the Norba case tell us that similar to the Aura Light case; honesty is very important. However it also tells us that the long term strategy is not a possible solution in every case. Carl Sigfridsson explains how:

“The agent is often used on a specified time basis at Norba, for example three years. The purpose of this is for Norba to get to know the market. We always explain this right away in order to avoid misunderstanding. The next step is to increase the commitment on the market and therefore the existing relationship with the intermediary will change. Sometimes we hire him or her but we seldom use him or her just as an agent at this stage.”
This illustrates how the intermediary relationship strategy of Norba is based quite short and is based on what the firm wants to achieve through the intermediary. Norba use the intermediary for approximately three years in order to get to know the market and when that goal is accomplished the relationship will change. It is difficult to interpret what kind of change that usually means, however according to Carl Sigfridsson the intermediary is seldom used just as an agent in this stage.

Anders Berg brings up another possible solution to opportunism. Often, where there is a potential to set up a subsidiary that is also the goal, however, a possible way to prevent opportunism is to make sure for both parties sake to sign volume clauses. These clauses are built up in order to provide the firm with a justice to fire the intermediary or set up a subsidiary if the intermediary is not selling for a specific volume certain years.

What kind of role the intermediary fulfils in the entry process of the exporting firm seems reasonable to consider in order establishing the goals of the relationship and in order to achieve a common goal. If the intermediary’s role is only to provide the firm with knowledge to the extent that enable the firm to establish own representation; setting up a long term strategy does not seem reasonable. However, if the firm wishes to gain knowledge and at the same time provide the intermediary with knowledge so that the intermediary can work more independently on behalf of the firm in the future, the long term strategy seems like a reasonable solution to opportunism. Moreover, signing contracts on the outlook of the collaboration seems like a reasonable thing to do in all situations. All three respondents express how honesty is important in the very beginning of the relationship and Carl Sigfridsson and Anders Berg especially highlight that it is important to establish “the rules of the game” in an early stage. Goal alignment can be done in various ways and are elaborated on deeper below.

5.3.2 Goal alignment

Our theoretical findings show that if an agent or intermediary opportunism is to be restricted or limited the key objective is the goal alignment of the agent/intermediary.

Our empirical findings suggests further arguments for the possible solution, goal alignment, since according to our respondents; setting up a subsidiary in the future does not always have to be the goal of the exporting firm when entering a foreign market. This enables the possibility of finding a common goal which is in line with both the intermediary and the exporting firm’s interest.
Anders Berg describes how setting up a subsidiary or having some kind of own representative in the host country is not always the goal of entering a foreign market. Setting up a subsidiary is sometimes not cost-effective according to Anders Berg. One reason can be that the distributor works with complementing products in his portfolio which is positively affecting the sales for Aura Lights products. Regarding setting up a subsidiary as a goal of entering a foreign market Bertil Flinck states that: “If the market is large enough we at least have to evaluate the possibility to establish an own sales office in the market”. Bertil Flinck does express some scepticism towards setting up an own sales office: “It is often very costly and if the relationship with the intermediary is working well we might as well continue with that”. He also explains how establishing a subsidiary of Slipnaxos on the international market could lead to competitiveness within the corporate group which could lead to specific units within Slipnaxos being less prioritized. Carl Sigfridsson explains that sometimes Norba is forced to have a more long term intermediary relationship strategy. He explains: “We have a situation now in Greece where the existing intermediary has about 80-90 percent of the market share within our industry. If we where to suggest to him that we would set up an own office he would probably just turn to another company and sell their products instead. It is after all he that has the close connections to the end customers.”

We can distinguish that the how the strategy towards the intermediary is supposed be built also is related to bargaining power. The stronger the intermediary position is (in Norbas case in terms of market shares) the greater reason for establishing a long term strategy.

Norba experienced that the intermediary had a very strong position in Greece and changing that situation was concerned with a great deal of risks. It is therefore not likely that Norba does any changes to this situation, if any it would be to buy the existing distributor in Greece according to Carl Sigfridsson. This statement highlights another possible solution, buying the intermediary or the intermediary firm.

Anders Berg also account for the solution of buying the intermediary which would most likely prevent opportunism and is a type of goal alignment. Aura Light has made this work very good according to Anders Berg through hiring an a salesman from the distributors sales force who becomes completely dedicated to Aura Light’s product and then pay the new “employee” half of the person’s salary. Anders Berg account for another way of finding a common goal in order to prevent opportunism. He explains how Aura Light often chooses to keep
the intermediary when setting up a subsidiary which is a good example of goal alignment if done the right way according to Anders Berg.

