International Relationship Marketing: Stakeholders Selection Remains a Weakness in Emerging Markets

by
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Abstract. Emerging markets represent an important growth opportunity that is often overlooked. However, the internationalization process within highly different cultural and geographical contexts becomes more complex and requires in depth information of local market characteristics, impacting stakeholder selection. Relying on a Relationship Marketing approach, the purpose of this research is to gain an understanding of how to obtain strategic information about emerging markets and the role of stakeholders that companies strategically involve. In the first research phase, an exploratory CAWI survey was conducted to understand emerging markets’ relationship orientations in a particular industry: specifically the global kitchen furniture industry, characterized by strong orientations toward product design and service. All 56 Italian companies registered to the main furniture association were contacted, with a 70% response rate. The second research phase was qualitative, particularly suitable to extend a theory in different cultural contexts. Twelve top managers from eight companies of the first sample were interviewed, using a semi-structured survey protocol. Based on this mixed methodology, a pattern of strategically selected relationships for companies in an internationalization phase is developed.

While a Relationship Marketing approach suggests the creation of a holistic stakeholder strategy, empirical research demonstrates that companies at the beginning take into consideration different priorities, keeping a low number of interactions with few stakeholders because relationship management is time consuming and expensive. As such, they select only a few partners, each one for specific objectives, and sometimes in an ad hoc fashion. Further research is needed to extend results to service companies.

Key words: emerging markets, international relationship marketing, partners selection, relationship marketing.

1 Introduction

The internationalization process within highly different cultural and geographical contexts is becoming more complex and requires in depth information of local market characteristics, impacting stakeholder selection. In particular, pre and early stage relations are often critical when companies are trying to develop new networks without any previous experience or skilled mediators. Furthermore, in emerging markets, characterised by a high cultural and physical distance from traditional west markets, evaluation and selection of potential partners require important efforts and capabilities. This research tries to investigate critical behaviours that companies are adopting in establishing and developing their networks when dealing with distant stakeholders.

2 Literature background and research questions development

This paper is based on Relationship Marketing (RM) and International Relationship marketing (IRM) theories, applying some of their fundamental concepts to the particular case of western companies entering emerging markets (EM), to study pre and early stage relations critical problems related to new stakeholder identification, evaluation and selection. Since decades the strategic importance of relations for a company in its business development has been confirmed. The main RM approach investigates the strategic importance of the creation and maintenance of long-term relationships and interactions with a multiplicity of subjects within a market (Berry, 1983; Levitt, 1983; Jackson, 1985) and it has been defined by Morgan and Hunt as “all marketing activities directed towards establishing, developing and
maintaining successful relational exchanges” based on trust and commitment principles (Morgan and Hunt, 1994).

The continuous interactions between different subjects, who have to learn and adapt to mutual rules and norms of conduct, create an evolving relationship, and it generates a convergence of behaviours that strengthens this connection over time (Turnbull et al, 1996).

Over the years different Schools of the RM emerged, each one focused on specific relational aspects, but all characterised by the importance given to the creation of long-term relationships with different stakeholders, because they implement companies competitiveness and reduce customers retention: the North-American School with Levitt, 1983a, 1983b; Morgan and Hunt, 1994; Evans and Laskin, 1994; Berry, 1983; Sheth and Parvatiyar, 1995; the Anglo-Australian School with Christopher et al, 2002; and the Nordic School with Gummesson et al. 1997; Gummesson, 1987; Grönnroos, 1991. A further contribution to the relational approach comes from the IMP Group, whose main authors investigate business networks, defining them as “a structure where a number of nodes are related to each other by specific threads. A complex business market can be seen as a network where the nodes are business units – manufacturing and service companies – and the relationship between them are the threads” (Hakansson and Ford, 2002). They stress in particular the importance to have a wide view of all the subjects that take part of a network, since all the subjects are interconnected and they are influenced by previous experiences with the same or with different partners, by expectations and by the context in general (Hakansson and Ford, 2002: 134). However, the choice of the partners to create a network is not so simple and can require different approaches (Ho et al, 2010).

When a company decides to enter in an unknown market, it needs key contacts, information, connections (Dwyer et al, 1987) and this task becomes more challenging where contexts are uncertain, complex and dynamic. A new born network can’t be compared with established and long term networks, so a first research doubt arose analysing network extension and running rules in the early stage of their life cycle (Ford, 1980). Those initial networks might have different goals and sizes and different interaction intensity (Simões and Mason, 2012). As a consequence, traditional RM frameworks might not be applicable in those cases.

