

CROSS-CULTURAL ISSUES FACING SMALL FIRMS COLLABORATING WITH INTERNATIONAL PARTNERS: A CASE STUDY

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ABSTRACT

There has been a substantial increase in the number and variety of collaborative business relationships formed in recent years. Whilst such relationships might be important for all firms, they are likely to be even more crucial for smaller firms with scarce internal resources. Despite their recognised importance, many challenges are inherent in managing collaborative relationships, and again these may disproportionately affect small firms. These issues are illustrated using the case study of a collaborative relationship between a New Zealand (NZ) specialty chemical firm and a Japanese trading house. The case data reveals that both firms experienced difficulties attributable to differences in culture.

Keywords: collaborative relationships, cross-cultural issues

INTRODUCTION

Collaborative relationships enable firms to access other organisations' skills, markets and resources and are generally perceived to be beneficial. Whilst such relationships might be important for all firms, they are likely to be even more crucial for smaller firms with scarce internal resources. Small firms may find that the ability to compete globally is necessary for their survival, and may enter international markets with a local firm in the hope of better access and increased local market knowledge.

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Many challenges are inherent in managing collaborative relationships, and these too may disproportionately affect small firms. This research examines the challenges small businesses face in managing cultural differences with an international partner. These issues are addressed using the case study of a collaborative relationship between a New Zealand specialty chemical firm and a Japanese trading house. The Japanese trading house was to sell a commodity chemical extracted by the New Zealand firm using an innovative process. The product was to be sold in Japan for use in the manufacture of electronics.

The paper is divided into five sections including the introduction. The next section provides a brief review of pertinent literature on small and medium-size enterprises (SMEs) and cross-cultural issues in collaboration. The method through which the data were collected for the case study is then outlined. This is followed by a discussion of key insights from the case. The final section presents a summary and implications.

Literature Review

SMEs and collaboration

The literature in general proclaims the benefits of collaborating to combat such forces as the fast pace of technological change and strong global competition. Collaboration provides the firm with well-recognised benefits, such as economies of scale, access to financial resources, market and/or technology access and the development of core competencies (eg, Varadarajan & Cunningham, 1995; Madhok & Tallman, 1998). For instance, a firm may have access to unique technology but lack the resources and knowledge necessary to expand into key international markets. Collaboration enables such a firm to correct this deficiency by aligning with a partner possessing the required skills.

Many argue that limited resources are a key constraint that entrepreneurs face (Beamish, 1999). The lack of resources, combined with a low level of foreign market competence may prevent a firm from considering overseas markets. The resource constraints faced by SMEs are often accentuated by risk aversion and a lack of international management expertise (Rowden, 2001). Given the problems associated with smaller firms penetrating international markets, an important question is how effective collaboration might be in achieving this objective.

The issues associated with collaboration might be compounded in the high-technology arena that is characterised by longer lead times from research to application followed by shorter time-to-market (Litvak, 1992). In their study of the internationalisation of smaller technology-based firms Karagozoglu & Lindell (1998) found that adoption of an international orientation is viewed as crucial to the success and long-term survival of smaller firms. Partnerships agreements were seen as an important strategy to support the expansion overseas. Lee, Lim & Tan (2000) also argue that apart from overcoming resource disadvantages, a key benefit of alliances for small firms is the access to complementary expertise which enables greater strength and the ability to develop competitive advantage. Their study showed that alliances allow SMEs to compete more effectively and indicate that with collaboration such firms might be able to penetrate markets dominated by larger firms.

These advantages of collaboration are also applicable within the New Zealand context. The New Zealand business environment is characterised by a large proportion of small firms. The growth of these firms, and development of key international markets, is regarded as crucial to the overall development of the New Zealand economy (Coviello & Munro, 1995). Inadequate foreign market knowledge and experience are often hurdles that such firms face (eg, Johanson & Vahlne, 1977; Glaister & Buckley, 1996; Chetty & Campbell-Hunt, 2003). However, what has been termed the 'small firm effect' means that firms trying to operate internationally are often disadvantaged in their ability to access and take advantage of foreign markets (Akoorie & Enderwick, 1992). Essentially small firms may possess unique technologies or capabilities but are dependant on larger firms for market access.