This shows that there are in fact a lot of ways of synchronising the goal of the intermediary with the goal of firm and thereby prevent or reduce the risk of opportunistic behaviour.

5.3.3 Exploring new knowledge together with the intermediary

Another type of solution to opportunism is distinguished in the literature as exploring knowledge together with the intermediary and establishing a mutual knowledge exchange. The intermediary gain knowledge about the product from the firm and the firm gain knowledge about the customer’s needs and thereby they are able to match the customer’s needs with the products. This is called business marketing knowledge and does not only increase the firm’s performance on the market but it also creates a mutual dependency between both parties. The dependency is said to prevent opportunism, since the more dependent both parties are to one another, the less reason there is for replacing one another.

Norba and Aura Light invest resources in educating the intermediary about the products and Anders Berg describes that through joint customer visits knowledge is exchanged and both parties learn. Moreover, Carl Sigfridsson explain how visiting the customer together with the intermediary is an important thing to do in order to know what kind of adaptations regarding the product that has to be made for the specific foreign market. This shows how exploring new knowledge together with the intermediary most likely can be a possible solution to prevent or coop with opportunism.

5.4 Information Asymmetry

According to the theory information asymmetry refers to problems in the exporter -foreign intermediary relationship in the initial starting point of internationalization where a fundamental mutual lack of knowledge is characterized. It is a typical situation where the exporter possesses a great knowledge about its products and the intermediary has knowledge about potential customers in the foreign market but not vice versa.

5.4.1. The exporter’s initial lack of knowledge – Pre contractual and Post contractual

According to the theory two different kinds of problems are distinguished as a result of information asymmetry pre-contractual and post-contractual.

Pre-contractual problems is according to our theoretical findings related to the difficulties for the exporter to know the true qualifications and shortcomings of the potential
agent/intermediary which also concerns the fact that it usually takes a while before the exporter is capable of estimating the true qualifications and shortcomings. Within the field of pre-contractual problems there is a clear connection to the empirical findings which implies that the problem does exist in reality.

Anders Berg explains how this is a problem and claim that the initial stage where recruiting and evaluating the intermediary’s competence is absolutely the hardest part. He compares this problem to hiring and recruiting employees and states that it is really hard to get the right people and points out that in the beginning of the relationship it is hard to really know the true skills of the intermediary. When it comes to establishing a successful relationship with an intermediary the main issue according to Bertil Flinck is to find a competent one. It takes time since Slipnaxos is a rather small company; they are not in the same situation as the larger companies where agents stand in line in order to work for them. Carl Sigfridsson also highlights the importance of finding the right intermediary and states that in order to prevent situations that are not satisfying Norba puts a lot of focus on finding ‘the right intermediary’.

Our theoretical findings also reveals that concerning the pre-contractual kind of problem related to information asymmetry the selection of a suitable intermediary is very crucial in order to know the true qualifications of the intermediary and achieve a higher performance on the market. This clearly shows how both the theory and the empirical study emphasises the connection between putting a lot of resources in the initial recruitment stage and a successful performance on the foreign market. This leads to the problem of knowing how to find a suitable intermediary.

Anders Berg explains that Aura Light get in touch with a lot of distributors through their info box on their homepage, where the intermediary’s are the one who take the initial step towards a relationship and contact Aura Light. In addition, Aura Light sometimes recruits intermediaries through The Export Council through what The Export Council call “partner search”. Other types of recruitment methods are fairs, either local fair’s in the country where Aura Light wants to enter or in a country where they already are working with a distributor, where other distributors from other countries come to visit. This is very much in line with what our theoretical data, where the theory suggests suitable ways of finding a competent intermediary. The theory brings up collaborations with institutions such as trade associations, advertising in suitable mediums. In addition to the empirical data, the theory suggests asking potential cus-
tomers to suggest a suitable intermediary, using commercial agencies and poaching a competitor’s agent

Related to the question of how to find a suitable intermediary is also the question of knowing what to look for in an intermediary and thereby prevent problems related to information asymmetry. Our theoretical findings show how some specific characteristics of an intermediary are especially desirable for the success of the entry process. Some of the desired characteristics presented in the theoretical framework are:

- That the intermediary covers the whole geographic area
- That the intermediary does not have competing products in its product portfolio
- That the intermediary has good relations/connections within the industry
- That the intermediary possess a high level of technical know-how
- That the intermediary has a high level of service support to the product
- That the intermediary possesses marketing and selling expertise in the particular industry.

