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SOCIAL TIES AND FOREIGN MARKET ENTRY

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ABSTRACT

The social dynamics which precede international exchange are considered in light of data collected on 133 foreign market entries from a sample of highly-internationalized manufacturing firms. Consistent with research done in the social network field, the findings support the hypothesis that knowledge of foreign market opportunities is commonly acquired via existing interpersonal links rather than collected systematically via market research. This study thus contributes towards an understanding of those antecedent conditions that lead to the formation of export exchange relationships.

Keywords: internationalization, foreign market entry

INTRODUCTION

The process of internationalization has been described in terms of the cumulative decisions made about foreign markets and entry modes (Johanson and Wiedershiem-Paul 1975; Welch and Wiedershiem-Paul 1980). Of all the decisions involved in the incremental internationalization of the firm, perhaps none is more important than the decision to enter a new foreign market (Reid and Rosson 1987):

Market entry decisions are among the most critical made by a firm relative to international markets. The choice of which country to enter commits a firm to operating on a given terrain and lays the foundation for its future international expansion. It signals the firm's intent to key competitors and determines the basis for future battles. (Douglas and Craig 1992: 302)

Despite the significance of the initial entry decision, little is known about the actual process by which firms come to identify both foreign markets and specific buyers within those markets. For example, in their review of 55 empirical studies relating to export behavior, Aaby and Slater (1989) were able to identify just one study (Lee and Brasch 1978) that was specifically concerned with the initial decision to export. On the other side of the exchange equation several authors have observed that vendor search remains the least studied aspect of importer behavior (Deng and Wortzel 1995; Liang and Parkhe 1997). This gap in the literature is somewhat surprising given the sheer amount of internationalization process (IP) research that has been conducted over the last three decades.

In the normative literature found largely within the marketing discipline, FME decisions are framed as a rational response to conditions in the market and are seen to be made on the basis of objective information gathered systematically via market research (Douglas and Craig 1983; Root 1977, 1994; Young et al. 1989). However, there is ample evidence to suggest that the textbook-advocated systematic or traditional approach to market selection/vendor search is rarely used in practice (Axelsson and Johanson 1992; Johanson and Vahlne 1992; Liang and Parkhe 1997; Papadopoulos 1987, 1988). Numerous empirical studies indicate that entry decisions are often ad hoc, made for 'nonrational' reasons that apparently defy the optimizing logic of the market, that appear to be 'completely lacking in rhyme or reason' (Brown and Cook 1990; Ellis 1995; Lee and Brasch 1978; McDougall 1991). The practical limitations of the normative approach to FME, combined with the puzzle presented by apparently irrational decision-maker behavior, provide the rationale for this investigation.

Although prominent in the 1980s, IP research has reached a point of diminishing returns indicating the relative stagnation of export development research (Leonidou and Katsikeas 1996). But the persistence of a number of unresolved issues relating to, for example, the neglected role of the importer (Liang and Parkhe 1997; Reichel 1988) and the emergence of 'born global' firms (Knight and Cavusgil 1997; Oviatt and McDougall 1994), is suggestive of premature closure. In particular, there is a clear need to develop empirically-grounded explanations of FME as a prelude to theory-building (Mendenhall, Beaty, and Oddou 1993; Strandskov 1994). With this in mind, the aim of this study concerns the identification of the actual methods used by decision-makers to identify potential exchange partners in foreign markets and thus initiate international exchange relationships. By way of laying a foundation the paper begins with the classification and discussion of four mutually-exclusive exchange initiation scenarios. A brief summary of the literature in this section reveals that despite recent advances in the conceptualization of exchange behavior, little progress has been made in the area of relationship initiation. Next, the empirically-derived insights of social network theorists are introduced as a possible starting point and are discussed in light of the oft-observed role of personal contacts in IP research. In the methodology section which follows, the sample selection and interview procedures used for data collection in this investigation are described. Finally, the study's main findings resulting from the analysis of the database of 133 FMEs are presented and some directions for further research are identified.

BACKGROUND

Much of the IP research done over the last two decades has been based on either the Uppsala-model (U-model) of internationalization or the innovation (I-model) of internationalization. The former views the progressive international involvement of the firm in terms of a gradual and sequential expansion process driven by the interplay between market commitment and market knowledge (Johanson and Vahlne 1977, 1990; Johanson and Wiedershiem-Paul 1975), whereas the latter identifies discrete stages of international expansion as being analogous with the generic adoption process (Bilkey and Tesar 1977; Cavusgil 1980; Czinkota 1982; Reid 1981).

While both the U- and I-models are useful for classifying firms according to their degree of internationalization, neither model can be used to explain and predict the movement of the firm from one stage of development to the next (Andersen 1993). Proponents of the U-model argue that specific patterns of internationalization, while reflecting the psychic distance between the home country and foreign markets, are

inherently unpredictable and make no attempt to explain how the internationalization process actually starts. In turn, I-model researchers reason that progressive internationalization loosely reflects learning and experience and have generally adopted the *propensity* to export as their dependent variable (e.g., Cavusgil 1984; Kaynack and Kothari 1984; McConnell 1979). Export propensity is commonly seen to be a function of various determinants such as firm size, managerial commitment, competitive pressures, and so on (Aaby and Slater 1989). However, the propensity to export, which is related to managerial motivation, can be distinguished from the actual decision to enter a foreign market (Bilkey 1978): It is quite possible for a motive to be present (that is, high export propensity) with no exports resulting (Ford *et al.* 1987). The question left largely unanswered is, given the motivation for exports, how do firms come to make the decision to actually enter a new export market?

While knowledge of market opportunities is presumed to be the key driver of both the dynamic U-model and the adoption of an exporting strategy in the alternative I-model, little is known about the ways and means by which firms come to identify specific exchange partners. The limits of existing knowledge reveal that firms often shun market research and base their international market selection choices on non-systematic and ad-hoc procedures (Papadopoulos 1988), and it is likely that the availability heuristic plays some role in the identification of exchange partners (Liang and Stump 1996). However, we lack the data to gauge the prevalence of this apparently opportunistic and random behavior. The role of external change agents in stimulating FME has also been acknowledged (Bilkey 1978), as has the value of experiential information sources to acquire rich, soft data about new markets (Brown and Cook 1990; Leonidou and Katsikeas 1996). But if we endeavor to move beyond mere classification we find that we do not yet know enough about such agents and information sources to articulate a comprehensive explanation of the phenomenon. In the area of FME many questions remain unanswered.