Given some of the recognised benefits of collaboration, it would appear that many of the challenges associated with a small firm entering international markets could be overcome with the identification of a suitable international partner. The formation of such collaborations with distributors, customers and other relationship partners is suggested as important for the success of the small firm in operating overseas (Coviello & McAuley, 1999). This is particularly true of markets such as Japan where existing channels are difficult to penetrate and only limited access is available to end-users.

Cross-cultural issues

The nature of international collaborations is such that managers need to be aware of differing perspectives and cultures. In particular their impact on the success of cooperative strategies needs to be understood. Many researchers have studied the influence of culture on attitudes toward collaboration (eg, Steensma, Marino & Weaver, 2000).

Negotiating an agreement

With the potential problems that could be encountered in international collaborations, some emphasis needs to be placed on the initial negotiation process. This effectively allows for differences between partners to be minimised. However, Herbig & Gulbro (1997) caution that cultural differences magnify negotiation problems, the problem being that cultural differences can in fact lead to some mis-understanding during this process. The potential for disagreement is effectively accentuated when two people of differing cultures attempt to reach some form of agreement (Gulbro & Herbig, 1999). For instance, they suggest that the value of being frank and direct might be useful in some cultures, but not acceptable in others. In this paper they use Hofstede's key cultural attributes to examine the likely attitudes to negotiation. They find that culture does have an impact on negotiating behaviours with cultures that exhibit high power scores such as Japan spending less time compromising. Those cultures with high uncertainty avoidance scores would spend more time in the agreement stage, and collectivist cultures would spend more time planning and de-briefing. Overall, they summarise the key difference between for instance, the United States and Japanese culture, as that while the Americans negotiate a contract, the Japanese negotiate a personal relationship (Gulbro & Herbig, 1996).

Effectively, ignoring cultural differences might even halt the process of negotiation prior to, or during, the collaboration (Tung, 1991). This is unlikely to end once the collaboration has been initiated. During the course of collaboration it is inevitable that the forces internally and externally influencing the collaborative activity and the partners are likely to be continually evolving. Differences in uncertainty avoidance are likely to lead to differences in how partners perceive and respond to events in the environment of the collaboration

(Barkema & Vermeulen, 1997). Thus, a major prerequisite to a successful collaboration might be the negotiation of a sound agreement and accessing the necessary skills to negotiate on issues that arise during the course of the relationship. Whilst negotiating a sound agreement might be important, it is imperative that the impact of cultural differences on this process is recognised. Therefore, a formal agreement may serve as a starting point in collaboration but, where alliance partners exhibit cultural differences, what is being agreed to and how this might change in the long-term are also important.

Communication

Cultural differences ultimately influence how individuals and firms interact and communicate within collaborations. In this regard communication issues become an even greater concern in international collaborations where cultural differences are apparent (Das & Teng, 1997).

Differing cultures and decision-making styles often cause considerable frustration in international alliances (Johansson, 1995). The smaller firm may also face obstacles in adapting to differences in national cultures whilst lacking the resources those larger firms might be able to employ to counter this.

The more an organisation can learn about its partner, the greater the likelihood of success within the collaboration (Rowden, 2001). The key concern is that managers learn to recognise and manage these cultural differences. For example, trust and the fostering of a long-term relationship are important aspects of collaboration for many Japanese firms. Thus, in the case of countries such as Japan or China, relationships are vital and managers might be expected to spend considerable time and effort in nurturing these interactions (Tung, 1991). This view may not be shared by partners from Western cultures (Rowden, 2001).

Studies suggest important differences in how Western culture might differ from Japanese culture with regard to the issue of trust. Western culture appears to point to the importance of a legal agreement rather than long-term relationships. In contrast, Japanese managers associate trust with sincerity, personal relationships and control of decisions whilst distrust is associated with the production of formal legal agreements (Gill & Butler, 2003). Changes in the environment or the nature of this relationship might then be regarded as situations that result in distrust.

Parkhe (1991) suggests that an important facet of managing the interests of various parties is a structure that accommodates adjustments to changes in the internal and external environments of the collaboration. Buckley, Glaister & Husan (2002) suggest that an inherent aspect of flexibility is in fact cultural awareness. Their study of international joint ventures demonstrated the importance of knowledge and empathy for another's culture in an effective relationship. This was seen as a crucial partnering skill. Managers lacking in this level of awareness of cultural differences were likely to make assumptions regarding issues that were not in fact correct.