Our empirical findings show that the product portfolio of the intermediary is important to consider when evaluating if the intermediary is suitable for the exporting firm. Anders Berg explains that Aura Light do not want to only be a small part of the intermediary’s large product portfolio. Aura Light also tries to avoid those kinds of intermediary’s who may have a large amount of competing products or brands in their portfolio which is in line with what the theory implies. This is something that Norba also tries to avoid.

Bertil Flinck highlight the importance of finding an intermediary with connections on the export market which also is in line with what the theory suggests. “In some countries you do not get the business because you are good at what you do, you get them because you have the right connections and existing business relationships”. He points out how the technical competence is less prioritized than knowledge about how business is done in the specific market in Slipnaxos case. Bertil Flinck further explains how there are countries that Slipnaxos have tried to establish business in for about twenty years but have still not succeeded to this day. But it has never been a question of lack of quality of the products but a question of not being able to find the right way in. Carl Sigfridsson also highlights the intermediary’s network and highlights the network regarding authorities as something of great use. The existing connections within the industry are an important factor when it comes to choosing an intermediary.
Often a specific market segment is the outline for the export and the intermediary is then chosen according to whether he or she has existing connections within that specific segment according to Carl Sigfridsson.

This implies that the looking for characteristics such as connections of the intermediary play a crucial role in order to prevent pre-contractual problems of information asymmetry. Moreover, another characteristic that need to be emphasized in the recruitment phase in order to limit pre-contractual problems is that the intermediary does not have competing products in the product portfolio.

Our theoretical findings shows how problems regarding estimating the intermediary is quite complex, since poor sales results which could be shown after working together for a while, might not be because of the intermediary. Other factors such as the products not working that well in the market regardless of the intermediary´s ability to market and sale the products might for example be the reason for poor sales results. Unfavourable business conditions may counteract a brilliant intermediary´s performance and good economics results can still occur even though the intermediary´s performance is weak.

Anders Berg agrees on the fact that due to inability of estimating what causes poor sales result it can be troublesome knowing the intermediary´s competence or incompetence. He claims that this problem remains a fact even after the relationship has developed a bit further. He claims that the only accurate way to really find out or at least get a sense of the intermediary´s competence is to have a very close dialogue with the distributor. He suggest that the person in charge of the relationship towards the intermediary in the home country talks a lot with the intermediary and also proceed to the host country as much as possible and make joint customer visits. This implies again, that solutions to this is found in having a balanced triad and meet the customers together with the intermediary. However, Carl Sigfridsson expresses a more hard-drawn view regarding how to evaluate the intermediary. He strongly feel that the exporting firm need to judge the competence of the intermediary based on the sales result. “Sales are after all rather easy to measure and in the end it is about making money. You have to perform if the relationship is about to continue.”

One reason for why Norba has a more figure based evaluating of the competence can be that they have a more short term strategy for the intermediary relationship.
According to our theoretical findings, because of little prior knowledge in terms of business conditions in the foreign market prevailing in the beginning of the exporter-intermediary relationship, not only the exporter’s capability of estimating the competence of the intermediary is a problem. Another problem presented as well is that the firm’s capability of controlling the foreign intermediary is quite limited. It can also be difficult for the exporter to judge the intermediary’s commitment toward marketing tasks. This refers to the post-contractual problems related to information asymmetry. Our theoretical findings shows how post-contractual concern the controllability of the intermediary’s actions or the outcome of the actions in order to counteract shirking and are a kind of opportunistic behaviour. Anders Berg explains that it is hard to evaluate and control all the intermediary’s if there are too many according to Anders Berg. He explains that it requires a focus in order to really understand what is going on and in order to gain more from the relationship. The relationship is in that matter very much related to commitment according to Anders Berg.

Our theoretical findings illustrates that the amount of frequent visits that the exporter are able make is related to the travel distance and affects the exporters opportunities to monitoring and evaluating the foreign intermediary which is very much in line with Anders Berg’s beliefs. Anders claims that joint customer visits is important in order to receive facts and information from the end-customer and in order to be able to hear the real and true arguments to for example why the customer does not want to buy a specific product, why there are delays and so on. Moreover, our theoretical findings reveal that information asymmetry is most obvious in the initial stages of the relationship process and that information asymmetry is over time gradually reduced. It becomes easier over time for the exporter to spot shirking and identifying shortcomings of the intermediary. The opportunity for experience-based benefits to increase for the exporter grows with the length of the manufacturer-representative relationship. The theory also explains how a higher level of trust, more efficient communication and a greater confidence are likely to be the outcome of older relationships.