FME as an Exchange

International marketing, like all marketing, involves an exchange (Bagozzi 1975; Johanson and Mattsson 1986; Kotler 1972; Toyne 1989). Given the dyadic nature of the exchange relationship, both transacting parties are important (Easton and Araujo 1994; Ford and Leonidou 1991; Jackson 1981; Rosson and Ford 1982). Whereas in the past IP researchers have sought to explain FME in terms of the exporter whilst treating the other possible types of export initiation (e.g., unsolicited orders) as little more than deviant cases or empirical anomalies, increasingly scholars are now referring to bilateral searches (Liang and Parkhe 1997) and multilateral interactions (Blankenburg 1995). In recent FME research the focus of analysis has shifted from the point of view of the exporter to the buyer-seller relationship (Kale and Barnes 1992; Kaleka, Piercy, and Katsikeas 1997), or the cross-border distribution channel (Chan 1987; Ford *et al.* 1987; Klein and Roth 1990; Reid and Rosson 1987). In addition to the exporter, or seller, other exchange parties may play a role in the FME decision. Consequently, any investigation of the phenomenon ideally should take into account the fact that exchange relationships may be:

1. seller-initiated (exporter's initiative),
2. buyer-initiated (an unsolicited order),
3. broker-initiated (sponsored by an entrepreneurial middleman or agency), or
4. initiated as a result of a trade-fair/chance encounter.

Importer-Initiated Exchange

If FME is driven by knowledge of market opportunities (Reid 1984; Seringhaus 1986), it does not necessarily follow that it will be the potential exporter who first learns of the foreign opportunity. Frequently it is the potential buyer or importer in the foreign market who establishes the connection between a local market need and some foreign-sourced product (Leonidou 1995; Liang 1995). Empirical support for this pattern of behavior is conclusive (Barker and Kaynak 1992; Cavusgil 1980, 1984; Saimee, Walters, and Dubois 1993). For example, a significant proportion (44 to 73 per cent) of exchange relationships were initiated by outside parties in studies of British, Australian, US, and Canadian firms (respectively; Simmonds and Smith 1968; Ellis 1995; Bilkey 1978; Perkett 1963).

Third Party-Initiated Exchange

Additionally, the awareness of the trading opportunity may first be noticed by neither the potential exporter nor the potential importer but by some mutually related third party, such as a government agency, bank, or business associate. If this entrepreneurial third party provides a brokerage or middleman role by bringing the potential transacting parties together, another kind of initiation scenario is realized. The importance of outside third parties in the initiation of exports has been recognized in the literature, although typically authors have not discriminated between those external change agents that are buyers from those that are brokers (Bilkey 1978).

Trade Fair-Initiated Exchange

Finally, it is also evident that sometimes foreign market opportunities are discovered completely by chance, with no clear initiating role attributable to either the buyer, seller, or third party. It can be argued that the value of fortuitous encounters in generating trading opportunities provides a *raison d'être* for the international trade-fair. Whether organized by the potential seller, buyer, or some outside agent (such as a government department), the awareness of foreign opportunities communicated in the market-like trade fair setting can not be easily attributed to either of the three parties already mentioned. Thus, it is appropriate to treat the trade fair as a special kind of initiation scenario. Empirical support for this assertion is provided by Reid (1984, p.154) who, based on his study of information search strategies used by exporters, found participation in international trade-fairs to be 'more likely than any other information search activity to be of use to the export decision-maker.'

Relationship Marketing and Network Theory Approaches to FME

The growing focus on the dynamics of international exchange relationships is evident in an increasing number of studies based on relationship marketing and network theory approaches. In terms of the former, much of the literature to date has focused on relationship development (Ford and Rosson 1982; Katsikeas and Piercy 1990; Leonidou 1989), while relationship initiation has rarely been studied (Andersen 1996; Dwyer, Schurr, and Oh 1987; Heide and Miner 1992; Wilson and Moller 1991). From the broader network perspective, FME is viewed as a function of the ongoing interorganizational interactions between the focal firm and its network. That is, foreign market opportunities are seen to be communicated to the firm via its relationships with network partners (Blankenburg 1995; Ford 1980; Johanson and Mattsson 1988). However, the network approach offers little guidance to those firms whose network horizon is limited to the local market (presumably most SMEs). For such firms international expansion is problematic and is seen to follow the default hypothesis of psychic distance (Andersen 1996). It is somewhat telling that those FME studies which follow the network approach usually concern fairly large companies, or their subsidiaries, who benefit from their *a priori* highly-internationalized networks (e.g., Axelsson and Johanson 1992; Blankenburg 1995). In summary, despite recent advances in understanding the dynamics of international exchange relationships, little conceptual progress has been made in the critical area of relationship initiation. This issue is the focus of the following discussion.

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Given that FME invokes an exchange between individuals possessing complementary resources and information, and that the economic exchange is preceded by the communication of information regarding the entrepreneurial opportunity (Thomas and Araujo 1985), useful insights into the relationship initiation process may be sourced from the domain of social network theory which considers the transmission of information through interpersonal networks (Mitchell 1969; Rogers and Kincaid 1981; Tichy 1981; Weiman 1989). Information disseminates through society via social interaction. Given that people linked within the same social cluster tend to know what others in their cluster know, the spread of information about new ideas and opportunities typically comes through those bridge ties that link people in separate social clusters (Granovetter 1973; Rogers and Kincaid 1981). For this reason, social network theorists recognize that social structure affects competition by creating entrepreneurial opportunities for some people and not for others. In particular, there are unique information benefits available to those players who are connected by exclusive or non-redundant ties to distant clusters. A non-redundant or bridge tie spans what Burt (1992) refers to as a structural hole or a gap between individuals with complementary resources or information. Burt reasons that, irrespective of 'whether a relationship is strong or weak, it generates information benefits when it is a bridge over a structural hole' (1992: 28). Seen from this perspective, knowledge of foreign market opportunities is contingent upon the idiosyncratic benefits of each individual's social network. In other words, information search activities would appear to be selectively influenced by those existing social ties linking the initiating decision-maker (i.e., seller, buyer, or third party) with others that are in some way connected to a particular foreign market.