The impact of cultural differences and communication can also be observed in the way in which partners approach problem solving and conflict resolution. Collaborations where the distance between cultures is greater are more likely to experience conflict (Gill & Butler, 2003). For instance, whilst some cultures might regard conflict as healthy and part of the process of collaboration, other cultures may regard any conflict or confrontation as distasteful (Parkhe, 1991). The management of such situations requires a considerable

degree of common understanding regarding cultural differences apparent within the collaboration.

Given that an awareness of cultural differences is undoubtedly important, the key is in recognising that conflicting cultures and attitudes may result in collaborative failure (eg, Johansson, 1995; Williams, Han & Qualls, 1998). This suggests that success of an international collaboration is influenced, to some degree, by the partners understanding of each others culture.

METHOD

This case is part of a larger study on the performance of collaborative relationships in New Zealand. Case research was used in order to allow a deeper exploration of the research setting. A case study methodology was considered appropriate as it permits the study of 'real life' collaborations (Parkhe, 1993). Eisenhardt (1989) also advocates the use of case research as a strategy that focuses on understanding the dynamics present within the case. This view is supported by Bonoma (1985) who suggests that case research is ideal when the researcher wishes to build theory or theoretical insights.

Yin's (1994) guidelines for case study data collection have also been closely followed in this research. Specifically, multiple sources of evidence are used, a case study database has been created and a chain of evidence has been maintained. Data were collected from alliance participants in both organisations using a combination of in-depth interviews, semi-structured questionnaires, and cognitive mapping. Each interview was from one to two hours long. This aided a deeper understanding of the relationship from the perspective of participating managers. In particular it facilitated a comparison of the perspectives of participants within and between the two organisations. Secondary documents and archival records were used to support the contributions of key participants. For example, valuable information was collected and reviewed regarding the organisations involved in the relationship prior to the interviews. Subsequently, access was also gained to internal company documents. All interviews were transcribed and then analysed to highlight emergent themes. The transcripts were coded by two individuals according to a coding list.

This case considers a small firm with a unique technology seeking to enter the international arena. The case provides an interesting research setting for two key reasons. First, the two firms differ considerably in size. The New Zealand firm is a small entrepreneurial organisation with few employees. The overseas organisation is a significantly larger firm estimated to have billions of dollars in turnover each year. Much has been written on the advantages to a small firm in collaborating for overseas market access. In particular, small firms often rely on the resources that larger firms might bring to the collaboration. Second, technology has also been highlighted as an important aspect of collaboration. Specifically, the literature suggests that alliances are useful in dealing with technologically complex products or environments. Given that these two characteristics are present in this research setting, this case study allows for a consideration of various factors important in the formation and management of collaborations.

Insights from the case

Several factors which have impacted on this particular collaboration are discussed below. The section begins by providing background information to the case and outlining how

unexpected changes in the market led to an alteration to the technology used by the New Zealand firm. Interview data are used to outline how cultural differences merely compounded the impact of this key event. The reliance of the New Zealand firm on the skills and resources of the overseas partner is also evident by the continuation of this relationship.

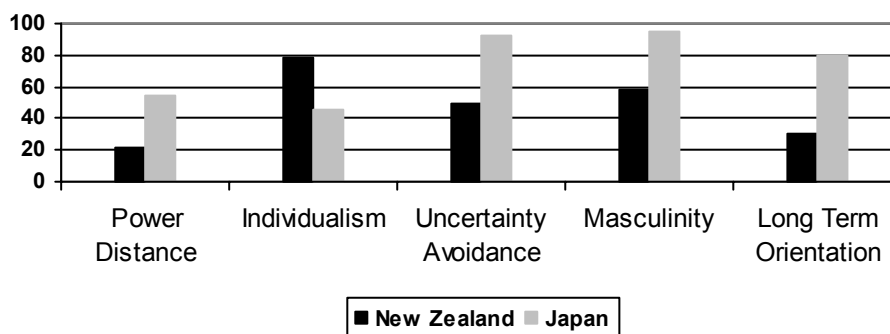
Background

This relationship involves a New Zealand speciality chemical firm (ChemCo) and a Japanese trading house (Distribution International). ChemCo, a small entrepreneurial firm, differs considerably in size from their Japanese partner. Distribution International is a large commodity trader characterised by small margins and a long chain of command.

The partners in this relationship are also based in countries with markedly different national cultures. Figure 1 shows how each country rates on Hofstede's Dimension of Culture Scales (<http://spectrum.troyst.edu/~vorism/hofstede.htm>). As shown in the figure, compared to New Zealand culture, Japanese culture is characterised by greater power distance, less individualism, and more uncertainty avoidance, and is more masculine and long-term oriented.