Anders Berg explains argue that personal chemistry, trust, support and honesty is important. Just like Carl Sigfridsson and Bertil Flinck he appreciates the word “monitoring” rather than “controlling” the intermediary. We are under the impression that all of the respondents strongly felt that a desirable scenario seem to be the case where the exporting firm trusts the intermediary and vice versa to the extent that no monitoring or controlling at all is needed and therefore the pre-contractual problems seems more important to find a solution for, since that perhaps enables the firm to avoid control.
In order to monitor Anders Berg often ask for up-dates via a-mail frequently about different projects and saves everything on print so that he can look it through later and evaluate and that if nothing happens after a while with a certain project he acts on it. He brings up the importance of the intermediary feeling like Aura Light does not forget.

“If you are a little pushy and communicate that increases the chances that something actually happens because they feel that it is annoying to have me on the phone.” Anders Berg does however point out that it is important not to be too difficult because: “…that is when they start to play with the truth to get rid of you. It is about keeping it balanced and a continuous dialogue rather than control. I want honest answers.” This implies a need for carefulness when monitoring the intermediary.

5.4.2 Intermediary’s lack of knowledge
As stated earlier our theoretical findings suggests that information asymmetry is related to the fundamental mutual lack of knowledge that characterising the early relationship stage. The intermediary’s lack of knowledge is primarily related to the product. According to our theory agent performance ambiguity can be increased by factors relating to the relationship between the agent and the customization of the product. Task complexity is what the theory explains to be one of many factors that lead to internal uncertainty. Examples of task complexity are firms operating in foreign markets through an intermediary while having complex products. When there is a high level of task complexity extensive information exchanges and interaction is required to solve functional problems such as delivery or installation of the product or service. Theory shows that the more complex the product is the greater is the need for interaction from the firm’s point of view. Having a complex product hampers the information flow and aggravates the information asymmetry embedded in the exporter-intermediary relationship.

Our empirical findings on the all three cases reveal that the technical competence that the intermediary need in order to inform the end customer is gained by education. Bertil Flinck does however point out how the technical competence is less prioritized than knowledge about how business is done in the specific market. The empirical findings from the Aura Light case shows how Aura Light’s due to not having very complex products does not experience that much problems related to the intermediary’s limited knowledge about the products. Aura Light also put a lot of resources on educating and training the intermediary’s about their products. However, Anders Berg explains how customers often ask why the lamps last
as long as they do or have other questions about the products and brings up the importance of the intermediary’s capability of answering these questions. The distributors have to be able to clarify exactly what it is that makes Aura Light’s product so unique and especially why. Aura Light therefore have training days to make sure the intermediary acquire the necessary knowledge about the product that they need.

Anders Berg explain that through being present when the distributor are meeting with the customers Aura Light are capable of notifying when the distributor are not really aware of everything the need to know about the products, in that case Aura Light train the intermediary more. Carl Sigfridsson also explains how order to make sure the right knowledge about Norba’s products is transferred to the intermediaries Norba arranges education rather early after the choice of intermediary is made. “We educate them about our products but also about the service so that they can handle possible problems that can occur with the end customer.”

This implies, that a solutions to this problem can be having a balanced triad and meet with the customer together with the intermediary and explore knowledge together.

These solutions are also in line with our theoretical solution regarding mutual knowledge exchange regarding business marketing knowledge and internationalization knowledge. The mutual knowledge exchange where exploiting and exploring knowledge continuously together with the intermediary is said to enable both parties to complement for each other’s initial lack of knowledge and thereby information asymmetry is cooped with. The intermediary gain knowledge about the products at the same time as the intermediary gain knowledge about the customer’s needs and thereby they are able to match the functionalities of the product with the needs of the customers.
6. Conclusions

Research question 1:

- How to reduce uncertainties and distances caused by differences between the exporting firm and its intermediaries?

The firm should strive for an awareness of the differences regarding the rules, values and norms that reflect the foreign culture. The understanding of the foreign culture enables a better understanding of how to communicate with each other which reduces cultural distance and uncertainties.