The logical and intuitive appeal of the structural hole hypothesis is supported by anecdotal evidence reported in the literature highlighting the role played by personal contacts with individuals and organizations in going abroad (Bonaccorsi 1992; Liang and Stump 1996; Reid 1984; Simmonds and Smith 1968; Siu 1993). For example, in their study of the 1992 recipients of the Queen's Award for Export Achievement, Styles and Ambler (1994) found that respondents rated interaction and discussions with channel members as their most valuable sources of information. This corroborated Brown and Cook's (1990) earlier study of Award winners which found that successful exporters rated personal and experiential information sources above objective information. Others have noted the benefits of foreign travel and immigration in stimulating awareness of foreign market opportunities (Gould 1994; Reid 1986). For example, and as Axinn (1988, p.64) has observed, the decision-maker who is a migrant or who has had prior foreign work experience, is able to draw upon 'his or her personal contacts in foreign markets to facilitate the firm's entry into exporting.' But potential exporters are not unique in

their reliance on social ties. In their comprehensive survey of 95 importer studies, Liang and Parkhe (1997) found that importer search efforts are more often likely to be based on known contacts than on objective information published by government agencies. This suggests the following proposition:

P1: The identification of international exchange partners will be facilitated by the antecedent social ties of the initiating decision-maker.

In addition to providing connections into other markets, social ties are useful for screening and evaluating potential exchange partners. In her study of entrepreneurial network dyads, Larson (1992) observed that foreknowledge of a potential partner's reputation combined with a history of personal relations reduced exchange risk by providing a foundation for mutual trust. In international business some form of social engagement is often necessary to ascertain trustworthiness well in advance of commencing negotiations (Björkman and Kock 1995; Thorelli 1990). In general it could be expected that exchange initiators will tend to gravitate towards those who are more likely to be committed to promoting their product (if the initiator is the seller), or those who are known to be reputable suppliers (if the initiator is the buyer). In export marketing this translates into an *a priori* preference for merchant traders over commission-based agents. By taking title to the traded goods, merchant distributors assume a level of risk which ensures a greater commitment towards promoting the product in the foreign market.

P2: Exchange partners identified on the basis of prior social ties are more likely to be engaged as independent merchants than as commission agents.

Knowledge of entrepreneurial opportunities is affected by network size and diversity (Aldrich and Zimmer 1986; Weimann 1989). It is self-evident that larger, diversified firms enjoy more opportunities to exploit network ties than smaller, less-connected companies. For many industrial and high-technology firms, paths of internationalization reflect their network position with various customer and supplier relationships providing bridges into other markets (Axelsson and Johanson 1992; Coviello and Munro 1997; Johanson and Vahlne 1992). For such firms FME may actually be induced by internationalizing network partners (Sharma and Johanson 1987). In contrast, smaller firms ensconced within domestic business networks may place a higher priority on attending trade fairs and using trade agencies as a means for generating foreign leads (Reid 1984; Walters 1983). Risk for these neophyte internationals may also be minimized via the appointment of agents or trade intermediaries (Anderson and Gatignon 1986; Johanson and Mattsson 1988). This implies the following proposition:

P3: The size and international exposure of the firm will be;
a) positively correlated with the propensity to exploit network benefits when making FME decisions, and
b) negatively correlated with the propensity to attend trade fairs and rely on trade intermediaries.

According to network theorists, FME results from interactions between actors *within* the firm and the external network (Blankenburg 1995; Holm, Eriksson, and Johanson 1996). Again, the propensity to exploit entrepreneurial opportunities will be constrained by the particular information benefits of each actor's network. Individual social networks take time to develop and thus information benefits accrue with personal experience. Support for this assertion is found in Björkman and Kock's (1995) study of Western companies doing business in the PRC. In the course of their fieldwork these authors observed that interviewees with 'long China experience' rated good personal relations most highly.

P4: The propensity to exploit social ties when making FME decisions will be correlated with the accumulated trading experience of the decision-maker.

Although the role of mutually-connected third parties has received scant attention in past FME research, it is nevertheless apparent that 'introductions' by go-betweens are sometimes required to get access to potential exchange partners (Alston 1989; Björkman and Kock 1995). A good example of a broker mediating an export exchange is found in the Korrugal case study reported in both Blankenburg (1995) and Johanson and Vahlne (1992). In this example the entry of a Swedish aluminium sheet manufacturer into Italy was facilitated by an Italian official, Mr. Febelli, who introduced the firm to a local contractors' association looking for a product to replace the asbestos cement sheeting they were using at the time. To explain this FME, it is therefore necessary to consider the pivotal role played by Mr. Febelli who evidently had a history of introducing Swedish companies to Italian buyers. Entrepreneurial brokers such as Mr. Febelli profit by spanning the structural hole between

disconnected others (Burt 1997). Without their privy network position their role as exchange intermediaries cannot be economically justified. This would lead to the expectation that:

P5: The identification of international exchange partners via existing social ties will be most relevant to exchanges initiated by third parties.

Finally, social bonds also play an important role when conducting business in emerging economies where contract law and property rights are not well established (Alston 1989; Leung, Wong, and Wong 1996). As Redding (1991, p.34) notes, in any society where 'institutionalized law is inadequate for underpinning transactions with any sense of reliability, transactions come to be guaranteed by bonds of interpersonal trust.' In the special case of exchange relationships between suppliers in developing countries and their developed country buyers, close collaborative relationships offer a number of mutual benefits. For the suppliers the link is an essential source of information regarding distant markets, production technology, and product standards, while for the buyers alliances are needed to ensure reliable deliveries of low cost products (Deng and Wortzel 1995; Egan and Mody 1992; Wortzel and Wortzel 1981). Whereas economically powerful buyers in industrial nations are often able to locate and evaluate suppliers in emerging economies via their existing networks (Egan and Mody 1992), Western manufacturers looking to penetrate under-developed markets must confront the challenging and time-consuming task of establishing connections with local business networks (Davies *et al.* 1995). Market entry is problematic because, to the outsider looking in, local business networks are opaque as a consequence of the general invisibility of relationships (Axelsson and Johanson 1992; Johanson and Vahlne 1992). While establishing a local presence in the emerging market is considered the most effective means for developing and maintaining social relations, for those lacking the required resources another strategy is to rely on the good connections of intermediaries (Björkman and Kock 1995).

P6: The identification of exchange partners via social ties will be correlated with the degree of market imperfections separating buyers from sellers which,

- a) for importers from mature economies will be manifested in their identification of suppliers in developing economies via network connections, and
- b) for exporters from mature economies entering under-developed markets by contractual means, will be manifested in their reliance on trade intermediaries.