These differences did not bode well for this relationship from the beginning since Barkema & Vermeulen (1997) found that differences in long-term orientation, uncertainty avoidance, and masculinity all negatively influence joint venture survival (in descending order of importance). New Zealand and Japanese culture differ significantly on all of these dimensions, with the greatest difference on the long-term orientation dimension, the second greatest difference on uncertainty avoidance, and the third greatest difference on the masculinity dimension.

Figure 1: Dimensions of Culture



The New Zealand partner in this relationship possessed a unique technology for the extraction of a commodity chemical. This process was seen as providing certain benefits and a superior final product as compared with alternative extraction technologies. The application of this technology was the key focus in this collaboration and the relationship was created to support the innovative extraction process. The product was then to be sold to Japan for use in the manufacture of electronics. ChemCo perceived a niche, especially in the Japanese environment, for offering a high quality product customised to local market requirements.

Unfortunately, the entry of an aggressive new player in the marketplace resulted in a decrease in price for the chemical. At this time the New Zealand firm was also experiencing technology-related problems. These two factors made the proposed method an uneconomical extraction process at the prevailing market prices.

Smaller firms accessing overseas markets

Collaborations have been cited as effective tools to overcome size barriers, access crucial skills or markets (Lee, Lim & Tan, 2000) and maintain long-term survival (Karagozoglu & Lindell, 1998). This provides a key motivation to align with other partners. The data from this case reflect a similar situation. ChemCo highlighted Japan as an appropriate market for the product due to its heavy concentration of manufacturers who use the chemical to be extracted. However, whilst they possessed a technology that was unique, they lacked the resources and market knowledge to venture overseas with their product. Overall, the case displayed the classic resource constraint scenario described in the literature (Beamish, 1999).

ChemCo quickly recognised that the Japanese market is traditionally accessed through trading houses; selling directly was not a feasible option. Market penetration without the support of a "big brother" was seen as very difficult by the New Zealand firm. As a smaller firm, it was clear that ChemCo felt that they needed the support of a larger, resource-rich partner.

At this time ChemCo were approached by the Japanese trading house. After years of examining the activities of ChemCo, Distribution International approached the company with the possibility of developing a relationship. The Tokyo office had originally requested Distribution International NZ to investigate the activities of the firm, and Distribution International was aware of ChemCo's technology. As one ChemCo interviewee said:

"They approached us ... they had actually been scoping us for a couple of years."

The extraction technology was thought to provide significant promise and have the added attraction of being marketable from an environmental perspective.

In this situation collaboration appeared to offer each firm access to complementary skills. The New Zealand firm offered a unique extraction technology while the Japanese firm provided resources, and more importantly, market access. Managers in both firms appeared to understand the value that collaboration could provide. The proposed collaboration allowed the New Zealand firm to compensate for the 'small firm effect' described by Akoorie & Enderwick (1992). The firms proceeded to negotiate an agreement.

Negotiating the collaborative agreement

The literature tends to indicate that the negotiation of an agreement might be complicated by cross-cultural issues when dealing with partners from different countries. Within this case the initial contract was essentially for the first right of refusal on the marketing and distribution of ChemCo's products through Distribution International NZ and Distribution International Japan. ChemCo was to supply Distribution International with 3,000 tonnes of the chemical per year from extraction using the innovative technology. The spirit of the

agreement was that Distribution International would purchase the product at a certain price, which would be previously agreed.

Although the agreement was designed to facilitate distribution in Japan, Distribution International provided an entrée into worldwide distribution. For ChemCo, a key requirement was that the partner staff had to demonstrate experience in marketing in Japan and be chemically minded. Managers at ChemCo went into the relationship with some awareness of the need to be cognisant of cultural differences when dealing with the Japanese market. The perceived potential for negative consequences on other opportunities and relationships from conducting business in the Japanese environment is summarised by one of the interviewees from ChemCo:

“It’s not a case of where you are making mistakes, as can you make a lesser amount of mistakes; it is a complex society—you are always offending someone.”

The managing director of ChemCo also outlined how cultural differences complicated the initial contract negotiation:

“A Japanese concept of a contract is totally different to a Western concept of a contract ... It is automatically implied that it will change to suit the change in circumstances ... [Now] we don’t even bother getting interpreters, we don’t bother putting things in Japanese, we put it in English so at least we can always look at it and say ... we understand it ... all it is is a sign of good faith ...”