Moreover, when an understanding of the foreign culture has been established the firm should make necessary adaptations in order to create an “own“ culture between the firm and the intermediary. This reduces cultural distances since new values, norms and beliefs are created within the relationship and bring the two parties closer. The firm should also strive for an understanding of the local market, and reconceptualise the new understanding in the foreign entry process, in order to reduce institutional and cultural distances between the firm and the intermediary.

Regarding the distances and uncertainties concerning politics, government and corruption, the only thing the firm can and therefore should do in order to reduce them is to analyse the market beforehand. When the analysis and research is done the firm should carefully consider whether the economic potential in the foreign country overcompensate the barriers. This creates an awareness beforehand which reduces the distances and allows the firm to avoid markets where the economic potential do not overcompensate the barriers.

Research question 2:

- How to handle the trade-off between the linkage strategy towards the intermediary and the linkage strategy towards the customers?

The firm should aim at achieving a balance in the trade-off between the linkage strategy the firm has towards the intermediary and the one the firm has towards the customers.

In order to achieve this balance we conclude the following:
The firm should explore and exploit new knowledge together with the intermediary and also with the intermediary and the customers in order to achieve a balance. This should be done by being present on the market and meeting the customers together with the intermediary as often as possible. The firm should however, be aware of the risk of having too much direct contact with the customer since it can be seen as a betrayal by the intermediary.

In order to achieve a balance in the intermediary relationship the firm should strive towards staying in control of the marketing process. Therefore the firm should accumulate network experiential knowledge i.e. knowledge about the customers. The firm should therefore strive for being active on the market and visit the country frequently.

In order to stay in control of the marketing process the firm can also partly or wholly finance marketing activities in order to work closely together with the intermediary regarding marketing activities. Further, the firm can introduce a “code of conduct” or in other ways communicating specific requirements to the intermediary regarding the marketing message in order to create a united and an interconnected message.

The balance between the linkage strategies is then achieved through building the strategy towards the intermediary based on what the firm wants to communicate to the customers. In this sense, we feel that the firm can manage to have the intermediary working as an extended arm of the firm and thereby balance is established without too much direct contact with customers.

Research question 3:

• How to prevent intermediary opportunism?

The firm should consider paying the intermediary on a commission of realized turnover since the intermediary’s profit is then based on the firm’s profit.

The firm should set up a strategy together with the intermediary in order to avoid opportunism where the firm is honest and upfront about the intensions with the relationship.

Where the intension of the relationship is to work with the intermediary on a long term basis in order to eventually enable the intermediary to be an extended arm of the firm and more independently work on behalf of the firm in the future, a long term strategy should be built together with the intermediary. The long term strategy should suggestively include how the intermediary is going to be included in the firm’s strategy in the future and what will happen
to the intermediary if the firm would decide to for instance set up a subsidiary. Moreover, the firm should create a mutual dependence between the firm and the intermediary through having a mutual exchange of knowledge between the firm and the intermediary. Dependency prevents opportunism since the more dependent both parties are on one another; the less reason there is for replacing one another.

Where the intension of the relationship is to use the intermediary on a shorter term basis in order to achieve the necessary knowledge needed in order to establish own representation, the firm should be honest about this in the very beginning. Moreover, for both parties sake volume clauses should be signed as well as other kinds of contracts in order to establish “the rules of the game” in an early stage.

Within the field of building a strategy together with the intermediary the firm should strive for goal alignment of the intermediary. This means that the firm should to the extent it is possible try to find a common goal with the relationship together with the intermediary. This should be a goal which is in line of both parties’ interests if the action is supposed to prevent opportunistic behaviour. This could for example mean having a goal of buying the intermediary or the intermediary firm. Another way of goal alignment is to have one person in the sales force of the intermediary working on behalf of the firm. The firm then pays the person a larger amount and in return the person becomes completely and exclusively dedicated to the products of the firm. Another way of goal alignment is to establish that if the firm enters the market through own representation in the future, the intermediary is kept within the organization, and for example is assigned to a specific segment.

**Research question 4:**

- How to prevent and coop with information asymmetry?

The firm should put a lot of resources in to finding the “right” intermediary from the start and thereby prevent pre-contractual problems of information asymmetry, which is inability of knowing the true qualifications and shortcomings of the intermediary.