Moreover, the importance of the creation of an extended network of relations becomes particularly important in international contexts. IRM is more complex than RM, because it is influenced by specific variables such as social and economic characteristics (Chandler and Graham, 2010; Skarmeas et al, 2008; Sin et al, 2005), crisis (Grewal et al, 2007), personal relations (Witkowski and Thibodeau, 2008) and its distance (Srivastava and Singh, 2010), the interactions mediated by internet (Melewar et al, 2001; Bressan and Signori, 2014a) or the country ideology (Sin et al, 2005).

The complexity of creating, developing and maintaining long-term relationships becomes particularly difficult when people involved in the network come from a highly different cultural background. The importance given to relational main variables can be influenced by physical but also psychical distance (Brush and Rexha, 2007; Barry et al, 2008; Bianchi and Saleh, 2011) and by local cultural values (Hofstede defined culture as a system of collectively held values. Hofstede, 1980). In particular, trust and commitment have always been consider as fundamentals in RM, but in particular cases trust seems not to be so necessary at the beginning of a relationship, with a slightly higher preference for emerging market stakeholders rather than their western colleagues (Bressan and Signori, 2014a), which have to demonstrate a specific cultural orientation and corporate and managerial adaptability to local peculiarities (Bressan and Signori, 2014b; Shapiro et al, 2008; Hewett et al, 2006; Phan et al, 2005).

Due to the complexity to operate in new EM, the quality of the relations created within the network seems to become particularly relevant but also difficult. Few studies already
investigated the importance and the relationship quality in specific international contexts, where cultural and other environmental factors influence the development of relationships across countries (Athanasopoulou, 2009). Starting from these considerations, the present research intends to investigate how an European company creates its relational network in a peculiar and dissimilar context, such as an emerging market since the characteristics of the different subjects involved may affect the others on-going relationships (Ford et al., 2010). The first research question has been defined as follow: (RQ1) Who are the main subjects involved in the network creation in EM and how companies search information on potential partners and markets?

The inclusion of a company within a network of subjects leads to some positive consequences, such as share information, resources and risks (Johnson et al., 1999; Sheth and Parvatiyar, 2001). But it also has some possible negative aspect to be considered, such as incur in costs and time investments due to the non-standardisation of the approaches to different stakeholders (Hakansson and Ford, 2002), the increasing dependency and loss of autonomy of companies, and the potential conflicts that can negatively affect collaborations (Johnson et al., 1999). For these reasons a careful stakeholder selection has to be adopted (Ho et al., 2010), when a new network needs to be created, in particular in physically and culturally distant contexts. The following research questions try to investigate new network definition criteria and initial difficulties: (RQ2) What are the main perceived difficulties to manage an early stage relation in EM?; (RQ3) How companies define their network, and identify, evaluate and select new stakeholders in EM?

3 Methodology

3.1 Research goals

Relying on a Relationship Marketing approach, the purpose of this research is to gain an understanding of how European companies are trying to enter new emerging markets, and, in doing those new processes, how do they select new partners/stakeholders with whom they are going to collaborate strategically. Within the framework of International Relationship Marketing, this research aims to understand which practices are adopting European companies in creating a new stakeholder network, when they approach emerging markets.

Research goals arose to apply Gummesson’s RM definition of "relationship-network-interaction" (Gummesson, 1999), to the particular case of internationalization in emerging markets: where is an evident need to create a complete new relationship system-network-interaction approach. In addition, Morgan and Hunt network definition approach (Morgan and Hunt, 1994) was used to analyze the composition of the network. In particular, it was necessary to explore how and why companies define: extension of the new network, kind of stakeholders, level of interaction, goals of initial collaboration and initial stakeholder selection practices.

3.2 Research method

Based on a mixed methodology, as this approach provide richer understanding and more robust explanations of complex and dynamic phenomena (Golicic and Davis, 2012; Mangan et al., 2004), a pattern of strategically selected relationships for companies in an internationalization phase was developed. Initially, an exploratory CAWI survey was conducted to understand emerging markets’ relationship orientations in a particular industry: participants have been asked to fulfil two different questionnaires, one for traditional markets (TM) and one for emerging markets (EM), to understand who are the main subjects involved in the companies’ network and their level of satisfaction in exchanging critical information.