Alternative Independent Variables

If the core propositions of social network theory are valid, then FME, and concomitantly firm internationalization, will tend to reflect the communications networks of the initiating actors. It is posited that this emphasis on explicit contact with external information sources, which approximates the traditional diffusion theory approach to operationalizing decision-maker cosmopolitanness (Rogers 1969), offers a number of advantages over other independent variables. First, stating a causal relationship between social ties and FME is a more falsifiable and parsimonious alternative than the past practice of making associative claims between latent decision-maker orientations and export propensity (e.g., Dichtl *et al.* 1984, 1986; Reid 1981). Second, an explanation based directly on social ties offers arguably more utility than one based on psychic distance which, as Johanson and Wiedersheim-Paul (1975, p.308) have noted, changes in response to the 'development of the communications system, trade, and other kinds of *social exchange*' (emphasis added). Finally, and in contrast with the network approach, the structural hole hypothesis does not emphasize business-network associations over other forms of social relationships and, in theory, is not biased towards larger firms with international network horizons. That is, social capital, rather than financial or human capital, is deemed to be the final arbiter of competitive success for all types of firms in all types of settings (Burt 1992). From this perspective the unit of analysis is the structural hole itself, or the interpersonal relationship which spans it, rather than the more indistinct network in which the focal firm happens to be situated.

RESEARCH METHOD

The research reported in this paper is intended as a replication of some earlier theory-building case study research which investigated in depth the antecedent conditions leading to foreign market entry observed (or not observed) among a group of eight exporters and three non-exporters. Although the findings of this earlier research have been reported elsewhere (TBA), a brief overview of that investigation is warranted here.

The Pilot Study. In the original study eleven manufacturing firms representing five diverse industries were selected from the population of West Australian SMEs with the aim of achieving a mix of literal and theoretical replications across the sample as described by Yin (1982, 1989) and Eisenhardt (1989). Data collection at each of the eleven sites ranged from 5 to 72 days and involved a variety of data sources including company documents, press articles, trade publications, archival data, and personal interviews. The use of

different data collection measures facilitated triangulation onto the 'facts' of each case and resulted in rich, thick description and typically satisfactory measures of hypothetical constructs (Yin 1989). Although only eight exporters were investigated in the pilot study, data on 31 separate FMEs were collected. The entry of the firm into any new foreign market represents a discrete act which can be analyzed independently of other FMEs. This within case sampling decision, which follows Cavusgil and Zou's (1994) recent choice to adopt the 'individual product-market export venture' as their unit of analysis, enabled the collection of higher quality data relating to the more recent entry decisions made by the firm. In contrast, the alternative of selecting only the very first time a firm goes abroad automatically predisposes the sample selection to only those respondents who have reliable historical knowledge or who have ventured abroad only recently.

Of the 31 FMEs recorded across the sample, thirteen were initiated by the eventual buyer, twelve by the seller, four by mutually-related third parties, and two were the result of trade fairs. With the exception of the trade fair-initiated FMEs, some role for antecedent social contact was observed in every single market entry studied. The observed influence of prior social ties was gauged on a four point scale depending on whether such ties had led to the actual identification of the foreign buyer (strong influence) or had played a more partial role, for example, steering the decision-maker towards a particular foreign market or channel of distribution (weak and moderate influence respectively). A strong role for existing social ties was observed in four-fifths of the non-trade fair initiated FMEs. The case study evidence thus constituted strong support for the predicted relationship between decision-maker cosmopolitanism and FME.

The Hong Kong Study. In view of the pilot study's findings and limitations, a second, replicative research project involving a larger number of firms drawn from a different culture was conducted. Unlike the Australian study, firms in this investigation were all selected from within the same industry, namely the Hong Kong toy manufacturers industry. Hong Kong remains one of the world's top two most internationalized trading economies with locally-made and designed products enjoying dominant positions in a number of world markets. A classic example of Hong Kong's export success is found in the toy industry. In the mid-1990s this industry was earning more than US\$10b annually in export income making it the world's leading exporter of stuffed animals, model trains, remote control cars, talking dolls, and other toys. Yet despite all their success in international marketing, HK-Chinese manufacturers have, with few exceptions, seldom been studied in the export literature (Chan 1987; Siu 1993).

Sample Selection

The toy-manufacturers investigated in this study were identified from a number of databases including the 1997 Directory of Hong Kong Industries and the 1998 Hong Kong Toy and Games Fair Catalogue. Sampled firms were mailed an initial contact letter explaining the purpose of the research and inviting the potential informant to participate in the study. One week after the letter a phone-call was made to secure an appointment for an interview with the most senior director available. Arranging the initial interview was problematic for two reasons; (1) Hong Kong executives tend to spend a significant proportion of their time outside of the country or in China on business, and (2) local secretaries are able gatekeepers who are adept at restricting access to their superiors. The first problem was solved by perseverance while the second was remedied by calling again on a Saturday when many receptionists are off duty. The third hurdle to overcome was the generally poor disposition of local entrepreneurs towards participating in research which does not appear to offer them any direct commercial benefits. (Time-conscious Hong Kong executives are notoriously averse to participation in academic research as evidenced by very low response rates to surveys and researchers' reliance on their 'captive' MBA students as a source of primary data.) In total, 42 local manufacturers agreed to participate in the study and this figure represented 39.3 per cent of the firms contacted.

The final sample can be broken down into three groups of firms; 22 firms were primarily involved with the production of plastic toys (e.g., inflatable pool toys, Disney figurines), twelve firms specialized in metal toys (e.g., die-cast model cars), and the remaining eight firms produced electronic toys (e.g., educational games, video games). These proportions roughly approximate the distribution of toy-makers within the local industry. Respondent firms ranged in size from four to 400 employees in Hong Kong but even the smallest firm employed at least an additional hundred workers in factories in neighboring Guangdong Province while the largest employed up to 10,000. Where disclosed, annual sales income ranged from HK\$1m to \$HK500m. All of the firms sold at least 98 per cent of their output in foreign markets (not including China) and thus all could be considered highly-internationalized exporters.