The firm should carefully consider between reasonable ways of finding the “right” intermediary and e.g. exploit reliable connections. More importantly, the firm should look for specific desirable characteristics when recruiting the intermediary. The most important characteristics to look for in our opinion are that:
• The intermediary has good connections/relations in the specific industry
• The intermediary do not have competing products in the product portfolio
• The intermediary have complementing products in the product portfolio
• The intermediary covers the whole geographic area
• The intermediary possesses marketing and selling expertise in the particular industry

Regarding pre-contractual problems of evaluation of the qualifications and shortcomings after the intermediary is chosen, we suggest that the firm should have a close dialogue with the intermediary. Thereby the firm is more able to judge the competence of the intermediary. In addition, the firm should create an awareness of the market conditions e.g. by joint customer visits. This enables the firm to find out e.g. what, besides the intermediary’s incompetence might affect poor sales results. Thereby the risks associated with judging the competence inaccurate when only looking at the sales result is reduced. Judging the competence only by the sales figures is another way and perhaps more efficient if the firm has a more short term strategy to the intermediary relationship.

Post contractual problems of information asymmetry relate to the firm’s initial lack of knowledge about the market which makes it difficult to control the outcome of the intermediary’s behaviour. In order to solve this problem which is very similar to opportunism and thereby coop with information asymmetry the firm should visit the intermediary as frequent as possible, ask for updates and have regular contact to the intermediary. However, we conclude that the firm should focus more on building trustworthiness within the relationship and on finding the “right” intermediary and thereby avoid the need for control as much as possible.

Moreover, the firm should exploit and explore knowledge continuously together with the intermediary and thereby enable both parties to complement for each other’s initial lack of knowledge. The intermediary should be assigned with knowledge about the products from the firm at the same time as the firm should explore knowledge about the customer’s needs together with the intermediary. Thereby the firm is able to match the functionalities of the product with the needs of the customers and prevent information asymmetry.

Main research question

> How to establish a well functioning relationship with the intermediary which enables a successful entry process for the firm?
The firm should reduce distances and uncertainties, prevent opportunism and information asymmetry as well as handling the triad in a balanced way in order to establish a well functional relationship with the intermediary. After having analysed these four problems we have distinguished how they are all interrelated. For instance: When the firm has achieved a balanced triad, distances and uncertainties between the firm and the intermediary is consequently reduced. Moreover, the problems of opportunism and information asymmetry are seen as possible consequences of an unbalanced triad. Thereby, establishing a balanced triad is also a solution for these problems. Moreover, all four problems can to some extent be seen as consequences of the other problems and also as solutions to the other problems. However, the balance in the triad seems most evident in order to establish a well functional relationship with the intermediary. Yet, the firm can never achieve a balance triad without the reduction of distances as well as uncertainties and without preventing opportunism and information asymmetry.
Literature

Books


**Journal articles**


**Online sources**

OECD (2006)

[www.oecd.org](http://www.oecd.org/document/14/0,3343,en_2649_34197_37667406_1_1_1_1,00.html) (27th of April 2009)

**Interviews**

**Slipnaxos**

Interview on 22nd of April with Bertil Flinck, General Manager of Sales and procurement

**Aura Light**

Interview on 23rd of April with Anders Berg, VP Sales New Markets

**Norba**

Interview on 8th of May with Carl Sigfridsson, Export Manager
Appendix - Interview questions

Introduction questions:

About the company and the exporter – intermediary relationships:

We know that you have approximately 33 agents and distributors in over sixty countries, is that correct? We would like to know the following about introduction fact:

• How many and/which markets have you entered via an agent/distributor (intermediary)?
• How many markets, which markets, are you operating in right now via an intermediary? (May already have been answered)
• Have you used the same intermediary’s for multiple markets?
• Would you consider it common that your intermediaries in foreign markets at the same time work for many other firms?
• What role/roles does the intermediary play according to you?
• How important is it to have a good relationship with the foreign intermediary? Why?

Questions related to our problems:

Problem 1 – Cultural differences:

As found during our research a major part of the intermediary’s role is to provide a bridge between the two countries regarding language, cultural, business cultural and social barriers. However, even though the intermediary is capable of reducing barriers of these kinds it is reasonable to assume that sometimes language, cultural, business cultural and social barriers are found in-between the relationship of the firm and the intermediary.