Then a qualitative research, particularly suitable to extend a theory in different cultural contexts (Naslund, 2002; Gummesson, 2005), has been conducted relying on in-depth semi-structured interviews of those companies that are dealing
with EM, to understand how companies select their network components and the main difficulties they face in the stakeholder selection.

During interviews, informants were allowed to speak freely on the subject of interest to the researchers. However a general interview protocol was prepared as follow: an initial warm up phase (brief overview of research and participants; assure the privacy of the information given; obtain authorization to record); a descriptive phase on company and participants background (history, industry related information, mission and values of the company, main marketing and internationalization strategies); an open discussion on main research topics (collaboration orientation, cooperation, information sharing tactics with different countries and different kind of stakeholders, main goals, critical problems or barriers, partner selection and related examples with particular interest in emerging markets); a final phase on general perceptions of next challenges they see in the future before closing remarks.

All the interviews, about 1.5 hours long, were recorded and transcribed. Two independent researchers used a coding technique on transcriptions and made a cross-case analysis (Yin, 2003).

### 3.3 Sample and data collection

Kitchen industry is a high-value product industry particularly interesting for IRM, due to the tangibility of the product which requires physical distribution and installation, and therefore the creation of a BtoB relationship is particularly relevant. Furthermore, it has a high level of intangible values (such as design, quality, and product/service customisation level) that necessitate being transferred to the final customer for a real competitive advantage. The European furniture industry has been highly oriented to international markets for decades and is recently entering new markets.

The sample has been chosen through the most important furniture association, and has been focused to Italy, a country where furniture industry is still strong and expanding in new markets also during the recent crisis.

In the quantitative research phase all 56 Italian companies registered to the main Italian furniture association have been invited to the survey. Two questionnaires, of eight questions each, have been compiled (see table 1 for response rates): one for closer relationships in traditional markets, such as the western ones, and one for more distant relationships, such as emerging markets, identified as BRIC (Brazil, Russia, India and China).

<table>
<thead>
<tr>
<th>Table 1. Questionnaire Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of questionnaires sent</td>
</tr>
<tr>
<td>Total number of responses</td>
</tr>
<tr>
<td>Number of responses on traditional markets</td>
</tr>
<tr>
<td>Number of responses on emerging markets</td>
</tr>
<tr>
<td>Number of respondents to both questionnaires</td>
</tr>
</tbody>
</table>

Questionnaires were previously tested with sales and international marketing managers and experts; a pilot test of questionnaires was submitted to some CEOs to ensure questions were clear in meaning and appropriate. Since the creation of a relationship starts from the company who is willing to begin an internationalisation process, they are the targets of this research. A reminder mailing and phone support for eventual clarifications were provided. The response rate of the questionnaire was 69.3%, which allows for generalization of results in this industry.

In the qualitative research phase twelve top managers from eight companies of the first sample were interviewed (see appendix 1 for details), using a semi-structured survey protocol, as described in research method paragraph.

### 4 Analysis

The Italian kitchen industry represents one of the most well known productions of the Made in Italy (which are defined as the 3Fs of the Made in Italy: Fashion, Furniture and Food). It is characterised by a widespread but fragmented presence in the international context. All the
companies in the research sample have 20 to 30 years of experience in internationalisation in TM and are recently moving to new emerging markets, in particular Russia, India and China. Results of this research highlight their behaviours of creating new networks in those new contexts.

4.1 The network development in emerging markets

RQ1: Who are the main subjects involved in the network creation in EM and how companies search information on potential partners and markets?

From questionnaires it emerged that participants demonstrated to have a major interest in developing an internationalisation strategy mediated by local partners instead of a direct presence in the market both in traditional and emerging markets (TM and EM) (table 2).