Data Collection

As with the pilot study personal interviews were deemed to be the data collection procedure of choice given the need to develop contextually-embedded accounts of market entry strategies. This choice is consistent with an emerging research bias towards the use of in-depth interviews over surveys as a source of data relating to highly idiosyncratic FMEs (Cavusgil and Zou 1993; Mattsson 1986; Smith and Zeithaml 1993). In all, 52 interviews were conducted with the majority of these being held in Cantonese. Where possible, interviews

involved the most experienced person within the firm, typically the firm's founder. Using a structured interview guide, data were collected relating to the internationalization history of the firm including the number of foreign markets entered, the dates and modes of entry, and changes over time. Although respondents at each site were shown a chart listing more than eleven different contractual, investment, and exporting entry modes, direct and indirect exports predominated across the sample accounting for more than 95 per cent of the entry modes observed. For the purposes of analysis, the few FMEs involving non-exporting entry modes were discarded from the database.

In contrast with much of the extant export research, which is based on the collection of data relating to theoretically-derived constructs and the hypothesized relationships between them, the aim of the data collection activities in this study was to develop rich, detailed descriptions of individual market entry stories. As Papadopoulos (1988) has commented, many of the present methods used to investigate international market selection are more 'statistics-bound' than 'strategy-oriented'. Given the relative stagnation of the topic area it was felt that a new approach was called for, one that allowed for an in-depth tracking of the events leading up to the FME. During the semi-structured interviews respondents were asked to list their foreign markets in order of importance and then the historical details relating to each FME were solicited. Specifically, the names of the parties involved were sought along with information regarding the basis for contact. Exchange motives were queried and the characteristics of prior relationships, if identified, were established. The interviews were subsequently translated into English and then transcribed in preparation for analysis. Unlike the pilot study, the analytical focus in this inquiry was solely on the exchange initiation: no role for existing social ties was recorded *unless* it could be clearly demonstrated that such ties had directly influenced the specific identification of the exchange partners. In some cases the FME stories were highly complex and involved several key personalities. Other exchanges took several years to bring to fruition after the initial meeting between buyer and seller. In contrast, many other FMEs were relatively straightforward, involved only the transacting parties, and were consummated soon after the initial contact. At the end of the data collection period brief summaries of each market entry story were composed and circulated back to informants for verification. In a few cases this review procedure led to minor revisions of case details.

In all, data were collected for 189 direct FMEs plus 157 indirect FMEs. Initially the instances of indirect exports were discarded from the database, but as the study progressed it became apparent that such market entries, which relied on the search activities of outside agents such as trading companies, played an important first step in the overall internationalization of respondent firms. For example, in a number of cases an indirect customer later became a direct importer. Therefore, to explain the direct market entry required knowledge of the prior indirect association. The database of FMEs was screened to eliminate those market entries: (1) where the specific details were lost to history; (2) where the firm was involved *only* in the capacity of an indirect exporter or contract manufacturer; or (3) where direct exports accounted for less than ten per cent of a firm's total export sales to a particular market (i.e., more than 90 per cent of the firm's income was derived from indirect exports). This final sampling decision was made on the assumption that direct exports to such markets were sporadic and did not constitute 'realized FME' (Blankenburg 1995). After this screening process complete data for 133 direct market entries and 128 indirect entries remained.

FINDINGS AND DISCUSSION

Table 1 summarizes the database of FMEs by type (direct and indirect exports) and initiator. Consistent with previous research, direct exports initiated by outside parties (57 per cent) were far more evident than seller-initiated exchanges (11 per cent). Indeed, when local toy-makers decided to enter a foreign market, they were more than four times as likely to use a local trading company or buying agent (61 cases) than take the risk of going directly abroad themselves (14 cases). Somewhat surprising is the large role played by third parties in initiating direct exports (19 per cent) while trade fairs dominated the database accounting for almost one-third of the direct market entries (32 per cent). In terms of the use of personal contacts to identify trading opportunities, the table shows that social ties played a comparable role in locating trade intermediaries (39 per cent of indirect FMEs) as in identifying foreign exchange partners directly (41 per cent of direct FMEs). Before these data are interpreted, however, it is worthwhile considering in more detail the different information sources used by respondents.

Put Table 1 here

Information Sources

Table 2 describes the different sources of information used to identify foreign market opportunities and classifies all sources into two groups; personal and impersonal information sources. Where personal information

sources were used, two recurring themes were the introduction of a foreign exchange partner or a local trading company by a mutual friend or acquaintance (47 per cent of direct exports; 30 per cent of indirect exports) or a past history of business involvement with the exchange partner or trading company in some non-export-related area (53 per cent and 64 per cent respectively). These examples can be contrasted with those cases where there was no prior connection between exchange partners, that is, where impersonal information sources were used. Here would-be traders relied primarily on trade fairs, advertisements, and cold calls (96 per cent of impersonal sources used). Interestingly, out of a sample of 133 direct FMEs, only two cases involved any sort of formal search activity where exchange partners were identified through data provided by the Hong Kong Trade Development Council (TDC). The different approaches used to identify potential exchange partners were described during an interview with one of Hong Kong's oldest plastic toy-makers:

The US customer approached us through the introduction of the director's friend... At that time, Hong Kong had limited contact with (foreign) countries, so many overseas buyers approached Hong Kong toy makers through (one of several) ways: 1) friends in toys industry (they might be our friends in US or in Hong Kong- they were interlinked); 2) there were only a few toy factories, thus, they would visit our company and the others by chance; and 3) in the recent years, the overseas customers could find our address and information from the TDC. After they developed business relationships with the local firms, the overseas customers started getting familiar with the local toy industry. They knew which company did business with which company, that is, the business networking within this industry. As the Hong Kong toy industry was small in the 1950s... information could be spread between friends quickly.

Put Table 2 here

In addition, local trading companies and attendance at trade fairs also brought toy-makers into contact with customers, as explained by another toy-maker:

Before we participated into the local toy fairs in the late 1970s, all of our first customers from different countries were introduced by Hong Kong trading companies. It was because my father did (little) with the overseas customers since the company was established and his English was not so good. Therefore, he needed to depend on the local trading companies to look for the overseas buyers, especially the customers from the US, Europe, and South America. However, after we joined Hong Kong's first toys fair in the late '70s, we started exploring the Asian markets, such as the Philippines, Thailand, Korea, Japan, and Taiwan. We found the Asian buyers by ourselves. I think the Hong Kong toys fair gave us a great chance to meet the overseas customers, especially direct buyers. Thus, we attend the Hong Kong toys fair each year.