• In our research we have found that culture complexity (which basically means the level of how much the culture differs) has a negative effect on the quality of the relationship between the exporting company and the intermediary, would you agree on that?
• How can cultural and institutional differences affect the exporter–intermediary relationship as well as the performance of the firm operating in the foreign market? (For example regarding – Communication, information and social linkages)

Problem 2 – The trade-off:

We have discussed problems related to the exporter–intermediary relationships. Our impression is that one underlying problem if not handled in the right way can contribute to other problems. The main problem here that we found were how the exporting firm can manage the trade-off between the linkage strategy the firm have towards the intermediary and the one the firm has towards the customers. It is about keeping the three party relationships balanced to enable the firm to get the best performance by having a good relationship both with the customers and with the intermediary. The term experiential learning is said to be gained by operating in the market yourself and is something that if gained can benefit the exporting firm in a number of ways. This implies that not only keeping a good relationship to the intermediary but also to your customers through a two party relationship if possible could be a good strategic move from the exporting firms point of view...

• How do you perceive the importance of working on a relationship with the customers yourself at the same time as having a good relationship with the intermediary?
• Have you perceived any difficulties in balancing the trade-off between the relationship with the intermediary and the relationship towards the customers?
• How do you perceive the importance of being in control of the marketing process?

Having a weak relationship with the intermediary is said to hinder the learning process as well as the knowledge process of the firm. The performance can be damaged because of lack of communication in the relationship which leads to the firm not developing any knowledge or experience about the customer and the market...

• What do you feel could be a possible good strategic method for the exporting company to develop and maintain a good relationship with the intermediary?

In our research we have found that in order to be able to judge the competence of the intermediary and to evaluate the performance of the relationship as well as the foreign operation the exporter needs market-specific knowledge and mode-specific knowledge. The former is knowledge about the foreign market that the firm is entering and the latter concerns knowledge and skills about managing and dealing with foreign intermediary’s. Assuming that
you have learned something from the wide experience you have of working with many intermediary’s:

- (Market specific knowledge) In what way and how do you learn about the market through your intermediaries?
- (Mode specific knowledge) In what way have you learned or gained knowledge from having worked with many different intermediaries that have helped you when entering a new foreign market through a new intermediary?

Problem 3 – Intermediary opportunism:

While going through a lot of theory and especially articles about the foreign intermediary relationship we found a recurring subject, which in the literature is called intermediary or agent-opportunism. It is defined as: “taking advantage of opportunities without regard of the consequences of the exporting firm”

It is about the sometimes conflicting goals of the two parties, where the firm wants to gain knowledge about the market and achieve positive sales performance and the intermediary wants to keep the firm dependent on the intermediary to stay needed and therefore does not want the firm to develop any further when it comes to knowledge about the market. The intermediary may deliberately keep the firm in the dark about for example market developments.

- Do you recognize this problem as something you have perceived in your experience with agents/distributors?
- How do you feel about possible ways of solving a problem like this or prevent it from happening? Or at least minimizing the risks?

Problem 4: Information asymmetry

Information asymmetry is yet another recurring subject that we have come across during our research and this problem that typically is most profound in the initial starting point of the exporter-foreign intermediary relationship where a fundamental mutual lack of knowledge characterizes the relationship. It is a typical situation where the exporter possesses a great knowledge about its products and the intermediary has knowledge about potential customers in the foreign market but not vice versa. The outcomes of information asymmetry can be distinguished into two different kinds of problems: pre-contractual and post-contractual. The
former is related to the difficulties for the exporter to know the true qualifications and shortcomings of the potential agent/intermediary. It also concerns the fact that it usually takes a while until the exporter is capable of estimating the true nature of the intermediary.

- How do you perceive this problem of not being able to know the intermediary’s competence in the very beginning of the foreign market entry?
- Have you experienced this problem?
- If so: How did you coop with the problem?

The latter concerns the controllability of the intermediary’s actions or the outcome of the actions in order to counteract shirking (the evasion of work and duty/non-performance).

- How do you perceive the importance of controlling or monitoring the behaviour of an intermediary? Why?
- To what extent do you believe that the exporting firm are capable of controlling or monitoring the behaviour or outcome of the intermediary’s behaviour?

Task Complexity

Another dimension besides culture complexity was found in our research study and it is called task complexity which is shown to also have a negative effect on the relationship between the exporting firm and the intermediary. Examples of task complexity is when firms operating in foreign markets through an intermediary have complex products, where extensive information exchanges and interaction is required to solve functional problems such as delivery or installation of the product or service.

How do you perceive (The firms) product´s and the complexity of the products?
The University of Kalmar

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