<table>
<thead>
<tr>
<th>Information channel</th>
<th>TM total answers</th>
<th>TM 1-5 mean</th>
<th>EM total answers</th>
<th>EM 1-5 mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet</td>
<td>12</td>
<td>3.00</td>
<td>9</td>
<td>3.33</td>
</tr>
<tr>
<td>Consultants</td>
<td>10</td>
<td>2.60</td>
<td>7</td>
<td>2.57</td>
</tr>
<tr>
<td>Local distributors</td>
<td>14</td>
<td>3.14</td>
<td>7</td>
<td>3.14</td>
</tr>
<tr>
<td>Exhibitions, fairs</td>
<td>18</td>
<td>2.78</td>
<td>7</td>
<td>3.29</td>
</tr>
<tr>
<td>Local customers</td>
<td>12</td>
<td>3.25</td>
<td>5</td>
<td>3.20</td>
</tr>
<tr>
<td>Italian associations</td>
<td>10</td>
<td>2.30</td>
<td>7</td>
<td>2.86</td>
</tr>
<tr>
<td>Foreign market associations</td>
<td>7</td>
<td>2.14</td>
<td>3</td>
<td>2.00</td>
</tr>
<tr>
<td>Other companies already in the market</td>
<td>10</td>
<td>2.90</td>
<td>8</td>
<td>3.25</td>
</tr>
</tbody>
</table>

In particular, in TM the main subjects involved are agents (32%), local distributors (20%) and multi brand shops (19%), while in EM they are agents (29%), single clients (24%) and local distributors (23%). This choice is surprising because a direct presence would allow them to directly interact with the final customer and to obtain strategic market and cultural information. Therefore, in the questionnaire companies were asked to define which main information channels did they use to obtain markets information, and to rate their satisfaction on a Likert scale 1 (min) to 5 (max). Differences between TM and EM emerged; while in TM companies use more exhibitions and local distributors, they rely more on local customers and local distributors; in EM the most used and satisfactory source of information is Internet, followed by exhibitions and companies already present in the local market (table 3).

<table>
<thead>
<tr>
<th>Information channel</th>
<th>TM frequency</th>
<th>%</th>
<th>EM frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies mediated presence</td>
<td>127</td>
<td>96.95</td>
<td>78</td>
<td>100.00</td>
</tr>
<tr>
<td>Companies direct presence</td>
<td>4</td>
<td>3.05</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total answers</td>
<td>131</td>
<td>100.00</td>
<td>78</td>
<td>100.00</td>
</tr>
</tbody>
</table>

In our research, for information on emerging markets and local stakeholders, Internet is perceived a credible and convenience source of information. However, doubts remain on reliability of that information source when they have to develop new critical relations.

4.2 Stakeholders evaluation and selection

RQ2: What are the main perceived difficulties to manage pre and early stage relations with stakeholders in EM?

RQ3: How companies define their network, and identify, evaluate and select new stakeholders in EM?

From qualitative research results emerged that one of the main perceived difficulty in managing an early stage relation with stakeholders in EM depends by the specificity of the product: it needs in fact a high level of customisation and service, with high intangible related values, like quality and design. This offering requires a partner with specific professional competencies and skills, and relationship quality is a basic requirement since the beginning. Some respondents commented complexity and problems they face entering
new markets, as follow:

- “The product is complex and we need smart sellers who knows the industry, such as architects who are able to highlight the peculiarities of the product. […] We decide to enter in a market when we find a partner of quality… Today financial resources are really limited and therefore the quality of the interlocutor is fundamental” (EL);
- “We have a very good product, but we are not able to find the right channel to sell in the markets” (RE);
- “Our partner must have the right competencies and contacts” (VA);
- “We met our partner during fairs, but we needed to extend the network with the use of internet and social networks. […] We need to give our know-how to the local partners because they are not updated” (SP).

Moreover, the physical distance emerged as a critical aspect in managing distant relationships. This distance impacts in particular on the possibility to directly, personally, interact with subjects of the network and consequently with the trust perception to invest in long term relationships. In particular a manager commented: “Emerging markets are far and there is a lower possibility to see each other directly. It seems they want to catch temporary opportunities which is in contrast with our long term vision […] In European countries there is more this willing to create a common project for the future” (EL).

Often the stakeholder evaluation and initial selection is based on personal meeting in some fairs or through the recommendation of a mediator person who guarantees for the potential partner:

- “We mainly find partners in fairs or thanks to some common friends. for example our actual sales manager comes from others companies and has his own network of people he knows that shares with us” (EL);
- “We ask to some furniture producers if they have some good agents. We use the word-of-mouth and in this way we create a collaboration! […] Also the Milan Fair is a good opportunity to find new partners. […] We are pushing our Italian partner to stay in India as much as he can, because Indians would like to see us always there” (SN);
- “We live in a world of word-of-mouth! Everything moves through relations” (VA);
- “We have the risk to depend on a single person. […] The problem is when the partner, for various reasons, goes away because he’s not so deeply involved in the specific business” (SC).