A typical chance meeting at a trade fair was described by the manufacturer of electronic organizers for children:

We met our first French buyer in the Hong Kong toys fair. The buyer came to our counter... dropped his name card, picked up our catalogue, asked for prices. Usually, the overseas buyer had a selection month. He selected products for Christmas and Thanksgiving. After that, the buyer made further inquiries with us by fax. Then we built our business relationship.

To summarize the data so far: social ties played a directly observable role in identifying exchange partners in 61 per cent and 40 per cent of the non-trade fair initiated direct and indirect FMEs respectively. Where the initiating actor was the local toy-maker, social ties directly influenced 86 per cent and 64 per cent of the direct and indirect market entries. Conversely, where the initiator was the foreign buyer, social ties played a lesser role in the identification of suppliers (35 per cent of direct entries), although this figure is no doubt distorted by the lack of primary data collected from the buyers themselves. That is, the toy-makers in the study were much more likely to recall their personal reliance on connections than their buyer's use or otherwise. (Where there was any doubt about how a buyer identified a seller, it was assumed that there was no prior connection linking the two.) Finally, third parties who brokered exchange relationships between toy-makers and foreign importers did so on the basis of their established connections in every single instance observed. These findings support our basic proposition that the identification of exchange opportunities is significantly influenced by the antecedent social ties of the initiating decision-maker (P1), and this is particularly the case for those exchanges initiated by third parties (P5).

The Exchange Partners

Social ties also influenced the type of exchange partner identified as highlighted in Table 3. (Data on foreign customer types was generally not available in the case of indirect exports where the respondent firm dealt primarily with a locally-based intermediary.) Where traders chose partners on the basis of social ties, they were nearly four times more likely to end up with either an importer or merchant distributor for a customer than a foreign trading company. In contrast, customers identified via impersonal (i.e., non-social) sources including trade fairs or advertisements were almost three times as likely to be trading companies than either merchants or importers. If we can assume that foreign trading companies generally import HK-made toys on a commission basis, as indicated in the interviews, the implication is significant. The firms in this study generally chose better trading partners when they did so on the basis of their known connections. That is, the null hypothesis that customer type is unaffected by information source is rejected ($\chi^2 = 35.46$, $p < .0001$). Moreover, the strength of the association between information source and customer type is high as measured by the phi coefficient ($\Phi = 0.5223$). This finding supports proposition two and stands in contrast with other studies which suggest that personal connections constitute an ad hoc search strategy which may not bring the firm into contact with suitable exchange partners (Liang and Parkhe 1997).

Put Table 3 here

The Firms

The FME data was cross-tabulated by firm size and degree of international experience (Table 4). Classifying firm size in terms of the number of employees is somewhat difficult in the case of Hong Kong where local manufacturers commonly operate factories across the border in Mainland China. Not only does this add considerable size to what is, in effect, a small firm (e.g., a small Hong Kong operation of just ten workers might be backed up by an enterprise employing more than 1,000 in the PRC), but often the number of Mainland employees varies greatly with seasonal demand. Restricting counts to Hong Kong workers alone is frustrated by the fact that not every manufacturer has established plants offshore and downsized its local staff. For these reasons the firms in this study were classified as small, medium, or large depending on whether their annual income was less than HK\$50m, HK\$50-100m, or greater than HK\$100m. The findings reveal that the larger exporters in the sample tended to rely more on social ties when going abroad than the smaller firms. (For the purposes of achieving sufficient cell sizes, medium and large firms were combined into one group: $\chi^2 = 9.128$, $p < .05$, Cramers V = 0.2620.) At first glance this finding is somewhat surprising and runs contrary to the expectation that larger companies will be more likely to systematize their international expansion activities. One possible interpretation is hinted at by the relatively high proportion of medium-sized firms who have identified buyers through attendance at trade fairs. Participation at an international exhibition such as the Hong Kong Toy and Games Fair is a costly undertaking arguably more suited to medium-sized firms with full product ranges than small start-ups. Large established toy-makers, however, have less of a need to participate in trade fairs and are better able to identify foreign market opportunities through their more internationalized supplier/customer networks (P3a).

Put Table 4 here

The international experience of a firm was determined by establishing the mid-point between the date of a company's first and most recent FME. The relatively high number of early ventures observed (FMEs achieved during the first half of the firm's internationalization), possibly reflects the fact that many companies have shifted their emphasis from market expansion to market penetration over the course of their progressive internationalization. Interestingly, no significant difference was observed between early and late ventures in the types of information source used ($\chi^2 = 0.1774$, $p > .05$). This suggests the propensity to exploit network benefits is more affected by factors such as firm size and geographic scope than accumulated international experience (Erramilli 1991), and that there exists a certainty 'density threshold' which must be reached before such benefits can be realized (Aldrich and Zimmer 1986).

The Decision-Makers

There is some evidence in the literature to show that internationalization is more strongly affected by the characteristics of the decision-maker or management team than other variables such as firm size and age (Axinn 1988; Reuber and Fischer 1997). Consequently, to test for possible spurious effects the FME data was also cross-tabulated according to management type. In this study product type was used as a surrogate indicator

for management characteristics. This choice can be justified as follows: The Hong Kong toy industry is not homogeneous and can be broadly divided into two groups of firm based on product type; (1) plastic toys and (2) metal/electronic toys. Plastic toys have been manufactured in Hong Kong since the early 1950s when Shanghainese industrialists fleeing Communist persecution established a dynamic, labor-intensive plastics industry. In contrast, capital-intensive die-cast metal and electronic toys only appeared well after Hong Kong had already begun down the road to industrialization. Today plastic toys tend to be cheap and low-tech (e.g., dolls and educational building blocks) while metal and electronic toys are generally more elaborate and hi-tech (e.g., Tamagotchis and remote-controlled cars).

In terms of management characteristics, plastic toy makers are likely to be older, more experienced businessmen while metal and electronic toy-makers tend to be younger and better educated. Interestingly, the demographic differences between these groups of managers, which were evident during the interview process, are borne out in their use of personal connections in going abroad (Table 5). In general, the plastic toy-makers were far more likely to exploit their well-developed sources of *guanxi* than the more inexperienced metal and electronic toy-makers (P4). The null hypothesis that there is no difference between the two management groups in their reliance on personal contacts is rejected for both direct ($\chi^2 = 20.23$, $p < .0001$, $\Phi = 0.3900$) and indirect exports ($\chi^2 = 21.95$, $p < .0001$, $\Phi = 0.4141$).