“The Japanese don’t even like lawyers – they don’t like contracts.”

Given these challenges, ChemCo found Distribution International to be useful in the introduction stage of relationships in enabling key connections and contacts. As one of the ChemCo interviewees commented:

“If you have the name of a company that does US\$102 billion turnover people assume that you are well connected ... that gets you in the door – relationships form – they have probably been trading with the people that we have wanted to trade with for the last 15 years ...”

The New Zealand firm regarded the size of their partner as a key advantage. Their motivation to collaborate was based on the access to markets and resources that were more readily available to the larger partner. In the initial stages the connection with Distribution International was seen as critical in generating access to international markets. This explanation of differences between Western and Eastern approaches to negotiation is very consistent with those discussed in the literature and described previously in this paper. Cultural differences, communication and conflict are discussed further in the following section.

Communication and conflict

Key differences in how both firms viewed a contract became apparent very early on in this relationship. Observations in this case support findings in the literature (eg, Gulbro & Herbig, 1999) regarding differing attitudes to negotiation and contracts. ChemCo appeared to recognise the importance of agreement while acknowledging that changes were inevitable. The Japanese firm did not see a contract as important and subsequent changes were viewed with some degree of mis-trust. This difference is described next.

The New Zealand firm responded to the previously outlined changes in the environment by searching for an alternative. In contrast the Japanese firm felt that this change in strategy on the part of the New Zealand firm was not conveyed to them in a timely or effective manner. In short, the New Zealand firm failed to consult their partner before proceeding with necessary adjustments to accommodate the fall in prices for the chemical and the technology problems that they were experiencing. As their interest was primarily based on the innovative technology initially proposed, this failure to adequately negotiate changes resulted in feelings of mis-trust on the part of Distribution International. After it had adjusted to changes in the market and proceeded with the manufacture of high-quality products, ChemCo found that the Japanese firm had considerable difficulty in adjusting and were reluctant to purchase the chemical from other processes. ChemCo management also describe themselves as naïve about Distribution International and their ability to perform:

“[We were] a little naïve that these people would definitely be able to perform and get us the results ... we didn’t fully understand how the market works and how much time it takes.”

The situation was, however, viewed somewhat differently by their partner:

“We were informed of [the changes] but we weren’t involved in the decision making ... [our] thinking was that [we] had been deceived ... [we] became more cautious in dealings with ChemCo.”

ChemCo's reassessment of the extraction process appeared to result in a loss of faith by Distribution International, who had marketed the product on the basis of this method. The Japanese reaction to these changes was that they had been ‘deceived’, the key being that they did not feel that proposed changes to the production technology were communicated effectively. As one interviewee suggested:

I realise that we didn’t have enough information ... communication ...”

In effect, the differing responses to the changes in environment and strategy support Barkema & Vermeulen’s (1997) findings regarding cultural differences in uncertainty avoidance and long-term orientation. Within this collaboration the link between communication and conflict was intensified by cross-cultural differences. The process through which events unfolded to create a situation of increasing conflict is described next. The change in technology clearly created problems within this relationship—exacerbated by differences in culture and communication. This process is described by one of the ChemCo interviewees:

“I don’t put [the lack of performance] down to necessarily any fault on Distribution International’s side. The market changed – a new world competitor came in and dropped the price of the product by 50% and that ... questioned the whole economies of the relationship ... We ran into technical problems, so we couldn’t deliver at those prices ... When we adjusted to a new market we found that the Japanese company had difficulty in re-adjusting ... they just didn’t perform because they wouldn’t change.”

In the first instance this appears to be a cross-cultural difference, highlighting how Western and Japanese views of an agreement might differ (Gill and Butler, 2003); however, the overseas partner also pinpointed the lack of effective communication:

"It is more a case of misunderstanding ... [there] wasn't enough communication".

Communication problems may have been evident from an early stage in the collaboration. However, issues associated with the change in technology served to strain these interfaces further.

The managing director of the New Zealand firm in the collaboration had this to say after things started going wrong with production:

"[Our overseas partner] didn't have the expertise, the commitment, the desire to figure out what the real issue was ..."

This consequently affected the level of confidence that the New Zealand firm placed in their collaboration. As one ChemCo interviewee described:

"Trust and competency came up, I just don't think they are particularly confident".