Some other critical problems emerged are related to the dimensions of the companies, which are still managed by a family, and the absence of a support from the Italian Government: “Germans each month create a mission which involves also the diplomacy and politicians… it’s not possible that everything must be done only by the entrepreneur!” (RE). The general perception is that to deeply understand emerging markets they need time: “No one has still understood what you need to do in this markets [India]. Nothing is certain and everything is developing fast” (SN).

Advanced stakeholders evaluation and selection methods have not been cited by any respondent, even when researchers stressed specifically those points.

5 Conclusions

With this research we tried to adopt well known RM frameworks and extend them also to particular situations, when companies need to build new networks in distant markets. Unfortunately, Gummesson and Morgan and Hunt theories are not linearly applicable in our scenario, due to the fact that network and interaction are dynamically changing in an initial stage of a relationship. A new born network is very limited, mainly composed by dyadic relations. Extended networks, complete with multiple kind and role of stakeholders and active interactions, seem concepts very far from this business reality.

Nobody seems to rationally evaluate potential stakeholder competencies, even if they perceive this need as the product requires particular skills and experience. Most of the cases in our sample had lack or limited experiences in EM and reacted searching information on potential
stakeholders on Internet or through local fairs contacts. In our cases stakeholder selection decisions seems to be taken arbitrarily. These behaviours are unexplainable as the risk in taking wrong decisions is high and cost, time and efforts in many cases are really relevant. This research can firmly state that stakeholders selection remains a weakness for companies that wants to enter in emerging markets.

Moreover, IRM concepts and prescriptions are difficult to adopt in early stage relations, in so perceived distant markets. Personal interaction is considered important to build trust and for reciprocal knowledge, in particular with new stakeholders. Cultural alignment may be covered with the right preparation, but a personal interaction is highly needed at the beginning. Unfortunately the physical distance is an important barrier, and new media are not considered enough supportive to evolve over time this kind of relationships.

Limitations in this research are related to the particular industry and the small sample, even if these limitations are partially corrected by mixed method adopted and in depth study of each case.

Further researches are suggested for a new theoretical development of a specific framework for our scenario, and for a more detailed analysis on barriers that are limiting companies’ international relationship marketing abilities.

References


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Appendix 1 Qualitative sample description

<table>
<thead>
<tr>
<th>Company ID</th>
<th>No. of interviews</th>
<th>Role</th>
<th>Number of Employees</th>
<th>Revenues range € (in 2011 and 2012)</th>
<th>Internationalization in TM since</th>
</tr>
</thead>
<tbody>
<tr>
<td>AR</td>
<td>1</td>
<td>CEO</td>
<td>169</td>
<td>2.500.000 - 5.000.000</td>
<td>80’s</td>
</tr>
<tr>
<td>SC</td>
<td>3</td>
<td>General Manager, Vice-president, Export manager</td>
<td>547</td>
<td>Over 50.000.000</td>
<td>1996</td>
</tr>
<tr>
<td>EU</td>
<td>2</td>
<td>CEO, Export manager</td>
<td>117</td>
<td>10.000.000 - 13.000.000</td>
<td>1992</td>
</tr>
<tr>
<td>RE</td>
<td>1</td>
<td>Export manager</td>
<td>154</td>
<td>10.000.000 - 13.000.000</td>
<td>90’s</td>
</tr>
<tr>
<td>VA</td>
<td>2</td>
<td>CEO, Export manager</td>
<td>564</td>
<td>13.000.000 - 25.000.000</td>
<td>1996</td>
</tr>
<tr>
<td>SN</td>
<td>1</td>
<td>Export manager</td>
<td>172</td>
<td>25.000.000 - 50.000.000</td>
<td>90’s</td>
</tr>
<tr>
<td>EL</td>
<td>1</td>
<td>CEO</td>
<td>42</td>
<td>5.000.000 - 10.000.000</td>
<td>1992</td>
</tr>
<tr>
<td>SP</td>
<td>1</td>
<td>Export manager</td>
<td>Na</td>
<td>1.000.000 - 2.500.000</td>
<td>2010</td>
</tr>
</tbody>
</table>