Put Table 5 here

The Foreign Markets

The different emphasis placed on personal information sources by the two groups of managers in this study hints at an interesting implication: Social ties are likely to be more relevant when conducting business in developing economies (such as the plastics-dominated Hong Kong of 1950-70) than in developed economies (such as the electronics-dominated Hong Kong of post-1970). In the present context this is suggestive of a relationship between the use of social connections and the level of market development. Decision-makers entering under-developed markets ordinarily have less objective information available to them hence their greater reliance on locally-situated trade intermediaries. This hypothesis could be considered in this database by classifying all foreign markets entered as either developed or developing based on the arbitrary cutoff point of GDP US\$10,000 per capita (Table 6).

Put Table 6 here

As expected, trade intermediaries appear to have played a marginally more important role for Hong Kong toy-makers entering developing markets (95 per cent of FMEs) vis-à-vis developed markets (77 per cent of FMEs) (P6). However, this finding needs to be interpreted with some caution. Although cell sizes are insufficient for testing, a Chi-square test revealed no significant difference in preference for intermediaries ($\chi^2 = 2.6817$, $p > .10$).

Psychic Distance Reconsidered

Across the sample the degree of international expansion was highly varied with several firms exporting to only one or two markets while others were active in as many as eight or nine markets. An interesting finding from the study is that generally the sample firms were reactive in the early stages of internationalization, as evidenced by the high number of buyer-initiated exchanges for early foreign market entries, but were proactive in attending trade-fairs in the search for export opportunities (Table 7). While this finding is consistent with previous research, the actual selection of early markets appears to offer no support for Johanson and Vahlne's (1977) concept of psychic distance. The firms in this study exported to 28 different markets and typically their first choice was the United States. After the NAFTA markets the EU featured prominently in the early stages of internationalization with many firms selecting the UK as their first port of call. While this may reflect Hong Kong's colonial ties it is worth noting that more than two-thirds of early entries into the EU were to non-English speaking countries such as Germany and Italy. However, before any conclusions regarding psychic distance can be inferred, it is worth remembering that almost 90 per cent of these entries were not initiated by the local manufacturer. Therefore, in most cases it is the psychic distance of the buyer or third party that should be considered. Yet, of the fourteen FMEs that were initiated by the HK-Chinese exporter, none involved any market in Asia and, as with the larger sample, exports to North America predominated.

Put Table 7 here

Insofar as the dominant constructs of mainstream internationalization theory are elementary and intuitively appealing, the literature abounds with anomalous findings that belie the real-world complexities of the internationalization process. For example, the orthodox view of incremental internationalization has been undermined by evidence of de-internationalization (Turnbull 1987) and the oft-observed leapfrogging of stages (Millington and Bayliss 1990; Young, Huang, and McDermott 1996). Also, several studies have challenged the notion of psychic distance (e.g., Cavusgil 1984; Czinkota and Ursic 1987; Sullivan and Bauerschmidt 1990), leading some to question the value of the concept in an increasingly homogenous world (Melin 1992). But the relationship between psychic distance and the pattern of internationalization is more convoluted than first appears and the fact that subsequent FMEs do not appear to reflect increasing levels of psychic distance should be interpreted with care (Holzmuller and Kasper 1990). Psychic distance measures market uncertainty and hence information acquisition costs. The overall pattern of internationalization, however, reflects both the perceived costs *and* the benefits of entering foreign markets. With regard to the specific patterns of internationalization observed in this study, it should be no surprise that the bulk of Hong Kong's toys are exported to the USA, the largest toy market in the world. The overwhelming attractiveness of that market evidently more than compensates for the psychic distance separating buyers from sellers. Furthermore, trading relationships established by local OEM suppliers and US-buyers in the 1950s have created a pattern of internationalization that new industry entrants have sought to emulate.

CONCLUSIONS

The findings of this study support the core proposition that awareness of foreign market opportunities, which was identified as the critical antecedent of FME, is commonly acquired via existing social ties. Consistent with the broader claim of social network theorists, knowledge of entrepreneurial opportunities abroad is dependent on the particular information benefits of an individual's social network, *irrespective* of whether that person happens to be the potential seller, buyer, or some mutually related third party. Ad hoc search strategies based on trade fair participation or responses to advertisements were also evident across the sample but generally resulted in exchange partnerships being formed with trading companies rather than with risk-bearing merchant distributors. Finally, formal search activities based on objective data collected by professional or government agencies were virtually never used to identify opportunities abroad and consequently have had little bearing on the FME behavior exhibited by the toy-makers in this study.

Different interpretations for the findings have been considered but in conclusion several points are worth reiterating. First, and consistent with previous research, the decision-makers in this study can be characterized by their near-universal disregard for the type of formal search behavior advocated in the normative marketing literature. Moreover, a focus on both sides of the exchange relationship supports the growing view in the literature that, just as international market selection in practice does not appear to follow the systematic logic of the market segmentation model on which it is based (Andersen 1996), so too does vendor search behavior generally fail to reflect the prescriptive guidelines of the underlying organizational buyer behavior model (Liang and Stump 1996).

Second, and contrary to the assumptions of the normative literature, international markets are not anonymous and the process of internationalization can be legitimately described in terms of establishing relationships in foreign markets (Johanson and Vahlne 1990). While some lessons may be learned from the study of domestic channel relationships, the search for international exchange partners is generally characterized by greater uncertainty and complexity which combine to increase search costs. Decision-makers in practice respond to the inherent risks associated with FME by placing more, not less, reliance on their social networks as a means of economizing on these higher search costs. Decision-makers are social actors who must make investment decisions based on incomplete information. The evidence from this study, combined with anecdotal evidence reported in the literature, supports the view that decision-makers tend to follow the line of least resistance abroad by capitalizing on their existing connections with others.

Directions for Further Research

A dominant theme in the export development literature has been the focus on the information needs of exporters (e.g., Seringhaus 1986; Walters 1983). This research theme is motivated by the realization that insufficient market knowledge is a barrier to export development (Reid 1984). However, much of the discussion to date has been concerned with the relative merits of objective versus experiential information (e.g., Erramilli and Rao 1990; Johanson and Vahlne 1977; Leonidou and Katsikeas 1996) rather than with the more critical issues regarding the communication of information (Thomas and Araujo 1985). Clearly both types of

information are important, but the ways and means by which such information is acquired can have a direct bearing on the *type* of exchange partner identified, as shown in the results of this study. Before any solid conclusions can be drawn however, additional research is needed to further explore the connection between information source and customer identification.