These comments indicate that the New Zealand firm may have made certain assumptions regarding their partner's view. This classic situation demonstrates the importance of Buckley, Glaister & Husan's (2002) suggestion that a high level of awareness is a key component of effective collaboration.

Such issues created a perception that the partners were less compatible than previously thought. A ChemCo manager said:

"We are an entrepreneurial, aggressive company and Distribution International are a focused commodity trader ..."

As the following quotes suggest, cultural differences were consequently perceived by ChemCo to contribute to the deterioration of the relationship:

"Japanese do not have the ability in their culture to handle failure—a bit of failure makes them very vulnerable and risk averse ... they march to the beat of their own drum and we march to a different beat."

"The Japanese are prone to not giving you bad news ... give me bad news, I love bad news—gives me something to do ..."

The case data, however, provide no substantial evidence that either firm really tried to isolate the underlying concerns of their partner.

Ineffective communication between the partners was merely compounded by the lack of cultural sensitivity between the partners. In this case conflicts arising from these tensions were not resolved. Parkhe's (1991) observations regarding the differing views of conflict as healthy or distasteful may in part explain why the firms were unable to resolve the conflict through direct communication. The New Zealand firm lacked the ability to directly confront the Japanese firm. Rather than being able to directly resolve conflicts, the firms appear to have learned to deal with these issues.

Comments made by the ChemCo interviewees reflect this:

"Our relationship ... has been a rocky one but has now stabilised ..."

This level of stability was not achieved by clarifying or resolving issues; rather, ChemCo management suggest that they have altered the way in which they deal with their partner:

“The relationship with [our partner] is continually evolving ... At this point in time we are ... ring-fencing [our partner], saying this is where you are ...”

The impact of these differences has been a relationship that did not achieve its objectives.

SUMMARY AND IMPLICATIONS

The purpose of this paper was to explore cross-cultural issues in collaboration using the case of a smaller firm collaborating with a larger overseas partner. The methodology used in this paper allowed a consideration of the relationship from both partners' viewpoints. The case method enabled an examination of how various facets of collaboration progressively complicated the potential for success. The case provides an interesting research focus as it involves a small technology firm thus combining two commonly cited motivations to collaborate.

The case data revealed that both firms experienced difficulties attributable to differences in culture in spite of the fact that they went into the relationship aware of the potential for such differences to create problems. A key advantage of the case method was that the process through which these differences manifested themselves was also observable.

Various factors have been highlighted as contributing to the unsatisfactory outcomes within this collaboration. In the first instance, the environment within which the relationship was functioning changed. The market was affected by the entry of a significant competitor and prices of the chemical dropped. These changes prompted a reassessment of ChemCo's technology. However, consequent modifications to production resulted in discontent between the two partners. As a smaller firm, the New Zealand partner lacked the resources and skills to enter the Japanese market. This view created a degree of dependence on the collaboration with the Japanese firm, regardless of how it was functioning.

Ultimately, cultural differences, poor communication, and a lack of consultation compounded the negative impact of environmental influences. Whilst the relationship functioned within a formal agreement, neither partner referred to this at the time of key changes to the production technology. In fact, the agreement was not able to provide guidance in this regard.

Implications

The initial contract negotiation process failed to account for the cultural differences of the partners in this case. In particular, the inability of the Japanese partner to accept changes was not anticipated. Whilst the firms did have a formal agreement it did not accommodate for changes such as those experienced. This tends to indicate that in some cases the process of generating an agreement based on a shared understanding between partners might be more important than the agreement itself. While no agreement can anticipate every contingency participating firms may face in the future, a good agreement will include a process for working through and resolving unexpected events regardless of whether

these result from forces internal to the alliance or participating firms or from external environmental forces like those that affected this alliance.

These findings suggest that the process of cross-cultural management needs to receive continued attention. Managing a collaboration effectively in the long-term requires an understanding of key cultural differences and an ability to manage these differences in such a way as to reduce conflict. Shortly after this case was completed, the New Zealand firm hired a new Asian Business Manager. Such an individual would be able to provide considerable support in understanding the impact of cultural differences and how these should be managed.

FUTURE RESEARCH

This case is part of a larger research project on the performance of collaborative relationships. This paper explores the impact that cultural and size differences might have on collaboration. Future papers will examine other influences on collaborative performance.

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