There is also a need for further research to investigate the relationship between the success of an export venture and the conditions under which that venture was initiated. According to the proponents of the traditional textbook planning models, the 'nonrational' approaches to partner identification used by some of the exporters in this study should result in a higher incidence of failure. On the other hand, there is a growing body of literature supporting the association between export performance and the nature of relationships with channel members (e.g., Beamish, Craig, and McLellan 1993; Brown and Cook 1990; Cavusgil and Zou 1994; Styles and Ambler 1994). Clearly the relationship is complex and further research is needed to ascertain whether performance outcomes are maximized when elements of both the social and formal approaches are combined.

Finally, given the main conclusions and limitations of this study, there is a clear need to replicate the research to determine whether the findings hold for firms drawn from other industries and geographic settings. In particular, there is a need for further FME research which is based on in-depth interviews (Leonidou 1995; Yeung 1995), and which permits a longitudinal tracking of the events leading up to relationship initiation (Andersen 1993; Melin 1992; Welch and Luostarinen 1988). The implications of such research aims may mean that erstwhile goals of sophisticated statistical analysis need to be subjugated in preference for ensuring greater confidence in the truth value of a study's findings, but such actions are consistent with the need to promote theory-building in the area of export development.

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TABLE 1
SUMMARY OF FMEs

Prior social contact?	Direct Exports					Indirect Exports						
	Yes		No		Total	Yes		No		Total		
<i>Initiated by;</i>												
seller	12	(21.8)	2	(2.6)	14	(10.5)	39	(78.0)	22	(28.2)	61	(47.7)
buyer	18	(32.7)	33	(42.3)	51	(38.3)	5	(10.0)	54	(69.2)	59	(46.1)
third party	25	(45.5)	0		25	(18.8)	6	(12.0)	0		6	(4.7)
trade fair	0		43	(55.1)	43	(32.3)	0		2	(2.6)	2	(1.6)
TOTAL	55	(100)	78	(100)	133	(100)	50	(100)	78	(100)	128	(100)

TABLE 2
INFORMATION SOURCES OBSERVED

<i>When based on personal sources</i>			
Direct Exports		Indirect Exports	
buyer was previously indirect customer	19	seller had prior bus. relationship with local TC	32
introduced by mutual friend (relationship not specified)	11	friend introduced local trading company to seller	15
seller had prior business relationship with importer	10	foreign customer began selling in other markets	2
business friend had prior business relationship with buyer	8	prior social relationship with local TC	1
social friend had prior business relationship with buyer	5	TOTAL	50
contact based on client referral	2		
TOTAL	55		
<i>When based on impersonal sources</i>			
Direct Exports		Indirect Exports	
met at trade fair	43	seller made cold calls to local trading company	21
buyer responded to advertisement	32	initiated by buyer (unknown): seller approached by TC	5
buyer located seller through TDC	1	met at trade fair	2
seller located buyer through TDC	1	buyer saw advertisement and appointed HK TC	2
seller made cold call to buyer	1	seller made cold call to HK-based buying agent	1
TOTAL	78	HK TC or foreign buying agent responded to advertisement	47
		TOTAL	78

TABLE 3
CUSTOMER TYPE BY INFORMATION SOURCE

	CUSTOMER TYPE		
	Independent Merchants	Commission Agents	TOTAL
prior social contact ^a	41	11	52
no prior contact ^b	20	58	78
TOTAL	61	69	130

Note: for direct FMEs only

a: importers (26), merchants/distributors (15), foreign trading companies (11), unknown (3)

b: Trade fairs: foreign trading companies (31), importers (7), merchant/distributors (5)

Advertisements: foreign trading companies (26), merchant/distributors (4), importers (2)

TDC-assisted: merchant/distributors (2)

cold-calls: foreign trading companies (1)

TABLE 4
SOCIAL TIES, FIRM SIZE AND INTERNATIONAL EXPERIENCE

	FIRM SIZE ^a						INTERNATIONAL EXPERIENCE ^b			
	<i>small</i>		<i>medium</i>		<i>large</i>		<i>Early Ventures</i>		<i>Late Ventures</i>	
prior social contact	29	(35.4)	5	(27.8)	21	(63.6)	31	(40.3)	24	(43.6)
no prior contact	29	(35.4)	3	(16.7)	3	(9.1)	20	(26.0)	15	(26.8)
trade fair	24	(29.2)	10	(55.6)	9	(27.3)	26	(33.8)	17	(30.4)
TOTAL	82	(100)	18	(100)	33	(100)	77	(100)	56	(100)

a: small = sales <HK\$50; medium = \$50-100m; large = >\$100m
b: cut-off date derived from mid-point between date of first and last FMEs

TABLE 5
USE OF SOCIAL TIES BY PRODUCT TYPES

	Direct Exports				Indirect Exports			
	<i>Plastic Toys</i>		<i>Metal/Elect. Toys</i>		<i>Plastic Toys</i>		<i>Metal/Elect. Toys</i>	
prior social contact	39	(57.4)	16	(24.6)	37	(58.7)	12	(18.5)
no prior contact	29	(42.6)	49	(75.4)	26	(41.3)	53	(81.5)
TOTAL	68	(100)	65	(100)	63	(100)	65	(100)

TABLE 6
SOCIAL TIES AND MARKET IMPERFECTIONS

ENTRY MODE	FOREIGN MARKET ENTERED					
	Mature Economy		Developing Economy		TOTAL	
Direct FME	13	(22.8)	1	(5.6)	14	(18.7)
Via Trade Intermediaries	44	(77.2)	17	(94.4)	61	(81.3)
TOTAL	57	(100)	18	(100)	75	(100)

Note: For seller-initiated FMEs only.

TABLE 7
ENTRY INTO FIRST THREE MARKETS

Initiated by;	EARLY INTERNATIONALIZATION							
	1 st FME		2 nd FME		3 rd FME		TOTAL	
buyer	18	(40.0)	9	(37.5)	9	(40.9)	36	(39.6)
trade fair	12	(26.7)	9	(37.5)	7	(31.8)	28	(30.8)
third party	9	(20.0)	3	(12.5)	5	(22.7)	17	(18.7)
seller	6	(13.3)	3	(12.5)	1	(4.5)	10	(11.0)
TOTAL	45	(100)	24	(100)	22	(100)	91	(100)